

**Action Minutes****San Mateo Local Agency Formation Commission Meeting****May 17, 2017**

In the Board of Supervisors' Chambers, 400 County Center, Redwood City, California, Chair Horsley called the May 17, 2017 meeting of the Local Agency Formation Commission (LAFCo) to order at 2:27 pm.

1. Roll Call

Members Present: Commissioners Ann Draper, Rich Garbarino, Mike O'Neill, and Chair Don Horsley

Members Absent: Commissioners Joshua Cosgrove, Joe Sheridan, and Warren Slocum

Staff Present: Martha Poyatos, Executive Officer
Timothy Fox, Legal Counsel
Jean Brook, Commission Clerk

Consultants Present: Severin Campbell, Principal, Harvey M. Rose Associates, LLC
Linden Bairey, Senior Analyst, Harvey M. Rose Associates, LLC

2. Resolution Honoring Ric Lohman for His Service as Alternate Special District Member

Commission Action: Commissioner Garbarino moved to approve the resolution. Commissioner Draper seconded the motion, which passed unanimously. (Ayes: Commissioners Draper, Garbarino, O'Neill, and Chair Don Horsley; Noes: None; Absent: Commissioners Joshua Cosgrove, Joe Sheridan, and Warren Slocum)

Chair Horsley noted Ric Lohman's arrival at 2:28 pm. He noted that Mr. Lohman's recent move to Montara necessitated that he resign from the board of the Granada Community Services District (GCSD) and is therefore no longer eligible to serve as a Special District member on the Commission. He thanked Mr. Lohman for his service.

Mr. Lohman expressed his appreciation for being able to serve on the Commission.

COMMISSIONERS: DON HORSLEY, CHAIR, County ▪ MIKE O'NEILL, VICE CHAIR, City ▪ JOSHUA COSGROVE, Special District ▪ ANN DRAPER, Public
RICH GARBARINO, City ▪ JOE SHERIDAN, Special District ▪ WARREN SLOCUM, County

ALTERNATES: VACANT, Special District ▪ HARVEY RARBACK, City ▪ SEPI RICHARDSON, Public ▪ DAVE PINE, County

STAFF: MARTHA POYATOS, EXECUTIVE OFFICER ▪ REBECCA ARCHER, LEGAL COUNSEL ▪ JEAN BROOK, COMMISSION CLERK

3. Resolution Honoring Ray Mueller for His Service as Alternate City Member

Commission Action: Vice Chair O’Neill moved to approve the resolution. Commissioner Draper seconded the motion, which passed unanimously. (Ayes: Commissioners Draper, Garbarino, O’Neill, and Chair Don Horsley; Noes: None; Absent: Commissioners Joshua Cosgrove, Joe Sheridan, and Warren Slocum)

4. Consent Agenda

Chair Horsley noted that Item 4b, LAFCo File 17-03—Proposed Annexation of 900 Portola Road, Portola Valley (APN 076-261-010) to West Bay Sanitary District, would be continued to the July 19th meeting.

Commission Action: Vice Chair O’Neill moved approval of the consent agenda consisting of the Action Minutes for March 15, 2017 and LAFCo File 17-02—Proposed Water Extension by the City of Redwood City to Proposed Single-family Home on Park Road (APN 057-163-110) (Unincorporated San Mateo County, LAFCo File 17-05—Proposed Annexation of 160 Fawn Lane, Portola Valley (APN 077-223-050) to West Bay Sanitary District, and LAFCo File 17-06—Proposed Annexation of 135 Shawnee Pass, Portola Valley (APN 077-032-010) to West Bay Sanitary District. Commissioner Draper seconded the motion, which passed unanimously. (Ayes: Commissioners Draper, Garbarino, O’Neill, and Chair Don Horsley; Noes: None; Absent: Commissioners Joshua Cosgrove, Joe Sheridan, and Warren Slocum)

5. Public Comment for Items Not on the Agenda

Rob Silano, Board Member, Menlo Park Fire Protection District (MPFPD), presented a resolution from his district requesting that LAFCo do a Municipal Service Review of all the fire agencies in the County. He said MPFPD was very receptive to consolidation of fire and other public safety services.

Chair Horsley stated that Mr. Silano would need to talk to the Executive Officer about putting his proposal on the July agenda before the Commission could consider it.

6. Public Hearing: Consideration of Municipal Service Review and Sphere Update for the Sequoia Healthcare District and the Peninsula Health Care District

Executive Officer Poyatos said that LAFCo sent surveys to both Sequoia Healthcare District (SHD) and Peninsula Health Care District (PHCD) to gather the information used by the consultants to develop the report. She noted that the consultants had follow-up meetings with the Districts requesting further information. She said the consulting team provided administrative drafts so that each District could verify the accuracy of the information in the report. She said the team has responded to requests for changes and to questions from staff and the consulting team. She stated that financial information in the report comes from financial audits and District budgets, and information from programs such as the Office of Statewide Planning and Development and the US Census.

Ms. Poyatos noted that the Circulation Draft of the report was released March 17, which the consulting team presented at a public workshop held April 20. She stated that the current report has included comments from District grantees and residents. She recommended that the Commission hear public comment and then continue the public hearing until July 19, which would allow time to incorporate comments and make any corrections to the report.

She introduced Severin Campbell, Principal, and Linden Bairey, Senior Analyst, both with Harvey M. Rose Associates, LLC, who prepared the Municipal Service Review (MSR) and Sphere Update.

Ms. Campbell discussed the history of the health care districts. She noted that both districts were initially begun to run hospitals in underserved rural areas. She said they became health care districts in the early 2000s and that neither district owns the hospital within its boundaries.

Ms. Bairey discussed population projections with information from Association of Bay Area Governments (ABAG) and the Department of Finance showing 29 percent growth in the County and around 25 percent in the Districts through 2050. She noted that households within the Districts tend to be smaller and older with a higher median income than those outside of the Districts. She pointed out that although there are no federally defined disadvantaged communities within the County, there are designated medically underserved areas or areas with a shortage of primary care health professionals.

Ms. Campbell discussed SHD's transfer of Sequoia Hospital initially in 1996 and then a full, voter-approved transfer to Dignity Health in 2007. She discussed the District's annual budget and said that the hospital was required to make an annual equity contribution to the District. She said however, no contribution was made the last two fiscal years.

Ms. Bairey said that SHD receives approximately \$11 million in property tax, which it uses to fund community grants, such as school health programs, the Children's Health Initiative, nursing education, and projects and San Mateo Medical Center (SMMC). She said the District allocates money through Caring Community Grants to non-profits and public programs; community multi-year programs; and District-developed programs including the Heart Safe program, Healthy Schools Initiative, and Living Healthy workshops.

She said the District does a SWOT (Strengths, Weaknesses, Opportunities, and Threats) assessment every three years. She noted that SHD has a board and an executive officer, and holds and notices meetings in accordance with the Brown Act. She also said the SHD board is responsible for District finances such as reviewing the annual budget and grant allocation.

Ms. Campbell noted that PHCD has a ground lease and master agreement with Mills-Peninsula Health Services, a part of Sutter Health, for Mills-Peninsula Medical Center. She said Sutter opened a new hospital in 2011 and pays rent to the District. She discussed PHCD's budgets. She said PHCD receives around \$5 million a year in property tax compared to \$11 million for SHD. She said their budget surplus of around \$4 million per year is being reserved for capital development and future use.

Ms. Bairey said since 2009, SHD's major focus has been on school health, the Children's Insurance Program, Apple Tree Dental, Access to Care for Everyone, and senior housing. She

said the total program and grant allocation for 2016 was around \$2 million. She said the District's priorities were access to basic health care, mental health services, childhood obesity and nutrition, senior services, and reduction to health risks through education and prevention.

Ms. Campbell noted PHCD's major development projects. She noted the assisted living and memory care project in Burlingame that was developed based on a needs assessments done in 2007 and market assessments done in 2013-2015. She stated the project was slated for completion in 2018 at a cost of \$80 million, including a capital contribution of \$38 million from PHCD. She noted that only 1 percent of the units would be affordable for lower-income adults.

She said the other big project for PHCD is the Peninsula Wellness Community, a multi-use residential/commercial project. She said the District was seeking a developer to build the project, which would include senior housing and support services, professional medical offices, and commercial amenities.

Ms. Bairey noted that PHCD participates in various County health groups and collaborations, such as community health needs assessments to identify priority areas within their boundaries. She said the District is also governed by an elected board, has an executive officer, holds noticed meetings, and is responsible for District finances. She went on to compare the two districts based on size and revenues.

Ms. Campbell outlined the study determinations. She said the District area is a high-growth area, with particular growth among people 65 and over. She said San Mateo County is one of the highest-income counties in the state with no disadvantaged communities. She said, however, that the County does have federally designated medically underserved areas, such as East Palo Alto, East Menlo Park, and areas where families live at the federal poverty level.

She noted that while District boundaries have remained the same, the communities surrounding the Districts have changed and District boundaries are not always contiguous with city boundaries. She stated that both Districts are financially stable with fully functional acute-care hospitals. She said the Peninsula Hospital is mandated to maintain their level of services. She said SHD appropriates all their annual property tax allocation to annual health programs, while PHCD appropriates around 38 percent of their annual property tax allocation to their capital programs.

Ms. Campbell emphasized that the Peninsula Wellness Community residences were not designated as affordable facilities, however there was interest expressed in the community for affordable options.

Ms. Campbell said since the first Municipal Service Review done in 2007, PHCD's net position has increased from \$44 million to \$66 million. She said the District has a budget surplus annually, which means that they are continuing to grow their net position. She said the District needs to look at their budget to examine how much they need their net position to increase, how much cash they need on hand, how much is being spent on programs, and how much is being held for future needs.

She said SHD has no debt or capital assets, so they are able to appropriate their entire property tax allocation to annual programs. She said they do have debt surrounding the pension plan where the District receives revenue from Dignity Health to fund the pension liability. She said SHD has not received the equity contribution from the new hospital since it opened in 2007. She said one of the recommendations is for the SHD CEO to regularly assess financial health of the District and Sequoia Hospital and report it to the board.

Ms. Campbell said regarding shared facilities opportunities that both Districts are very different. She said she would like the Districts to focus on leveraging services with the County Health System. She also said she thinks the Districts need to increase their visibility with their residents.

Commissioner Draper asked for the consultants to include the dates for their sources in the report so that the reader could confirm that the report contained the latest statistics. She asked for clarification for several sources cited. Ms. Campbell said the programs and clinics served people from outside the district.

Regarding PHCD, Commissioner Draper asked about mandates for building affordable housing. Ms. Campbell said there are various revenue streams that allow for affordable development by any entity.

Commissioner Garbarino asked who serves the medically underserved population outside the Districts' boundaries. Ms. Campbell said most of the medically underserved population is in East Palo Alto and East Menlo Park outside SHD boundaries. She said these residents are served by various County and federal programs.

Chair Horsley asked the consulting team to explain for the Commission the process of expanding the existing District boundaries. Ms. Campbell deferred to Ms. Poyatos, who said that the areas outside the District would need to do an annexation through LAFCo. She said the applicant could be the District, a city, or other agency. She said there would be a need for the County and cities combined to agree to transfer some of their property tax to the District to fund expanded services in the area. Chair Horsley asked if one entity alone could transfer funds, which Ms. Poyatos confirmed.

Agency Comment:

- Jack Hickey, Board Member, Sequoia Healthcare District, said he has recommended dissolution of SHD in the past. He said funding could be achieved without raising taxes by going in under the 1 percent general tax, which would require state legislation. He proposed dissolution of the districts or combining the two districts to make one Countywide agency. He noted Ravenswood Clinic, which has 80 percent of its patients from outside the District. He said SHD funding of the clinic allows it serve many of the District's residents. He said that school districts on the Coastsides don't get the advantage of dedicated money. He said the schools could benefit from the money which is currently going to the Districts if the Districts were dissolved.

- Cheryl Fama, CEO, Peninsula Health Care District, said that the MSR process has helped people understand LAFCo's and the District's role. She said that PHCD tries to compensate programs outside District boundaries that serve District residents. She noted that the District partners with the County Health services and community health partners wherever possible. She acknowledged Ms. Poyatos's guidance and Ms. Campbell's direction throughout the review process. Ms. Fama emphasized PHCD's commitment to stewardship over taxpayer dollars and District spending. She said that one of the District's goals was to develop the asset strength to buy the hospital if necessary at some future time. She noted that the State auditors recently declared that the District was funding reasonable and allowable projects and that the District reserve was not excessive but necessary to meet financial commitments. She quoted the Centers for Disease Control and Prevention (CDC) as defining health as including the social environment, the physical environment, and the person's individual characteristics and behaviors.
- Lee Michelson, CEO, Sequoia Healthcare District, addressing Commissioner Draper's earlier question about serving residents outside the District, noted Ravenswood Health Center in East Palo Alto as one of the agencies funded by SHD. He said while 84 percent of their clients are non-District residents, SHD support represents 4 percent of Ravenswood's funding. He said he felt that the 16 percent of SHD residents who are being served by Ravenswood is a good value for their monetary contribution. He emphasized that SHD receives regular reports from their grantee agencies showing the zip codes of people being served.

Regarding the report, Mr. Michelson said that now 20 percent of the District's dollars go towards services supporting older adults. He noted that SHD is committed to serving the underserved areas. He said SHD has many programs that serve North Fair Oaks and that the District had made a \$4.3 million contribution to build the South County Clinic. He said the \$25 million liability for pension is funded annually by Sequoia Hospital via Dignity Health and is spread out over a 40-year period; i.e., the District will never be liable for \$25 million. He contrasted this with the fact that SHD brings in \$11 million annually in property tax and has \$13 million in reserves.

Mr. Michelson said that since 2008, they have funded County programs through SMMC. Regarding the report's recommendation that the health care districts increase their visibility, he said the District doesn't spend their money on promotion but on services for their residents. He also stated that SHD's programs reach 60,000 residents annually and that money should go towards programming rather than toward funding Sequoia Hospital, which at any given time serves only 60 to 70 District residents per day.

- Pamela Kurtzman, Director of Programs and Grants, Sequoia Healthcare District, said SHD leverages funds in a way that the County cannot do on its own. She emphasized that they partner with their client agencies.
- Heather Cleary, Executive Director, Peninsula Family Service, noted that her agency is a grantee of both PHCD and SHD. She said the Districts respond quickly to rapidly changing

community needs. She gave as example their 70 Strong program, which addresses social isolation in older adults, and mentioned the success of the senior peer counseling program.

Commission Action:

Commissioner Garbarino moved to close the public hearing. Vice Chair O'Neill seconded the motion, which passed unanimously. (Ayes: Commissioners Draper, Garbarino, O'Neill, and Chair Don Horsley; Noes: None; Absent: Commissioners Joshua Cosgrove, Joe Sheridan, and Warren Slocum)

Chair Horsley said he appreciated the work of the health care districts. He asked for both districts to discuss with their boards about expanding their boundaries, and particularly SHD to consider including East Palo Alto. He said this move would involve working with the County and the taxing agencies to come up with an equitable exchange of tax revenue. He asked PHCD to consider more affordable memory care units and to consider taking on more Medi-Cal patients from the County. Lastly, he said that Sequoia Hospital and Dignity Health needs to be pressured to attract more quality practitioners into their physician network to increase their revenue as other health local medical facilities have done. He suggested that the District form a subcommittee to examine this issue.

Vice Chair O'Neill noted that the report said there is a health professional shortage in the areas of primary care, dental, and mental health. He also noted that the report supports a nursing training program at San Francisco State University and recommended that the report explore affordable housing for medical professionals in conjunction with that program. He said he has been a strong advocate for workforce housing and has supported teacher housing in Pacifica.

Ms. Poyatos said that action on the Municipal Service Review would be continued until the July 19 meeting pending the consultants making revisions to the report and staff refining the recommended determinations based on the Commission's feedback.

7. Consideration of Commission Approval of Transfer of \$9,000 of Funds from Reserve to Consulting for Fiscal Year 2016-17

Ms. Poyatos noted her May 10 staff report where she explained that \$60,000 had been set aside for consulting in the Reserve account. She said that since the consulting contract came in at \$69,000, she requests that the Commission authorize transfer of \$9,000 from Reserve to Consulting.

Public Comment: None.

Commission Action: Vice Chair O'Neill moved to approve the transfer of \$9,000 of funds from the Reserve Account (8612) to the Consulting Account (5858) for Fiscal Year 2016-17.

Commissioner Garbarino seconded the motion, which passed unanimously. (Ayes: Commissioners Draper, Garbarino, O'Neill, and Chair Don Horsley; Noes: None; Absent: Commissioners Joshua Cosgrove, Joe Sheridan, and Warren Slocum)

8. Public Hearing: Consideration of Adoption of Final Budget for Fiscal Year 2017-18

Ms. Poyatos noted her May 10 staff report outlining the budget approval process. She stated that the estimated costs in the approved March budget have been updated. She recommended that the Commission receive any public comment on the proposed Final Budget amount of \$445,279, consider and adopt the recommended Final Budget with any changes, and direct the Executive Officer to distribute it to the County, cities, and independent special districts.

Ms. Poyatos said that after the end of the fiscal year on July 1 when the actual fund balance is available, staff would request revisions at the September meeting.

Commission Action:

Vice Chair O'Neill moved to open the public hearing. Commissioner Draper seconded the motion, which passed unanimously. (Ayes: Commissioners Draper, Garbarino, O'Neill, and Chair Don Horsley; Noes: None; Absent: Commissioners Joshua Cosgrove, Joe Sheridan, and Warren Slocum)

Public Comment: None.

Commission Actions:

Vice Chair O'Neill moved to close the public hearing. Commissioner Draper seconded the motion, which passed unanimously. (Ayes: Commissioners Draper, Garbarino, O'Neill, and Chair Don Horsley; Noes: None; Absent: Commissioners Joshua Cosgrove, Joe Sheridan, and Warren Slocum)

Vice Chair O'Neill moved to approve the adoption of the final budget for Fiscal Year 2017-18. Commissioner Draper seconded the motion, which passed unanimously. (Ayes: Commissioners Draper, Garbarino, O'Neill, and Chair Don Horsley; Noes: None; Absent: Commissioners Joshua Cosgrove, Joe Sheridan, and Warren Slocum)

9. Applications Received and Not Certified as Complete and Ready for Hearing (Information Only):

- a. **LAFCo File 17-07—Proposed Annexation of 191 Meadowood Drive, Portola Valley (APN 077-211-050) to West Bay Sanitary District**
- b. **LAFCo File 17-08—Proposed Annexation of 185 Meadowood Drive, Portola Valley (APN 077-290-010) to West Bay Sanitary District**
- c. **LAFCo File 17-10—Proposed Annexation of 450 Golden Oak Drive, Portola Valley (APN 079-122-310) to West Bay Sanitary District**

Ms. Poyatos noted that the Cortese-Knox-Hertzberg Act requires that an application for annexation to a district that is not submitted by the district must be placed on the LAFCo agenda. She said the district in question could request that LAFCo terminate proceedings in the event the district determined that the annexation was not financially advantageous.

10. Appointment of Legislative/Policy Committee Member

Chair Horsley again commended Ric Lohman for his service as a member of the Legislative/Policy Committee during his tenure with LAFCo. In error, Ms. Poyatos stated that the remaining Committee members were Commissioners Draper and Cosgrove and then Vice Chair O'Neill volunteered to fill the vacant position. The correct membership includes Commissioners Draper and O'Neill.

Commission Action: Commissioner Garbarino moved to approve Mike O'Neill to fill the vacant position on the Legislative/Policy Committee. Commissioner Draper seconded the motion, which passed unanimously. (Ayes: Commissioners Draper, Garbarino, O'Neill, and Chair Don Horsley; Noes: None; Absent: Commissioners Joshua Cosgrove, Joe Sheridan, and Warren Slocum)

11. Legislative Report and Possible Action on Pending Bills

Ms. Poyatos noted AB 979, which would make it easier for LAFCOs without special district representation to add special district members. She said that LAFCo, through the Special District Selection Committee, would be responsible for coordinating the appointment of a special district member to the consolidated Countywide redevelopment agency oversight boards; however, this would not occur until July 2018. She said that AB 979 has strong bipartisan support and would likely pass. She suggested that the Legislative/Policy Committee meet soon to review the pending legislation and make recommendations to the Commission.

12. Plan Bay Area 2040 Update (Information Only)

Ms. Poyatos noted her staff report and sample support letter for LAFCOs to send to the Metropolitan Transportation Commission (MTC).

Chair Horsley said he supported LAFCo's efforts to educate MTC about the role of special districts.

Commissioner Draper said that ABAG (Association of Bay Area Governments) and MTC had said in the past that the ability of a locale to provide municipal service was of no concern to their projections, and inquired if these organizations were maintaining the same stance in the present.

Ms. Poyatos said that the MTC cannot ignore CEQA (California Environmental Quality Act) when making their policy recommendations and is trying to get their information into the CEQA document.

Vice Chair O'Neill added that the major emphasis at the C/CAG (City/County Association of Governments) annual meeting was on housing and transportation.

**13. California Association of Local Agency Formation Commissions (CALAFCO)
Correspondence**

- a. **"LAFCo and Special Districts: A Special Relationship Between Two Unique Entities," *California Special District*, March-April 2017 - Article by CALAFCO Executive Director Pamela Miller**
- b. **Thank-you Letter Regarding Participation in the 2017 Annual Staff Workshop, April 5-7, DoubleTree by Hilton Hotel Convention Center, Downtown Fresno**
- c. **Report on Attendance at the Staff Workshop**

14. Commissioner/Staff Reports

None.

15. Adjournment

The meeting was adjourned at 3:59 pm.