FINAL REPORTS

2001 Final Report:

Sequoia Healthcare District Tax Revenues

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Summary:
The 2000-2001 Grand Jury recommended in its report that the Sequoia Healthcare District (District) reduce property taxes for District taxpayers. The primary basis for its recommendation was that the Grand Jury believed District voters were unaware they were still being taxed to maintain a hospital that the District does not own.

At the close of fiscal year 2001, the District had more than $41 million in cash and cash equivalents, which included more than $3.7 million in interest and investment income generated in that fiscal year. Notwithstanding these reserves and the fact that the District no longer owns a hospital, the District continues to receive tax revenues, which amounted to almost $4.5 million in fiscal year 2001.

The Grand Jury believes that the District misinformed District voters regarding the nature and the terms of the transaction whereby ownership of Sequoia Hospital was transferred to Sequoia Health Services, an affiliate of Catholic Healthcare West.

Issue: Should property taxes for District taxpayers be eliminated because the District no longer owns, operates, or maintains the hospital for which a tax assessment was originally authorized and has, as a result, accumulated large reserves? Second, has the District misinformed the taxpayers as to the nature of the transfer of the hospital to Sequoia Hospital Services, an affiliate of Catholic Healthcare West?

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Background:
The 2000-2001 Grand Jury reviewed the voter-approved measure of 1946 establishing the District and the 1996 Measure H approving the transfer of Sequoia Hospital. The Grand Jury finds that, in voting for Measure H, District voters were probably not aware that they would continue to pay property taxes pursuant to the 1946 measure to maintain a hospital that the District would no longer own. It further found that significant District expenditures, in the form of grants to other non-profit and governmental agencies, were not consistent with the mandate of the 1996 Measure H approved by the voters. Accordingly, it recommended that the District should reduce the property tax for District taxpayers. In its response, the District disagreed with the findings in the report and declined to implement the Grand Jury's recommendations.

The 2001-2002 Grand Jury, in compliance with the prior year Grand Jury's recommendation, performed its own review of the District. It did not extend the scope of its review to include Sequoia Health Services or Catholic Healthcare West and the operation of the hospital. Nor did it investigate the District's grant process or grant recipients and their use of funds received.

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Findings:

The 2001-2002 Grand Jury finds that District taxpayers should be made aware that the 1946 measure authorizing the tax assessment was for the construction, maintenance, and operation of a hospital, but that the District no longer owns, maintains, or operates a hospital.

The District has publicly stated on its website, in its Spring 2001 newsletter, and in statements to the press, that the sale of the hospital was anything but a sale. The District has variously described the transaction as "an affiliation," a "forty-year lease purchase agreement," and a "transfer of assets," and that the hospital would revert back to the District in forty years without charge. According to the Grand Jury's review of the relevant documents, however, the transfer of the hospital was in fact a sale and there is no provision requiring the return or reversion of the hospital to the District.

The 2001-2002 Grand Jury finds that since the sale of the hospital the District has assumed a role similar to that of a philanthropic foundation, using its tax revenues to make grants to other government and non-profit agencies. This is a function of the District that was never presented to the voters for their approval under 1996 Measure H.

The 2001-2002 Grand Jury also finds that the District's continued receipt of property taxes is inappropriate in light of the facts: 1) that it no longer owns a hospital or has any legal obligation to build, maintain, or operate a hospital; 2) it has accumulated cash reserves in excess of $41 million; and 3) it has not explained to the public how it intends to use those funds. In the fiscal year ended June 30, 2001, the District received property tax revenues of $4.48 million, rental income of $1.32 million, and interest and investment income of $3.75 million. Its total revenues from all sources in that year were $9.55 million and its total expenditures were $3.67 million. This means that, in its last fiscal year alone, the District had excess revenues of $5.88 million.

The following table shows the District's total revenues and expenditures for the past five years, beginning with fiscal year 1997, the year the District sold the hospital. The total surplus, or excess revenues, for that period amounts to $12.76 million.

Sequoia Healthcare District
Revenues and Expenditures
Fiscal Years 1997 - 2001

Fiscal Year	Total Revenues	Total Expenditures	Surplus
1997	$5,172,396	$3,147,160	$2,025,236
1998	$6,733,923	$4,931,779	$1,802,144
1999	$6,277,084	$4,804,978	$1,472,106
2000	$6,671,510	$5,091,852	$1,579,658
2001	$9,554,537	$3,673,372	$5,881,165
Totals	**$34,409,450**	**$21,649,141**	**$12,760,309**

According to an opinion of the County Counsel, the District is authorized under the California Taxation and Revenue Code to request a tax apportionment reduction on a yearly basis. Any such reduction would reduce taxpayers' property taxes. As the District has had excess revenues every year since the sale of the hospital, the Grand Jury believes that such a tax apportionment reduction is in order and should be implemented to be effective beginning in fiscal year 2002-2003.

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Recommendations:

1. The Sequoia Healthcare District, through the various media available to it, should publicly correct misinformation previously disseminated to the public.

2. The District should disclose the tax apportionment that is computed for the District and its plans for the use of the accumulated reserves.

3. Each year the District should request that the County Controller's office eliminate the amount of tax apportionment computed for the District.

4. The 2002-2003 Grand Jury should monitor the above recommendations.

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Response

The District's Board of Directors has carefully reviewed and discussed the Grand Jury's report and recognize the Grand Jury's oversight responsibilities and its sincere efforts to render an informed opinion.

The following is our response to the 2001 - 2002 Civil Grand Jury's three recommendations.

Recommendation 1. "The Sequoia Healthcare District, through the various media available to it, should publicly correct misinformation previously disseminated to the public."

> We understand that the recommendation refers to the 1996 sale of the hospital to Sequoia Health Services, a nonprofit, nonsectarian, public benefit corporation and a statement previously on the Sequoia Healthcare Districts (District) website that the hospital would automatically revert to the District at the end of 40 years.
>
> There are two ways the hospital can revert to the District.
>
> First, the owner of the hospital is Sequoia Health Services, which is governed by a ten person Board of Directors, five of whom are chosen by the District and five chosen by Catholic Health Care West (CHW). If Sequoia Health Services Board ever voted to dissolve, the hospital would return to the District.
>
> Second, the District has the right of first refusal if Sequoia Health Services ever wants to sell or otherwise dispose of the hospital. The District has 50% control of the corporation that owns the hospital and therefore remains responsible for the scope and quality of the health services being made available to the community.
>
> The specific reference to the automatic revision was a misstatement and the District has removed the language from its literature and web site.

Recommendation 2. "The District should disclose the tax apportionment that is computed for the District and its plans for the use of the accumulated reserves."

In conformance with Proposition 13 passed in 1978, the Sequoia Healthcare District is allocated a portion of the 1% real property tax collected by San Mateo County for all government agencies. The exact proportion is calculated by the County Controller's office annually and the specific amount received is based upon the assessed valuation of property located within the District's boundaries. The average parcel of property in fiscal year 2001 was assessed $58.02 per year according to the County Controller's office.

District representatives provided documents and extensively discussed the District's grant program when they met with the Grand Jury. We also published the information on our web site and in our newsletter. District grants have been used to fund Sequoia Hospital's need for state-of-the-art diagnostic and treatment equipment that the hospital could not afford. Grants also were made for renovations to the 52-year-old physical plant that must be rebuilt to meet seismic regulations. Grants to support the District's mission to foster a healthy community have gone to non-profit community based agencies such as Youth and Family Assistance, Jewish Family and Children's Services, Child Abuse Prevention Center, Planned Parenthood, Pre to Three Children's Initiative, and Samaritan House's Redwood City Free Medical Clinic.

Recommendation 3. "Each year the District should request that the County Controller eliminate the amount of tax apportionment computed for the District."

We believe that a unilateral decision to stop the tax apportionment only on an annual basis would not be responsible or consistent with the legal and fiduciary duties of this publicly elected Board. If the District or the voters determined that the taxes should not be continued, State law stipulates that taxpayers would not see any reduction in the tax assessments as the dollars would be reallocated approximately as follows: State 55%, County 15%, Cites 20%, Special Districts 10%.

The overwhelmingly favorable vote on Measure H in 1996 demonstrated that District residents want strong and viable local healthcare resources. Health Care District Law, which has been amended more than 150 times since Sequoia Healthcare District was formed, clearly authorizes the District to fund health care programs that are in the best interests of the community.

The action called for in this recommendation would jeopardize the availability of health care and health promotion services to our community. However, as part of our strategic planning process, this issue will be considered.

Arthur J. Faro, President
Frank E. Gibson, CEO

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