

Board of Directors
Thursday, February 23, 2006

The Board of Directors of the Peninsula Health Care District met in Regular Session on Thursday, February 23, 2006, at 1754 hours, in the Sierra Rooms of Peninsula Medical Center, 1783 El Camino Real, Burlingame, California 94010.

ROLL CALL: On roll call there were present: Directors: Donald E. Newman, Chair; Daniel J. Ullyot, Vice Chair; Susan S. Smith, Treasurer; Rick Navarro, Secretary; and Helen C. Galligan, Board member.

Also present were: Staff: Colin J. Coffey, Esq., General Legal Counsel, of Archer Norris; Courtney Lodato, Communications Consultant, of Singer Associates; and Maureen A. Mignacco-Dutil, Assistant Secretary.

Guest present: Robert W. Merwin, CEO, Mills-Peninsula Health Services.

OATH OF OFFICE: Chair Newman welcomed new board member, Helen C. Galligan, who was appointed to the Board of Directors for the term ending November 2006 at a Special Meeting held on February 9, 2006.

A ceremonial Oath of Office was administered to Director Galligan by her husband, Joseph Galligan. Upon completion of the oath, the board extended their congratulations and welcome. Director Galligan then was seated with the board members.

ORAL COMMUNICATIONS: Chair Newman called for any Oral Communication at this juncture on items not on the agenda and within the purview of this District.

Mrs. Terry Huebner, Burlingame: Mrs. Huebner related she was unable to be in attendance at the District's Special Meeting on February 9th, but was able to listen to an audio tape of that meeting. Mrs. Huebner related the tape was faulty and she was only able to hear bits and pieces of the board's discussion where there could be a possible conflict of interest. Mrs. Huebner commented she has some concerns as it relates to a possible conflict of interest for the new board member and read from a prepared letter of those concerns. Mrs. Huebner indicated she would submit the letter for the Board's review, information and response.

Mrs. Ruth Jacobs, Burlingame: Mrs. Jacobs inquired as to the Board's vote at its January 26th meeting in regards to community health care grants. She noted there was a 2 in favor and 1 against and she would like an explanation of the majority vote process of the District. Vice Chair Ullyot deferred to Attorney Coffey for his input on this question. Attorney Coffey related that in 1993 the District Board developed a voting policy, which was adopted by the Board but it was never incorporated into its bylaws. That policy stated any item/project costing over \$100,000 must have an affirmative vote of 3 board members. Attorney Coffey advised that this policy is in conflict with current Health Care Law, which requires that alternations in voting be in the Bylaws. He further noted it is also in conflict with State Law and the Board should get rid of that policy. It is anticipated to place this item on the next Agenda for review.

CONSENT CALENDAR: The Consent Calendar for February, consisting of the Minutes of February 9, 2006 Special Meeting, and the Treasurer's Report for January together with the Check Disbursement & Cash Receipt Register for January and Financial Statements at January 2006 were so noted for Consent. Director Galligan requested the Special Minutes be removed from the consent Calendar. It was then moved by Director Smith and seconded by Director Ulliyot to approve the Consent Calendar with the exclusion of the February 9, 2006 Minutes. There was no Public Comment. Motion unanimously carried.

On the item of the February 9, 2006 Minutes, Director Galligan noted the statement that her employer, Mid-Peninsula Endoscopy Center was owned by a local physician. This should be corrected to reflect 8 local physicians or a physician group owns it. Director Ulliyot commented since there is a correction to these Minutes, he would also like to alter his statement that Mrs. Galligan would be a buttress of expertise to the board. In fact, he wished to restate this to indicate her nursing expertise in healthcare would be a benefit to the deliberations of the board. With these corrections, it was moved by Director Smith and seconded by Director Ulliyot to approve the Special Minutes of February 9, 2006. Motion unanimously carried. It was then moved by Director Smith and seconded by Director Ulliyot to approve the Special Minutes of February 9, 2006 as amended.

Ruth Jacobs, Burlingame: Mrs. Jacobs related she has been told by one physician that only 70% of the Endoscopy Center was owned by doctors and that 30% is owned by some group back East. Mrs. Jacobs inquired if this was true? Mrs. Galligan advised that she has no knowledge of what they own or do not own.

Motion unanimously carried.

QUARTERLY REPORT FROM MILLS-PENINSULA HEALTH SERVICES: Chair Newman welcomed Bob Merwin, CEO, of Mills-Peninsula for presentation of his quarterly report to the Board. Mr. Merwin extended his congratulations to new Director Helen Galligan.

Mr. Merwin related his report this evening would cover the Financial Update on Mills-Peninsula, the Women's Center, the Replacement Project Update, and New Awards. Mr. Merwin stated since he was here in December there has not been too much news that was not already discussed here.

On the Financial Update for the month of January 2006, he reported the following:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Net Revenue	\$32,899 M	\$33,559 M	2.0%
Labor Expense	\$26,332 M	\$15,898	(2.7%)
Total Expenses	\$29,285 M	\$30,028 M	2.5%
Net Income	\$ 3,776 M	\$ 3,804 M	.8%

Mr. Merwin noted the good start to their Fiscal Year. Revenue came in 2% ahead of plan. Labor expenses were 2.7% below budget. Supplies and other expenses, however, caused the Total

Expenses to be 2.5% above budget, which led to a net income of .8% over target. The key issue, he noted, is the EBIDTA, which stands for Earnings Before Interest Depreciation Taxes and Amortization. As reflected on the report the EBIDTA budget was 16.9% with the actual coming in at 16.0%. Mr. Merwin commented that for the new hospital building project to stay on track, the EBIDTA percentage has to be 15.25%. Thus, they are at it and have been on target for several years. This is a key issues, however, that needs to be watched.

On the Women's Center, Mr. Merwin related they are just about to complete the construction of the Center at the Mills Health Center, which is a \$10 million dollar project. It will be the first to have an all digital mammography and women's center on the Peninsula. Opening day will be May 1, 2006.

An update on the Replacement Project at the Peninsula campus was next addressed. Mr. Merwin reported the water line is now in and buried. The plan is to cut over on the District property on March 15th. Two key issues in the cut-over is that the March 15th is a fairly firm date and they would probably start on the 13th and hopefully complete by the 15th. The other key issue is the San Francisco Public Utilities Commission wanted Mills-Peninsula to make the tie-in on the north side of the property in the middle of Trousdale Drive, which would have necessitated closing down Trousdale for 3 weeks. Mills-Peninsula talked and negotiated over three months and finally prevailed. Excavation for the garage is now complete and the footings have been dug commencing this morning with almost 14 already completed. They plan to pour the concrete next week. The parking garage itself in terms of the columns and beams are completed and in a yard in Sacramento. They anticipate assembling that on-site in about six weeks and it is hoped to be completed by September 2006. Director Ulliyot inquired as to when the water would be interrupted to the City? Mr. Merwin related he is not clear when they start to drain the pipe, which will be done by the San Francisco Water Department. The shut-off valves are 3 miles apart with plans to drain 3 miles of pipe and then the other 3 miles. Director Ulliyot asked if there would be an interruption to water service with Mr. Merwin advising there are other pipes servicing the area. There will be no disruption to water service in Burlingame.

Mr. Merwin stressed the item he wished to focus upon tonight is the Key Event Schedule. He advised that Mills-Peninsula is on a very, very tight schedule to keep the project on track. Right now 75% of the entire project is under contract with the subs. This is time-limited, however. If they lose any time at all some of the subs wish to back out because at the time they negotiated the deal with them there was not nearly the amount of construction activity there is today. What Mills-Peninsula is anticipating at this point is receiving the initial comments from Office of Statewide Health Planning and Development by March 15-22. Based on that receipt they will ask the contractor to give them a preliminary guaranteed maximum price and that is expected by May 15th. Mills-Peninsula would then need the District Board to request the Board of Supervisors to request an election on the deal between Mills-Peninsula and the District sometime in mid May with approval by the Board of Supervisors received on June 2nd. At that time a GMP (Guaranteed Maximum Price) should be received on July 15th. We would look for a mailed ballot by the voters at the end of August. Mr. Merwin commented that this outlined schedule is one that would keep the project alive and on track.

Chair Newman commented he does not have a problem with the schedule as outlined as he believe it works for the district. However, his question is will Sutter have enough information so that they can give their guarantee the project will proceed prior to the May 15th day? Mr. Merwin replied, No not prior to the May 15th date. He related that by May 15th Mills-Peninsula will know if there are any major issues that OSHPD has identified that would make their current estimates inaccurate. The final 'Go, No Go' would not be available July 15th when they get the Guaranteed Maximum Price.

Director Ulyot asked Attorney Coffey if the District requests an election at the end of August, what is the deadline to submit the papers requesting that election? Attorney Coffey stated the election would take place on the last Tuesday of August, so count back 88 days and you would want to make the request a few days before that. He advised to give the Board at least 3 months prior to the last Tuesday in August to forward to the County request for an election. Director Ulyot noted that date then would be in the latter part of May that the District would have to request an election from the Board of Supervisors. Mr. Merwin related the key is to get the Board of Supervisors what they need so they can act upon it at their meeting on June 2nd. Director Ulyot pointed out that in order to follow the schedule, Sutter has to satisfy itself that it is on board as to going forward with this project by mid-May before the District could submit its request to the County Board of Supervisors. Mr. Merwin related that Mills-Peninsula probably would not have that guarantee from Sutter at that time. Chair Newman noted the District Board's hands are tied by the agreement.

Mr. Merwin related the other scenario is that we go through the process as outlined, end up having budget problems, then Mills-Peninsula would have to come back to the District some time later in the year with a proposal revision to the project, and then go back for another public. That is another option. Director Smith commented that if Mills-Peninsula has their final Guaranteed Maximum Price by July 15th, the ballots for the vote still have not been mailed out yet? Director Smith noted that if the District goes with the time schedule, the District really cannot go to a ballot until the guarantee is received from Mills-Peninsula/Sutter that the project is a 'go'. Discussion and exchange of questions ensued.

Director Ulyot noted if there is no guarantee from Mills-Peninsula/Sutter, there could be no August election. He asked when the next election could take place with Attorney Coffey replying it would be the General Election in November. Chair Newman asked Attorney Coffey what would happen if the District didn't want to proceed with the election and they had already called for such an election? Attorney Coffey related it would be up to the County Election Department as to when they can withdraw or cancel an election process by mail. This issue would have to be checked with the local county election department as to dates and times in order to cancel in an orderly fashion. Chair Newman related he assumes that if the District were able to expedite this, Mills-Peninsula/Sutter would be willing to cover any costs that accrue if we called an election and then canceled it. Attorney Coffey related Mills-Peninsula/Sutter are contractually obligated to pay for this election. Chair Newman related his preference not to go for one election and then a second election. His preference would be to have only one election on this issue.

Vincent A. Muzzi, Hillsborough: Mr. Muzzi commented that the process as it has been presented to the public is that they are voting on the contractual arrangements and the building itself. What is being proposed now is that there may be a change after a vote and the public would have to vote a second time on something that they didn't receive the whole picture on. He believes the promise to the public has been that at the time of the election the Board would be giving the public as much as it knows in that point in time to vote on the whole project.

Chair Newman commented he feels the most important thing the District can do is to help Mills-Peninsula tie down contractors and get pricing and have Sutter approve it. If during this process, Mills-Peninsula gets a price that is inappropriate for Sutter to finance, then at that time there is no real advantage to the district doing anything. Chair Newman indicated the District would not hold Mills-Peninsula up and impede their progress. Director Smith stated what the District needs is to find out from the County Election officials if there is a process for canceling at some point after the District has called an election. Whether this is done by our own legal counsel or Mills-Peninsula the District would need this information in order to act. Director Smith noted if the District does not find out if the project is a "go" until July 15th and the election is scheduled for the end of August, we better find out if it is possible to cancel it. It was agreed that Attorney Coffey would research this voting issue on behalf of the District Board.

Mr. Merwin stated his last update would be on the Awards recently received by Mills-Peninsula. He noted that "Healthgrades.com" has awarded them a "5 Star" for Stroke Care. This puts them in the top 10% of hospitals in the country for treating stroke. Mills-Peninsula is in process of applying to the Joint Commission on Accreditation of Healthcare Organizations for designation as a certified Stroke Center. This is suppose to be approved sometime in early Spring. He further noted that Mills-Peninsula was surveyed by the American Society for Bariatric Surgery and they declared them a "Center of Excellence" for this procedure.

Further discussion and exchange of questions ensued on the Replacement Project at Peninsula, its associated costs, the tight timeline, OSHPD approvals, need for a ballot request and a final guarantee of both price from the contractors/sub-contractors and ultimate approval by Sutter.

Vincent A. Muzzi, Hillsborough: Mr. Muzzi inquired as to what contractually Mills-Peninsula has that dies if no approval is received by the end of August? Mr. Merwin related that the major subcontractors indicated they would get out of the project as they would rather work on office buildings as it is more profitable versus hospitals.

Ruth Jacobs, Burlingame: Mrs. Jacobs related it is her understanding that if Mills-Peninsula/Sutter does not give its approval, then the District pays for the pipes, garage, etc. Attorney Coffey related that issue is covered in the definitive agreements approved between the District and Mills-Peninsula. The District would be responsible for the unamortized costs of the parking structure, the pipe and the excavation costs. If the project did not go forward the District would still need these improvements to its property. Mrs. Jacobs asked if Mr. Merwin could relate the costs involved when he provides his quarterly updates to the District with Mr. Merwin agreeing to do so.

Terry Huebner, Burlingame: Mrs. Huebner related she feels the project is being pushed through too fast. Mills-Peninsula could come back and ask for something else and the District may then be in the situation where they would have to give it to them and if we had more time perhaps we wouldn't have to give it to them. If the District requests a vote in August, she believes the ballots would be out to the voters at their home in July. She urged caution in proceeding until the mechanics of the mail ballot voting process are known.

Pat Giorni, Burlingame: Ms. Giorni related that if the District calls for an election in August and then has to cancel it, she feels it doesn't look well if you cancel. She indicated there is a need for more education on exactly what people are being asked to vote upon..

Dan Andersen, Burlingame: Mr. Andersen inquired if the voters approve the project and Sutter walks away, does the District have to pay any unamortized costs? Is there penalties? Does Sutter lose the right to come back to the District after an election in August for the unamortized expenses. Attorney Coffey related if the voters approve the deal, there would commence the closing of the documents and execution of them. The signed and executed documents lock Sutter into the Definitive Agreements. There are remedies in the agreement that after the vote and signing, the obligation of the district to buy goes away. Mr. Andersen stated there should be some early commitment from Sutter.

Discussion and debate continued on the issue of voting, the timeline, the Definitive Agreements, the interpretation of those agreements, and its remedies to the District.

RENT CREDIT SUBSTITUTION: Director Smith noted that at the January 26th meeting, Tom Brewer, the District's independent auditor, made his presentation on the conclusion of his Special Audit on the rent credits in order to ascertain if any of those rent credits were purchased with Hospital Foundation Funds. After an extensive review, the auditor identified 4 assets that total \$2,201,963. Of that total \$1,219,395 of the identified 4 assets was funded by the Foundation. Director Smith noted the submission of an Eligible Asset Listing of capital assets with a value greater than \$100,000 prepared by Mr. Brewer, and noted the assets highlighted in light blue have been identified by Mr. Brewer as potential substitute assets. The assets selected are those that have the same lives as the original assets and similar characteristics. Director Smith noted Mr. Brewer presents two scenarios for consideration: (1) the District could ask for substitution of the full \$2.2 million in capital assets or (2) substitute only that portion tainted by Foundation funding which would total \$1.2 million. In the listing of the Eligible Assets and noting those designated in light blue, Director Smith indicated she would move adoption of the first recommendation to substitute replacement of the full \$2.2 million in assets. The motion was seconded by Director Ulliyot. Director Smith noted that once Mr. Brewer is notified of the District's action, he will begin his audit of the selected items (light blue) to ascertain they exist, are being utilized, and there are invoices to back up the associated costs and are appropriate for rent credit. There was no discussion from the Board at this point and Chair Newman called for any Public Comment on this issue.

Terry. Huebner, Burlingame: Mrs. Huebner related her question is with regard to the submitted asset list and asked where it came from? Chair Newman noted her question does not relate to the motion on hand and asked that the question be deferred until the vote.

On a call of the motion, it was unanimously carried.

Mrs. Huebner related she had never seen this asset list before and indicated the last time she saw an asset list it was last year and it differed from this submitted list. Director Smith related it is not the same asset list. The Board just received this list as prepared by Mr. Brewer. Mrs. Huebner indicated her concerns with this submitted list versus the list received approximately a year ago and advised she would perhaps prepare a letter detailing those concerns. As an explanation, Director Smith related what Mrs. Huebner is talking about is an abbreviated list of only those assets that Mills-Peninsula has placed within the Peninsula Hospital facility that have an estimated book value in the year 2015 and that list comes out every six months to a year.

Vincent A. Muzzi, Hillsborough: As a clarification Mr. Muzzi noted the abbreviated asset list they have been receiving shows a total of \$13 million which is estimated to be what all assets would total in the Year 2015. Director Smith responded in the affirmative. She advised that by Year 2015, what the District would owe Mills-Peninsula at Year 2015 would not be \$13 million, but the fair market value of those assets, which may at that time have no value.

Mrs. Huebner stated she is still concerned with the listing of assets on the Eligible Assets list prepared by Mr. Brewer in that she feels there are several capital assets that should not be on the list. Director Smith related that in the Year 2015 if the deal does not proceed or whatever, the District would have to hire some appraisers who would have to go through and figure out what has been added in by Mills-Peninsula, have it audited, and a value at that time of the assets would be established. Attorney Coffey added would only have to done if the seismic extension deadline is extended beyond 2013. Otherwise, we know now that the fair market value of all the assets is zero.

Ruth Jacobs, Burlingame: Mrs. Jacobs reminded Chair Newman of the Public Meeting in Millbrae when he stated the District had to have \$33 million dollars. She asked what that \$33 million represented. Chair Newman responded that the \$33 million dollars was the estimate the District would be responsible for at the end of 50 years if the District agrees to put all those assets into the new facility that is to be built.

QUARTERLY REPORT FROM SAMARITAN HOUSE: The Annual Report & accompanying Financials from the Samaritan House on the Free Medical/Dental Clinic in San Mateo was presented for review. Director Smith noted she was impressed with the number of patients they are seeing at their facility and the work they are performing. As noted they are seeing almost 500 patients a month and almost 6,000 total last year. There was no Public Comments.

QUARTERLY REPORT FROM YFES (October-December 2005): The Quarterly Report together with financials for both the Crisis and Insights Programs of YFES were presented. These reports encompass the period of October through December of 2005. Director Ullyot noted his site visit to YFES and was impressed with their service on the Crisis Program with the number of calls received. He noted 3 high schools girls were manning the phones for Teen Suicide program where they are able to relate to their peers. During this period over 800 calls were fielded from within the Peninsula Health Care District area. Director Smith noted they also served over 700 clients through their outreach program. He felt they were doing a very good job. Director Ullyot also indicated he was able to review the Insights Program. Director Smith noted her concern on the Insights Program where the numbers for the period where only 27 clients from the District were served. Director Ullyot remarked these individuals were juvenile protection agency referrals that had

drug, alcohol and psychosocial problems. He is not sure of what volume the program should be capable of doing with the resources available to them. He does know these teens were very disturbed and were being helped through the program. Chair Newman asked what grant was provided by the District to these programs with Director Smith indicating \$20,000 was provided to both the Crisis and Insights Program for the 2006 year.

QUARTERLY REPORT FROM WOMEN'S RECOVERY ASSOCIATION: The Quarterly and final report for Tracey's Place of Hope a program under the Women's Recovery Association for the period of January through December 2005 was next presented for review. Director Ulliot again noted his visit to this program and related there are only six or seven young adolescents in the residential program. It is a year-long program and the associates costs are about \$100,000 per client. It is a very concentrated program. These individuals were also referred through the juvenile system. In response to the question from Director Smith on follow-up after completion of the program, Director Ulliot related the data is sketchy at best for their follow-up on the individuals after they are graduated/released from this program. The individuals leave the area and they are difficult to trace oftentimes as well as receive feedback. .

COMMUNICATIONS OVERSIGHT REPORT: Director Ulliot advised there is no update report at this time.

PHYSICIAN RECRUITMENT COMMITTEE REPORT: Director Navarro reported work is being done to change the advertisement for our Physician Loan Program in that many of the inquiries received suggested the physicians thought it was a job offer rather than assistance in setting up a practice.

OLD BUSINESS:

A) Audited Financial Statements for FY ending 6/30/05.
Director Smith related the audited financial statements for our fiscal year ending June 30, 2005 were presented at the January 26, 2006 meeting and our auditor, Tom Brewer, reviewed the audits and found it was a clean audit. However, after review and discussion, the Board did not take action to accept the audited financial statements. She would recommend and make a motion at this time to accept the Audited Financial Statements for the Fiscal Year Ending June 30, 2005 as presented last month. There was no Public Comment on the acceptance of these statements. Motion unanimously carried.

NEW BUSINESS There was no New Business.

CORRESPONDENCE: The following Correspondence was so noted with no discussion or comment.

- A) Correspondence:
- (1) Agenda for meeting on 2/7/06 of California Special Districts Association
 - (2) Notice, dated 1/17/06, from LAFCo re Special District Member Vacancy & Special District Selection Committee Meeting of 2/11/06
 - (3) Letter, dated 2/1/06 from Terry Huebner, Burlingame, re: Request for Current Asset List.
 - (4) Letter, dated 1/28/06, from Terry Huebner, Burlingame, re: Asset List and the Taxpayers' credits of \$8 or \$9 million from the M/P Foundation.

There being no further business, the meeting was adjourned at 1922 hours.

By: _____
Maureen A. Mignacco-Dutil, Assistant Secretary

Approved: _____
RICK NAVARRO, Secretary

DONALD E. NEWMAN, Chair