



October 24th, 2013

Honorable Richard C. Livermore
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Subject: Response to Grand Jury Report: "Peninsula Health Care District: Landlord, Real Estate Developer, or Health Care Leader?"

Dear Honorable Judge Livermore,

Enclosed please find the Peninsula Health Care District's (PCHD) response to the recent Civil Grand Jury's July 2013 report. This response was approved at our Board of Directors meeting on October 24th, 2013.

If you require any additional information, please do not hesitate to contact us.

Yours Sincerely,

A handwritten signature in black ink that reads "Daniel J. Ulliyot".

Dan Ulliyot MD, Board Chair, Peninsula Health Care District

Cc: Board of Directors, Peninsula Health Care District
San Mateo County Board of Supervisors

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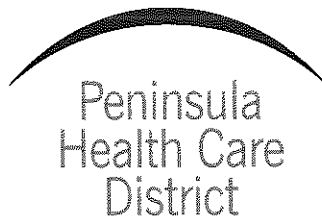
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BOARD OF DIRECTORS
RESPONSE TO THE 2012-2013 CIVIL GRAND JURY REPORT
**"PENINSULA HEALTH CARE DISTRICT: LANDLORD, REAL ESTATE DEVELOPER,
OR HEALTH CARE LEADER?"**

Grand Jury Report Filed: July 29, 2013
District Response Filed: *October 25, 2013*

The Board of Directors of the Peninsula Health Care District (PHCD) appreciates the Civil Grand Jury's analysis and summary of the current activities of PHCD, and thanks the members of the 2012-2013 Civil Grand Jury for highlighting the three principle functions of the Board: Landlord, Real Estate Developer, and Health Care Leader. Each of these is important in fulfilling the legislative mandate for Healthcare Districts in California as applied to the PHCD. We also appreciate the Jury's calling attention to the programs supported by PHCD (pp. 6 & 7) and to the work of the Community Health Grants Program.

BACKGROUND INFORMATION

The findings and recommendations of the Civil Grand Juries over the past decade in respect to PHCD are summarized below:

- 2002: The Grand Jury recommendations focused on negotiating a "fair and reasonable" agreement with Mills Peninsula Health Services to ensure the community hospital in the District was rebuilt to meet new State seismic engineering standards. By August 2006, negotiations were completed and the voters passed Measure V-the hospital rebuild measure - by a 92% favorable vote. On May 15, 2011 Mills-Peninsula Medical Center(MPMC), a new hospital meeting SB1953 seismic standards opened on District land *at no cost to the taxpayer*.
- 2004: The Grand Jury recommended merging PHCD and Sequoia Healthcare District to serve the needs of the entire San Mateo County. While the PHCD did not oppose the concept of exploring cooperative activities or merger, two obstacles were identified that still exist today.
 - 1) The problems inherent in creating one County-wide agency governed equally by all County voters would require either taking funding away from other agencies (Per Proposition 13 limitations) or leaving the source of funding coming solely from residents in the existing two districts, thus excluding approximately a third of the County's residents from contributing.
 - 2) The legal relationships between each district and the Health System each contracted with to operate its hospital, Sutter Health System and Catholic Health Care West,

respectively, posed formidable obstacles to any such merger with respect to ownership, governance, profit sharing and future financial obligations.

- 2007: The Grand Jury recommended consideration of increasing contributions “for direct indigent health care” and to work with the San Mateo Medical Center “to promote preventative healthcare initiatives”. PHCD responded by pointing out that while it had not given funding directly to San Mateo Medical Center for indigent care, it had been funding Samaritan House, Youth and Family Enrichment Services, the Wise and Wellness Clinics in San Bruno and San Mateo, and Women’s Recovery Center –all examples of programs that contributed directly to access, prevention and crisis intervention for low income residents and therefore, contributed indirectly to the burden faced by the County hospital and clinics. Over the past five years, PHCD has continued to fund organizations that contribute to the safety net, and has provided more than \$7,000,000 directly to County programs. (Children’s Health Initiative, Access to Care for Everyone, Community Network for the Underserved, and the Psychiatric Residency Program.

- 2008:
 - 1) The Grand Jury recommended PHCD fund the County’s Access to Care for Everyone (ACE) Program. PHCD responded that the program was still in its 3-year study phase and had not established its financial feasibility at that time. In 2012, the Program’s effectiveness and the demand for services were clear; PHCD stepped up and committed \$4,600,000 to the ACE Program over fiscal years 2012-13 and 2013-14.

 - 2) The Grand Jury recommended PHCD re-evaluate its need for substantial reserves. PHCD responded by presenting the 12-month analysis conducted by a team of outside experts that was launched and completed in December 2007 prior to the Grand Jury initiating its 2008 review. The purpose of the study was to guide the development of a fund growth strategy that would strike a balance between addressing current health needs and meeting future financial obligations. The full report and resulting Finance Policy were appended to and made part of the Board’s 2008 response to the Civil Grand Jury.

In summary, the PHCD has a demonstrated track record of respecting and responding to the Civil Grand Jury’s recommendations; and using its findings to inform its work going forward.

2013 GRAND JURY FINDINGS

F1. LAFCo’s service review would provide more in-depth analysis of PHCD’s finances and services if a consultant knowledgeable about health care districts assisted in its preparation.
COMMENT: PHCD defers to LAFCo.

F2. PHCD would benefit from having a service review of its own, separate from Sequoia Healthcare District (SHD), given the differences in the two district’s goals and responsibilities.

COMMENT: PHCD agrees with this finding.

F3. PHCD needs to determine which of its three roles of landlord, real estate developer, and community health care resource has the greatest priority to ensure that resources are allocated to the areas of greatest need.

COMMENT: PHCD disagrees with this finding. All are important functions of this Board, are not mutually exclusive, and serve the health of our community.

F4. PHCD is providing for the long-term needs of its residents by planning for the development of a health-focused campus on PHCD land adjacent to the new Mills Peninsula Medical Center (MPMC).

COMMENT: PHCD agrees with this finding.

F5. PHCD has not provided sufficient information to support its decision to build reserves and focus on long-term issues such as the buy-back of MPMC at the end of the lease, rather than allocate more funds to the current health needs of its residents through its grant and other programs.

COMMENT: PHCD disagrees. This topic has been extensively responded to in 2008 (See above, page 2). Health leaders, urban planners, and financing experts were engaged in 2007, 2009, and 2012. The purpose of these engagements was to analyze the financial obligations of the 50-year Master Agreement between PHCD and MPMC, to assess the effectiveness of the Board's Financial Policy for fund growth and spending practices, and to recommend changes to the Financial Policy as warranted. The most recent review was launched in the Fall of 2012; the full report and revised Strategic Financial Policy was approved at the June 2013 Board meeting and is available on the PHCD website.

F6. It could not be discerned from the investigation whether PHCD includes a third party financing component in calculating its cost in the possible buy back of MPMC or whether it assumes it will pay all cash.

COMMENT: PHCD does not have a third party financing component.

F7. PHCD would benefit from professional assistance in determining the appropriate amount to allocate to reserves each year in order to purchase MPMC at the end of the lease period.

COMMENT: PHCD agrees with this finding and has done so in 2007, 2009 and 2012.

F8. For the past few years, PHCD has made an effort to increase its grant funding to address current health care issues.

COMMENT: PHCD agrees with this finding. Moreover, the Board has gone well beyond "making an effort". In fact, a total of \$12,600,000 has been committed for fiscal years 2012-2015, above the annual \$2,000,000 grant budget, to fund the special initiatives delineated in the Grand Jury's report.

F9. Initiatives supported by PHCD address a variety of community health needs such as access to primary care, universal insurance coverage for children and affordable assisted living units.

COMMENT: PHCD agrees with this finding.

F10. PHCD grant funds are used to support programs and services focusing on key areas such as children's health, support of "safety net" organizations, and senior care.

COMMENT: PHCD agrees with this finding.

F11. PHCD needs to improve the process for evaluating the performance of its grant recipients.

COMMENT: PHCD disagrees with this finding. The Board's practice has stood the test of time, is effective, and adjusts the intensity of reporting and payout schedules based on the District's past experience with the grantee and the amount of the grant, respectively.

F12. PHCD would benefit from increased educational outreach efforts to achieve its vision that all residents of the District enjoy optimal health through education, prevention, and access to needed health care services.

COMMENT: We find this recommendation unclear. If the intent is to say the leaders of PHCD would benefit from more education in health policy and health literacy in order to gain more perspective on the needs, then we disagree with this finding, because the PHCD Board collectively is well versed and highly experienced in health care policy. If the intention is to suggest the leaders of PHCD get out into various public venues more for the purpose of promoting the work of the District, then we agree.

F13. PHCD's website contains useful information, but adding meeting agendas, current budget data, the Strategic Plan, and links on how residents can access health care would make it more user-friendly.

COMMENT: PHCD agrees with this finding. It is the practice of the District to include routinely all of the items cited above. During the Grand Jury inquiry in early 2013, PHCD was undergoing a transition between servers and website formats and a number of documents did not transfer over. This has been fixed.

GRAND JURY RECOMMENDATIONS AND PHCD RESPONSES

R1. LAFCO should contract with a consultant experienced in conducting service reviews of health care districts to assist in conducting the next PHCD service review.

RESPONSE and IMPLEMENTATION STATUS: PHCD defers to LAFCo.

R2. LAFCO should perform separate service reviews for the Sequoia Healthcare District and PHCD.

RESPONSE: PHCD agrees with this recommendation.

The two districts serve constituents with different healthcare needs and have different governance and financial relationships with the hospitals and healthcare system operators/owners of the hospitals in each district.

IMPLEMENTATION: PHCD defers to LAFCo for implementation status.

R3. PHCD should determine which of its three roles of landlord, real estate developer, and community health care resource has top priority.

RESPONSE: PHCD disagrees with this recommendation.

All three functions are important activities of the PHCD Board and are not mutually exclusive. As landlord the District has oversight responsibility insuring that core hospital services are provided. As developer the District proposes to build a health-focused campus adjacent to the new hospital providing complimentary services such as skilled nursing and medical office space. Both compliment the District's role as health care leader. These activities preserve the assets of the District in a way which produces revenue and allows for the development of property in a coordinated and efficient way to meet both current and future healthcare needs.

An example of the interconnectedness of these roles is the Board's August 22, 2013 decision regarding Apple Tree Dental Care. It will lease a District-owned building for 10-years to Apple Tree Dental (Landlord); invest in the tenant improvements to increase the value of the property (Developer); and provide \$2,000,000 of support to help launch this innovative program to address unmet needs in our community (Health Care Leader).

IMPLEMENTATION: This recommendation will not be implemented.

R4. Retain experts to estimate the reasonable “book value” of MPMC when the lease expires in 50 years, then determine how much to allocate to reserves for its purchase, taking into account debt financing possibilities, in order to avoid an unnecessarily large reserve fund.

RESPONSE: PHCD agrees with this recommendation

Experts were engaged to estimate the book value of MPMC in 2007, 2009, and in 2013 as discussed earlier in this response. The focus of the 2013 Long Term Financial Policy Review was to determine the best use of revenues and reserves to achieve a balance between investing in new services and property development, awarding community grants, and maintaining reserves and credit worthiness. This Review:

- Summarized the multiple purposes of the Board’s Financial Policy relative to annual budgets and need for reserves
- Analyzed the financial obligations in the Master Agreement with Sutter- during the lease and at the end of the lease
- Acknowledged the financial modeling done to estimate what PHCD would need at the end of the lease to meet the buy- back obligations
- Factored in the economic and healthcare changes over the past five years
- Engaged stakeholders in the process through individual interviews; these included members of the PHCD Board, representatives of the San Mateo County Health System and the Health Plan of San Mateo, County Supervisors, MPHS executives and members of the PHCD Long Term Planning Committee.

At the end of this analysis, Verite Consulting concluded ***“unless the District had a well-funded financing partner, the PHCD would need approximately \$500 million in financing capacity (cash reserves plus debt capacity) at lease end to meet these obligations”*** (Long Term Financial Policy Review, Verite Consulting) In addition to the financial indicators to monitor credit-worthiness, Verite proposed a financial tool to guide annual spending. [Schedule A. below]

In summary, experts have been engaged periodically over the life of the Master Agreement with MPHS/Sutter Health to determine the nature and probability of any financial obligations PHCD will have over the life of the 50-year lease agreement. The Board’s Finance Policy is designed to address short and long term needs and is the basis of the Board’s stewardship of public resources.

IMPLEMENTATION: This recommendation has been implemented.

SCHEDULE A. CONDITIONS LEADING TO ADJUSTMENTS IN DISCRETIONARY SPENDING

Consideration	Explicitly Build Reserves (Reduce Discretionary Community Health Grants)	Maintain/Increase Discretionary Community Health Grants
Risk of Paramount Default	High	Low
Need to support "core service(s)" at Peninsula Hospital	High	Low
Probability of lease extension (another 25 years)	Low	High
Probability of financing partner	Low	High
Health Focused Campus yields positive cash flow	No	Yes
External threats to PHCD financing capacity (e.g., unruly bond markets)	Yes	No

Source: PHCD Long Term Financial Policy Review by Verite Consulting, June 2013

R5. Adjust its allocation of revenues to enhance PHCD's support of current programs and grants.

RESPONSE: PHCD disagrees with this recommendation.

It believes its support of current programs and grants satisfies the recommended balance between awarding community grants and maintaining credit-worthiness necessary to meet future obligations.

PHCD agrees that allocations should be adjusted to increase support of programs and grants when practicable given the other financial obligations. The Board has exercised a regular

process of assessing needs, assessing revenues and reserves, revisiting the status of financial obligations, and then determining how much funding can be allocated each year to community health grants. Over the past five years since the last Grand Jury Report, PHCD has gone from an annual spending rate of \$2,000,000 to \$4,300,000 in FY 2013 and \$6,050,000 in FY 14. Please see Schedule B which shows a planned increase in community health grant spending in future years.

SCHEDULE B. PHCD FINANCIAL ASSUMPTIONS

Variable	2007 Assumptions	2009 Updated Assumptions	2013 Assumptions
Annual growth in property taxes	3.0%	3.0%	2.5%
Inflation factor for Peninsula Hospital lease	3.0%	2.5%	2.5%
Growth in "other revenue"	4.0%	3.0%	3.0%
Earnings rate on Board Fund	5.0%	3.5%	1.0%
Special Projects expense, 2013 to 2016	None	None	\$11.1 million
Other community health grants expense	Based on Financial Policy	Based on Financial Policy	2013 as budgeted 2014 = \$2.0 million, inflated thereafter at 5.0%
Inflation in PHCD administrative costs	4.0%	3.0%	3.0%
Interest rate on PHCD Bond Issue	5.0%	4.5%	4.5%

Source: PHCD Long Term Financial Policy Review by Verite Consulting, June 2013

IMPLEMENTATION: This recommendation will not be implemented.

R6. Restructure the terms of its grants so that only a portion of the grant award amount is distributed upfront, and then if a mid-year report shows that performance is acceptable, distribute the remaining funds.

RESPONSE: PHCD disagrees with this recommendation.

It has been PHCD's practice to give the full grant at the Board's annual Community Partners Meeting at the start of each calendar year. Most of these grants are for amounts less than \$50,000. Each organization is required to report on its performance in meeting the goals and objectives cited in the grant. The frequency of these reports is determined by the District's past experience with the organization. Stable service providers such as Samaritan House, Senior Focus, and Star Vista submit annual reports. New organizations to PHCD or start-up programs are required to make quarterly reports. The exceptions to this practice are the large grants of greater than \$500,000 (CHI, ACE, Healthy Schools, and CHNU-OB) for which specific agreements are in place and performance reports are required before each payment is released.

Over the last six years, there were only two instances where the grantee did not perform and money was returned. In both cases, appropriate monitoring was in place and all unused funds were returned.

1) One grant was returned in its entirety because the organization decided to implement a different approach than the planned public education campaign PHCD had agreed to fund. They asked to hold the money to see if their new plan would meet District requirements. This request was denied and the \$50,000 was returned promptly.

2) The second case was the 3-year "launching" grant to support the County's CHNU-OB Program. Given the new and evolving nature of the program and the complexity due to the number of provider participants, the funding was set up through a Third Party Administer and paid out quarterly. The amounts released varied based on the prior quarter's actual patient activity as supported by detailed invoices. Even after granting a one year extension making the funding a 4-year grant, the program did not grow as anticipated and was discontinued. Because of the payout structure and controls, the total amount CHNU needed to return to the District was only \$38,500.

IMPLEMENTATION: This recommendation will not be implemented.

R7. Seek opportunities to make public presentations in order to ensure that residents are well informed, heard, and represented by the programs PHCD funds.

RESPONSE: PHCD agrees with this recommendation.

In 2012, a series of town hall meetings was held to launch the "health-focused campus" development and get input from the community to inform the Board's deliberations. In 2012, Godbe Research conducted focus groups to get reaction to the District's strategic initiatives and property development plans which were well-received. In 2013, stakeholder interviews were conducted as part of the Long Term Financial Policy Review and incorporated into the final recommendations. The Board Chair discussed the campus development plans on local TV in June. Grant recipients are featured in the PHCD newsletter and on the website and Facebook pages; their progress reports are distributed in the Board meeting materials and many grantees present their work at the Board's public meetings.

A series of town hall meetings about the PHCD assisted living/memory care project are planned for 2014, as are presentations to PHCD's five city councils about the "health-focused campus" development project.

IMPLEMENTATION: This recommendation will continue to be implemented.

R8. Continually update its website with current information, including meeting agendas, strategic plans, and budget information.

RESPONSE: PHCD agrees with this recommendation.

It has been PHCD's policy to post all of the documents cited by this recommendation, as well as, any relevant reports, audits, evaluations, etc. on its website. In January/February 2013, PHCD upgraded its website and installed a new server. In this transition a number of reports that had been available were temporarily no longer on the site.

IMPLEMENTATION: This recommendation has been and will continue to be implemented.