



September 5, 2013

TO: Members, Formation Commission

FROM: Martha Poyatos
Executive Officer

SUBJECT: Recommended Response to the 2012-13 Civil Grand Jury Report: "Peninsula Health Care District: Landlord, Real Estate Developer, or Health Care Leader?"

The 2012-13 San Mateo County Grand Jury released a report on July 29 regarding the Peninsula Health Care District in regard to where the District's tax dollars are spent, transparency of operations and how it identifies core functions, allocates funds and monitors performance of grantees. Two findings and two recommendations in the report reference LAFCo. Pursuant to Penal Code Section 933, the Commission is required to comment on the findings and recommendations under its control within 90 days, which would be October 29, 2013.

Penal Code Section 930 sets out requirements for responses to Grand Jury reports. For each finding contained in the report, the respondent must either agree with the finding or disagree in whole or in part. If the respondent disagrees with the finding, the response must indicate the portion of the finding that is disputed and provide an explanation of the reason for the dispute.

For each recommendation made by the Grand Jury, the respondent must indicate one of the following:

- a. The recommendation has been implemented, with a summary of implementation actions.
- b. The recommendation has not yet been implemented, but will be, with a timeframe provided.
- c. The recommendation requires additional analysis. A description and timeframe for the analysis not exceeding six months must be provided.
- d. The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation provided.

With the exception of Findings F1 and F2 and Recommendations R1 and R2, the findings and recommendations are not relevant to the Commission's statutory role. Staff notes that while much of the subject matter in the balance of the findings and recommendations is covered in municipal service review reports (and LAFCo will reference the Grand Jury report in any future municipal service review) and the Grand Jury recommendations are not disputed by LAFCo, the subject matter is outside LAFCo's control and therefore the findings and recommendations require no response.

The relevant findings, recommendations and staff recommended responses (in italics) appear below.

Findings:

- F1. LAFCo's service review for PHD would provide more in-depth analysis of PHD's finances and services if a consultant knowledgeable about health care districts assisted in its preparation.

Response: *San Mateo LAFCo disagrees in part with the finding and believes additional information is necessary for an informed discussion of this issue. While the Grand Jury report compares format, content and length of the San Mateo LAFCo Municipal Service Review on Sequoia and Peninsula Health Care Districts to the Santa Clara LAFCo Audit and Municipal Service Review, it does not clearly identify any substantive content that is lacking in the San Mateo LAFCo report. Also, the comparison between the reports does not take into consideration that the Santa Clara LAFCo Consultant prepared report included a financial audit for reasons detailed below. Additionally, while it should be noted that the Affordable Care Act may impact health care districts that don't operate hospitals and these impacts may merit contracting with a consultant specializing in health care, the health care districts in San Mateo County do not operate hospitals or health care facilities and therefore the municipal service review addresses the programs or services the Districts fund, and not hospital or health care facility operation.*

*More generally, the Cortese Knox Hertzberg Act (Act) gives individual LAFCos the authority to implement the Act based on local conditions and circumstances. Government Code Section 56425 requires LAFCO to update spheres of influence and prepare municipal service reviews every five years or **as needed**. It is the sphere of influence update that triggers preparation of a municipal service review. Section 56430 setting forth the parameters of the municipal service review gives each LAFCo discretion to prepare municipal service reviews for an individual agency, by region or for multiple agencies providing the same type of municipal service based on local circumstances and does not mandate the method of preparation of the service reviews. Practices by LAFCos around the State vary widely in this regard.*

The Civil Grand Jury report compares the 2007 San Mateo LAFCo municipal service review that covered both Sequoia and Peninsula Healthcare Districts with the 2012 Santa Clara LAFCo special audit and municipal service review on the El Camino Hospital District prepared by an auditing firm. While LAFCo concurs that consultant prepared reports afford a singular focus and greater level of detail, the LAFCo budget has not traditionally included resources for consultant prepared reports. In addition, San Mateo LAFCo's Municipal Service Review consisted of the April 2, 2007 circulation draft, the April 16, 2007 addendum and May 4, 2007 final report/recommended determinations, the product of three LAFCo hearings and significant public input. While it varied in format from the Santa Clara LAFCo report, the San Mateo municipal service review, addendum and recommendations provide background on the metamorphosis of hospital districts in California,

detail each district's finances, their relationship with the hospital operators and grantee organizations, governance alternatives, service review determinations and sphere determinations. Commission action included an amendment to the sphere of both districts based on changes in service delivery and information in the municipal service review. Also, in addition to budget data, the three most recently available audits for both districts were also considered by the Commission. These documents can be found at www.sanmateolafco.org under Studies/Municipal Service Reviews.

The Santa Clara LAFCo 2012 report on El Camino Hospital District (the only health care district in Santa Clara County) was a combined audit and municipal service review prepared by Harvey M. Rose Associates. Municipal service reviews are not required to include an audit, but Santa Clara LAFCo requested the audit due to concern about lack of fiscal transparency by the District and accountability of the District to District tax payers. As noted on page ii of the Santa Clara Municipal Service Review, the audit addressed the fact that the District is comprised of six legal entities including being the "sole member" of a Hospital Corporation. In addition to the issue of whether District funds were being spent outside the District, the audit responded to questions regarding accounting and budgeting practices and expenditure of District funds and resulted in consolidated financial statements of the District and the five affiliates.

Lastly, Assembly Bill 678 (Gordon) would require Health Care Districts that do not operate their own hospital facilities to create every five years, an assessment of the community health needs and would require LAFCos to include in a Municipal Service Review the Health Care District's five-year assessment. This provision, if it becomes law, would supplement service reviews with data specific to health care needs. Furthermore, if the bill does not become law or has an effective date that is not within the time frame of the next service review, Government Code Section 56378 gives LAFCo the authority to request such information from the Districts.

F2. PHD would benefit from having a service review of its own, separate from SHD, given the differences in the two districts' goals and responsibilities.

Response: *San Mateo LAFCo disagrees with this finding for a number of reasons. As noted above, the Act gives LAFCo the authority to complete municipal service reviews based on local conditions and circumstances. More specifically, Government Code Section 56430 gives LAFCo authority to prepare municipal service reviews on individual agencies, by region or by type of municipal service based on local circumstances. Section 56430 (b) includes the following language: "In conducting a service review, the commission shall comprehensively review all of the agencies that provide the identified service or services within the designated geographic area."*

LAFCo prepared a combined municipal service review based on the foregoing language and because the Districts have more similarities than differences, including:

- *Creation to fund and operate hospitals and evolving to divesture of the hospitals but remaining linked by virtue of agreements with the hospital operators.*

- *Expansion of services consistent with the rewriting of District enabling legislation that recognized trends toward divestiture of hospitals and funding of health related programs to benefit the community.*
- *Both Districts receive property tax that is used in part or whole to fund community health initiatives and both Districts budget reserves in the event the hospitals revert back to the Districts.¹*
- *The Districts have coterminous boundaries that include the bayside of San Mateo County from Menlo Park northward to portions of South San Francisco and San Bruno, reflect the demographics and development of the County at the time of formation and leave large portions of the County excluded from health care district boundaries.*

For these reasons, preparation of a combined municipal service review for both health care districts facilitates a broader examination and public dialogue of health care needs for County residents and a more comprehensive discussion of potential efficiencies, governance alternatives and boundary alternatives.

Recommendations:

R1. That LAFCo contract with a consultant experienced in conducting service reviews of health care districts to assist in conducting the next PHD service review.

Response: *The recommendation will not be implemented until such time that circumstances indicate it is necessary to contract with a consultant and the Commission's budget includes resources for this purpose.*

R2. That LAFCo perform separate service reviews for SHD and PHD.

Response: *This recommendation will not be implemented because it is not warranted for the reasons stated above and because preparation of a combined municipal service review for both health care districts facilitates a broader examination and public dialogue of health care needs for County residents and a more comprehensive discussion of potential efficiencies, governance and boundary alternatives.*

A draft response is attached for the Commissions review and approval. The full Grand Jury Report is also attached for the Commission's reference.

Respectfully Submitted,

Martha Poyatos
Executive Officer

¹ Pursuant to Health & Safety Code Section 32121 (p)(2)(A)(iii) transfer agreements must contain a provision that all assets transferred by the District are to be transferred back to the District upon termination of the transfer agreement, including any extension of the transfer agreement. Both Districts have a growing reserve for this purpose.

September 11, 2013

Honorable Richard C. Livermore
Judge of the Superior Court
C/O Charlene Kresevich
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063

Re: Civil Grand Jury Report: 2012-13 "Peninsula Health Care District: Landlord, Real Estate Developer, or Health Care Leader?"

Honorable Judge Livermore:

The Commission appreciates the time and effort expended by the Grand Jury in gaining an understanding of Peninsula Health Care District and LAFCo municipal service reviews and welcomes the additional opportunity for public education about these important topics. On September 11, 2013, the Commission reviewed a draft response to the Grand Jury, provided input and directed LAFCo staff to submit a response by the October 29, 2013 deadline.

With the exception of Findings F1 and F2 and Recommendations R1 and R2, the findings and recommendations are not relevant to the Commission's statutory role. While much of the subject matter in the balance of the findings and recommendations is covered in municipal service review reports (and LAFCo will reference the Grand Jury report in any future municipal service review) and the Grand Jury recommendations are not disputed by LAFCo, the subject matter is outside LAFCo's control and therefore the findings and recommendations require no response.

We hereby submit the response below which addresses Findings F1 and F2 and Recommendations R1 and R2 contained in the Civil Grand Jury Report titled "Peninsula Health Care District: Landlord, Real Estate Developer, or Health Care Leader?" and provides clarification about how service reviews may be implemented based on local conditions and resources.

FINDINGS

- F1. LAFCo's service review for PHD would provide more in-depth analysis of PHD's finances and services if a consultant knowledgeable about health care districts assisted in its preparation.

Response: *San Mateo LAFCo disagrees in part with the finding and believes additional information is necessary for an informed discussion of this issue. While the Grand Jury report cites format, content and length of the reports under comparison, the nature of the substance that is deemed lacking in the San Mateo LAFCo report is not defined in the Grand Jury Report. Also, the comparison between the San Mateo LAFCo Municipal Service Review on Sequoia and Peninsula Health Care Districts to the Santa Clara LAFCo Audit and Municipal Service Review does not take into consideration that the Santa Clara LAFCo Consultant prepared report included an audit for the reasons detailed below. Additionally, while it should be noted that the Affordable Care Act may impact health care districts that don't operate hospitals and these impacts may merit contracting with a consultant specializing in health care, the health care districts in San Mateo County do not operate hospitals or health care facilities and therefore the municipal service review addresses the programs or services the Districts fund and not hospital or health care facility operation.*

*More generally, the Cortese Knox Hertzberg Act (Act) gives individual LAFCOs the authority to implement the Act based on local conditions and circumstances. Section 56425 requires LAFCO to update spheres of influence and prepare municipal service reviews every five years or **as needed**. It is the sphere of influence update that triggers preparation of a municipal service review. Section 56430 setting forth the parameters of the municipal service review gives each LAFCo discretion to prepare municipal service reviews for an individual agency, by region or for multiple agencies providing the same type of municipal service based on local circumstances and does not mandate the method of preparation of the service reviews. Practices by LAFCOs around the State vary widely in this regard.*

The Civil Grand Jury report compares the 2007 San Mateo LAFCo municipal service review that covered both Sequoia and Peninsula Healthcare Districts with the 2012 Santa Clara LAFCo special audit and municipal service review on the El Camino Hospital District prepared by an auditing firm. While LAFCo concurs that consultant prepared reports afford a singular focus and greater level of detail, the LAFCo budget has not traditionally included resources for consultant prepared reports. In addition, San Mateo LAFCo's Municipal Service Review consisted of the April 2, 2007 circulation draft, the April 16, 2007 addendum and May 4, 2007 final report/recommended determinations, the product of three LAFCo hearings and significant public input. While it varied in format from the Santa Clara LAFCo report, the San Mateo municipal service review, addendum and recommendations provide background on the metamorphosis of hospital districts in California, detail each district's finances, their relationship with the hospital operators and grantee organizations, governance alternatives, service review determinations and sphere determinations. Commission action included an amendment to the sphere of both districts based on changes in service delivery and information in the municipal service review. Also, in addition to budget data, the three most recently available audits for both districts were also considered by the Commission. These documents can be found at www.sanmateolafco.org under Studies/Municipal Service Reviews.

The Santa Clara LAFCo 2012 report on El Camino Hospital District (the only health care district in Santa Clara County) was a combined audit and municipal service review prepared by Harvey M. Rose Associates. Municipal service reviews are not required to include an audit but Santa Clara LAFCo caused the audit to be prepared due to concern about lack of fiscal transparency by the District and accountability of the District to District tax payers. As noted on page ii of the Santa Clara Municipal Service Review the audit addressed the complex situation of the District being comprised of six legal entities including being the “sole member” of a Hospital Corporation. In addition to the issue of whether District funds were being spent outside the District, the Audit responded to questions regarding accounting and budgeting practices and expenditure of District funds and resulted in consolidated financial statements of the District and the five affiliates.

F2. PHD would benefit from having a service review of its own, separate from SHD, given the differences in the two district’s goals and responsibilities.

Response: San Mateo LAFCo disagrees with this finding for a number of reasons. As noted above, the Act gives LAFCo the authority to complete municipal service reviews based on local conditions and circumstances. More specifically, Section 56430 gives LAFCo authority to prepare municipal service reviews on individual agencies, by region or by type of municipal service based on local circumstances. Section 56430 (b) includes the following language: “In conducting a service review, the commission shall comprehensively review all of the agencies that provide the identified service or services within the designated geographic area.”

LAFCo prepared a combined municipal service review based on the foregoing language and because the Districts have more similarities than differences, including:

- *Creation to fund and operate hospitals and evolving to divesture of the hospitals but remaining linked by virtue of agreements with the hospital operators.*
- *Expansion of services consistent with the rewriting of District enabling legislation that recognized trends toward divestiture of hospitals and funding of health related programs to benefit the community.*
- *Both Districts receive property tax that is used in part or whole to fund community health initiatives and both Districts budget reserves in the event the hospitals revert back to the Districts .¹*
- *The Districts have coterminous boundaries that include the bayside of San Mateo County from Menlo Park northward to portions of South San Francisco and San Bruno, reflect the demographics and development of the County at the time of formation and leave large portions of the County excluded from health care district boundaries.*

¹ Pursuant to Health & Safety Code Section 32121 (p)(2)(A)(iii) transfer agreements must contain a provision that all assets transferred by the District are to be transferred back to the district upon termination of the transfer agreement, including any extension of the transfer agreement. Both Districts have a growing reserve for this purpose.

For these reasons, preparation of a combined municipal service review for both health care districts facilitates a broader examination and public dialogue of health care needs for County residents and a more comprehensive discussion of potential efficiencies, governance alternatives and boundary alternatives.

RECOMMENDATIONS

R1. That LAFCo contract with a consultant experienced in conducting service reviews of health care districts to assist in conducting the next PHD service review.

Response: *The recommendation will not be implemented until such time that circumstances indicate it is necessary to contract with a consultant and the Commission's budget includes resources for this purpose.*

R2. That LAFCo perform separate service reviews for SHD and PHD.

Response: *This recommendation will not be implemented because it is not warranted for the reasons stated above and because preparation of a combined municipal service review for both health care districts facilitates a broader examination and public dialogue of health care needs for County residents and a more comprehensive discussion of potential efficiencies, governance and boundary alternatives.*

Please contact the LAFCO office if you have any questions or if we can be of further assistance.

Sincerely,

Don Horsley
Chair, San Mateo LAFCO



PENINSULA HEALTH CARE DISTRICT: LANDLORD, REAL ESTATE DEVELOPER, OR HEALTH CARE LEADER?

SUMMARY

The mission of the Peninsula Health Care District (PHD) is to ensure Mills-Peninsula Medical Center (MPMC) provides needed core services, to support programs that share PHD's vision, and to do so in collaboration with other providers and qualified members of its community. PHD serves approximately 230,000 residents in San Bruno, Millbrae, Burlingame, Hillsborough, and parts of San Mateo and Foster City.

PHD receives a significant amount of its operating funds from its portion of San Mateo countywide property taxes. The 2012-2013 San Mateo County (County) Civil Grand Jury (Grand Jury) investigated the transparency of PHD's operations and how it identifies its core functions, allocates funds, and monitors performance of its grantees.

The Grand Jury notes that since 2007, PHD has been a landlord, real estate developer, and community health resource. The Grand Jury finds that PHD is providing for the long-term needs of its residents by planning for the development of a health-focused campus on its land adjacent to MPMC. The Grand Jury also finds that the decision to build reserves and focus on long-term issues comes at the expense of current health needs, even though PHD has made recent efforts to increase its grant funding. The Grand Jury also finds that PHD could do a better job of evaluating the performance of its grant recipients and would benefit from increased educational outreach efforts.

The Grand Jury recommends that PHD prioritize its various roles as landlord, real estate developer, and community health resource. The Grand Jury also recommends that PHD retain experts to determine the reasonable amount that it should allocate to reserves annually and adjust its allocation of revenues to enhance its support of current programs and grants. The Grand Jury further recommends that PHD restructure the terms of its grants so only a portion of the grant award amount is distributed upfront, and then if a mid-year report shows that performance is acceptable, distribute the remaining funds. The Grand Jury additionally recommends that PHD seek opportunities to make public presentations in order to ensure that residents are well informed, heard, and represented by the programs it funds.

BACKGROUND

Health care districts, formerly called hospital districts, have been authorized in California since 1945. Recently, taxpayers across the state have questioned the need for health care districts since many districts no longer operate hospitals. California Grand Juries have questioned health care district practices and Local Agency Formation Commissions in other counties have dissolved or reorganized five districts since 2000.¹

¹ California Legislative Analyst's Office, *Overview of Health Care Districts*, April 11, 2012.

Previous County Grand Juries have investigated the County's health care districts. The 2004-2005 Grand Jury recommended that the Sequoia Healthcare District (SHD) and PHD pursue a merger.²

The 2006-2007 Grand Jury recommended that PHD review funding for community health initiatives and consider increasing direct support to indigent care. The Grand Jury further recommended that PHD work with the San Mateo Medical Center (SMMC) to promote proactive, preventative health care initiatives to healthy participants and the broader community.³

The 2007-2008 Grand Jury recommended that PHD enter into a formal agreement to support the San Mateo Access and Care for Everyone Program (ACE). The Grand Jury also recommended that PHD re-evaluate the need for substantial financial reserves since PHD no longer had a hospital to manage or maintain.⁴

With previous Grand Juries reaching a variety of conclusions regarding PHD, the Grand Jury decided to investigate where PHD's tax dollars are spent as opposed to whether PHD should continue to exist. The investigation specifically focused on the transparency of PHD's operations and how it identifies its core functions, allocates funds, and monitors performance of its grantees.

METHODOLOGY

The Grand Jury conducted online research and interviewed representatives from PHD, the County's Local Agency Formation Commission (LAFCo), the State Assembly, and PHD grantees.

DISCUSSION

What is a Special District?⁵

Special districts are local governmental entities that are legally separate from counties and cities. They deliver special public services identified by state law and serve and are supported by residents within defined boundaries.

Special districts generally have authority to build public works projects and operate programs, and may have the power to impose taxes to pay for these activities.

Special districts generally have authority to enter into contracts, purchase property, exercise eminent domain, issue debt, and hire staff.

Local health care districts are a type of special district.

² *Sequoia Healthcare District*, http://www.sanmateocourt.org/documents/grand_jury/2004/SpecialDistrictSequoia_vers_3.0_final.pdf (March 27, 2013).

³ http://www.sanmateocourt.org/documents/grand_jury/2006/IndigentHlthCareinSMCFinal.pdf

⁴ http://www.sanmateocourt.org/documents/grand_jury/2007/healthcare.pdf

⁵ California Legislative Analyst's Office, *Overview of Health Care Districts*, April 11 2012.

History of Health Care Districts⁶

In 1945, following the end of World War II, the Legislature enacted the Local Hospital District Law (later renamed the Local Health Care District Law). Soldiers returning from combat in need of medical treatment and hospitalization encountered a severe shortage of hospital beds. Many rural and underdeveloped areas of the state did not have basic hospital and health care services. To remedy this situation, the State Legislature created special “hospital districts” and gave them the authority to construct and operate community hospitals and health care facilities and to recruit and support physicians’ practices.

Prior to 1963, numerous state and local laws and regulations governed the formation of a new hospital district. In 1963, Local Agency Formation Commissions were created and the process for establishing a district was standardized.

In 1994, the Legislature (Chapter 696, Statutes of 1994 (SB 1169)) renamed hospital districts “health care districts” as these districts were increasingly providing health care outside of hospitals and clinics.

Under current state law, health care districts may operate health care facilities such as hospitals, clinics, skilled nursing facilities, adult health care centers, nurses’ training schools, and childcare facilities. Health care districts may operate ambulance services within and outside of the district. They may operate programs that provide chemical dependency services, health education, wellness and prevention, rehabilitation, and aftercare. They can also engage in other activities necessary for the maintenance of good physical and mental health.

There are currently 73 health care districts serving 40 counties in California. Forty-three districts operate hospitals, 30 do not. Some districts never operated a hospital and some, like PHD, that had operated hospitals, no longer operate them.

Most health care districts receive a share of local property taxes. The share of local property tax going to health care districts varies among districts.

Role of LAFCo

LAFCo is an independent commission with jurisdiction over the boundaries of the County’s 20 cities, 22 independent special districts, and many of the 35 County-governed special districts. LAFCo is governed by a Commission consisting of two members of the County Board of Supervisors, two members of city councils, two board members of independent special districts, a public member, and four alternate members (County, city, special district, and public). LAFCo's budget is funded by application fees and by the County, cities, and independent special districts. LAFCo contracts with the County for an Executive Officer, legal counsel, and office space. LAFCo’s Executive Officer, with the help of a part-time administrative assistant, conducts “municipal service reviews” and oversees the formation, dissolution, and reorganization of all special districts.

⁶ California Legislative Analyst’s Office, *Overview of Health Care Districts*, April 11 2012.

Service reviews of special districts are required every five years.⁷ The last service review of PHD was conducted in April 2007, which means a new service review should have been performed in April 2012. Interviewees stated that LAFCo's current staffing level makes it difficult to conduct service reviews in a timely manner.

The 2007 service review, 34 pages long, was a review of both SHD and PHD. Both districts are health care districts, but they have divergent goals and responsibilities. The service review briefly discussed the following topics: Infrastructure needs or deficiencies; growth and population projections; financing constraints and opportunities; cost avoidance opportunities; opportunities for rate restructuring; opportunities for shared facilities; government structure options, including advantages and disadvantages of consolidation or reorganization of service providers; evaluation of management efficiencies; and local accountability and governance.

LAFCo staff conducted the 2007 service review of SHD and PHD. In contrast, an outside consultant conducted the 2012 Santa Clara County LAFCo Audit and Service Review of the El Camino Hospital District (ECHD).⁸ The consultant's report was 94 pages long and was, by far, a more detailed analysis of the district's operations. The report included an Executive Summary, an Introduction, a section on ECHD and its affiliates, a section on Hospital Districts in California, an audit of ECHD, a service review of ECHD, and a section on governance and organizational alternatives. In addition, the report addressed two key questions: 1) Is ECHD providing services outside of its boundaries. 2) Should ECHD continue to exist and/or continue to receive public funds or could another entity provide ECHD's services more efficiently.

Interviewees stated that LAFCo does not have the resources to produce reports with this level of detail. In addition, given the nuances of health care districts, interviewees felt an outside consultant might provide LAFCo with additional information that would assist it in choosing to initiate boundary changes or take other actions to reorganize services.

The Peninsula Health Care District⁹

PHD is an independent special district and is not under the jurisdiction of any municipality or the County. LAFCo provides oversight in the form of the above-referenced service reviews. PHD now serves approximately 230,000 residents in San Bruno, Millbrae, Burlingame, Hillsborough, and parts of San Mateo and Foster City. A five person Board of Directors (Board), elected by the voters living within PHD boundaries, governs PHD. Board members serve 4-year terms. A chief executive officer (CEO) hired by the Board manages PHD. Its headquarters are located at 1600 Trousdale Drive, Suite 1210, Burlingame. All PHD meetings are public and open to both residents and non-residents.

PHD was established with broad support from County voters in 1947 to build and operate a new hospital. In order to bring citizens into the decision-making process, the Board was created. The

⁷ San Mateo LAFCo, <http://www.co.sanmateo.ca.us/portal/site/lafco> (March 27, 2013).

⁸ Santa Clara County LAFCo Audit and Service Review of the El Camino Hospital District, http://www.santaclara.lafco.ca.gov/service_reviews/2012_ECHD/ECHD%20ServRevAudit%20.pdf

⁹ Information obtained during interviews with representatives from PHD and from the PHD website, <http://www.peninsulahealthcaredistrict.org/>

Peninsula Hospital was built in 1954 using public funds and private donations, and for more than 30 years, the Board made all of the hospital's operational decisions.

In 1985, the Board voted to lease Peninsula Hospital, including all operations, to Mills-Peninsula Health Services (MPHS), a private non-profit group that owned and operated Mills Health Center (MHC) in San Mateo. Subsequently, MHC and Peninsula Hospital in Burlingame became part of the Peninsula Coastal Region of Sutter Health (SH). As a result, both facilities were able to operate more economically and efficiently, and PHD resources were freed for investment in local community-based health care.

In 1994, California passed Senate Bill 1953, which established strict seismic safety standards for general acute care hospitals. It was determined that Peninsula Hospital did not meet these standards, necessitating construction of a new hospital. Through lengthy negotiations and many public meetings, MPHS/SH agreed to build a privately funded, \$620 million state-of-the-art medical campus on PHD land at the El Camino Real/Trousdale site. In 2006, the voters approved the hospital construction with a 92 percent favorable vote. MPMC opened in May 2011.

The Board (in its role as landlord) and MPHS/SH established a 50-year Master Lease Agreement that calls for MPHS/SH to pay PHD \$1.5 million annually (increasing by 3% annually) for the use of 21 acres of PHD land. Additionally, PHD gained oversight of any proposal to terminate nine core services, such as obstetrics and surgery, and to ensure that vital services are offered within its boundaries, not somewhere else. Following the end of the 50-year lease, MPHS/SH will transfer the hospital back to PHD, upon payment of its book value. MPHS/SH can renew the lease for an additional 25 years.

In addition to leasing land, PHD is in the process of planning the development of a health-focused campus adjacent to MPMC. The current plan calls for a campus consisting of senior housing, a skilled nursing facility, an assisted living/memory care facility, a community center, and mixed use space. The current plan further calls for PHD to retain ownership of the land and seek partnerships for construction, operations, and financing.

Since 2007, PHD has been a landlord, real estate developer, and a community health care resource. However, it is not clear that PHD has placed a priority on its grants program.

PHD annually receives approximately \$4.6 million in property taxes, \$2.4 million in rental income, and \$400,000 in investment income. For the 2012-2013 budget year, among its expenditures, PHD plans to spend \$2.15 million on community health, \$2 million for special projects, and has \$1.8 million in net funds available for reserves. By comparison, PHD allocated \$3.9 million for reserves in the 2011-2012 budget year. PHD's current reserve fund is \$60.9 million. The 2012-2013 budget is attached as Appendix A.

There is no information on PHD's website, and the Grand Jury did not receive any data during interviews, stating the ultimate amount PHD anticipates it will have to pay to buy back MPMC at the end of the lease. Without this data, the Grand Jury is not able to determine whether PHD's current reserves are sufficient, underfunded, or over-funded. If the reserves are over-funded, current District taxpayers won't realize the full benefit of their Property Taxes. If PHD funnels

too much tax money into its reserves for the next 48 years, then two generations of District residents will be short-changed in having their immediate health care needs met.

PHD would benefit from professional assistance in determining the appropriate amount to allocate to reserves each year in order to purchase MPMC at the end of the lease period.

Community Impact¹⁰

PHD invests in local organizations that can impact the lives of its residents. PHD supports the following programs:

- **Assisted Living and Memory Care Facility**

As part of PHD's ongoing commitment to the current and future health needs of seniors, plans are underway to build an assisted living and memory care facility with 122 units on PHD-owned property at 1600 Trousdale Drive, near shopping, public transportation, and health care services.

- **Healthy Schools Initiatives**

PHD established a three-year partnership with five Peninsula School Districts, allocating \$4 million for health and wellness programs in 39 K-8 schools. The grant will support school wellness coordinators, nurses, counselors, PE instructors, and a school-based health clinic.

- **Apple Tree Dental Clinic**

PHD is working to address the dental health needs of frail seniors, special needs adults, and low-income residents within its boundaries. In April 2012, the Board approved a \$125,000 grant to Apple Tree Dental for a new dental care program.

- **Access to Care for Everyone (ACE)**

In July 2012, PHD approved a two-year, \$4.6 million grant to the County Health System to support health care for low-income, uninsured adults living within its boundaries. PHD's funding will serve nearly 1,000 adult residents.

- **Full-Time Psychiatric Resident Physician**

In March 2012, the Board awarded a \$500,000 grant over four years to fund a full-time psychiatric resident physician in the County's Behavioral Health Program. The goal is to help ease the burden on the County Health System and to contribute to the training of a much-needed health care specialist.

¹⁰ Information obtained during interviews with representatives from PHD and from the PHD website, <http://www.peninsulahealthcaredistrict.org/>

- **Lesley Senior Communities**

In April 2012, the Board voted to support Lesley Senior Communities' application to the Department of Housing and Urban Development (HUD) for federal funding for affordable assisted living units in San Mateo. Leslie plans to convert 20 existing senior apartments into 16 affordable assisted living units. The Board approved \$2 million in PHD support for the affordable units, contingent upon successful completion of the HUD funding proposal.

- **American Red Cross**

PHD collaborated with the American Red Cross to provide long-term recovery services to the residents of San Bruno, following the pipeline disaster of September 9, 2010. Through a PHD grant of \$100,000, facilities at 458 San Mateo Avenue in San Bruno opened and served more than 250 families impacted by the disaster. The key driver for the facility was the desire to create a central location where individuals and families could have a "one-stop shop" to meet their disaster-related needs.

- **Enhanced Emergency Preparedness**

PHD has been working with experienced community partners to help make sure they are equipped to implement their emergency and disaster plans when the need arises. PHD contributed to the purchase of Automated External Defibrillators (AEDs) for Lions Club volunteers and worked with the Foster City Police Department to have AEDs installed at Borel and Abbott Middle Schools and the Bayside S.T.E.M. Academy in the San Mateo/Foster City School District. The total spent on AEDs was \$3,017.15.

- **MD Forgivable Loans Program**

The primary goal of the MD Forgivable Loans Program is to address the significant "access to care" problems created for residents of PHD by present and projected physician shortages. This program is designed to create financial incentives to promote new physician placement and relocation to PHD communities. The 2013 budget for this program includes \$150,000 for a low interest housing loan.

- **RN Loan Forgiveness Program**

PHD will provide loans to students who are admitted to the College of San Mateo (CSM) Nursing Program, and/or other two-year accredited nursing programs. Upon graduation, if the students are employed within PHD's boundaries for two years, the loan will be forgiven. There are currently 65 individuals in this program. No new applications were accepted for 2013. The 2013 budget includes \$40,000 which is allocated to eight students at \$5,000 each. Outstanding loans total \$186,360.

Community Health Investment Committee¹¹

PHD aims to achieve measurable improvements in the health of its community and its Community Health Investment Committee (CHIC) is the cornerstone of this effort. Since the first grants were awarded in 1996, over \$20 million dollars has been invested in local non-profits, programs, and organizations in PHD communities.

Each year, CHIC reviews the health needs and priorities of PHD's residents, as well as the funding available for the grants program. The grant funds are used to support nonprofit community-based agencies, programs, and services that are reflective of, and responsive to, the identified priority needs within the community. PHD uses a comprehensive definition of health to include those behaviors, programs, activities, and support that promote and protect the physical, psychological, and social well-being of an individual, a family, and a community.

CHIC members, appointed by the Board Chair for 3-year terms, include:

- Two directors from the Board; one serving as committee chair
- Two community health care providers and leaders
- Two PHD community members-at-large
- PHD's Chief Executive Officer

The members advise on health priorities, review all letters of intent, determine which agencies will be asked to submit full proposals, review all submissions, participate in site visits, and make recommendations for funding to the Board at its December meeting.

Community Health Grants Program¹²

- **Grant Eligibility**

PHD's Community Health Grants Program (CHGP) supports programs and services which directly benefit PHD residents. Non-profit organizations with Internal Revenue Code Section 501(c)(3) tax-exempt status are eligible to apply for PHD grants.

- **Grant Making Policies and Guidelines**

Consistent with its grant eligibility policy, PHD generally will not consider requests for basic operating support, requests to cover budget deficits, or requests to support research projects. Grants are generally made in the range of \$10,000-\$50,000 annually. Agencies that can demonstrate large numbers of PHD residents served and have a proven record of improved access and/or health status may apply for larger grants.

¹¹ Information obtained during interviews with representatives from PHD and from the PHD website, <http://www.peninsulahealthcaredistrict.org/>

¹² Information obtained during interviews with representatives from PHD and from the PHD website, <http://www.peninsulahealthcaredistrict.org/>

PHD is supportive of programs that will use CHGP funds to leverage additional funds or other support to amplify the impact of PHD's resources.

PHD encourages results-based community collaborations among agencies, local government, and the private sector to improve the health of its residents. In addition, PHD is interested in working collaboratively in effective, program-focused efforts with other local funders and with local, regional, and national health care initiatives.

CHGP will support services, programs, and agencies with strong, successful performance records and the highest probability of meeting their defined goals and objectives.

- **Grant Application Process**

Non-profit agencies interested in applying for funding submit a letter of intent. After reviewing all letters of intent for consistency with PHD's policies and principles, PHD will extend an invitation to qualifying agencies for full proposals. Each proposal must describe how the program will benefit PHD residents and explain how a program's success will be determined. CHIC reviews the full proposals.

- **Distribution of Grant Funds**

After reviewing the proposals, the CHIC makes recommendations to the full Board. PHD awards 100% of each grant request approved by a majority of the Board at the beginning of the year. It is not known if awarding 100% of a grant upfront is standard in the industry. The Grand Jury is aware of other health care entities that award 50% of a grant upfront, and then the remaining 50% after a satisfactory mid-year performance review.

- **Grant Oversight and Monitoring**

Recipients are required to provide regular financial and operational reports and periodically are asked to make presentations to the CHIC and/or Board at a public meeting. PHD requests quarterly progress reports from grant recipients who are new to the program. Fifty percent of the remaining grant recipients are required to submit semi-annual reports; the other 50% are required to submit final reports at the conclusion of the grant term. PHD can also make site visits to the facilities operated by the grantees.

However, since 100% of the funds are distributed at the beginning of the year, and 50% of the grants will not have to submit reports until the conclusion of the grant term, the possibility exists that grant funds will be completely exhausted before CHIC is aware that the purpose of the grant has not been met. The Grand Jury learned during interviews that there was one occasion where a Grant was awarded and the grantee did not perform. Requiring, as a minimum, mid-year performance reports from all grant recipients and distributing grant funds in stages after satisfactory performance might prevent future problems from occurring.

- **Grant Funding Impact**

Current recipients depend on the grants they receive from PHD, and feel there would be a negative impact to their programs if funding were stopped. Recipients would need to raise funds elsewhere, either through fundraising or other grants, in order to maintain their level of service. None of the recipients interviewed was funded solely by PHD. A list of the current grantees is attached as Appendix B.

Transparency of PHD's Operations

The Board meets on the last Thursday of the month at 5:45 p.m. at various locations within its boundaries. PHD does not post its meeting agendas in advance on its website. PHD posts written minutes on its website.

PHD's website (<http://www.peninsulahealthcaredistrict.org/>) is informative and relatively easy to navigate. The website includes Board and staff member biographies, announcements, press releases, meeting information, financials, and information on programs, major initiatives, and grants. The website does not contain links on how a resident can access health care services. When the Grand Jury visited the PHD website in May 2013, the most current budget information for the 2012-2013 fiscal year was not available, nor was the PHD strategic plan. Following an inquiry from the Grand Jury, PHD posted the 2012-2013 budget on the website and provided the Grand Jury with an Executive Summary of its Strategic Plan. This Executive Summary is attached as Appendix C.

Throughout the year (usually quarterly), PHD produces *Health District News*, an informative newsletter for its residents. As a public organization funded through taxpayer dollars, the newsletter keeps PHD residents abreast as to how tax dollars are being invested in the community and how they are being used to impact the health of PHD residents. PHD randomly mails 45,000 copies of the newsletter to its residents. With 230,000 residents within the District boundaries, the average resident will receive a copy of the written newsletter only once a year, or less. In addition, PHD posts the newsletter on its website.

Board members and administrative staff welcome the opportunity to speak to community groups to inform residents about PHD programs, initiatives, and grants. PHD acknowledges that both PHD and its residents would benefit from increased educational outreach efforts to ensure that residents are well informed, heard, and represented by programs.

FINDINGS

- F1. LAFCo's service review for PHD would provide more in-depth analysis of PHD's finances and services if a consultant knowledgeable about health care districts assisted in its preparation.
- F2. PHD would benefit from having a service review of its own, separate from SHD, given the differences in the two district's goals and responsibilities.

- F3. PHD needs to determine which of its three roles of landlord, real estate developer, and community health care resource has the greatest priority to ensure that resources are allocated to the areas of greatest need.
- F4. PHD is providing for the long-term needs of its residents by planning for the development of a health-focused campus on PHD land adjacent to the new MPMC.
- F5. PHD has not provided sufficient information to support its decision to build reserves and focus on long-term issues such as the buy-back of MPMC at the end of the lease, rather than allocate more funds to the current health needs of its residents through its grant and other programs.
- F6. It could not be discerned from the investigation whether PHD includes a third party financing component in calculating its cost in the possible buy back of MPMC or whether it assumes it will pay all cash.
- F7. PHD would benefit from professional assistance in determining the appropriate amount to allocate to reserves each year in order to purchase MPMC at the end of the lease period.
- F8. For the past few years, PHD has made an effort to increase its grant funding to address current health care issues.
- F9. Initiatives supported by PHD address a variety of community health needs such as access to primary care, universal insurance coverage for children, and affordable assisted living units.
- F10. PHD's grant funds are used to support programs and services focusing on key areas such as children's health, support of "safety net" organizations, and senior care.
- F11. PHD needs to improve the process for evaluating the performance of its grant recipients.
- F12. PHD would benefit from increased educational outreach efforts to achieve its vision that all residents of the District enjoy optimal health through education, prevention, and access to needed health care services.
- F13. PHD's website contains useful information, but adding meeting agendas, current budget data, the Strategic Plan, and links on how residents can access health care would make it more user-friendly.

RECOMMENDATIONS

The Grand Jury recommends that **LAFCo** do the following:

- R1. Contract with a consultant experienced in conducting service reviews of health care districts to assist in conducting the next PHD service review.
- R2. Perform separate service reviews for SHD and PHD.

The Grand Jury recommends that **PHD** do the following:

- R3. Determine which of its three roles of landlord, real estate developer, and community health care resource has top priority.

- R4. Retain experts to estimate the reasonable “book value” of MPMC when the lease expires in 50 years, then determine how much to allocate to reserves for its purchase, taking into account debt financing possibilities, in order to avoid an unnecessarily large reserve fund.
- R5. Adjust its allocation of revenues to enhance PHD’s support of current programs and grants.
- R6. Restructure the terms of its grants so that only a portion of the grant award amount is distributed upfront, and then if a mid-year report shows that performance is acceptable, distribute the remaining funds.
- R7. Seek opportunities to make public presentations in order to ensure that residents are well informed, heard, and represented by the programs PHD funds.
- R8. Continually update its website with current information, including meeting agendas, strategic plans, and budget information.

REQUEST FOR RESPONSES

Pursuant to Penal code section 933.05, the Grand Jury requests the following to respond to the foregoing Findings and Recommendations referring in each instance to the number thereof:

- LAFCo
- Peninsula Health Care District

The governing bodies indicated above should be aware that the comment or response of the governing body must be conducted subject to the notice, agenda, and open meeting requirements of the Brown Act.

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Civil Grand Jury.
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APPENDIX A

PENINSULA HEALTH CARE DISTRICT			
BUDGET 2012-2013			
APPROVED BY BOARD 6/28/12			
FUNDS RECEIVED & USED ANNUALLY (Summary)			
	July 2011 - June 2012		July 2012-June 2013
	Budget	Estimated Actual	Proposed Budget
FUNDS RECEIVED			
Tax Contributions	3,813,700	4,602,981	4,600,000
Rental Income	2,437,482	2,430,840	2,431,000
Investment Income	361,170	318,317	405,486
Other	15,000	43,211	30,000
TOTAL FUNDS RECEIVED	6,627,352	7,395,349	7,466,486
FUNDS USED			
Community Health Investments	2,300,000	2,251,318	2,150,000
Administrative & Overhead	383,500	387,211	408,500
Legal (General)	75,000	34,550	50,000
Legal (Real Estate)	40,000	2,479	30,000
Legal (Litigation)	20,000	16,235	0
Consulting	25,000	204,862	235,000
Communications/Adv/Outreach	75,000	115,657	100,000
Newsletter & website	50,000	52,699	50,000
Other Expenses, Services & Fees (Misc)	100,000	236,218	449,850
Real Estate Expenses	180,000	184,239	194,500
FUNDS USED FOR OPERATIONS	3,248,500	3,485,468	3,667,850
FUNDS USED FOR SPECIAL PROJECTS			
Healthy Schools Initiative	0	0	1,500,000
Lesley Affordable Assisted Living	0	0	500,000
TOTAL FUNDS FOR PROJECTS	0	0	2,000,000
TOTAL FUNDS USED IN FISCAL YEAR	3,227,800	3,485,468	5,667,850
Net Funds Available After Expenses	3,378,852	3,909,881	1,798,636
BOARD RESERVE FUND* TARGET AS OF 6/30		53,709,682	56,740,434
BOARD FUND* PROJECTED ACTUAL AS OF 6/30		59,106,295	60,904,930
BOARD FUND RELATIVE TO TARGET		5,396,613	4,164,496
<i>*Board Fund is both Cash and Real Estate Assets</i>			

APPENDIX B

2013 Grant Recipients

Children's Health Initiative \$1,300,000	Jewish Family and Children's Services \$25,000	Caminar "Bridges to Wellness" Program \$20,000
Senior Focus \$112,500	Ombudsman Services \$45,000	Mid-Peninsula Boys & Girls Club \$20,000
Samaritan House Clinics \$162,000	SMC Medical Association, Hep B Free \$10,000	Catholic Charities Adult Day Health \$10,000
StarVista \$15,000	PJCC Senior Transportation \$20,000	Community Gatepath, Health-Focused Camp \$5,000
Latino Commission \$25,000	InnVision Shelter Network \$10,000	Edgewood Center, Healthy Kinship Program \$20,000

Other Grants

San Mateo County Mental Health Assessment & Referral Team
\$40,000

APPENDIX C



STRATEGIC PLAN 2011 – 2016

Executive Summary

Introduction:

The 2011 – 2016 Strategic Plan follows the 2007 – 2010 Strategic Plan, which was developed after voter passage of Measure V, which approved the construction of a New Hospital on District property and 50 year Master Agreements between the District and Sutter Health. The 2007 – 2010 plan acknowledged the transition from a hospital-focus to a community health-focus as the existing District Hospital was to be demolished and replaced by a New Hospital owned and operated by Sutter Health under District oversight. The 2011 – 2016 plan reflects the vision of the PHCD Board following the opening of the New Hospital in May, 2011, to develop a Health Campus on District land adjacent to the New Hospital.

Planning Assumptions:

- Developments will be health-related and based on needs-assessment studies.
- A broad range of stakeholders will be interviewed and involved in plan development
- Board’s committee structure broadens stakeholder input and brings in expertise and skills that complement those of the Directors
- District will retain ownership of land and seek partnerships for construction, operations, and financing.

Planning Process:

1. Reviewed internal documents; interviewed Directors and CEO (Fall 2010)
2. Reviewed external reports and assessments; interviewed stakeholders (Fall 2010)
3. Conducted an Operating Environment Assessment with a focus on health, demographic, economic, and health services trends. (Spring 2011)
4. Conducted a “Strengths, Weaknesses, Opportunities, Threats” (SWOT) analysis (Spring 2011)
5. Used the Board’s regular meeting “Community Education” agenda time for content expert presentations on external environment information, threats and challenges that would be relevant to the 2011-2016 Plan (On-going)

6. Conducted a full day Planning Retreat to outline the Plan. (April 8, 2011)
7. Affirmed the Vision, Mission, Goals and Health Priorities (Summer 2011)

OTHER GOALS:

1. Preserve the community hospital on District land in Burlingame.
2. Achieve measurable improvements in identified health problems in the District.
3. Improve the availability of and access to health information and services for all residents of the District.
4. Ensure sufficient resources to achieve the board's vision, mission and strategic initiatives.

HEALTH PRIORITIES:

1. Access to basic health services
2. Childhood obesity
3. Senior services to promote quality of life and independence – outside of institutions.
4. Reduction of health risks through education and prevention.
5. Adequate MD and RN labor force.

VISION:

That all residents of the District enjoy optimal health through education, prevention, and access to needed health care services.

VALUES:

Leadership, public education, personal responsibility, inclusion, stewardship and transparency.

MISSION:

To ensure Peninsula Medical Center provides needed core services; to support programs that share our vision; and, to do so in collaboration with other providers and qualified members of our community.