

**Board of Directors**  
**Monday, December 6, 2004**

A Special Meeting of the Board of Directors of Peninsula Health Care District was held on Monday, December 6, 2004 pursuant to public notice at 1904 hours in the Sierra Rooms at Peninsula Medical Center, 1783 El Camino Real, Burlingame, California 94010.

**ROLL CALL:** On roll call there were present: Directors: Donald E. Newman, Chair, Susan S. Smith, Treasurer, Lola Thompson, Secretary, Rick Navarro and Daniel J. Ulyot.

Chair Newman extended a welcome to the large assembled audience group in addition to newly elected board members, Daniel J. Ulyot and Rick Navarro.

**PUBLIC COMMENT:** Chair Newman called for any Public Comment on items not on this evening's agenda and within the purview of the District. No Public Comment was received.

**LETTER OF INTENT BETWEEN DISTRICT AND MILLS-PENINSULA HEALTH SERVICES REGARDING LAND LEASE AND BUILDING OF A NEW HOSPITAL AT THE PENINSULA MEDICAL CENTER SITE IN BURLINGAME:** Chair Newman noted the letter of Intent as been an item for discussion by the District Board for several months and this evening's special meeting has the Letter of Intent as its sole discussion item for discussion, input, and possible action. Chair Newman announced there are some changes to the Letter of Intent document previously distributed in the board packages and as provided to the public. Chair Newman indicated he would turn over the Chair of the meeting at this time to Director Smith. Director Newman then made a motion to amend the current Letter of Agreement on the table and to insert the following changes to the Letter of Intent: (1) in response to concerns expressed on the Interim Rent of \$1.00 a year, the Letter of Intent will be revised so that the Interim Rent beginning with construction of the new building the District will receive \$125,000 per month with the commencement of construction of the parking structure; (2) In response to the concerns expressed about the ten-year CPI adjustment, the Letter of Intent will be revised to have rent adjustments every three years by the CPI for the Bay Area; (3) In response to the concerns regarding the consent rights of Mills-Peninsula Health Services over the use of District land, the Letter of Intent will be revised so that Mills-Peninsula Health Services' right to consent will be eliminated on any development of District controlled land; (4) The item of a non-competition clause that is currently in the Letter of Intent will be deferred at this time until a definitive written contract is accomplished; and (5) The item of having rent deferral of up to 3 years will be tabled from the current letter of Intent. The motion was seconded by Director Ulyot. Acting Chair Smith called for any discussion/comment from the Board. Director Ulyot asked for clarification on receiving the interim rent and asked if it will commence once ground is broken for construction of the garage? The response was in the affirmative. Director Ulyot asked if that construction is anticipated for early 2005 with Director Newman responding in the affirmative. Director Thompson commented that these are major changes in the Letter of Intent proposal and she is pleased to see this progress in negotiations. Acting Chair noted she had a clarification question on the item of consent rights and inquired if this clause will be eliminated? Director Newman responded, Yes. Acting Chair Smith then asked for any Public Comment.

Vincent A. Muzzi, Hillsborough: Mr. Muzzi commented the adjustments made to the Letter of intent are important adjustments. However, Mr. Muzzi expressed his concern on the issue of whether a future board by three votes of the majority could change the Agreement. He would suggest adding language in any Agreement that would preclude a future board to change the agreement approved by the voters so that any change would have to come before the voters once again.

Len Sarkin, Burlingame: Mr. Sarkin noted that it has been a long process of negotiation between the two parties. He related he wants and is interested in a new hospital and hopes that the Board accepts the Letter and votes to proceed.

Ken Colvin, Hillsborough: Mr. Colvin stated he is a 53-year resident of San Mateo County and has experienced frequent use of both Mills and Peninsula. He extended his compliments to the District Board in reaching this position tonight and believes the Letter meets all expectations. He urged the Board to vote favorably.

Glenn Mendelson, Burlingame: Mr. Mendelson inquired as to why the date of this evening was picked for a vote rather than a regular meeting of the Board. He further noted the changes made to the distributed Letter of Intent. Acting Chair Smith advised that the Letter of Intent has been out to the public for a month for input. The Letter of Intent this evening includes three changes from that presented earlier. Mr. Mendelson then commented on his concerns on the services to be provided in the proposed new hospital, the insurance carriers available at the new hospital, and the income and rent use to the District. Mr. Mendelson asked if the District approves by vote, could a future board change the agreement at a lower rate and at a later date? Attorney Coffey advised that Section P of the Health & Safety Code notes that assets cannot be transferred or changed after a vote in future amendments. A clause will be in the final contracts that certain changes will have to be negotiated. Attorney Coffey noted that the Core Services have been already set and defined as well as the Rent. Mr. Mendelson then inquired if there are any caps on the District for potential monies given to Mills-Peninsula or Sutter in the future? Attorney Coffey responded, No.

Ruth Jacobs, Burlingame: Mrs. Jacobs inquired as to what happens on bankruptcy? Attorney Coffey again reiterated the remedies available to the District on defaults by Mills-Peninsula, breach of contract, insolvency and bankruptcy, which are covered in the Letter of Intent and will be more defined in the final contracts, which are to be approved.

Chris Naismith, Chair of Mills-Peninsula Health Services Board: Extended her thanks to the District noting the depth of study and work on this process. Mrs. Naismith then asked that those in support of the Letter of Intent to please stand. [The majority of those in the audience then stood.]

Dan Andersen, Burlingame: Mr. Andersen related he wished to echo Mr. Muzzi's voiced concerns on the potential for three future board members to change the agreements. He related he also feels that the rent of \$1.5 million per year is too low and suggested that such rent be 1% of Mills-Peninsula's gross revenue. Mr. Andersen suggested that the money received from Mills-Peninsula for one-half of the interest in the 1720 El Camino Real Building be placed by the District in a restricted reserve fund.

Robert F. Sawyer, San Mateo: Mr. Sawyer noted his past 20 plus years of service on the District Board and stressed the Mission of the District in provision of healthcare to the residents of the District. He advised that each day of delay the cost of construction is going up. He urged approval and moving forward.

Jack Ken, Hillsborough: Mr. Ken advised he is a retired architect and has been following the design of the proposed new hospital for several years. He commented that the current design is good and it will take 8 to 10 years to build and operate this new facility. He advised it is time to take action.

Larry Kohler, San Mateo: Mr. Kohler remarked he had been following the discussions in the newspapers and supports the Letter of Intent. He remarked it is time to get on and build the new hospital.

Linda Campagna, RN: Ms. Campagna noted she is a 28-year RN employee of the hospital and urged the district to move on. She noted the need for state-of-the-art facilities for provision of healthcare.

Lee Marley, Director of Information, Mills-Peninsula: Ms. Marley described the limitation on systems in the current hospital facility. She noted the need to move toward the new hospital to support care of patients with new and advanced technology.

Jackie Speier, State Senator, Hillsborough: Senator Speier complimented the District Board in coming a long way in its negotiations. She feels the two issues tabled are very important and urged further negotiation on the two tabled items. She expressed her feeling that the properties held by the District be developed to its best use and not be hindered by a non-compete clause. She cautioned that health care will be different in the future years and urged the board to recognize its fiduciary responsibilities.

Gwen Mitchell, Hillsborough: Mrs. Mitchell spoke to the Letters of support in building a new hospital, which were provided to the district several years ago. She noted that the land should be restricted to healthcare uses. Mrs. Mitchell urged the District to move ahead and delaying id denying the residents a new hospital.

Vincent A. Muzzi, Hillsborough: Mr. Muzzi noted that any agreement has to be fair and long-term fair to the public. He stated that he would like to see in any final document that any major changes have to go back to the public for their approval. He noted that a lot of specifics are not in the letter of intent and he is waiting to see the final documents that are to be approved.

Ruth Jacobs, Burlingame: Mrs. Jacobs asked why the board couldn't wait until the public sees the Letter of Intent document in writing. It was pointed out that the Letter of Intent is before the public and the only changes are those enumerated at the beginning of the meeting.

Keith Virnoche, Incoming Chair of Mills-Peninsula: Mr. Virnoche stressed the enhanced quality of a new facility. He further noted that no one could foretell healthcare in 50 years. We know we need to serve the public. He indicated he trusts the elected officials in the future as he does the current officials of the District.

Mark Church, Chair, Board of Supervisors: Mr. Church spoke to the non-compete clause, which has been tabled and is an issue, which needs to be addressed. On the deferral of rent for 3 years, which has also been tabled, he advised he has never seen such a clause in a business deal. He urged the district to consider those two items in further negotiations.

Jerry Hill, Board of Supervisors: Offered congratulations to the District, noting it has been a long effort. Mr. Hill asked that the District look at those 2 issues of rent deferral and non-compete in its further negotiations with Mills-Peninsula.

Ken Colvin, Hillsborough: Mr. Colvin stated that we've put our trust in you elected board members. He believes the board will do what is best for the public.

Robert W. Merwin, CEO of Mills-Peninsula: Mr. Merwin indicated he would like to describe Mills-Peninsula's thinking on the two tabled items. On the issue of rent deferral, he related the possible potential in the future for elimination of service(s) and/or laying off of staff if Mills-Peninsula finds itself in a financial crisis and could not have the possibility to defer its rent to the District. As to the non-compete clause they wish to enforce, their concern is the District may in the future cherry pick services that are profitable at Mills-Peninsula and provide them by the District.

Bonnie Bertetta: Ms. Bertetta related that Mills-Peninsula has the community support to build this new proposal hospital. There is a need to move forward. The City of Burlingame Planning Commission as well as the City of Burlingame has favorably endorsed and approved this project.

Attorney Coffey next summarized the prior three public meetings the District held on the proposed Letter of Intent. He noted the current Letter of Intent is updated and was circulated last week to the general public with updates on the District's web site, in newspaper articles, and distribution to the public. During its venting at public meetings updates on wording suggested by the public in the text were changed, typos were corrected, and the Letter of Intent was modified on December 3<sup>rd</sup> to change the provision of commencement of rent with the beginning of construction, examination of rent adjustment by the CPI every 3 years, and the elimination and tabling of two provisions, that of non-compete for services on District land and deferment of the rent payments by Mills-Peninsula. These two items deferred are not to be voted upon this evening and are not part of the current Letter of Intent before the Board for action. Director Navarro inquired as to the recent experience at an East Bay Hospital by the Tenet Corporation giving notice and walking away from managing a hospital. Attorney Coffey indicated that the updated version of the Letter of Intent deals with the Tenet situation and protections have been added to protect the District in a similar circumstance. Attorney Coffey advised that District negotiations were delayed approximately five months in order for the District to obtain special legal counsel for discussion and input on remedies for this District. They are now in place. Attorney Coffey commented that at the end of the 50-year least, the base rent received by the District from Mills-Peninsula, its investment income coupled with tax receipts and its reserves will enable the District to buy back the hospital. Attorney Coffey noted there is a greater risk and more severe in the first 5, 10 20 years of the proposed deal. Therefore, the District worked in protections and significant additional money to the district has been added under the revisions/modifications of this Letter of Intent. [Letter of Intent attached hereto to Minutes]

On a call of the motion to approve the Letter of Intent with the modifications enumerated above, the following votes were received:

Ayes, and in favor: Directors: Thompson, Newman, Smith, Navarro & Ulliot

Motion unanimously carried. At this time, Acting Chair Smith returned the Chair to Director Newman.

Chair Newman apprised and lauded the efforts of lots of people in achieving this Letter of Intent, and extended Thanks to the many District consultants, Legal Counsel, the Community,

Vincent A. Muzzi, and Adam Alberti, the District's Communications Consultant. Chair Newman thanked the public who attended many, many meetings, Director Susan S. Smith, and the Hospital Guardians group who provided suggestions and ideas. He further extended thanks on behalf of the District for the interest and input of Supervisors Hill and Church, Senator Speier, Bob Merwin and his staff, as well as Sutter Health. Chair Newman commented he is proud of what has resulted in the negotiations to-date and this Letter of Intent.

There being no further business, the meeting was adjourned at 2021 hours.

By:

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Maureen Mignacco-Dutil, Assistant Secretary

Approved:

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LOLA THOMPSON, Secretary

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DONALD E. NEWMAN, Chair