



LOCAL AGENCY FORMATION COMMISSION

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July 18, 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

Re: Civil Grand Jury Report: "Sequoia Healthcare District – How Are Your Property Tax Dollars Spent?"

Honorable Judge Livermore:

The Commission appreciates the time and effort expended by the Grand Jury in gaining an understanding of Sequoia Healthcare District and LAFCo municipal service reviews and welcomes the additional opportunity for public education about these important topics. On July 17, the Commission reviewed a draft response to the Grand Jury, provided input and directed LAFCo staff to submit a response by the September 3, 2013 deadline.

We hereby submit the response below which addresses the findings and recommendations contained in the Grand Jury Report titled "Sequoia Health Care District – How Are Your Property Tax Dollars Spent?" and provides clarification on how service reviews are implemented based on local conditions and resources.

FINDINGS

- F1. LAFCo's service review for SHD would have more substance if a consultant knowledgeable about health care districts assisted in its preparation.

Response: *San Mateo LAFCo disagrees in part with the finding and believes additional information is necessary for an informed discussion of this issue. While the Grand Jury report compares format, content and length of the San Mateo LAFCo Municipal Service Review on Sequoia and Peninsula Health Care Districts to the Santa Clara LAFCo Audit and Municipal Service Review, it does not clearly identify any substantive content that is lacking in the San Mateo LAFCo report. Also, the comparison between the reports does not take into consideration that the Santa Clara LAFCo Consultant prepared report included a financial audit for reasons detailed below. Additionally, while it should be noted that the Affordable Care Act may impact health care districts that don't operate hospitals and these impacts may merit contracting with a consultant specializing in health care, the health care districts in San Mateo*

County do not operate hospitals or health care facilities and therefore the municipal service review addresses the programs or services the Districts fund, and not hospital or health care facility operation.

*More generally, the Cortese Knox Hertzberg Act (Act) gives individual LAFCo's the authority to implement the Act based on local conditions and circumstances. Government Code Section 56425 requires LAFCo to update spheres of influence and prepare municipal service reviews every five years or **as needed**. It is the sphere of influence update that triggers preparation of a municipal service review. Section 56430 setting forth the parameters of the municipal service review gives each LAFCo discretion to prepare municipal service reviews for an individual agency, by region or for multiple agencies providing the same type of municipal service based on local circumstances and does not mandate the method of preparation of the service reviews. Practices by LAFCo's around the State vary widely in this regard.*

The Civil Grand Jury report compares the 2007 San Mateo LAFCo municipal service review that covered both Sequoia and Peninsula Healthcare Districts with the 2012 Santa Clara LAFCo special audit and municipal service review on the El Camino Hospital District prepared by an auditing firm. While LAFCo concurs that consultant prepared reports afford a singular focus and greater level of detail, the LAFCo budget has not traditionally included resources for consultant prepared reports. In addition, San Mateo LAFCo's Municipal Service Review consisted of the April 2, 2007 circulation draft, the April 16, 2007 addendum and May 4, 2007 final report/recommended determinations, the product of three LAFCo hearings and significant public input. While it varied in format from the Santa Clara LAFCo report, the San Mateo municipal service review, addendum and recommendations provide background on the metamorphosis of hospital districts in California, detail each district's finances, their relationship with the hospital operators and grantee organizations, governance alternatives, service review determinations and sphere determinations. Commission action included an amendment to the sphere of both districts based on changes in service delivery and information in the municipal service review. Also, in addition to budget data, the three most recently available audits for both districts were also considered by the Commission. These documents can be found at www.sanmateolafco.org under Studies/Municipal Service Reviews.

The Santa Clara LAFCo 2012 report on El Camino Hospital District (the only health care district in Santa Clara County) was a combined audit and municipal service review prepared by Harvey M. Rose Associates. Municipal service reviews are not required to include an audit, but Santa Clara LAFCo requested the audit due to concern about lack of fiscal transparency by the District and accountability of the District to District tax payers. As noted on page ii of the Santa Clara Municipal Service Review, the audit addressed the fact that the District is comprised of six legal entities including being the "sole member" of a Hospital Corporation. In addition to the issue of whether District funds were being spent outside the District, the audit responded to questions regarding accounting and budgeting practices and expenditure of District funds and resulted in consolidated financial statements of the District and the five affiliates.

Lastly, Assembly Bill 678 (Gordon) would require Health Care Districts that do not operate their own hospital facilities to create every 5 years, an assessment of the community health needs and would require LAFCOs to include in a Municipal Service Review the Health Care District's 5-year assessment. This provision, if it becomes law, would supplement service reviews with data specific to health care needs. Furthermore, if the bill does not become law or has an effective date that is not within the time frame of the next service review, Government Code Section 56378 gives LAFCo the authority to request such information from the Districts.

F2. SHD would benefit from having a service review of its own, separate from PHD, given the differences in the two district's goals and responsibilities.

Response: *San Mateo LAFCo disagrees with this finding for a number of reasons. As noted above, the Act gives LAFCo the authority to complete municipal service reviews based on local conditions and circumstances. More specifically, Government Code Section 56430 gives LAFCo authority to prepare municipal service reviews on individual agencies, by region or by type of municipal service based on local circumstances. Section 56430 (b) includes the following language: "In conducting a service review, the commission shall comprehensively review all of the agencies that provide the identified service or services within the designated geographic area."*

LAFCo prepared a combined municipal service review based on the foregoing language and because the Districts have more similarities than differences, including:

- *Creation to fund and operate hospitals and evolving to divesture of the hospitals but remaining linked by virtue of agreements with the hospital operators.*
- *Expansion of services consistent with the rewriting of District enabling legislation that recognized trends toward divestiture of hospitals and funding of health related programs to benefit the community.*
- *Both Districts receive property tax that is used in part or whole to fund community health initiatives and both Districts budget reserves in the event the hospitals revert back to the Districts.¹*
- *The Districts have coterminous boundaries that include the bayside of San Mateo County from Menlo Park northward to portions of South San Francisco and San Bruno, reflect the demographics and development of the County at the time of formation and leave large portions of the County excluded from health care district boundaries.*

¹ Pursuant to Health & Safety Code Section 32121 (p)(2)(A)(iii) transfer agreements must contain a provision that all assets transferred by the District are to be transferred back to the District upon termination of the transfer agreement, including any extension of the transfer agreement. Both Districts have a growing reserve for this purpose.

For these reasons, preparation of a combined municipal service review for both health care districts facilitates a broader examination and public dialogue of health care needs for County residents and a more comprehensive discussion of potential efficiencies, governance alternatives and boundary alternatives.

F3. SHD is doing a good job of fulfilling its mission to enhance access to health care services and to support programs and activities designed to achieve health, wellness and disease prevention.

Response: *The finding does not pertain to matters under the control of LAFCo.*

F4. Initiatives supported by SHD address a variety of community health needs such as access to primary care and universal insurance coverage for children.

Response: *The finding does not pertain to matters under the control of LAFCo.*

F5. SHD funds the Ravenswood Clinic, citing that its residents benefit from it, even though the clinic is not located within its boundaries.

Response: *The finding does not pertain to matters under the control of LAFCo.*

F6. The SFSU Nursing Program, supported by SHD, fell short of expectations, as it did not achieve the expected increase in the number of nurses employed at Sequoia Hospital.

Response: *The finding does not pertain to matters under the control of LAFCo.*

F7. SHD's grant program focuses on key needs in the areas of health literacy, access to healthy food, health promotion and disease prevention, behavioral health, and chronic disease management.

Response: *The finding does not pertain to matters under the control of LAFCo.*

F8. SHD would benefit from increased educational outreach efforts.

Response: *The finding does not pertain to matters under the control of LAFCo.*

F9. SHD's application process is streamlined and easy to navigate.

Response: *The finding does not pertain to matters under the control of LAFCo.*

F10. SHD does a thorough job of evaluating the performance of its grant recipients.

Response: *The finding does not pertain to matters under the control of LAFCo.*

F11. There would be a negative impact on SHD grantees if they did not receive funding from SHD and such funding was not replaced from other sources.

Response: *The finding does not pertain to matters under the control of LAFCo.*

F12. SHD's website contains useful information, but adding links on how residents can access health care would make it more user-friendly.

Response: *The finding does not pertain to matters under the control of LAFCo.*

F13. The County Tax Collector contributes to public misunderstanding of health care districts by inaccurately referring to SHD as a hospital district on its website and property tax insert.

Response: *The finding does not pertain to matters under the control of LAFCo.*

RECOMMENDATIONS

R1. That LAFCo contract with a consultant experienced in conducting service reviews of health care districts to assist in conducting the next SHD service review.

Response : *The recommendation will not be implemented until such time that circumstances indicate it is necessary to contract with a consultant because information required for the service review cannot be obtained directly from the Districts and the Commission's budget includes resources for this purpose.*

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R2. That LAFCo perform separate service reviews for SHD and PHD.

***Response:** This recommendation will not be implemented because it is not warranted for the reasons stated above and because preparation of a combined municipal service review for both health care districts facilitates a broader examination and public dialogue of health care needs for County residents and a more comprehensive discussion of potential efficiencies, governance and boundary alternatives.*

Please contact the LAFCO office if you have any questions or if we can be of further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Horsley". The signature is written in a cursive style with a large initial "D" and "H".

Don Horsley
Chair, San Mateo LAFCO