

**BOARD OF DIRECTORS  
REGULAR MEETING  
Thursday, May 29, 2008**

The Board of Directors of the Peninsula Health Care District was called to order for Regular Session on Thursday, May 29, 2008 at 17:40 hours, at 1600 Trousdale Drive, Burlingame, CA, in the Garden Room.

**ROLL CALL:** On roll call there were present, Don Newman, Chair, Helen Galligan, Secretary, Sue Smith, Treasurer and Rick Navarro, Director. Vice Chair Ulliot was excused.

**Also present were:** Cheryl A. Fama, Chief Executive Officer, Colin J. Coffey, General Legal Counsel, Jan Matejcek, District Administrative Assistant and Kelly Molloy, District Executive Assistant.

**GUESTS PRESENT:** Mr. Robert Merwin, CEO of Mills-Peninsula Health Services and Mr. Fred Sherman, Vice President of HGA Architects.

**CONSENT CALENDAR:** The Consent Calendar consisting of the minutes for the March 20, 2008, Regular Meeting and the unaudited Financial Statements for March 2008, was presented. **Ms. Fama** and **Ms. Giorni** asked that the minutes be removed.

***It was moved by Director Smith and seconded by Director Galligan to approve the unaudited financial statements for March 2008. The motion carried unanimously.***

**CEO Fama** distributed a revised copy of the minutes and discussed the proposed changes, which were highlighted in red.

- Page 2 – Added information about the citizen who brought a petition signed by 200 residents in support of keeping the Cardiac Rehab Center in the new hospital. She noted that his name was not audible on the tape.
- Page 7 – Changed the words “Senior in Services Round Table,” to “Senior Health Services in Disasters Round Table”.
- Page 7 – Under “other activities report” added, *CMA and Stark regulations oppose it as it represents the “Corporate Practice of Medicine”*.
- Page 7 – Took out the word Prohibition
- Page 7 – Added her comments on bills – SB 1351 & SB 1115 and noted that the impact of proposed Medi-Cal funding cuts was also a hot topic.
- Page 8 – Under “Blue Ribbon Task Force Report” changed the word *debated* to *discussed*.

- Page 8 – Under “Audit Engagement Letter”, changed the word *auditory* to *audit process*.

**Pat Giorni**, Burlingame: questioned the number of 62 parking spots that was referenced with the expanded MOB. She understood it to be 81 spots required. It was determined that 62 is what Mr. Merwin reported at the meeting. The 81 is a new estimate based on a May 27th report.

**Luciana Kincer**, San Mateo: noted she would provide the name of the citizen who brought the petition for the Cardiac Rehab Center to the last meeting as well as provide a copy of the petition for our records.

**Pat Giorni**, questioned if she would be able to ask questions of Mr. Merwin. **Chair Newman** responded yes.

There being no further input on the minutes, **Chair Newman** called for approval

***It was moved by Director Smith and seconded by Director Galligan to approve the minutes from March 20 as revised. The motion carried unanimously.***

**ORAL COMMUNICATIONS:** **Chair Newman** asked if there were any comments on District-related business not on the agenda. There were none.

### **COMMITTEE REPORTS:**

#### **MPHS BUILDING COMMITTEE:**

**Director Smith** reported on the May 27, 2008 meeting highlights:

- Pouring of decks on the East wing has commenced and framing is just beginning.
- Currently installing attachments for the “skin”. Decks must be completed before the building “skin” can be applied.
- Project is now 72 days behind schedule. At the last report in April, the project was 99 days behind schedule so this is an improvement.
- Delay is now due to the light-weight concrete needed for the top floors. The plant in Colorado that produces the product had run into some problems.
- MOB changes were discussed and Mr. Merwin will elaborate in his presentation to follow. The City of Burlingame’s approval process is moving forward. It is tentatively scheduled to go to the Planning Commission June 9 and the City Council July 2.

She commented on the very nice “Topping Out” ceremony held May 28<sup>th</sup>, which she attended as the sole Board representative.

#### **Proposed MOB Expansion**

**Chair Newman** then called upon Mr. Robert Merwin to present information on the proposed MOB expansion. **Mr. Merwin** presented a series of schematic renderings showing “before” and the “after” pictures of the new construction from all four directions.

- He noted that the alley view from Albemarle (from west to east) is the only view that has been impacted.
- The helipad will now be elevated in the same location.
- The amount of parking spaces provided is now 82.

**Chair Newman** asked the basic reason for the expansion and the need to increase office space availability. **Mr. Merwin** responded:

- Anticipated growth in market-share by drawing patients and physicians away from competitors. Physicians have indicated that MPHS is “moving in the right direction and they want to be a part of it”.
- Increased number of physicians as a result of a merger. MPMG (Mills-Peninsula Medical Group), which is an IPA, has signed a letter of agreement with PAMF (Palo Alto Medical Foundation) to consider a merger. PAMF is a non-profit organization that has exclusive arrangements with more than 800 physicians and has successfully recruited 100 physicians per year for the past seven years. MPHS physician recruitment efforts have been stagnant. 44 new doctors were brought in and half of them have left during that same period of time. The merger negotiations will probably be concluded in 18 months. MPHS may even need another building if the new entity is as successful as the Foundation Model has been in other communities.

**Director Galligan** asked what a Foundation Model offers. **Mr. Merwin** answered that there are three key benefits:

- Recruitment through salary guarantees and referrals.
- Support through capital, IT, staff and office support.
- A critically important referral system. Physicians refer to their Foundation colleagues. It is a very collegial, contained system which is something that has seriously deteriorated at MPHS.

**Chair Newman** asked for Public Comment:

**Ruth Jacobs, Burlingame:** Asked if a doctor chooses not to be in the Foundation, will they be allowed to go to Peninsula? **Mr. Merwin** answered yes. MPHS is committed to a pluralistic system. Physicians should have the right to choose how they practice. However, this may be problematic because Foundation physicians have more support opportunities available to them than physicians in other structures.

**Ruth Jacobs, Burlingame:** Asked why can't there be a Cardiac Rehab Center at Peninsula, similar to the facility at Mills, without the pool, if you are building a new

floor? **Mr. Merwin** answered that approximately \$1.5M needs to be raised to pay for it. Many people have contributed after the last meeting and the employees really want it.

**Terry Heubner, Burlingame:** What type of doctors will go into the new building?

**Mr. Merwin** responded that a couple of years ago he would have said primary care. That might change in the Foundation Model. Currently, MPHS has 75 physicians interested, 50 are primary care and 25 are specialists. This could double by the time the building is ready to open.

**Director Galligan** asked if the “hospitalists” will be a part of the Foundation. **Mr. Merwin** said yes. The Hospitalist model needs to evolve and be more community-based.

**Chair Newman** asked what will happen if there is competition for the new offices between the Foundation and the non-Foundation physicians or primary care and the hospital-based specialties? **Mr. Merwin** said Mills will probably be the primary care center and Peninsula the hub for tertiary care. It would make sense to have the hospital-related specialists near the medial center. This could change based on the Foundation Model and the extremely effective referral system.

**Terry Heubner** asked if there was parking underneath the elevated helipad plan.

**Mr. Merwin** answered no. By elevating the pad, the landing space required by the FAA is greatly expanded. This frees more of the area to be used as parking.

**Luciana Kincer** questioned, given MPHS’ involvement in SutterSelect, the Foundation and the Hospital, does this not block out the competition and control pricing? **Mr. Merwin** answered that SutterSelect is an insurance product for Sutter employees only. It is hoped that this product will be sold to self-insured employers in the future. Physicians have and will continue to have complete flexibility as to what health plans they belong to so they would not be shut-out if they did not take SutterSelect.

**Luciana Kincer** noted that the San Mateo IPA failed because MPHS excluded those physicians and gave preferential treatment to others. Isn’t the new proposal an exclusive model? **Mr. Merwin** stated the San Mateo IPA failed because the MPMG physicians refused to continue to support the Seton and Sequoia physicians’ poor utilization practices. This amounted to approximately \$2M per year of support. The Foundation Model proposal will not be the only one, which is why MPHS is committed to a pluralistic model. If anyone of the existing physician structures is shut-off, MPHS will not survive.

**Director Smith** asked if MPMG does not choose the Foundation Model, is the additional floor still needed. **Mr. Merwin** answered yes. The Foundation Model has proven its effectiveness in drawing to and filling new MOB’s. This is something that he would like

to explore further with the District as it looks at developing the back area of the District's property.

**Terry Heubner** asked what guarantees Mr. Merwin can give that the parking problems in the neighborhood will be addressed? **Mr. Merwin** noted that it has been a problem and a huge frustration for MPHS. He noted that they are taking aggressive steps to enforce the employee parking policies. All staff have been informed that if they ignore these policies they will be subject to termination. MPHS truly does not want to be a problem for the neighbors. **Luciana Kincer** stated that the level and availability of security needs to be addressed as well.

**Pat Giorni** asked if the helipad is in or is it still an option based on funding. **Mr. Merwin** stated he wanted the helipad. He wants to be prepared for disasters. If the funding is there, they will do it. If it becomes a trade off between another floor or a helipad, the cost benefit would require that the floor be chosen.

**Pat Giorni** asked why the dialysis department is going into the MOB and noted that it will take away space available for MD offices. **Mr. Merwin** stated that the real benefit is the synergy of having dialysis, MD offices, and the hospital in close proximity.

**Pat Giorni** asked if there was any consideration of tearing down the Magnolia Gardens building and building a multi-story building for SNF and Dialysis so that the MOB can be used just for physicians. **Mr. Merwin** said they definitely need the SNF and purchased the building to address that need. They are currently remodeling half and hope to get licensing approval in 18 months. Then the other half will be upgraded. They are not sure how many beds there will be in the end. This plan can be carried out within 24 months. A teardown and rebuild would take 48 months. The current plan works well with the completion schedule of the new hospital.

**Pat Giorni** asked if they will be leasing out MOB space to non-hospital services. **Mr. Merwin** answered no.

**Chair Newman** then closed the public comment period. He noted that the Board was being asked to give support to the proposal as presented.

***It was moved by Director Smith and seconded by Director Galligan to approve the proposed MOB expansion as presented.***

Under discussion, Colin Coffey, General Legal Counsel, raised concern about the absence of any written detail on the community benefit served by the expansion and the absence of any written specifications of the project before the Board. He stated that his comments are advisory to the Board and its responsibility to conduct its due diligence with supportive documentation / evidence. The presentation of the "before" and "after" schematics does not provide the level of protection for this action that he advises is

necessary. He re-iterated that his comments were not intended in any way to be a value-judgment of the project, but rather guidance to the Board.

**Chair Newman** noted that the next Board meeting is June 26 and Director Ullyot would be present. Given his role on the Building Committee, and as a physician, it would be appropriate to delay action to allow for his participation.

**The Directors accepted the advice of counsel and Director Smith withdrew her motion.**

**Mr. Merwin** proposed a compromise and asked if the Board would consider a motion to support the project as presented in concept, subject to the approval of the Burlingame City Council and legal counsel on both sides. **Colin Coffey** responded that such a motion leaves the potential for the City to change the proposal. The Board cannot delegate its approval to the City of Burlingame.

**Chair Newman** asked Mr. Merwin what would happen if the Board delayed the vote. **Mr. Merwin** stated that a delay for a few weeks would probably not be a problem. The Planning Commission and City Council meetings are imminent. MPHS has already invested millions of dollars in steel and planning. It is planning to take the risk and move forward anyway. **Director Galligan** stated that the Burlingame City Council meeting is July 2, and the District meeting is June 26, so action can occur before the meeting.

**Chair Newman** proposed that Mr. Merwin provide the Board with a written plan and documentation on the scope and impact of the project. The Board will take action at its June 26 meeting. However, if there is a need to act sooner, the District will call a Special Meeting. **Mr. Merwin** noted his appreciation for the Board's flexibility.

**Chair Newman** stated that the approval of the project will be tabled until the next regular Board meeting.

**Mr. Merwin** said it would be very helpful to bring at least the Board's approval of the concept to the Planning Commission.

**It was moved by Director Smith and seconded by Director Galligan to approve the MOB expansion, in concept only, based on the pictures presented. The conceptual approval will be subject to confirmation through actual approval of the project based on the construction contract entered into between the parties in 2006, and the actual submittals to the City. The motion carried unanimously.**

**Chair Newman** then thanked Mr. Merwin for his presentation and asked that the HGA architect proposal from New Business be presented.

**NEW BUSINESS**

**Proposal to Engage HGA Architects**

**CEO Fama** reported on the process of identifying a facilitator to help develop a master property development plan for the District. She and Director Ullyot interviewed firms. David Thistlethwaite, who had done work for the District in 2004, was interviewed with his associate Kelly Cardella. They are now part of Hammel, Green and Abrahamson, Inc., (HGA). HGA has been in business since 1953 and 70% of their business is in healthcare. Mr. Thistlethwaite could not attend and Mr. Fred Sherman, Vice President and colleague of Mr. Thistlethwaite's, was introduced. Mr. Sherman commented that they have offices in San Francisco, Sacramento and the mid-west. He then shared several PowerPoint examples of health care projects done by his firm.

**CEO Fama** stated that she would like to engage HGA and noted that the project would be in collaboration with MPHS as the vision is to have a fully integrated health care complex. **Chair Newman** questioned if MPHS would share the expenses? **CEO Fama** answered yes, that was the agreement she had with Mr. Merwin. Ms. Fama proposed two motions for the Board to act upon.

First- Agreement to select HGA Architects to serve as the plan development facilitator.

Second- To approve Ms. Fama's signature authority, to sign an agreement with HGA for up to \$50,000 for the District's share of expenses for the planning process.

**Chair Newman** entertained a motion to engage HGA Architects to work with the District to develop a master property development plan.

**It was moved by Director Galligan and seconded by Director Smith to accept a contract with HGA and to collaborate with the MPHS.**

**Luciana Kincer** asked about what kind of governess MPHS has over this type of agreement? **Chair Newman** answered that it is shared 50/50.

**Director Navarro** inquired if the District would receive several different options, as far as development? **CEO Fama** answered absolutely.

**The motion passed unanimously.**

**Chair Newman** entertained a second motion to allow Ms. Fama authority to sign an agreement with HGA up to \$50,000.

**It was moved by Director Smith and seconded by Director Galligan to allow Ms. Fama to transact the contractual arrangements for the joint planning process for an amount up to \$50,000.**

**Director Navarro** asked, and the Directors agreed, to move the New Business item Proposed Budget for FY09 up on the agenda.

**Proposed FY09 Budget**

**CEO Fama** opened the presentation by referencing the document previously distributed in the packet. She stated that the budget was driven by the strategic plan, based on a full year's experience as a "stand alone" office, and in compliance with the Financial Policy of the Board. She highlighted the following line items:

- Tax income was budgeted flat, while interest income was reduced from current year budget due to actual experience. This resulted in "total funds received" budgeted slightly lower.
- Community Service Agreements/Grants are budgeted at \$2M, the same as '08.
- Administrative overhead will be slightly higher than current year as it was a "ramp up" period relative to staffing and employee benefits. The latter did not go into effect until May 1, 2008.
- Marketing, outreach, and new program line items are similar to the current budget.
- "Other" is nearly \$300,000 more than '08 due to election expense and Master Property Development Planning.

She concluded by noting that FY '08 is projected to come in below budget and FY '09 would be well below the available "cap" based on the Board's Finance Policy. To the latter point, she explained that, given the District's financial obligations as detailed in the Master Agreement, the Board's plans for property development, and the unknowns relative to expansion of health insurance to uninsured county residents, she recommended the proposed \$3.7M in FY '09, which is nearly the full amount received from taxes, be put into the Board's Designated Fund.

**Chair Newman** clarified for emphasis that the proposed bottom line contribution to our investments is budgeted to be \$3,709,300.

**Director Navarro** inquired where the revenue from the sale of the real estate located at 1848/1850 El Camino Real was located in the budget. **CEO Fama** answered that it was put into the LAIF fund; the increased interest income from that investment was included in the "investment income" line. **Director Navarro** was pleased to see the District was saving more than the minimum required by the new Finance Guidelines. He said that it was important to front load the investments as much as reasonably possible given the current economy and the Board's vision for future property development.

Public Comment: None.

**It was moved by Director Galligan, and seconded by Director Navarro to accept the FY09 Budget as proposed. The motion carried unanimously.**

## **COMMITTEE REPORTS:**

### **COMMUNICATIONS OVERSIGHT, Cheryl Fama for Chair Ulliyot**

CEO Fama referred to the activities summary report distributed in the Board packet and highlighted the new Chamber of Commerce memberships and webpage look. Director Smith commented that she liked the webpage look.

Luciana Kincer inquired if there was any way the District meetings could be televised through Peninsula Television? Ruth Jacobs inquired about the cost of televising a meeting? CEO Fama stated that the meeting in San Mateo cost \$500 to televise and she stated she would take it under advisement. She appreciated the spirit of the efforts of those present to get the information out into the community.

### **SCHOLARSHIP COMMITTEE, Helen Galligan, Chair**

Director Galligan referred to the summary report distributed in the Board packet. Five candidates are seeking a total of \$10,000 in loans. Ms. Galligan noted the candidates' enthusiasm and asked for approval of funding to the five candidates.

**It was moved by Chair Newman and seconded by Director Smith to approve the loans as proposed. The motion carried unanimously.**

### **PHYSICIAN RECRUITMENT, Rick Navarro, Chair**

CEO Fama reported that the recruit that left the area had phoned the office and was committed to making monthly payments on her loan to the District. There were no new MD candidates.

### **AD HOC SERVICE AGREEMENT, Helen Galligan, Chair**

No new business to report.

### **CHIEF EXECUTIVE REPORT, Cheryl Fama**

- CEO Performance Plan-Progress Report (In Packet): She noted this report was in response to the terms of her Employment Agreement, which requires periodic presentation to the full Board. She noted that she meets weekly with the Chair.
- Sutter Health Financial Strength: A recent article and the Sutter Health audited financials, as posted on the internet, were distributed.
- Focus for summer months: Meetings with City Managers, city councils, chambers of commerce and draft the next newsletter.
- Noted a recent LA Times article on the importance of nutritional school snacks.

**Ruth Jacobs**, inquired if there is a current school tax in Millbrae, such as the tax enforced by the City of Burlingame. **CEO Fama** answered that Prop. P calls for a \$78/household fee that would go to the schools.

**Ruth Jacobs** asked what the financial policy is for Ms. Fama to approve and pay for such items as monthly snacks. She stated that it was nothing personal against Ms. Fama, she just wanted to make sure the monies were being well looked after. **CEO Fama** replied that there is a Board grant approval process and a CEO Discretionary Fund. Any use of the Discretionary Fund more than \$5000 requires approval of a Director.

### **OLD BUSINESS**

#### **Business arising from the March 20 meeting:**

- Cardiac Rehab Reimbursement: Only the 6-week program following a significant cardiac event is covered by MediCare or insurance. (Amount of coverage varies) That program needs to stay within the Hospital. The large majority of current Center use is not covered by insurance and can be located anywhere. **L. Kincer** asked how much was charged for each visit. **Director Galligan** answered that she believes it is \$14 - \$15 per session and noted that the fitness center pays for itself.
- MPHS future SNF bed total: Unknown at this time per Mr. Merwin's earlier presentation.

#### **Update on sale of 1848/1850 El Camino:**

**Ms. Fama** reported that she has authorized our extension of the escrow deadline at the request of the buyer, who has paid for this extension by depositing an additional, non-refundable amount into the escrow account.

### **NEW BUSINESS**

#### **Resolution 2008-01, Call for the Board Election**

RESOLUTION NO. 2008-01, "Resolution fixing date of elections, requesting consolidations with Statewide General Election, Setting Forth Offices to be Filled, Reaffirming Policy on Candidates' Statements, and Directing the Secretary as to Certain Necessary Matters" was presented for Board consideration and review. It was unanimously agreed to waive the reading of the Resolution, noting its prior inclusion in the Board package. As two of the Board members' terms expire in December of 2008, this Resolution requests consolidation of the District election with the General Election on Tuesday, November 4, 2008 and directs the County Clerk to publish notice of election as well as other duties encompassed in the District election to fill the two director positions on the Board. Additionally, this Resolution reaffirms the District's policy in regard to candidates' statement in that each candidate shall pay the cost of preparing, printing, handling, translating and mailing that candidate's statement and further that each candidate's statement shall be limited to no more than 200 words. Chair Newman then called for public comment. There was none.

**It was moved by Director Smith, and seconded by Director Galligan to accept Resolution 2008-01.**

**Terry Heubner** asked if the Board would be subsidizing the election proceedings. **Chair Newman** stated that no public agency subsidizes elections.

CEO Fama then took roll call:

Director Smith – Aye

Director Newman – Aye

Director Galligan – Aye

**The motion was carried unanimously.**

**Revision of Operating Cash Policy**

Treasurer Smith called the Board's attention to the \$900K operating cash item that appears on the monthly financials. She stated that this entry was the result of a 1994 Board action that established the policy that the District maintains a constant balance of \$900K in operating cash, which at that time was sufficient to cover three year's of operating expense. Any cash in excess was to be put into the reserves to be used for seismic work. Last year, as a result of the strategic planning process and long-range financial planning to meet the potential financial obligations under the Master Agreement, the Board approved a new financial policy. The new policy sets forth a Provision that limits the Board's annual spending to 10% of its total assets with the balance going into the Board's fund to cover the possibility of "paramount default". Director Smith raised the point that the new policy supersedes the 1994 action and noted that the \$900K, set nearly 15 years ago, is insufficient to cover the operating costs approved in the current and future budgets. After conferring with Mr. Coffey, it was determined that the Board's action should be to rescind the 1994 policy.

***Director Smith moved and Director Galligan seconded the motion to rescind the 1994 Board Policy, which required the District to maintain a \$900K operating cash balance; henceforth the spending rate will be governed by the Board's Finance Policy passed in 2007.***

Discussion:

**Ruth Jacobs** asked a number of questions about spending controls, limits, and assurances that spending will continue to go for medical equipment and needs. **Directors Newman, Smith and Galligan** all offered responses pointing out the budget process and approval, the grants program policies and limitation about serving District residents, as well as, the Board's strategic planning process and resulting plan that incorporates the District's operating mandate as legislated by the State of California. **Ms. Fama** offered a point of clarification. Ms. Jacobs used the term "medical" to describe how funds should be used. Ms. Fama clarified that the more accurate term now is "health" [E.g. Peninsula Hospital

District is now the Peninsula *Health* Care District], which includes a much broader range of programs and services eligible for potential investment.

**Chair Newman** called the question: *The motion passed unanimously*

**SDI Withholding for Employees:**

**Director Smith** explained that State Disability Insurance (SDI) is a partial wage replacement program for employees and covers disability not covered by worker's compensation benefits. It is funded through employee contributions and is no cost to the employer. The issue is that the District's employees, because it is a public agency, are not automatically eligible. However, she has been advised by the District's accountant that, with approval of the Board, the employees can conduct a vote to have SDI withheld. She is recommending Board approval.

*Director Smith moved, Director Galligan seconded, and it passed unanimously to allow the employees to vote on SDI withholding from their paychecks.*

**ADJOURNMENT:**

The meeting was adjourned by **Chair Newman** at 20:00 hours.

**By:**

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**Jan Matejcik, Administrative Assistant**

**Approved:**

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**Helen C. Galligan, Secretary**

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**Donald E. Newman, M.D., Chair**