

# Peninsula Health Care District Board

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## Review of the Proposal for a New Hospital and Restructured Relationship with Mills-Peninsula Health Services

*Prepared by:*

**The Lewin Group, Inc.**

**July 22, 2003**

## Report Outline

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- ◆ The Lewin Group's assignment
- ◆ Strategic plan and market model underpinning proposed hospital size and scope
  - Overview of May 2001 findings
  - July 2003 update
- ◆ New core services analysis
- ◆ Comments on the Proposal for a restructured relationship
- ◆ Discussion

## The Lewin Group's assignment

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### Approach

- ◆ Updated market data
  - Demographics
  - Recent hospital utilization in San Mateo County
- ◆ Interviewed area CEOs regarding market developments
- ◆ Performed new core services analysis
- ◆ Reviewed and commented on the MPHS Proposal
  - Proposal shared with outside expert
  - Reviewed other comparable leases and agreements
- ◆ Developed findings

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## Overview of May 2001 Findings

## In 2001, we reviewed Sutter's estimates for beds needed at a new Peninsula hospital

### Bed Projection Methodology Summary

$$\begin{aligned}
 & \text{Market Area Population} \\
 & \quad \times \\
 & \text{Projected Hospital Use Rate (Discharges per 1,000)} = \\
 & \quad \textbf{Projected Market Discharges} \\
 & \quad \quad \times \\
 & \quad \quad \text{Hospital Market Share} = \\
 & \quad \quad \quad \textbf{Projected Hospital Discharges} \\
 & \quad \quad \quad \quad \times \\
 & \quad \quad \quad \text{Projected Length of Stay for Inpatients} = \\
 & \quad \quad \quad \quad \quad \textbf{Projected Patient Days} \\
 & \quad \quad \quad \quad \quad \quad \div \\
 & \quad \quad \quad \quad \quad \quad \text{365 Days per Year} = \\
 & \quad \quad \quad \quad \quad \quad \quad \textbf{Projected Average Daily Census} \\
 & \quad \quad \quad \quad \quad \quad \quad \quad \div \\
 & \quad \quad \quad \quad \quad \quad \quad \quad \text{Desired Occupancy Target} = \\
 & \quad \quad \quad \quad \quad \quad \quad \quad \quad \textbf{Bed Need}
 \end{aligned}$$

## 2001 capacity planning model results

Bed Type:	Current Licensed & Available Beds	July 1999 – June 2000 Average Daily Census	Projected Average Daily Census in 2010	Projected Occupancy Rate of Proposed Beds	Proposed Beds
Medical Surgical (includes SNF)	181	124	114	84%	136
Critical Care	24	10	15	63%	24
Obstetrics	33	16	22	70%	32
Neonatal Intensive	5	3	3	64%	6
Behavioral Health	38	30	30	89%	34
Total	281	183	184	79%	232

Note 1: In-house (distinct part) skilled nursing beds are included in Medical Surgical.  
 Note 2: Rehabilitation beds are excluded -- they are provided on the Mills campus.

**The master plan includes the ability to expand bed capacity by an additional 102 beds, if necessary.**

## 2001 Methodology: Inpatient Hospital Use Rates

Hospital Product Line	1993	1996	1997	1998	2010	1998-2010 Change
Obstetrics-Deliveries	16.8	16.0	16.0	16.2	16.6	2.7%
Neurosciences-Medical	4.3	4.3	4.3	4.3	3.9	-2.0%
Medicine	5.1	5.4	5.5	5.7	5.3	-7.3%
Oncology	4.4	5.0	5.0	5.0	4.8	-4.2%
Cardiac Care-Surgery	1.7	1.6	1.6	1.6	1.5	-8.5%
Orthopedics-Surgical	6.4	5.8	6.1	6.2	5.9	-4.2%
Surgery-General Surgery	10.5	9.6	10.7	10.8	10.5	-3.1%
Pediatrics-Medicine	4.0	3.3	3.1	3.2	3.2	0.0%
Behavioral Health	7.7	6.9	6.3	5.7	5.7	0.0%

## 2001 Methodology: Projected Lengths of Stay

Hospital Product Line	1993	1996	1997	1998	2010	1998-2010 ALOS Change
Obstetrics-Deliveries	1.7	1.7	1.9	2.5	2.6	2.3%
Neurosciences-Medical	4.9	4.4	4.5	4.2	3.1	-27.2%
Medicine	4.8	4.4	4.3	4.0	3.5	-13.2%
Oncology	5.5	4.7	4.0	3.9	3.1	-20.3%
Cardiac Care-Surgery	9.8	7.9	8.0	7.7	7.7	0.0%
Orthopedics-Surgical	5.4	5.1	4.6	4.6	4.6	0.0%
Surgery-Surgery	6.4	6.1	4.7	4.7	4.4	-5.3%
Pediatrics-Medicine	2.2	2.2	2.2	2.0	2.0	0.0%
Behavioral Health	7.9	6.4	6.8	6.7	6.7	0.0%

- ◆ Changes in lengths of stay were determined in consultation with management, physicians, and external experts.

## In 2001, we concluded that the projected need for 232 beds was reasonable

Component	Comments
Model Time Frame	<ul style="list-style-type: none"> <li>• Flexible design allows capacity to be added later</li> <li>• Consider extrapolating results to 2030 to evaluate risks</li> </ul>
Service Area Definition	<ul style="list-style-type: none"> <li>• Appears reasonable and standard</li> </ul>
Service Area Demographics	<ul style="list-style-type: none"> <li>• Incorporate census 2000 data when available</li> </ul>
Inpatient Hospital Use Rates	<ul style="list-style-type: none"> <li>• Recent volume increases need to be evaluated</li> <li>• Updated technology forecast warranted</li> <li>• Consider changes in the health insurance market</li> </ul>
Peninsula Hospital Market Shares	<ul style="list-style-type: none"> <li>• Continue updating the model for new information</li> </ul>
Projected Lengths of Stay	<ul style="list-style-type: none"> <li>• Review in light of recent increases</li> </ul>
Target Occupancy Rates and Beds	<ul style="list-style-type: none"> <li>• Within range of industry standards</li> </ul>

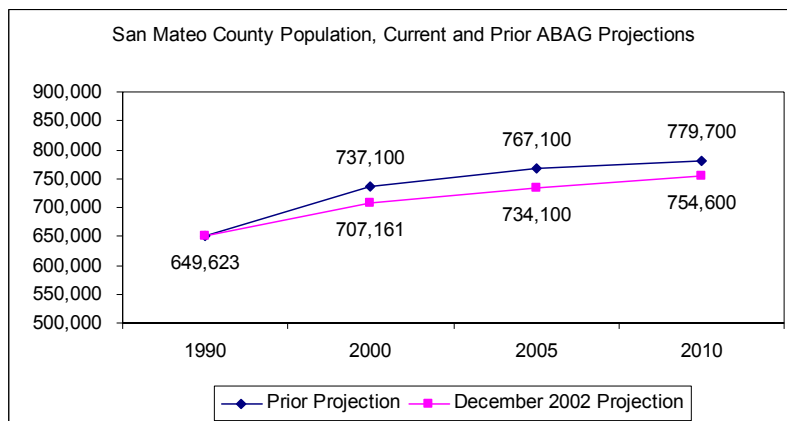
## July 2003 Update

## Since 2001, new data have become available

### New Data

- ◆ Updated demographic projections from the Association of Bay Area Governments (ABAG)
- ◆ New utilization statistics
  - MPHS internal statistics
  - OSHPD data
- ◆ The 2001 San Mateo Needs Assessment Report
- ◆ Information on other hospital plans

## New population projections are 3 to 4 percent lower than prior estimates



Source: Association of Bay Area Governments.

## Peninsula Hospital inpatient volume has been slightly higher than expected

Peninsula Hospital	1999	2000	2001	2002
<b>Admissions</b>				
Medical-surgical	9,483	9,589	9,623	9,306
Obstetrics	2,335	2,407	2,480	2,526
Mental health	861	981	962	1,012
CDC (Rehab and Detox)	349	375	366	345
SNF	1,386	1,370	1,423	1,501
Total	14,414	14,722	14,854	14,690
<b>Average length of stay</b>				
Medical-surgical	4.47	4.72	4.73	4.71
Obstetrics	2.51	2.62	2.60	2.70
Mental health	7.93	11.08	8.03	7.13
CDC (Rehab and Detox)	6.36	6.62	6.43	6.10
SNF	7.65	8.46	9.36	8.91
Total	4.71	5.19	5.07	4.99
<b>Average Daily Census</b>				
Medical-surgical	116.10	123.91	124.72	120.14
Obstetrics	16.04	17.27	17.64	18.72
Mental health	18.70	29.78	21.16	19.77
CDC (Rehab and Detox)	6.08	6.80	6.45	5.77
SNF	29.05	31.76	36.50	36.63
Total	185.98	209.52	206.46	201.02

Source: Internal MPHS Records.

## Mills Peninsula appears to have gained market share from 1998 to 2001

	1998	1999	2000	2001
<b>Average Daily Census</b>				
<b>All San Mateo Hospitals</b>				
Acute	400.0	404.1	404.1	411.8
Psychiatry	115.4	93.5	98.5	73.1
Chemical Dependency	5.6	6.1	6.8	6.4
Rehabilitation	15.0	15.0	17.4	16.6
Long-term care	371.6	363.2	359.3	357.9
Nursery	30.6	30.8	29.4	30.3
Total	938.1	912.7	915.5	896.1
<b>Mills Peninsula</b>				
Acute	135.1	123.6	130.5	144.6
Psychiatry	15.6	18.7	21.6	21.2
Chemical Dependency	5.6	6.1	6.8	6.4
Rehabilitation	9.2	9.7	11.8	11.6
Long-term care	77.1	80.0	84.3	90.0
Nursery	15.4	14.7	16.1	16.4
Total	257.9	252.7	271.1	290.2
<b>Mills Peninsula % of San Mateo</b>				
Acute	34%	31%	32%	35%
Psychiatry	14%	20%	22%	29%
Chemical Dependency	100%	100%	100%	100%
Rehabilitation	61%	64%	68%	70%
Long-term care	21%	22%	23%	25%
Nursery	50%	48%	55%	54%
Total	27%	28%	30%	32%

Source: OSHPD Disclosure Reports 1998 - 2001

## The Proposal now calls for 243 beds at Peninsula Hospital

	Original Assumption	Recent Trends
Population in 2010	779,700	754,600 (3 percent lower)
Use rates	Declining	Declining, but not as rapidly
Length of stay	Declining	Declining, but not as rapidly
Market share	Flat	Increasing
Overall impact	232 Beds	243 Beds

## Other hospitals in San Mateo have evolving plans to rebuild their capacity as well

### ◆ Sequoia Hospital

- Plan to rebuild was approved by the District Board.
- One possible location is Mid-Point Technology Park which is 13.3 miles away from Peninsula Hospital.
- New hospital probably will not expand services.

### ◆ Seton Hospital

- Assessing options for its physical facilities, and is most likely to remain on its current property.

### ◆ San Mateo General Hospital

- Hospital was recently rebuilt.
- Struggling to be competitive and with increased ER visits.
- Considering new services such as labor and delivery, geriatric assessment, acute psychiatric, general medical/surgical, long-term-care, imaging/MRI, angiography, and optometry services.

### ◆ Kaiser: ?

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## **New Core Services Analysis**

### **In 2001, we suggested several variables for establishing a list of core services**

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- ◆ California Code of Regulations, Title 22
- ◆ Services historically provided by the hospital
- ◆ Community need/available alternatives
- ◆ Economic considerations
- ◆ Changing medical technology
- ◆ Ability to maintain quality
- ◆ Importance to other services

## A list of core services has been included in the MPHS proposal

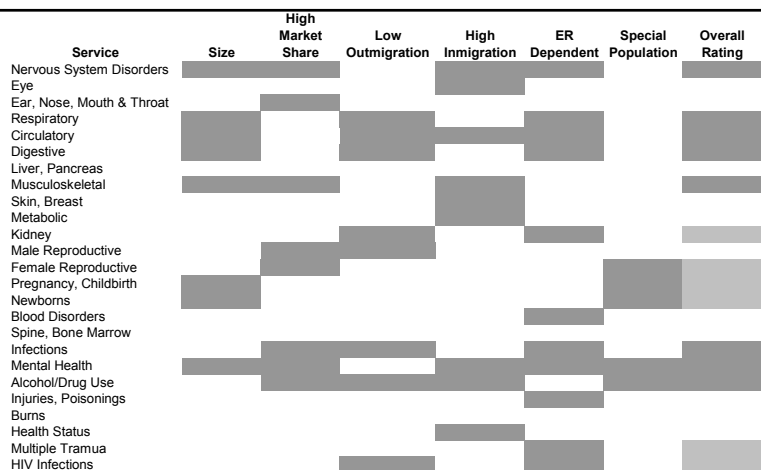
<p><b><u>Acute Care</u></b></p> <p>Geriatric Medical Neonatal Oncology Orthopedic Pediatric</p>	<p><b><u>Surgical</u></b></p> <p>Dental General Gynecological Cardiac Kidney Neurosurgical Ophthalmologic Pediatric Podiatry Thoracic Urologic Anesthesia</p>	<p><b><u>Intensive Care</u></b></p> <p>Cardiovascular Neurosurgical Pulmonary Medical Surgical</p>	<p><b><u>Diagnostic/ Therapeutic</u></b></p> <p>(Including invasive cardiology) provided directly or through contract)</p>
<p><b><u>Newborn Care</u></b></p> <p>Newborn nursery Intensive care nursery</p>	<p><b><u>Obstetrics</u></b></p> <p>Labor / delivery Postpartum care Abortion</p>	<p><b><u>Laboratory</u></b></p> <p>Provided directly or through contract</p>	<p><b><u>Diagnostic Imaging</u></b></p> <p>Provided directly or through contract.</p>

## We applied a new approach developed to highlight important services that meet community needs

### Service Characteristics

- ◆ Large size
- ◆ High market share overall
- ◆ Low levels of out-migration
- ◆ High levels of in-migration
- ◆ High dependency on the emergency room
- ◆ High market share of “special populations”

## This analysis shows that MPHS is a critical provider of many services, including behavioral health



Note: Overall Rating = Darker shade if the service has 3 or more characteristics, Lighter shade with 2 characteristics.

## The 2001 San Mateo Needs Assessment Report also highlights certain access issues in the County

- ◆ Overall barriers to health care services include
  - Inconvenient physician office hours
  - High costs of prescription drugs and general health care
- ◆ 21 percent of residents listed access to health care as a top concern.
- ◆ Residents reported that access to mental health and substance abuses services was fair or poor.
  - Ratings of fair and poor have increased since 1998
  - Access is limited but need for services is high
  - Access was more of an issue for residents with incomes less than 400 percent of poverty

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## **Comments on the Proposal to Restructure the Relationship**

### **Our comments on the Proposal are based on input from several sources**

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- ◆ Conversations with other Hospital or Healthcare Districts
- ◆ Reviews of their lease agreements
- ◆ Initial comments from a Washington D.C.-based attorney
- ◆ Internal Lewin Group assessment

## Observations about the Proposal to restructure the relationship

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- ◆ Lack of remedies
- ◆ Timing of the District's approval
  - Before or after EIR/Conditional Use Permit process
- ◆ Changes to hospital size
  - Ability to reduce size of the hospital prior to completing construction "as a result of regulatory changes or market conditions"
- ◆ Existing hospital to remain "operational" versus "operating"
- ◆ List of core services
  - Mental health
  - Process to (standards for) change
  - No charity care standard (policies, procedures, annual requirement)

## Observations about the Proposal to restructure the relationship

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- ◆ Financing and lease terms
  - Sutter assurance that financing and deadlines will be met
  - Amount of annual lease payment
  - Implications of mortgaging District land
  - Implications for the ongoing role of the District
  - Scenario analysis needed: what if MPHS or Sutter experience distress
- ◆ Capital improvements
  - District responsibility for capital improvements
  - Routine maintenance threshold
- ◆ District's ongoing role

## Discontinuing a core service

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### ◆ *Proposal text*

- “The District shall approve a request by Mills-Peninsula to discontinue a service if Mills-Peninsula can demonstrate any one of the following:
  - The service is economically infeasible to Mills-Peninsula because the service’s direct revenue cannot cover the expense for providing that service
  - Quality is at risk or compromised because of low volume
  - No community need exists for the service or another provider or a new service will meet community need”
- Any dispute ... will be submitted to binding arbitration by an independent, nationally recognized accounting or health care management consultant.
- If a service is terminated solely for financial reasons, the District may choose to fund the service or subsidize net losses incurred by Mills-Peninsula in providing the service.

## Discontinuing a core service

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### ◆ *Comments*

- “The District shall approve a request by Mills-Peninsula to discontinue a service if Mills-Peninsula can demonstrate any one of the following:
  - The service is economically infeasible to Mills-Peninsula because the service’s direct revenue cannot cover the expense for providing that service **and MPHS demonstrates it cannot afford to sustain these losses**
  - Quality is at risk or compromised because of low volume **as demonstrated by nationally-recognized standards**
  - No community need exists for the service or another provider or a new service **demonstrates to the District that it will meet community need”**
- Any dispute ... will be **decided by a process sponsored by a public entity, e.g. the San Mateo County Board of Supervisors.**
- If a service is terminated solely for financial reasons, the District may choose to fund **or operate** the service or subsidize net losses incurred by Mills-Peninsula in providing the service.

## Generally accepted quality and volume standards continue to evolve

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- ◆ There are many examples of entities using quality and volume standards:
  - Health Grades rates hospitals based on volume statistics for certain services (cardiac, orthopedics, obstetrics, neurosciences, neurosurgery, pulmonary/respiratory, vascular surgery, others)
  - Leapfrog Safety Initiatives specifies volume standards for certain procedures, particularly high-risk surgery and high-risk births
  - The following are other sources of quality data or standards
    - OSHPD
    - Joint Commission on Accreditation of Healthcare Organizations
    - National Quality Forum
    - Foundation for Accountability
    - Agency for Healthcare Research and Quality

## The Agreement can include other provisions designed to maintain access

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- ◆ Creation of a “hospital standard”
  - Language could be added to ensure that MPHS maintain high quality services that are consistent with staffing and other laws, accreditation standards, Medicare conditions of participation, and other customary practices of a first class community hospital.
- ◆ Requirement for “competitive rates”
  - The District might want to negotiate an assurance that the New Hospital would (a) participate in any County-public health program, and (b) provide “competitive rates” to any County employee health plan.
  - A final agreement could also require that MPHS contract with payers unless it can show that a specific contract (accounting for a certain patient care volume (or lives)) would lose money and that the losses would be so substantial that they would threaten overall performance.

## Discussion

- ◆ Strategic plan and market model underpinning proposed hospital size and scope
  - Overview of May 2001 findings
  - July 2003 update
- ◆ New core services analysis
- ◆ Comments on the Proposal for a restructured relationship

## Other District leases have alternative approaches to key issues

	Marin Health District	Desert Hospital District	Eden Township Healthcare District	Sequoia Healthcare District
Oversight / Governance Structure	Direct Oversight	Direct Oversight	Governance Structure	Governance Structure
Core Services	Includes a list of "material services"	Core services until 2000 (first 3 years of the lease)	No	Requires that CHW directly or through contract provide integral services for the West Bay Region
Capital Purchases & Lease Payments	\$1.5 million per year, can be made in capital.*	List of capital purchases plus maintenance of spending for first 3 years of lease.	Routine replacements, other capital subject to Sutter resource allocation criteria and facility master plan.	No lease payment. Capital subject to strategic planning and annual budget process.

## Other District leases (continued)

	Marin Health District	Desert Hospital District	Eden Township Healthcare District	Sequoia Healthcare District
Terms for Hospital Condition at the End of the Lease.	Maintain JCAHO certification and state licensure	Maintain JCAHO certification and state licensure	Must meet licensure, life safety and code requirements	Not Applicable
Charity Care	No Provision	No Provision	Required to carry out the mission and policies of Eden Medical Center	No Provision