



Peninsula Health Care District

**BOARD OF DIRECTORS
REGULAR MEETING
Thursday, December 4, 2008**

The Board of Directors of the Peninsula Health Care District was called to order for Regular Session on Thursday, December 4, 2008 at 17:45 hours, at the Millbrae City Council Chamber, 621 Magnolia Avenue, Millbrae, CA.

ROLL CALL: On roll call there were present, Don Newman, MD, Chair, Dan Ulyot, MD, Vice-Chair, Helen Galligan, RN, Secretary, Sue Smith, CPA, Treasurer and Rick Navarro, MD, Director.

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

CONSENT CALENDAR: The Consent Calendar, consisting of the minutes for the October 30, 2008 Regular Meeting and the unaudited Financial Statements for November 2008, was presented.

Director Smith moved and Director Galligan seconded the motion to approve the consent calendar. The motion carried unanimously.

ORAL COMMUNICATIONS:

Ms. Terry Heubner, Burlingame stated that she read the October minutes and noted that Mills-Peninsula will be renting one of the District's buildings. She would like the Board to take into consideration the possibility of renting to the Ombudsman before we rent to MPHS. Ms. Heubner feels the Ombudsman is wonderful for the community. Ms. Heubner then asked if MPHS will be paying the current market rate on Marco Polo. **Ms. Fama** responded that she will ensure that MPHS pays a fair market rate. Ms. Heubner ended her comments by requesting that the Board consider the Ombudsman.

Ms. Luciana Kincer, Burlingame reported that MPHS will be moving the Mental Health Unit to Mills. The nurses feel that it would be unsafe because they do not have enough security in regard to patients that become violent. She wanted to ensure that this was put in the minutes. **Chair Newman** reflected that the Board also has interest in that move as it is discussed at every Board meeting.

COMMITTEE REPORTS:

MPHS BUILDING COMMITTEE – Director Smith reported:

- The last meeting was November 25, 2008
- Currently 400 workers are on the job; eight are full-time inspectors
- The POB steel has been erected except for the top two floors – the cost is projected to be \$1M less due to the drop in steel prices
- The POB cannot be occupied until the existing hospital is torn down due to parking requirements which presents a logistics problem. A new parking study is under consideration.
- MPHS is also planning to invest \$15.5M on infrastructure upgrades for existing facilities
- The new skilled nursing facility has completed Phase 1 and 23 rooms were approved for Medicare reimbursement and opened to patients in November. It was completed quickly, as it did not require OSHPD approval. Phase II will provide an additional 27 beds; however, will not be completed until 2010 because it does need OSHPD approval. There will be a medical director on-site five days a week, which exceeds industry standard, and staffing will be 30% higher than state requirement. The facility also has all the resources of the hospital to support it.
- The Behavioral Health move to the 3rd floor of Mills is currently in design and has a budget of \$20.6M.
- The San Carlos hospital project may be delayed due to the capital markets now.

Ms. Kincer mentioned the on-going employee problems with parking at MPHS, specifically Peninsula, and asked the Board to please mention this problem to the Building Committee. She suggested that valet parking could be a solution. **Chair Newman** asked Director Smith and Ms. Fama to relay the information and inquiry back to MPHS. **Vice-Chair Ulyot** noted that the parking subject is prevalent in the Mitigation Panel Meetings as the neighbors object to the overflow parking on their streets.

COMMUNICATION OVERSIGHT COMMITTEE – Vice-Chair Ulyot reported:

Vice-Chair Ulyot commented that the winter newsletter is out and has interesting, upbeat content; he then asked Ms. Fama to add to the report. **Ms. Fama** stated that she has met with five of the four members of the Board of Supervisors. She meets regularly with MacKenzie Communications and Public Affairs Associates to enrich the communications plan and to keep activities focused. This quarter's outreach goal is to attend every city council and chamber of commerce meeting with the purpose of increased awareness of the District, its purpose, and value to the community. **Mr. Dan Anderson**, Burlingame, complemented Ms. Fama on a wonderful presentation she gave to the Burlingame Lions Club.

SCHOLARSHIP COMMITTEE: Director Galligan, Chair

Nothing new to report

PHYSICIAN RECRUITMENT COMMITTEE: Director Navarro, Chair

Nothing new to report

Ad Hoc SERVICE AGREEMENT COMMITTEE – Director Galligan, Chair:

Director Galligan reviewed the Committee's process. Seventeen requests were received; four were rejected because of geography or failure to meet the Board's guidelines and/or directly address its healthcare priorities. The Board's health priorities this year are:

- Access to primary care
- Childhood obesity and nutrition
- Health education targeted at youth
- Health education targeted at reducing high risk adult behavior
- Seniors services that contribute to independence
- Training and education for health care professionals.

Director Galligan presented the ten proposed service agreements/grants detailed in the Board's meeting materials and recommended unanimously by the Committee. If all grants are approved, as submitted, the total would be \$2.8M, with \$1,800,996 of these new grants disbursed in FY 2009, bringing the Board's total investment in community services this fiscal year to \$1,945,456 which is within budget. She noted that one new grant request, the Community Health Network for the Underserved OB Program, is a 3-year proposal to support a new approach serving the underserved. She asked that action on the Committee's recommendations be tabled until after a presentation on the CHNU OB Project and then asked Ms. Fama to present.

COMMUNITY HEALTH NETWORK FOR THE UNDERSERVED – OB PROJECT:

Ms. Fama introduced this agenda item by recalling that on September 25, 2008, Supervisor Tissier and staff from the County made a presentation to the District Board on activities since the last Blue Ribbon Task Force Committee meeting, the county's health care structural redesign, and the Community Health Network for the Underserved (CHNU). They spoke about partnerships with providers in the community and the potential for success in working together. At that meeting, Acting-Chair Ulliyot posed the question, "So what specifically would you like the District to do?" Ms. Srinivasan responded that the CHNU is looking at underserved, uninsured, pregnant women at 400% poverty level and below and how districts, hospitals and physicians can work together to address this important need. Ms. Srinivasan brought such a proposal to the Committee on November 20, 2008. Mr. Hortop, MPHS, was also present to address questions about the MPHS hospital and physician participation. **Ms. Fama** then provided the names of the members of the Committee for the audience: Directors Galligan and Navarro, two community representatives with health services and funding expertise - Frank Lalle and Carole Groom, two community representatives at large-Larry Cappel and Terry Jackson, and the District CEO. The Committee supported the proposal unanimously and recommended that it be presented to the Board in more detail than the others given its scope, amount, and 3-year request. **Ms. Fama** then acknowledged a number of community leaders present to assist in this presentation.

Supervisor Tissier offered her appreciation of the opportunity to address the District Board on its consideration of this investment in the Community Health Network for the Underserved. *"At the District meeting in September, I was here with our County Manager, John Maltbie and Ms. Srinivansan introducing that initiative and was very pleased that the District wanted to hear more about it and was willing to keep the communication about the project ongoing. As we talked about at that meeting, the County is proud to have a history of collaboration in addressing*

critical issues and we really do value the partnership we have with PHCD. The CHNU follows on the important work that we have all done together which is the health plan that was formed twenty years ago and the work that we all did for the Children's Health Initiative five years ago. Last year we added the Blue Ribbon Task Force on Adult Health Care expansion. Your Board Member, Director Smith, participated in both of those initiatives-, the Children's Health Initiative and the Blue Ribbon Task Force; without that cooperation and partnership we would not be here today. With the District's help, we are one of only two counties who have a program like the Children's Health Initiative. What was learned within the Blue Ribbon Task Force is there is a process for achieving the same type of results that we have seen with the Children's Health Initiative, it takes the creativity and partnership of the County and the District. We are not alone in this; every provider who sat at the table with the Blue Ribbon Task Force has committed to play a role in helping serve the underserved. We are asking this evening for your support and requesting of the District that we would enlist your participation of independent physicians in the community to serve low-income pregnant women who live in this community for obstetric and related services. Deliveries would occur at Peninsula Medical Center with a Mills-Peninsula Health Services commitment and support of all the related hospital costs. The Health Plan of San Mateo is prepared to be the recipient of the District's philanthropic support and Ms. Srinivasan is going to now brief you on the highlights of the structure. Also, Dr. Oesterling is here to say a few closing words. Thank you for your consideration and your past partnerships and we hope we can do it again tonight."

Ms. Srinivasan walked through highlights of the proposal and showed the Board how their support would be directed. The specific target is pregnant women who live within the District's boundaries to be able to deliver their babies within these boundaries. The support would go specifically to independent, community physicians willing to deliver these patients at MPHS. The cost and timing estimates in the proposal were based on a ramp-up during which deliveries would be migrated from SMMC and Stanford. Dr. Scott D. Oesterling will address the clinical value of that. The specialties to be included are obstetricians, anesthesiologists and pediatricians willing to be in the network. The Chief of the Health System, Charlene Silva, the Executive Director of the Health Plan of San Mateo, Maya Altman, Director Smith, who was on the Blue Ribbon Task Force, and Mayor of San Mateo, Carole Groom, are also here and can add to the need as learned through the Blue Ribbon Task Force work. She concluded her comments by saying "We are proud to be continuing in partnership with you."

Dr. Oesterling, Chief of the OB Service at SMMC, thanked the Board for allowing him to speak. He explained he was present to give clinical legitimacy to the program, as he is the front-line. He is also the busiest obstetrician at Packard Children's Hospital because they deliver indigent patients from San Mateo County at Packard Children's Hospital. He went on to share that, based on zip code data, they served 367 District woman residents in the last year. Those women had to leave their community and arrange some form of transportation to Palo Alto to have their babies, as well as, for initial post-partum and well-baby pediatric care before they could be incorporated back into the clinic system at SMMC. This proposal will allow patients to deliver at their community hospital. This proposal has a lot of advantages and can help a large proportion of these women stay in their community. High-risk moms will continue to be directed to Stanford.

Vice-Chair Ulyot asked for clarification about the 367 mothers – “Are they all going to Stanford? Are they all under the 400% of the poverty level? Were they all from our District?”

Dr. Oesterling answered yes to all three. **Vice-Chair Ulyot** asked about the participating obstetricians, anesthesiologists, and pediatricians at Lucille Packard. **Dr. Oesterling** responded that the group includes himself and his four partners and the Stanford perinatal anesthesiology and pediatrics teams, which has a 24/7 in-house rotation. **Vice-Chair Ulyot** questioned if these doctors were working pro bono. **Dr. Oesterling** explained that the doctors were not working strictly pro bono as in California all pregnant women are covered by Medi-Cal, so there are some funds provided for these services; therefore, the cost of this program to the county will be somewhat off-set. **Vice-Chair Ulyot**, again seeking clarification, stated that the District is being asked to subsidize local physicians who currently do not take these patients because they would be working at Medi-Cal rates, which is too low and not acceptable. The rate of subsidy would be an amount negotiated between the county, the Health Plan of San Mateo, and community physicians, and that rate would fall between the Medi-Cal rate and an average HMO rate. The calculated amount for this gap would be about \$366,000 per year to serve 300 pregnant women. **Dr. Oesterling** stated that Director Ulyot’s summary was correct.

Ms. Fama asked if the problem was a mal-distribution of specialist physicians in this area of the county or is it a lack of willingness to take Medi-Cal. **Dr. Oesterling** stated that many practices actually do a fair amount of Medi-Cal and, if compared to Seton and Sequoia, Mills-Peninsula does a significant amount of Medi-Cal deliveries. MPHS and its physicians have a good commitment to the under-served. The realities of being a practicing physician in this area have made it less and less attractive for them to maintain their commitment.

Chair Newman questioned the calculation used to drive the grant amount because it used 300 for the deliveries currently going to Stanford, but does not include the deliveries and physicians who are currently doing Medi-Cal cases at MPHS. Wouldn’t those physicians also be eligible for this new reimbursement rate? **Dr. Oesterling** answered yes- all local physicians would be eligible to participate and receive the rate. **Ms. Srinivasan** added that the cost estimates were based on 300 additional deliveries a year within the District’s community and noted that the Health Plan of San Mateo has served as the backbone of the structure serving Medi-Cal. OB services are being paid through a variety of arrangements based on the proportion of a physician’s practice that is Medi-Cal. She added that there are clinical and analytical people working on the fairness of distribution for the program to ensure that people who are currently contributing are treated equally and equitably and have the same opportunity to participate. The overall goal for the CHNU is to coordinate a distribution that can be equitable and sustainable over the long term. **Chair Newman** commented that it sounded as though thorough analysis had been done to set the grant amount requested and, if approved, that will be the amount provided by the District.

Vice-Chair Ulyot noted that the gain for the community, from a patient care perspective, is not that more would get service, but that it would be available locally. However, the gain from the physician perspective is that more local obstetricians, anesthesiologists, and pediatricians would be recruited here to participate in that segment of the population. He also emphasized that this

proposal came before the Board's Committee and, in a competitive sense, it matched up with the other programs under consideration and it passed the scrutiny of the Committee.

Director Smith asked about the proposal document the Directors received in their packet which stated that the funds would be distributed in quarterly allotments to an entity acceptable to the District, and that it would provide the District quarterly reports with detail on the use of such funds. Has it been determined who the entity would be? **Ms. Srinivasan** stated that in the discussion with the Service Agreement/Grants Committee, there was a request that it be an entity separate from any hospital or physician organization. The Health Plan of San Mateo was suggested given the partnership and experience with the Children's Health Initiative. **Chair Newman** concurred with the suggestion of the Committee and called for a motion. **Director Galligan** asked Ms. Fama to present the Committee's recommended language for the motion; an overhead was projected and read aloud.

Vice-Chair Ulyot moved and director Navarro seconded the motion. The motion to accept the CHNU OB Proposal and funding request as presented.

Chair Newman asked if there were any further discussion from the Board and then asked if there were any questions from the audience.

Dan Andersen, Burlingame had two areas of concern. The total amount proposed for approval was \$2.8M - \$1M over the budget of \$1.8M for FY 2009 – the CHNU being the largest. Why not approve just one year and see how it goes? The second issue is the legality of subsidizing physicians that would already be receiving Medi-Cal payments and the appropriateness of the District providing additional funding to physicians that are obligated to accept the Medi-Cal payment as payment in full. **Vice-Chair Ulyot** stated to Mr. Andersen that he was concerned about the amount as well. However, he notes the amount for the CHNU proposal is \$1,098,000 over three years where the others are one-time gifts. He further noted that this was not the largest item up for approval; it is somewhere in the middle. He does think the legal question needs addressing. **Mr. Andersen** agreed and stated that is why he posed the question to the Board; that before a motion is made; the Board should understand the legality of what they are doing with respect to Medi-Cal recipients and their acceptance of Medi-Cal as payment in full by the state. He further stated that as an agenda item it should be pulled.

Ms. Maya Altman, Executive Director of the Health Plan of San Mateo (HPSM), stated that the HPSM pays Medi-Cal providers more than the state's fee for service program. One of the big problems that this proposal is addressing is for the women who are not HPSM members because the state reimbursement schedule is very, very low and physicians will not accept it. She only knew of one local physician, Dr. Diaz, who is taking that low reimbursement. A similar model is in place in North County where physicians who participate are subsidized by Seton and the Daughters of Charity.

Mr. Muzzi, Burlingame, asked if the Grants Committee is an "Ad Hoc" Committee that changes from year to year. **Director Galligan** responded yes, and that two committee members were added this year. **Mr. Muzzi** then brought to Mr. Coffey's attention that an Ad Hoc Committee is

a committee that does not continue from year to year or even from month to month. He also stated he saw a conflict of interest in having a party from Mills-Peninsula on the committee. With regard to the funding “this worthy cause”, he feels the District needs to find out whether or not this is legally acceptable. His understanding is that if you accept a Medi-Cal patient, you have to accept the Medi-Cal rate and if you accept more, there is the issue of refunding. The other has to do with the three-year program. When the District partnered with the Children’s Health Care Initiative, the District was given a good reason why it should fund a multi-year program. It would seem as though this program should come back every year like the others and ask for what they need. As pointed out by the Chair, they might find out next year that the amount they are getting isn’t sufficient. He expressed concern, although he understands, that it is a problem for some people to go down to Stanford to visit and have a baby there, but they are getting health care. He feels the proposal is a good idea, but is not sure that, while this is a significant issue, it is as significant as other health care problems that exist. “Looking at this as a stand-alone issue, it pulls at your heart strings to do something about it,” but maybe in triaging what is needed in healthcare, the Board needs to be looking at an assortment. That is another reason he would recommend doing it for one year, rather than three years, as you may find you have other issues such as Emergency Room issues that occur now for the indigent. He was bothered by the materials sent out in the Board packet that indicated only MPMG physicians would be eligible to participate. He feels if it is going to be available, it should be available to any physician. Apparently, the MPMG exclusivity is not the case, based on the presentation at the meeting. He also commented that the wording in the packet materials was not clear about using a non-profit administrator to disburse the funds, which is what you have to do.

Vice-Chair Ulyot asked Mr. Muzzi about his concern regarding the members of the Ad Hoc Committee, one of which being from Mills-Peninsula. Questioning **Director Galligan**, **Vice-Chair Ulyot** asked if that was true. **Director Galligan** stated that Carole Groom, an MPHS employee is on the Committee. She is also so involved in the county in so many ways that not to be able to use her expertise and broad community knowledge would be a shame. **Mr. Muzzi** stated that unfortunately, that is what conflict of interest laws are all about. **Director Galligan** responded that when grant requests involved MPHS programs, Ms. Groom did not participate in the discussion or vote. **Chair Newman** emphasized that the Board’s Committee members who voted on this are not coming from Mills-Peninsula. **Director Galligan** stated Ms. Groom abstained from the vote. **Mr. Muzzi** asked them to clarify what it meant by “not voting on this”. **Director Galligan** clarified that it meant she was not part of the recommendation process. **Chair Newman** then stated that they could be in the room. **Mr. Muzzi** acknowledged that they could be in the room. **Chair Newman** clarified that they are not official voting committee members at that moment. **Mr. Muzzi** stated he would allow the District counsel to advise, but it does not do the committee member any good not to vote when they have participated in active discussion. That is how broad the conflict of interest laws are. You cannot be a participant if you have a conflict. If they are in the audience speaking as a member of the public to the Ad Hoc Committee and are not sitting on the Committee, no problem, that is a free speech issue, but if they have a conflict and are sitting on the Committee then they have a conflict. The other problem is if it is a standing committee or not a standing committee. This committee, as he understands it, is from year to year, which then makes it a standing committee; the same rules that apply to the Board apply to this committee. Mr. Muzzi again raised the concern of a multi-

year grant noting that none of the others are getting that consideration. **Director Smith** called Mr. Muzzi's attention to the last paragraph of the proposal where it states that continued disbursement of funds will be dependent upon the District's acceptance of each quarterly report. **Mr. Muzzi** questioned again the need for the three-year commitment if the District is going to get quarterly reports and you don't have to make a three year commitment now, why create the precedent. The District had a good reason to make a three-year commitment to the Children's Health Care Initiative, because that had to get ramped up and funded. He stated that if this program should fold within a year, everyone will go back to receiving care at Stanford. If they can make an argument as to why it should be a three -year commitment then fine.

Chair Newman then asked Mr. Coffey for his comments. **Mr. Coffey** spoke on the Medi-Cal issue that both Mr. Muzzi and Mr. Andersen raised. The special legislative scheme in which the Health Plan of San Mateo fits within is not only approved but encouraged by the State of California. Working with this third-party-administrator puts the District as a funder, squarely within the approved legislative scheme; such structures are often known as Medi-Cal local initiatives and have as their purpose to encourage physician participation and improve patient access. Mr. Coffey gave a hypothetical example wherein Dr. Navarro, an anesthesiologist and contracted Medi-Cal provider, could not receive a Medi-Cal payment for his service to patient Ms. Smith in a form that augments what Medi-Cal pays through his contract. However, Dr. Navarro can be compensated if he is in a group or a network that contracts with a local initiative that provides Medi-Cal services; an initiative that encourages Dr. Navarro to participate in the group that in turn provides services to the larger population of Medi-Cal recipients. That is how these schemes work and that is how the law distinguishes between very specific prohibited activities, which are really designed to protect patients from balanced billing. In other words, once someone has agreed to see you and provide a service and your plan has agreed to pay for it, they cannot send you a bill for the difference between their bill and what your plan pays. The same thing applies with Medicare and third-party payers when you are served outside of their network. Be assured the State of California approves and encourages the formation of local initiatives. **Chair Newman** thanked Mr. Coffey.

Ms. Fama called attention to the error in her cover memo to the proposal included in the packet in which she stated that MPMG would be an exclusive physician group for this program. The program will be open to any physician willing to participate, as has already been discussed. She also commented on the Committee "ad hoc" status, noting that is her plan to recommend to the Board in January to make it a permanent committee, adding that it is only a year and one month old and is doing good work.

Director Smith requested comment on the necessity for the three-year commitment. **Dr. Oesterling** introduced his response as the doctor's view noting that there would be a ramp-up period for this OB program and, considering the start of the funding is not requested until April 09, as a doctor it won't be until June or July, that I would consider if this would be a good fit for my practice pattern. A pregnancy is a nine-month course of care from meeting the patient, to the delivery, post partum care, and then getting paid. So, it is probable that most physicians are not going to get involved initially until they are sure it is going to last for at least two or three years. With this commitment, physicians can know that even if I join in on the tail end, if I am not an

early adopter, I can still take advantage of the funds and come out intact. You have a six to nine months lag in getting paid from any insurer. **Mr. Muzzi** noted that would suggest you are not going to have that much money expected the first year.

Mr. Andersen questioned that that proposal is to pay for 300 patients that currently go to Lucille Packard, which is a very nice hospital. How many of these 300 were refused service by Sutter and have to go there or did they choose to go there? And if they chose to go there what is the purpose of this initiative.

Ms. Genelle Morgan, MPHS RN stated that she currently works for the hospital, however, does not work in family birthing services, and wondered if the Hospital is prepared for the increased volume of patients. She stated she knew that the unit is often bursting at the seams. **Ms. Fama** offered that this grant is between the District and the County. MPHS, as a CHNU provider, is willing to partner as well; if and how they are prepared to do so is the responsibility of MPHS leaders.

Chair Newman asked Carole Groom if she wanted to speak. **Ms. Groom** acknowledged that the hospital does have the capacity to accept 200 – 300 more births per year; that has all been vetted. She also responded to an earlier question stating that MPHS has not denied women the ability to have a baby at Mills-Peninsula.

Chair Newman called the question and asked Ms. Fama to conduct a roll call vote

Ms. Fama took roll call.

Chair Newman	Aye
Vice Chair Ulliyot	Aye
Treasurer Smith	Aye
Secretary Galligan:	Aye
Director Navarro:	Aye

IT WAS UNANIMOUSLY APPROVED TO FUND THE CHNU-OB PROPOSAL AS PRESENTED.

AD HOC SERVICE AGREEMENT COMMITTEE REPORT (CONTINUED)

Ms Fama summarized the recommendations previously presented by Director Galligan. The Service Agreement Committee is seeking approval for ten grant requests totaling \$2,805,523. She then projected on the screen a summary of previous grant commitments, proposed new grants, and the payout schedule relative to current and future fiscal years. She highlighted that the total to be paid out this year will be within budget. **Chair Newman** asked if that figure included the CHNU grant that was just voted on. **Ms. Fama** answered that it did. She also explained that some grants are paid out over two fiscal years '09 and FY '10 [CSM and CHI]. **Vice-Chair Ulliyot** thanked Ms. Fama for this explanatory schedule. In keeping with the Board's fiduciary responsibility to prepare for a paramount default, the figures are very reassuring that we are not going over the budgeted \$2M limit for this year.

Vice-Chair Ulyot moved and Director Navarro seconded the motion. The motion to accept the service agreement grants committee's 2009 recommendations was unanimously approved.

Director Smith noted that the District has already committed three-quarters of the probable budget for next year and she hopes that the Committee is aware of that.

NEW BUSINESS

2008 Audit – Director Smith, Treasurer, reported:

Director Smith stated the audit went very well, except for some delay in getting it completed. She introduced Dennis Christian of Vavrinek, Trine, Day & Co. to discuss the audit. **Mr. Christian** stated the audit went very well. He stated the financial statements fairly present the financial activity and position of the District. They found no significant internal control deficiencies. It was a pleasure working on the audit with the District staff and management. The financial highlights are discussed in the Management Discussion and Analysis section. [The complete audit is available on the website.] **Vice-Chair Ulyot** recommends that everyone read that section. He pointed out some of “storm clouds in the future” presented and complimented the analysis of the impact of these uncertainties. He then asked a question, referring to page 17, where a distinction is made between “governmental funds” and “proprietary funds”; he asked that those terms be clarified. **Mr. Christian** explained that “proprietary” funds are the funds related to property, plant, and equipment and include costs related to renting properties, collecting rents, and booking the depreciation for said properties and equipment. Everything else goes into “governmental” funds and includes tax revenues, interest income, and the operating costs of staff and office administration. **Vice-Chair Ulyot** thanked Mr. Christian. **Director Galligan** questioned if this still included the properties and/or equipment we assumed at Peninsula Hospital. **Mr. Christian** answered yes.

Ms. Huebner then asked Director Smith if she remembered the asset list in regard to the lease arrangement and if that asset list had gone away. **Director Smith** questioned if she meant the prepaid rent list. **Ms. Huebner** answered it was the asset list that has been discussed at great length. **Director Smith** answered, to her understanding, it was gone. **Ms. Huebner** thanked her.

DIRECTOR SMITH MOVED AND DIRECTOR NAVARRO SECONDED ACCEPTANCE OF THE 2008 AUDIT AS PRESENTED. THE MOTION PASSED UNANIMOUSLY.

Sutter Health – Financial Strength & Stability –CEO Fama reported:

Ms. Fama introduced Gary Hick's, of G.L. Hicks Financial, LLC who was retained to conduct an assessment of Sutter's financial strength. This is in direct response to the board's financial policy and guidelines passed last year.

Mr. Hick's referenced his report distributed in the Board packet and that includes the summary, comments and conclusions of his analysis. The report is organized into six sections: overview of

the hospital corporation, the hospital and ground lease, general overview of Sutter, the financial position of Sutter, the operating performance of Sutter, and the perceived internal and external risks for the future. A listing of eight different resources was also provided. He identified Sutter's strengths as:

- Consistency of products and services
- Diversification of revenue sources (E.g. hospitals, SNF, medical groups, etc.)
- Great market position in the five regions of Northern California in which it has facilities
- Fully integrated provider structure
- Large physician base
- Strong, seasoned management

And the **threats/risks** as:

- The difficult California market
 - Highly regulated
 - High and growing unemployment
 - High and growing uninsured
- Strained relations with organized Labor
- Competition from Kaiser, Catholic Healthcare West, and large academic centers
- Cost impact of seismic rebuild for all of its hospitals

Questions and Answers:

1. *What does it mean to have an AA rating from Standard & Poor's and an Aa3 from Moody's? How relevant are they given the Lehman ratings before its collapse?*

Mr. Hicks explained the rating range and how it is used to determine financial strength to the investment market. Sutter's ratings make it one of the strongest any healthcare system can have in California and the U.S. He does not believe the Lehman experience should reflect on the credibility or usefulness of these rating agencies.

2. *What is the projected capital demand on Sutter Health to address the seismic hospital needs?*

Mr. Hicks thinks that number could be in excess of \$6B above the investments made by Sutter Health for capital improvements in the last five to seven years.

3. *How is Sutter Health positioned relative to Information Technology?*

Mr. Hicks responded that he is not privy to internal operations information; his expectation is that they would be very strong based on the electronic medical record work going on at MPHS right now.

4. *The report referenced "several lawsuits against Sutter Health" by various Labor Unions. What is the nature of the lawsuits?*

Mr. Hicks could not speak specifically about the nature of the actual suits, but commented that they addressed such things as corporate vs. individual hospital contracts, increased out-of-pocket employee costs for benefits, and wages.

5. *Isn't healthcare recession proof?*

Mr. Hicks replied that the business of healthcare is unlike any other because hospitals have to take patients whether they can afford to or not. Sutter will get busier, but not with insured, elective cases.

6. *Given the Tenet/West Contra Costa Hospital situation, what is the “canary” the Board should monitor to stay on top of Sutter’s financial situation and avoid dealing with a sudden default. How quickly did the problems develop at Doctors’ District Hospital?*

Mr. Hicks responded that the Board should track the same indicators as in any business – cash flow, operating reserves, debt service ratio, etc. The West Contra Costa situation was complicated by reimbursement practices and disputes Tenet had with the State and Federal governments. The government has tremendous power and the ability to step in and shut down an institution and that is exactly what happened. That situation was quite unique.

7. *While MPHS is the Board’s concern it is part of the system wide Obligated Group, therefore tracking Sutter Health is relevant to this Board’s fiduciary responsibility – right?*

Mr. Hicks responded, yes, a paramount default would be by Sutter, not MPHS, and so tracking both, as best the information is available, would be prudent Board activity. He added that Sutter invests capital in regions and facilities that have a decent cash flow. There is a reason MPHS has been funded to build the new hospital and that the system’s electronic medical record is being launched at MPHS. MPHS does well.

8. *Given the answer above, how often do you advise the Board conduct this type of analysis?*

Mr. Hicks said the timing would be driven by the needs of the District, but offered that once every 1-2 years would be appropriate.

Chair Newman thanked Mr. Hicks for his thorough report and analysis.

CHIEF EXECUTIVE REPORT: Cheryl Fama, CEO

Real Estate Activities Update: **Ms. Fama** reported that Sunrise will move out of 1875 Trousdale at the end of the lease, 12/27/08. She is in negotiations with MPHS, who wants to lease the entire 5400 square feet. There have been no further discussions with the School District about 1825 Trousdale. A closed session date and time are being pursued to discuss elements of the master property planning progress. **Director Navarro** suggested that we have the meeting before the next Board meeting. Ms. Fama would like that to be a fall-back position and would like the Directors to review the possible dates provided to them.

ACHD: She reported on her contact with ACHD to learn about the organization’s process of orienting new legislators. She noted that they encourage local, grassroots activities.

Community Event: The District is going to have their first “event” on January 29, 2009; the purpose being to acknowledge community partners, serve as a catalyst to “fun” provider networking, award the 2009 grant checks, and increase the District’s visibility.

CEO Performance Plan Quarterly Report: She referenced the report in the packet and offered to answer any questions. There were none.

OLD BUSINESS

SMCo Pooled Fund/Lehman Bros.

Ms. Fama reported that she attended the special meeting held by the Board of Supervisors to discuss community concerns about the hit taken due to the failure of Lehman Bros and the proposed revisions to the Investment Policy. A full forensic review of the county's investment processes will be launched. Findings will be included in a revised policy anticipated for presentation in February. The District's investment policy is reviewed annually in January; however it will be deferred until the county finalizes its work.

ADJOURNMENT:

The meeting was adjourned by Chair Ulliyot at 19:30 hours.

By:

Kelly K. Molloy, Executive Assistant

Approved:

Helen C. Galligan, Secretary

Donald E. Newman, M.D., Chair