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## Sequoia Healthcare District Revisited 2008-2009

### Issue

Has the Sequoia Healthcare District complied with the 2004-2005 San Mateo County Civil Grand Jury recommendation to develop and implement a ten year working investment plan to manage its financial reserves?

### Background

The 2004-2005 San Mateo County Civil Grand Jury investigated the issue “Does the Sequoia Healthcare District [SHD] continue to represent the health care interests of the District?” Among the recommendations of their report was that the SHD “implement a working investment plan for use of strategic reserves by June 30, 2005. This plan should encompass the healthcare needs of both the county and the SHD.” The 2008-2009 San Mateo County Civil Grand Jury engaged in a follow-up investigation of this recommendation.

Sequoia Hospital District (Hospital District) was formed in 1946 to build and operate Sequoia Hospital, (Hospital) which was opened as a taxpayer-supported community hospital in 1950. It was administered until 1996 by the SHD with a five-member board chosen by voters. It has been owned and governed since 1996 by Sequoia Health Services (SHS), a nonprofit corporation formed by the public Sequoia Healthcare District (formerly Sequoia Hospital District) and the nonprofit Catholic Healthcare West (CHW). The SHD and CHW appoint five members each to the ten-member SHS board for a four-year term. The Hospital primarily serves residents of the SHD, which comprises Atherton, Belmont, Foster City (portion), Menlo Park, Portola Valley, Redwood City, San Carlos, Woodside, and nearby unincorporated areas. The boundaries of the SHD were drawn in 1946 based on existing communities and exclude areas needing service and do not reflect current demographics. The Hospital is a community-based hospital with few on-staff physicians. Most Hospital-affiliated doctors are independent physicians with private practices who have admitting privileges at the Hospital. The SHD participates in a variety of initiatives to coordinate and improve health services county-wide. Funding sources are primarily from CHW, the SHD through grants, and the SHD taxpayers. Current annual 2009 tax revenue is projected to be \$6.8 million.

As a result of state legislation mandating the seismic upgrade of all hospitals, the Hospital District Board, in 1995, solicited proposals from national healthcare companies to manage or purchase the Hospital. Upon completion of a bidding process, the Hospital District Board recommended to the voters of the Hospital District that a transfer of assets to CHW be approved. The agreement provided for the SHD and CHW to share in the funding of the hospital project in

return for transferring the Hospital to SHS. The terms of the agreement included CHW's right to manage the Hospital for a period of thirty years and the SHD's right to have 50% of the votes on the hospital governing board, the right to approve changes in key services, and the requirement that in the event of a sale, all proceeds must be returned to the SHD.

In 1996, the SHD voters approved the transfer of Hospital assets to SHS with a 96% majority vote. On October 1, 1996, the SHD transferred all of the Hospital's assets, except two medical office buildings, to SHS consisting of the SHD and CHW, and SHS contracted with CHW to carry out day-to-day operations and manage the Hospital. Elected SHD Board members continue to serve on the SHS Board.

Since the transfer of assets, SHD, through membership in SHS, has committed to contribute \$75,000,000 toward construction of the new Sequoia Hospital and has funded healthcare programs allocating resources in grants for healthcare services to enhance the health of the SHD residents. Changes in costs and funding combined with medical and technological advances reduced the length of hospital stays and resulted in a shift from standalone hospitals to decentralized outpatient services.

The SHD grants include those to public and non-profit entities for a variety of programs, including Children's Health Initiative (\$1.35 million); San Mateo Medical Center (\$1.6 million); San Francisco State University Nursing Program at Canada College (\$1 million); Samaritan House Community Clinic (\$500,000); Redwood City School Nurses (\$100,000); other health, fitness, and nutrition programs; homecare workers for the elderly; adult day programs for seniors; wheelchair accessible transit; and vocational training grants totaling \$100,000. The SHD also sponsors the HeartSafe Program (\$260,000), which makes Automated External Defibrillators (AEDs) available at a reduced rate to private organizations or will donate equipment to eligible nonprofit organizations. SHD has wide support from a broad spectrum of community residents and local healthcare providers; however, there is insufficient awareness of the services provided by the SHD and its role in the community. A summary of services authorized by the Health and Safety Code can be found in Section 32000 et seq. for Health Care Districts.

The ten year working plan recommended by the 2004-2005 San Mateo County Civil Grand Jury has been replaced by a Strategic Plan (2009-2013) approved by the SHD governing Board of Directors in 2008. The purpose of the Strategic Plan is to improve the health of the SHD residents by identifying, coordinating, collaborating, sponsoring, and providing programs that will enhance availability and quality of healthcare services. The Strategic Plan establishes a clear sense of direction and focus for the SHD by identifying priorities, goals, and supporting strategies that are intended to ensure future success.

The SHD's Mission Statement is to "improve the quality of life for District residents by enhancing access to healthcare services and by supporting and encouraging programs and activities designed to achieve health, wellness and disease prevention."

The first Strategic Goal is "Managing District Assets - Assure the ongoing prudent oversight and management of the District assets." The strategies for this goal are:

- "Develop a five-year revenue projection to include estimated operational expenses, grant program allocations, and investment objectives.

- Identify capital investment opportunities that support the strategic plan objectives (land, buildings, equipment, etc.)
- Develop qualitative and quantitative outcome measures to ensure investments are providing the desired results.
- Develop and maintain regular reporting tools to provide District residents with a ‘report card’ of financial results and program performance of supported services.
- Per the terms of the Development Agreement with CHW, assure appropriate stewardship of Sequoia Hospital.
  - Status reports, as required, from Sequoia Hospital.
  - Review and respond as appropriate.”

Annual SHD revenues total approximately \$6.8 million in property tax receipts. As of March 2009, current district assets total \$23.9 million, with current and long term liabilities totaling \$10.5 million, leaving a fund balance of \$13.4 million. The SHD funds 30 grants in the amount of approximately \$6 million, plus \$260,000 for the HeartSafe Program. Cash and investments total approximately \$23.4 million. The SHD has a fulltime CEO and 1.5 employees.

The SHD Board of Directors must authorize the property tax levy each year. Revenue and Taxation Code Section 96.8 allows the governing board of this district to decline some or all of its share of the general tax rate on a one-year basis. If a reduction occurs, the general tax rate is reduced accordingly, and each property’s taxes would be lowered.

## **Investigation**

The 2008-2009 San Mateo County Civil Grand Jury interviewed current administrators and board members of the Sequoia Healthcare District (SHD) and reviewed past Grand Jury reports, Local Agency Formation Commission Municipal Service Reviews, and the 2009-2013 SHD Strategic Plan in the course of this investigation. The Grand Jury focused its investigation specifically on the issue of compliance with the 2004-2005 San Mateo County Civil Grand Jury recommendation related to the development and implementation of a plan for the management of district revenues and no other aspects of the SHD’s operations.

## **Findings**

The 2008-2009 San Mateo County Civil Grand Jury found that the Sequoia Healthcare District (SHD):

1. Continues to fund a variety of programs that provide direct healthcare services to residents of the SHD.
2. Continues to participate in the development of Sequoia Hospital rebuilding as mandated by the State of California and authorized by the residents of the SHD.
3. Established a five-year strategic plan in 2008 which addresses management of financial resources.
4. Provides minimal communication regarding SHD services to its residents.

## Conclusions

The 2008-2009 San Mateo County Civil Grand Jury concludes that the Sequoia Healthcare District (SHD) complied with the 2004-2005 San Mateo County Civil Grand Jury recommendation to develop and implement a ten-year working investment plan to manage its financial reserves.

Further, the Grand Jury concludes that the:

1. SHD Strategic Plan (2009- 2013) provides a framework for the oversight and management of the SHD resources. The Strategic Plan describes a five-year revenue and expense plan.
2. SHD Board of Directors has the authority to levy or decline some or all of its share of property tax revenues on a one-year basis.
3. SHD had the foresight and good planning to provide a state of the art hospital to its residents.

## Recommendations

The 2008-2009 San Mateo County Civil Grand Jury recommends to the Board of Directors of Sequoia Healthcare District (SHD) that:

1. SHD Board of Directors (Board) and staff should implement the 2009-2013 Strategic Plan, including a five year revenue projection with estimated operational expenses, grant program allocations, and investment objectives to ensure a positive future direction for the SHD.
2. The SHD should more directly inform residents and voters of its role as a joint partner in oversight of the hospital and increase community awareness of the services supported by and available to residents of the district. The SHD should consider creating an annual informational mailer for its residents. The mailer should describe the SHD's services and guide residents to the SHD's website and grant applications.
3. On a one-year basis, the SHD Board of Directors is allowed to decline some or all of its share of the general tax rate, thereby reducing the tax rate for property owners. Declining some or all of its share of the general tax rate should be an action considered by the SHD Board in years with a healthy operating surplus.
4. The SHD should continue to work with other healthcare systems in San Mateo County in an effort to decrease the cost of healthcare services, including a comprehensive study of how public agencies are delivering services and where true efficiencies can be obtained. A model would be the Children's Health Initiative, a program that was developed with community input and costs shared by the SHD, the Peninsula Health Care District, and San Mateo County, along with other funders.
5. The SHD should be proactive in identifying pressing healthcare needs in the community, exploring ways to support services outside the SHD that impact its residents, and enhancing community input and involvement.



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August 11, 2009

Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

Subject: Response to Sequoia Healthcare District Civil Grand Jury Report Revisited  
2008-2009

Honorable Judge Miram:

Enclosed is the Sequoia Healthcare District's response to the recent Grand Jury recommendations. This response was approved at our Board of Directors meeting on August 5, 2009.

If additional information is required, please do not hesitate to call or write.

Sincerely,

Lee Michelson  
Chief Executive Officer

Enclosure

## Sequoia Healthcare District Response To Grand Jury Regarding Recommendations - 2008-09

Grand Jury Recommendation 1: SHD Board of Directors and staff should implement the 2009-2013 Strategic Plan, including a five year revenue projection that estimates operational expenses, grant program allocations and investment objectives to ensure a positive future direction.

Response: The recommendation is consistent with the District's strategic plan and the District agrees. The District has hired a full time CEO to manage the organization on a daily basis and to move the District forward in meeting this and additional objectives. The board and staff are in the process of scheduling an annual retreat whose agenda will include a progress report to date on strategic plan goals.

Grand Jury Recommendation 2: The SHD should more directly inform residents and voters of its role as a joint partner in oversight of the hospital and increase community awareness of the services supported by and available to residents of the District. The SHD should consider creating an annual informational mailer for its residents. The mailer should describe the SHD's services and guide residents to the SHD's website and grant applications.

Response: The District agrees with the recommendation, which also is included in the strategic plan. The District's communications consultant is preparing an annual report/mailer to be distributed to District residents in September, 2009 that will include content suggested by the Grand Jury. The District has published a new agency brochure and is redesigning its website to be informative, to disseminate health information derived from community partners and become an interactive resource within the community grants program. District consultant distributes press releases about activities and board actions; sixteen releases have been distributed since January, 2009. Elected public officials and community leaders receive copies of press releases to guarantee that information is disseminated that expands community awareness of District activities.

Grand Jury Recommendation 3: On a one-year basis, the SHD Board of Directors is allowed to decline some or all of its share of the general tax rate, thereby reducing the tax rate for property owners. Declining some or all of its share of the general tax rate should be an action considered by the SHD Board in years with a healthy operating surplus.

Response: The District for several years has not maintained an operating surplus. Instead, the District has returned more dollars to the community in grants and other financial support than the amount being received in property taxes. This is possible due to low operating expenses and returns on invested funds. This practice is expected to continue for the foreseeable future, so long as funds remain available. If the District were to decline property taxes, support for existing programs would have to be reduced or eliminated.

The District is still responsible for the balance of its \$75 million commitment to the modernization project at Sequoia Hospital. When the \$75 million obligation has been satisfied, the District may begin to receive cash flow from the operation of the hospital, pursuant to the Development Agreement with the hospital operator, Catholic Healthcare West. Whether Sequoia Hospital will generate sufficient net operating profits to make a distribution to the District is impossible to know.

The District has considered this action in the context of dissolution, and voted to continue accepting taxes (Resolution 08-7). As pointed out in its strategic plan SWOT assessment, Sequoia

Healthcare District has wide support from a broad spectrum of community residents and healthcare providers and a general belief exists that the majority of taxpayers in the District support a portion of their tax dollars be used to support healthcare. The strategic plan also pointed out that identified needs will continue to outweigh available financial resources of the District.

Grand Jury Recommendation 4: The SHD should continue to work with other healthcare systems in San Mateo County in an effort to decrease the cost of healthcare services, including a comprehensive study of how public agencies are delivering services and where true efficiencies can be obtained. A model would be the Children's Health Initiative, a program that was developed with community input and costs shared by the SHD, the Peninsula Healthcare District and San Mateo County, along with other funders.

Response: The District agrees with the recommendation and clearly would be an active participant in any comprehensive study of service delivery.

Grand Jury Recommendation 5: The SHD should be proactive in identifying pressing healthcare needs in the community, exploring ways to support services outside the SHD that impact its residents, and enhancing community input and involvement.

Response: The District agrees with the recommendation. The District has been proactive in identifying pressing healthcare needs in the community. When the District became aware of the closure of the Coastside Family Medical Clinic, which served over 8,000 patients, the District held a study session in the community to discuss how the District might assist the Coastside in maintaining access to a local primary care medical clinic. The District will be considering either an annexation into the District or some other method that could provide supplemental funding for a Coastside clinic or expanded primary care practice to provide adequate medical care for the residents of the Coastside.

Currently, the District is partnering with the Coastside Health Committee, Sequoia Hospital and Silicon Valley Community Foundation to conduct a study of the current and future Coastside health care needs. Upon its completion, the District will take up the matter of whether or not to annex the Coastside.

The District is a member of the County Health Care Collaborative, Redwood City 2020 and other community partnerships. We meet regularly with leaders from the health system of San Mateo County, Samaritan House and others in a continuing dialogue about joint efforts. District staff, including the CEO, are currently visiting many health care providers and nonprofits to assess needs and to search for creative programs that may significantly benefit residents.

Additionally, the District recently granted an additional \$250,000 per year over the next three years to the Ravenswood Family Medical Clinic to enable Ravenswood to add capacity at their Menlo Park Clinic to meet the increasing demand for primary medical care in the Redwood City and Menlo Park area.