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Sequoia Healthcare District

Issue

Does the Sequoia Healthcare District continue to represent the health care interests of the District?

Summary

The Grand Jury sought to determine whether the Sequoia Healthcare District (SHD) continues to represent the healthcare interests of district residents with particular consideration for the divestiture of direct responsibility for owning and operating the Sequoia Hospital.

Justification for the divestiture and the benefits provided are:

- In 1996, voters approved the divestiture and SHD continues to represent the public with its five-member board oversight.
- SHD's original responsibility is to support community health and is not limited to hospital operations.
- The Sequoia Hospital could no longer serve as the sole source of all health needs of the community.
- The SHD supports many initiatives for the benefit of District and County residents.
- The hospital provides free lab and x-ray services in support of Samaritan House, a provider of affordable clinic care to those in need.
- SHD continues to support hospital improvements.

While some have stated that divestiture of direct hospital responsibility should result in the dissolution of the SHD and concomitant reduction in property taxes, Proposition 13 offers a different scenario.

Proposition 13 notes that taxpayers would see no drop in the tax rate, as all property in California is taxed at 1% of the assessed value. Of the 1%, only an increment is distributed to SHD. If the SHD is dissolved, the property tax would remain at 1% and

SHD's share would be redistributed to the remaining agencies in the tax rate areas with a loss in funds available for health care.

The Grand Jury determined that the SHD continues to represent and serve the healthcare interests of the District and divestiture of direct responsibility for owning and operating the Sequoia Hospital has not diminished the value provided. In fact, separation has allowed for the redirection of resources to additional and complementary services that support both residents of the SHD and the County.

Among the recommendations are the following:

- Begin implementation of a working investment plan for use of large, accumulated strategic reserves by June 30, 2005. This plan should encompass the health care needs of both the County and the District.
- Employ a financial advisor knowledgeable in financial reporting to be responsible for financial statement oversight and to insure implementation and monitoring of the investment plan.
- Communicate with District residents to dispel the notion that they are being taxed above and beyond the 1% General Tax for SHD health care services they may or may not use. Without the SHD, many in the community would go untreated or seek medical services at overcrowded emergency room facilities.
- Support and retain health care professionals by creating child day care facilities near locations that have a concentration of healthcare providers.
- Immediately pursue with the Peninsula Healthcare District the merging of the two agencies, via a joint powers agreement or reorganization, structured to serve the healthcare needs of the entire County.



Sequoia Healthcare District

Issue

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Background

The Sequoia Healthcare District, initially created in 1946 to build and run Redwood City's Sequoia Hospital using property tax revenues, is not a typical special district. Most districts operate quietly with limited external review and less public interest and awareness. The Sequoia Healthcare District (SHD) exists in some controversy regarding its purpose, funding, investment reserves, project planning, project funding, and board governance.

The SHD serves residents in Atherton, Woodside, Redwood City, Portola Valley, Menlo Park, Belmont, San Carlos, part of Foster City, and unincorporated areas by funding a variety of health care initiatives on behalf of its residents.

The SHD hasn't directly owned or operated the hospital for many years. In 1996, with voter approval, an independent, not-for-profit, public benefit corporation called Sequoia Health Services (SHS) was created and the SHD transferred hospital ownership and responsibility for its operation to the new entity. SHS has no shareholders and is governed solely by its board members.

Catholic Healthcare West (CHW) of San Francisco, an organization composed of over 40 hospitals and medical centers in three western states and claiming to be the largest not-for-profit hospital provider in California, appoints half of the SHS board members as well as having the responsibility for managing and operating the hospital. The SHD appoints the remaining half of the ten-member governing board.

The Sequoia model of health care districts divesting direct responsibility for hospital operations and ownership is not uncommon in California. Approximately 40% of the districts have either sold their hospitals or have long-term operational leases with private companies.

Competition from a variety of more efficient health care providers and systems predicted the economic demise of the single entity community hospital for many districts. Adding

to the mix is California's seismic retrofit legislation requiring the rebuilding of many hospitals. Partnering offered a path to survival.

According to the SHD, the 1996 hospital sales agreement relieves the SHD of all costs and expenses relating to carrying out the hospital's business, including costs for maintenance as well as replacement of property, plant, and equipment. However, the agreement doesn't preclude the SHD from supplementing hospital needs as it sees fit. The contract with CHW appears to function well for both parties and was constructed to relieve the SHD of any liability should CHW fail to perform as agreed.

Findings

A Crisis in Confidence

There is public controversy regarding the continued existence of Sequoia Healthcare District as it no longer has responsibility for fulfilling its primary and initial objective of building and operating the hospital.

A variety of sources, including the County Board of Supervisors, public service groups, newspapers, citizens, a divided Sequoia Healthcare District Board, and the 2001–2002 County Grand Jury debated the need for the SHD to continue. The 2001-2001 Grand Jury questioned the SHD's use of taxpayers' money to fund various nonprofit agencies and advised that the SHD should stop collecting property taxes.

The County Board of Supervisors' Southern San Mateo County Task Force on New Hospital Construction issued a report on June 14, 2004 recommending the following Sequoia Healthcare specific actions:

1. If one or more hospitals can be built in the District without SHD assistance, the SHD should initiate a public dialogue on the its own future.
2. Sequoia Healthcare District should explore more options to further develop the workforce.

The first action is the concern that the rebuild of Sequoia Hospital will result in redundant facilities within the South County. The Palo Alto Medical Foundation is planning to build a new facility in San Carlos; Kaiser is seeking a new location in Redwood City; and Stanford has expressed interest in locating a specialty center there as well. As there is no definitive answer to the number of beds or facilities that will be needed in San Mateo County, especially since each seems to be following the model of providing more clinic and outpatient services rather than increasing acute care facilities, hospital count is too narrow a measure to determine the future medical needs of either the District or the County.

The second action urges the SHD to develop housing, training, and opportunities for hospital staffing. This is a suggestion consistent with its sponsorship of a regional nurses training program.

The SHD offers the following:

- In 1996, voters approved the reorganization and the SHD continues to represent the public with its five-member oversight board.
- The SHD's original responsibility is to support community health and is not limited to hospital operations.
- The practice of medicine has become more specialized and geographically dispersed with some facilities located beyond the SHD borders. The hospital could no longer serve as the sole source of all community health needs.
- The SHD supports many county-wide initiatives for the benefit of SHD and county residents including: a ten-year nurses education program in cooperation with local colleges and universities; a \$1 million plus per year contribution to the Children's Health Initiative that offers previously unaffordable health care; funds for school nurses in the budget-limited Redwood City School District; support for Samaritan House, a free clinic using the skills of retired medical professionals in offering primary and preventive care to workers making too much money for Medi-Cal and not enough for insurance.
- Sequoia Hospital, under the direction of CHW, provides free lab and x-ray services in support of Samaritan House.
- Continued funding of hospital improvements.

While the District's detractors would like to see its dissolution, there are two positions that argue against that outcome. The first was offered by the San Mateo County Counsel who indicated that the District's collection of taxes is legal and that the District's board members should decide the best use of its resources.

The second was offered by LAFCO (Local Agency Formation Commission) that notes taxpayers would see no drop in taxes even if the SHD Board initiated dissolution with voter approval. Proposition 13 set property tax assessment in California at 1% of the assessed value. All properties in the county are assessed at 1% and an increment of that 1% is distributed to Sequoia Healthcare District. That increment is approximately \$72.00 for a home in the SHD assessed at \$500,000. If the District is dissolved, the property tax would remain at 1% and SHD's share would be redistributed based on a formula reflecting the remaining agencies' sharing in the affected tax rate areas. The taxes would not be returned as a discretionary resource for the County.

Board Member and CEO Compensation

SHD board members receive a fringe benefit of health insurance. It is common practice for special districts to provide board members with insurance and their program is consistent with other districts the Grand Jury has reviewed. Members do not receive other fees for services even though such fees are within the special district legislation. The CEO's earnings are well within the bounds of a chief administrator's expected income for a special district.

Governance

Failure to file state-required reports could be an indicator of lax management. While the time stamp on the 2003 State Controller Annual Report was after the filing date, thus exposing the SHD to penalties and interest, the source of the delay was the Controller's office. No penalties or interest were levied.

The District employs a professional investment management company. The investment strategy pursued has resulted in a prudent rate of return consistent with conservative, governmental investing.

Reporting, particularly the balance sheet item, "Accrued Liability – Escheat," deserves immediate attention. Escheat is an arcane part of the law used in reference to unclaimed property. Such property as lost or uncashed checks and unclaimed refunds or insurance payouts, over time, become the property of the state. The State Controller can impose penalties and interest for failure to file or for late filing of unclaimed property. The SHD has stated that as a result of the hospital divestiture in 1996, the liability resides on their balance sheet, as a governmental body cannot lawfully assign liabilities to a succeeding, non-governmental entity. It was agreed that Sequoia Health Services would be responsible for paying these claims. While special districts are exempted from submitting these types of funds to the State Controller, it still leaves the question of why these 1996 claims were not transferred to the state by Sequoia Health Services, which has five SHD board members, and the liability removed from the SHD's balance sheet.

There is almost universal concern regarding the SHD's management of its large financial reserves. The SHD indicated that it would soon begin the process of developing a 10-year plan for the expenditure of the reserves of approximately \$68 million plus surplus property. Twenty-five million dollars of this surplus has already been committed and is payable over a five-year period primarily for the seismic rebuild of the hospital. The estimated total cost for the hospital is \$130 million, and is not the responsibility of the SHD. Current community funding commitments are: Children's Health Initiative (\$1.35 million over 5 years), SFSU Nursing Program (\$1million per year for 10 years), Samaritan House Free Clinic (\$500,000 per year), Sequoia Hospital Foundation (\$1million per year), and Redwood City School District Nursing Support (\$291,000 over 3 years). For 2004, annual tax revenues were \$5.5 million of which approximately \$4 million is allocated to the first four programs mentioned with the remainder set aside as board-designated strategic reserves and for administrative costs.

Conclusions

The Sequoia Healthcare District continues to represent and serve the health care interests of the District. The divestiture of direct responsibility for owning and operating Sequoia Hospital has not diminished the value provided. In fact, separation has allowed for the redirection of resources to additional and complementary services that are not provided by the hospital.

The Supervisors' Task Force questioned whether the rebuild of Sequoia Hospital was necessary and whether the Sequoia Healthcare District has any viability in light of other

planned new hospital construction. A hospital count ignores the fact that some of these facilities will be for medical specialties and that some are modeled in support of outpatient and clinic services rather than acute care beds. As of this writing, there is neither an accurate way of predicting the future hospital needs of the county nor where these facilities should be sited.

Additionally, the dissolution of the SHD would not provide tax relief as there would be a redistribution of the revenue to other agencies that may have a mission other than health care, resulting in a net loss in health care resources.

The Task Force urged Sequoia Healthcare District to explore options to develop the work force. The nurses training program is an important recruitment tool and needs to be partnered with concepts of staff retention. One of these is low-cost housing, an idea guaranteed to be on any task force agenda. If subsidized housing is not a reality, then retention must include the needs of young professionals. Professionals with young children need an affordable and readily available source of child day care. Without it, experienced professionals seek employment closer to home or request shorter work schedules, and may be replaced with less experienced professionals.

The key to engendering district-wide support is to provide a long-range investment strategy that ably demonstrates a thoughtful use of its large financial reserves. As a step in that direction, the SHD board is meeting to plan for future community investing of financial reserves as well as budgeting.

The Grand Jury endorses the suggestions heard in County Supervisors' meetings and other forums exploring the possibility of joining Sequoia Healthcare District with Peninsula Hospital District into a single agency addressing the needs of all County residents and not just those fortunate enough to reside in a district. There are obvious differences between the two districts, such as the best way to divest responsibility for a hospital as well as the size of funding reserves. However, philosophically they both profess the same health care goals.

The districts are already providing de facto funding of non-district taxpayers through direct grants as well as paying for the enrollment of district residents in non-district programs. In combination, the two districts can offer greater resources for these and other programs and perhaps gain some economies of scale.

This combination would cause no increase in property taxes. All homeowners pay the same 1% General Tax no matter where they live in the county. Currently, residents in both districts have an advantage over other county residents as a portion of the 1% is returned specifically for funding district programs. The district tax receipts drawn from the 1% county property tax theoretically deprive non-district residents of funds that could be used for additional services. As Prop. 13 rewards the homeowners for length of residence by paying less tax and still getting the same services as their recently arrived neighbor, district owners are rewarded based solely on location.

The County is facing dramatically increasing health care costs for the indigent, working poor, elderly, and others unable to pay. Dissolving the SHD would redirect health care dollars to other agencies within the SHD to be used for non-health care purposes.

Merging the two districts, through a joint powers agreement or merger structured to serve the entire county, amplifies the effect of both and levels the playing field for all county residents.

Recommendations

1. The Sequoia Healthcare District Board should:

- 1.1 immediately explore with the Peninsula Healthcare District the merging of the two agencies via a joint powers agreement or reorganization structured to serve the health care needs of the combined districts, and explore the expansion of the districts to include all San Mateo County residents.
- 1.2 implement a working investment plan for use of strategic reserves by June 30, 2005. This plan should encompass the health care needs of both the county and the SHD.
- 1.3 hire a financial advisor knowledgeable in financial reporting and able to interface with accounting professionals. This position should also bear responsibility for insuring implementation and monitoring of the investment plan.
- 1.4 communicate more effectively with a disgruntled community dispelling the prevalent concept that they are being taxed above and beyond the 1% General Tax for services they don't use.
- 1.5 communicate to the community how, without the SHD, many in the community would go untreated or would be in competition for services at overcrowded emergency room facilities.
- 1.6 create, as a partner in Sequoia Health Services and as a sponsor of health care initiatives within the County, child day care facilities near locations that have a concentration of health care providers.
- 1.7 immediately resolve, with its auditors, attorneys, or other financial professionals knowledgeable about unclaimed property regulations and procedures, the balance sheet item -Escheat Liability.

2. The Peninsula Healthcare District Board should:

- 2.1 immediately explore with the Sequoia Healthcare District the merging of the two agencies via a joint powers agreement or reorganization structured to serve the health care needs of the combined districts, and explore the expansion of the districts to include all San Mateo County residents.

July 28, 2005

Hon. Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2cd Floor
Redwood City, CA 94063

RE: Civil Grand Jury Report of May 11, 2005 /
Peninsula Health Care District

Dear Judge Gatzert,

The Peninsula Health Care District hereby submits this response to the Civil Grand Jury's ("CGJ") May 11, 2005, Report on its review of issues principally addressing the Sequoia Healthcare District, with comments concerning the Peninsula Health Care District. The District thanks the members of the 2004-2005 Civil Grand Jury for their work and appreciates their recommendations. The District has paraphrased the CGJ's suggestions (in bold) and has responded only to the CGJ's Conclusions and Recommendations directed toward the Peninsula Health Care District.

Civil Grand Jury Conclusions and Recommendations

The Grand Jury endorses the suggestion that the Sequoia and Peninsula Health Care Districts explore joining with each other to serve the needs of a combined district and to the creation of a single combined agency serving all County residents.

The Peninsula Health Care District does not oppose the concept of exploration of cooperative activities or merger with the Sequoia District. The District believes, however, that there are two prohibitive obstacles to pursuit of the suggestion at this time:

1. A County-wide agency. The CGJ does not suggest how it would overcome problems inherent in the creation of one County-wide agency governed equally by all County voters, while the single agency thus created would be funded solely by property taxpayers residing in the existing two districts.

Since the two Districts by law exist with limited powers, vested with authority to provide services benefiting residents within their existing boundaries, presumably any reorganization as suggested would expand the boundaries of the existing Districts to create a single agency encompassing the entire County.

Presumably the CGJ would not seek creation of a County-wide agency governed solely by the voting residents of the existing Districts. A County-wide reorganized District would have a governing board elected by all County residents. Since Proposition 13 would prevent the creation of new tax revenues for this new agency (without other agencies giving up a portion of their revenues) the new agency would be funded solely by the residents of the existing two (merged) Districts. A substantial portion of the residents of the new single agency created by the CGJ's suggestions would therefore have representation without any taxation.

2. Combining the Districts and expanding the service area. The timing is particularly bad for the CGJ's suggested reorganization study. Because of SB 1953 seismic safety compliance requirements, for more than five years the Peninsula Health Care District has been engaged in efforts to secure the continuation of acute care hospital services for the benefit of its residents beyond the compliance deadline of 2013. To that end, the District has been in discussions and negotiations with the current operator of its facilities, Mills-Peninsula Health Services ("MPHS", a Sutter Health affiliate) designed to promote the development of a new state-of-the-art Medical Center and campus at the existing Burlingame site.

District negotiators have recently concluded a draft set of Agreements with MPHS and the District has placed the proposal before its residents in on going public forums for review prior to District Board approval. Following finalization of MPHS construction plans and State approvals, the new campus project will be placed before District voters for ultimate approval. This process will likely be completed within two years. In the interim, the District will be deeply engaged in its own strategic planning for determination of alternative plans should the MPHS sponsored development for some reason not go forward, and the District will be concurrently studying the future role of the District under the proposed Agreements.

The District has an obligation to its taxpayers to continue its focus on ensuring compliance with SB 1953 and with it the preservation of acute care hospital services for its residents. During the current critical long term planning period, it would be a disservice to its constituents for the District to divert attention or resources to the creation of a larger entity devoted to the broader needs of other areas of the County.

The District hopes these responses are helpful to the public's consideration of the Civil Grand Jury's report on the Sequoia Healthcare District and its suggestions specifically addressed to our District.

Very truly yours,

Susan S. Smith.
Treasurer, Board of Directors
Peninsula Health Care District

August 5, 2005

Honorable Norman J. Gatzert
Judge of the Superior Court
Hall of Justice
400 County Center, 2nd Floor
Redwood City, CA 94063-1655

Subject: Response to the 2004-2005 Civil Grand Jury Report: Sequoia Healthcare District

Honorable Judge Gatzert:

The Sequoia Healthcare District submits the attached responses to the recommendations made to the Sequoia Healthcare District by the 2004-2005 Civil Grand Jury.

Sincerely,

Stephani Scott, CEO

Kathleen Kane, Board President

Response To 2004-2005 Civil Grand Jury Report: Sequoia Healthcare District

The Sequoia Healthcare District is grateful to the 2004-2005 Grand Jury for the opportunity to share our successes with them, and explore opportunities for greater service to the health care needs of the community.

Per the instruction to respond to findings filed by the 2004-2005 Grand Jury on May 11, 2005, the Sequoia Healthcare District agrees with the information under the subheading entitled "Findings" in the report.

Per the instruction to respond to each recommendation:

1. Regarding the implementation of a working investment plan for the use of District reserves.

This process has been implemented and began upon the hire of a financial consultant in 2004. At public meetings in February and April of 2005, the Board discussed long range planning for the use of funds designed to address the healthcare needs of the community. At its June 2005 meeting the Board adopted its first annual budget that included funds over and beyond current community health support for a formal community grants program to support programs and institutions that contribute to the emerging health care needs of the community.

2. Regarding the employment of a financial advisor to the District.

This appointment has been made. The District hired a financial consultant, Ms. Tammy Staeden from HFS, to support implementation of the District's financial planning process.

3. Regarding communicating with District residents to dispel the notion that District residents are being taxed above the 1% parcel tax rate for Sequoia Healthcare District services.

The District has been actively communicating with residents in a variety of ways. As of the summer of 2004, we initiated a comprehensive information program utilizing community newsletters, presentations to community and civic and governmental groups, along with regular updates to our Web site. The information conveyed includes correct information regarding how the District is funded.

4. Regarding the recommendation to support and retain health care professionals by creating day care facilities close to medical/health providers.

This is an interesting suggestion and would be worth exploring to see if day care facilities are a viable strategy for the recruitment and retention of health care professionals and if constructing or funding child care facilities is within the legal scope of services that the District may use tax funds to support. The District is committed to supporting the needs of young people and

families through programs such as the Children's Health Initiative (CHI) and related projects. There are many groups in the community working towards increasing the availability of child care to make our District a more economically sustainable place to raise a family, such as the Child Care Coordinating Council (4C's), etc.

5. Regarding pursuing a joint powers agreement or other arrangement with the Peninsula Healthcare District.

At its May 26, 2005 meeting, the Peninsula Healthcare District rejected the idea of merging its district with ours. However, our healthcare district is currently exploring ways in which we can be more efficient by leveraging funding for the benefit of community health across the board, such as what we currently do with the Children's Health Initiative (CHI).

6. Regarding the recommendation that the nurse training program should be partnered with staff retention programs.

This concept is built into the nurse training program through

- (i.) Sequoia Hospital's offer of forgivable loans for students enrolled in the nurses training program at Cañada College in exchange for their commitment to work at Sequoia Hospital upon graduation and
- (ii.) the development of a relationship with Sequoia Hospital based on the fact that they are doing their clinic training there. Furthermore, as registered nurses with a Bachelor of Science degree, these students will have a career that provides a living wage enabling them to stay and work in this area.

7. Regarding the Escheat liability issue.

The Grand Jury is correct in that health care districts are exempt from the law that requires this liability to be paid to the State. Legal counsel has determined that under California Government Code Sections 50050 et seq., we can publish notice and set up a claim procedure that will allow persons to file claims for funds in the Escheat Liability fund that the claimants believe belong to them. Funds that remain unclaimed after the close of the claim filing period can then be transferred to the Sequoia Healthcare District general fund and the Escheat Liability item can be removed from the balance sheet. At its June 1, 2005, meeting, the Sequoia Healthcare District board authorized staff and legal counsel to proceed with this process, and staff is currently setting up the statutory notice and claim program.