

SAN MATEO



# LOCAL AGENCY FORMATION COMMISSION

455 COUNTY CENTER, 2ND FLOOR • REDWOOD CITY, CA 94063-1663 • PHONE (650) 363-4224 • FAX (650) 363-4849

July 19, 2017

**To:** LAFCo Commissioners  
**From:** Martha Poyatos, Executive Officer  
**Subject:** *Continued from May 17, 2017:* Addendum Report & Recommended Determinations—Municipal Service Review and Sphere of Influence Review for the Sequoia Healthcare District and the Peninsula Health Care District

## **Executive Summary**

At the May 17 meeting, the Commission received the health care Municipal Service Review and Sphere of Influence Report prepared by Harvey M. Rose Associates, LLC, and written and oral comments. Following discussion, the Commission continued consideration to the July 19 LAFCo meeting to allow for preparation of recommended service review and sphere determinations. The following includes discussion of the key issues identified in the report, recommended Municipal Service Review determinations and recommended actions to be taken by the Districts, an updated inventory of active services provided by the Districts as required by Government Code Section 56824.10, recommend sphere determinations, and a recommendation to reaffirm the transitional sphere of influence with the provision that the Districts report back annually to LAFCo on District finances and updates on implementation of recommended determinations including the feasibility of expansion of District boundaries. It is recommended that the Commission continue the hearing to the September 20, 2017 meeting to allow time for the Districts, and affected agencies and organizations to comment prior to taking formal action on the Municipal Service Review determinations, sphere determinations, and inventory of active powers.

## **Executive Officer's Report**

The Final Municipal Service Review dated May 24, 2017 incorporates comments from the health care districts, interested parties and the Commission comments at the May 17 hearing. The report provides background on formation of the Districts with the original purpose of construction and operation of hospitals and transformation of the districts through rewritten enabling legislation and voter-approved agreements by the Districts for transfer of hospital operation and construction. The report details the distinct relationships each district has with the hospital operators and how the two districts differ in programs, mission, and policy regarding use of annual property tax to meet current health care needs. Both Districts receive property tax revenue that combined with rental/lease and other revenues is appropriated to district administration, community health programs, and reserve. Sequoia Healthcare District (SHD) has a policy of appropriating the majority of annual property tax for health-related

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**STAFF:** MARTHA POYATOS, EXECUTIVE OFFICER ▪ REBECCA ARCHER, LEGAL COUNSEL ▪ JEAN BROOK, COMMISSION CLERK

community programs and services primarily through grants. Peninsula Health Care District (PHCD) also appropriates funds for health-related community programs and services through grants as well as appropriation for current and future development projects. These include an assisted living and memory care facility under construction and a planned wellness community providing for senior housing and support services, a professional/medical office/research building, cafes and amenities, community space, and preschool and education space.

As noted in the report, San Mateo LAFCo prepared a Municipal Service Review and Sphere Update for the health care districts in 2007. That report identified areas excluded from health care district boundaries that could benefit from programs funded by the Districts and the Commission adopted a "Transitional Sphere of Influence" for both Districts, recognizing the need to examine alternative governance, boundary, and funding options.

Key Issues identified in the 2017 study and addressed in the Municipal Service Review and sphere determinations include the following:

- The population of San Mateo County is projected to grow by 26 percent in the 30-year period from 2010 to 2040, with the population of adults 65 years and older increasing from 12.6 percent of the population in 2010 to 18 percent of the population in 2030.
- The 2007 Municipal Service Review identified excluded areas that could benefit from health care district fund programs. The 2017 Municipal Service Review underscores the continued need to identify reorganization alternatives or collaborative agreements between the Districts, the County, and other providers to ensure that the most underserved communities, which are excluded from health care district boundaries, have access to publicly funded health services.
- At the time of the 2007 Municipal Service Review, both the Peninsula Health Care District and Sequoia Healthcare District had entered into agreements with nonprofit hospital corporations to operate the hospitals formerly owned by the Districts. While neither District now operates a hospital, district residents continue to have access to general acute-care hospitals operated by the nonprofit hospital corporations. Both healthcare districts directly administer health programs and grant funds to nonprofit organizations to provide health programs. Peninsula Health Care District is also funding development of an assisted living and memory care facility, and is in the planning and environmental review stage for the proposed Peninsula Wellness Community, which will include senior housing, services to seniors, and other uses.
- Peninsula Health Care District and Sequoia Healthcare District have financial resources to meet their financial commitments. In the 10 years since the previous Municipal Service Review in 2007, the financial position of PHCD has improved significantly. As a result, PHCD is financially sound and able to fund community grants and other costs of operations. PHCD has accumulated cash and net assets, and to the extent that accumulation of capital has limited funding available for services to the community, the District should reevaluate its business plan and reconsider the best use of accumulated capital for community benefit. PHCD also provided for the continuance of core health services to be provided by Peninsula Hospital in the Master Agreement with Mills-Peninsula Health Services, in which Mills-Peninsula Health Services may not

terminate core clinical services except under certain circumstances detailed in the agreement.

- Peninsula Health Care District does not have a formal policy on whether the senior assisted living and memory care project should be affordable to low-income residents. Because private providers are willing to develop market rate senior assisted living facilities, the District should evaluate the best use of public funds to serve District residents, including increasing access by low-income residents to District services.
- Sequoia Healthcare District's primary source of revenue is the annual property tax allocation. Since 2010 the District has had a stated policy of returning 100 percent of its property tax revenue to the community in health-related programs and services. The greatest financial risk to SHD comes from the financial health of Sequoia Hospital. While the District has no financial obligation to Sequoia Hospital, the District is unlikely to recoup the \$75 million equity contribution for construction of the new hospital. According to the District's Executive Director, the District is reviewing the ability of Sequoia Hospital to make the annual payments to the District. The District's Executive Director should ensure regular reports to the District's Board of Directors on the financial condition of Sequoia Hospital and its ability to make the annual payment on the District's equity contribution.
- The County of San Mateo Health System offers a variety of health programs at facilities in the cities of San Mateo and Redwood City, within the boundaries of PHCD and SHD. Both Districts should further work with the County of San Mateo Health System to leverage funding for County programs.
- PHCD and SHD are each governed by an elected five-member Board of Directors. The Districts maintain websites with information on programs, services, finances, and Board meetings, and reach out to District residents through other venues. It is recommended that each District increase its visibility to District residents in this regard.

#### Statewide Efforts Regarding Health Care Districts

It merits noting three initiatives at the statewide level concerning health care districts which include the Little Hoover Commission's (LHC) current review of health care districts. At its August 24, 2017 meeting, the LHC will consider a final report. Also, Assembly Bill 1728 authored by the Assembly Local Government Committee addresses transparency and accountability of health care districts. Additionally the health care district enabling legislation will be the subject of complete review and update next year.

Recommended Draft Municipal Service Review Determinations

Based on the information, issues, and analysis presented in this Municipal Service Review as well as comments received the following area recommended MSR determinations for Commission consideration:

<p><i>Growth and population for affected area</i></p>	<p>The 2010 Census population for San Mateo County was 718,451. The population of San Mateo County is projected by ABAG to grow by 26 percent in the 30-year period from 2010 to 2040, with the population of adults 65 years and older increasing from 12.6 percent of the population in 2010 to 18 percent of the population in 2030.</p> <p>The 2010 Census population for Peninsula HCD was 210,141. The population of District is projected by ABAG to grow by 30 percent in the 30-year period from 2010 to 2040, with the population of adults 65 years and older increasing from 12.6 percent of the population in 2010 to 18 percent of the population in 2030.</p> <p>The 2010 Census population for San Mateo County was 718,451. The population of San Mateo County is projected by ABAG to grow by 26 percent in the 30-year period from 2010 to 2040, with the population of adults 65 years and older increasing from 12.6 percent of the population in 2010 to 18 percent of the population in 2030.</p> <p>The 2010 Census population for San Mateo County was 718,451. The population of San Mateo County is projected by ABAG to grow by 26 percent in the 30-year period from 2010 to 2040, with the population of adults 65 years and older increasing from 12.6 percent of the population in 2010 to 18 percent of the population in 2030.</p>
<p><i>Location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.</i></p>	<p>While there are no disadvantaged unincorporated communities within or contiguous to the Districts, communities in areas contiguous to Peninsula and Sequoia Healthcare Districts have a high percentage of households with annual income less than \$49,454. In western areas excluded from health care district boundaries, the percentage of households with incomes less than \$49,454 in La Honda is 36 percent; in Pescadero is 40 percent; and in Loma Mar is 46 percent.</p> <p>In addition, there are medically underserved areas and areas designated as Primary Care Health Professional Shortage Areas within and outside district boundaries.</p> <p>The countywide poverty rate in San Mateo County (100 percent of the Federal Poverty Rate) is 8.4 percent. Communities with census tracts that have poverty rates that are higher than the countywide rate of 8.4 percent include:</p>

	<p>(1) Brisbane/Burlingame/Colma/Daly City East/Millbrae East/San Bruno/South San Francisco with a poverty rate of 9 percent; and</p> <p>(2) Eastern Menlo Park/East Palo Alto/North Fair Oaks/Redwood City East with a poverty rate of 16.8 percent. This area is the same area designated as Primary Care Health Professional Shortage Areas, and also contains the census tracts identified as Medically Underserved Area.</p> <p>The Districts, County of San Mateo and cities in excluded areas are encouraged to study the feasibility of annexation of excluded areas.</p>
<p><i>Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.</i></p>	<p>N/A</p>
<p><i>Financial ability of agencies to provide services.</i></p>	<p>Peninsula Health Care District and Sequoia Healthcare District have financial resources to meet their financial commitments.</p> <p>In the 10 years since the previous Municipal Service Review in 2007, the financial position of Peninsula Health Care District has improved significantly. As a result, Peninsula Health Care District is financially sound and able to fund community grants and other costs of operations. Peninsula Health Care District has accumulated cash and net assets, and to the extent that accumulation of capital has limited funding available for services to the community, the District should reevaluate its business plan and reconsider the best use of accumulated capital for community benefit.</p> <p>The District does not have a formal policy on whether the District's senior assisted living and memory care project should be affordable to low-income residents. Because private providers are willing to develop market rate senior assisted living facilities, the District should evaluate the best use of public funds to serve District residents, including increasing access by low-income residents.</p>

	<p>Peninsula Health Care District has also provided for the continuance of core health services to be provided by Peninsula Hospital in the Master Agreement with Mills-Peninsula Health Services, in which Mills-Peninsula Health Services may not terminate core clinical services except under certain circumstances detailed in the agreement.</p> <p>Sequoia Healthcare District’s primary source of revenue is the annual property tax allocation. Since 2010 the District has had a stated policy of returning 100 percent of its property tax revenue to the community in health-related programs and services. The greatest financial risk to Sequoia Healthcare District comes from the financial health of Sequoia Hospital. While the District has no financial obligation to Sequoia Hospital, the District is unlikely to recoup the \$75 million equity contribution for construction of the new hospital. According to the District’s Executive Director, the District is reviewing the ability of Sequoia Hospital to make the annual payments to the District. The District’s Executive Director should ensure regular reports to the District’s Board of Directors on the financial condition of Sequoia Hospital and its ability to make the annual payment on the District’s equity contribution. The District could strengthen communication and collaboration with Sequoia Hospital to proactively monitor trends affecting the hospital’s fiscal stability and sustainability of the hospital into the future.</p>
<p><i>Status of, and opportunities for, shared facilities.</i></p>	<p>The County of San Mateo Health System offers a variety of health programs at facilities in the cities of San Mateo and Redwood City, within the boundaries of Peninsula and Sequoia Healthcare Districts. PHCD and SHD and the San Mateo County Health System are identified as Community Assets and Resources in the 2016 Community Health Needs Assessment. The Districts are encouraged to continue to collaborate with each other, the County Health System and other providers to leverage funding for programs of benefit to all County residents.</p>
<p><i>Accountability for community service needs, including government structure and operational efficiencies</i></p>	<p>Both Districts’ practices of grant funding existing health related programs administered by existing nonprofits, the County, cities, and schools contributes to operational efficiencies by not duplicating programs. The Districts require varying levels of data reporting from its grantees, depending on the type of service and contract.</p>

	<p>The Peninsula and Sequoia Healthcare Districts are each governed by an elected five-member Board of Directors. The Districts maintain websites with information on programs, services, finances, and Board meetings, and reach out to District residents through other venues. It is recommended that each District increase its visibility to District residents in this regard.</p> <p>Peninsula Health Care District provides financial data for current and several prior years. Sequoia Healthcare District provides financial data for the current and past year. It is recommended that SHD post prior years' budgets and audits.</p>
<p><i>Any other matter related to effective or efficient service delivery, as required by commission policy.</i></p>	

Governance Alternatives

Governance alternatives include dissolution, consolidation, expansion of district boundaries and no change to district boundaries. The Municipal Service Review report provides information on excluded areas, in particular on the bayside that are medically underserved.

- Dissolution of the Districts would be complex given the long-term liabilities of the Sequoia Healthcare District and the complex master agreement that Peninsula Health Care District has with Mills Peninsula Health Services. Dissolution would require that there be a willing successor agency such as the County that could succeed to the agreements each District has with the Hospital Operator and have the administrative bandwidth to provide for continuity of program funding currently provided by the Districts.
- Dissolution of the Districts with no long-term successor that would result in termination of District programs is not supported by the benefits of the District programs identified in the report and by commenters.
- Consolidation of the Districts would be complex and require political will on the part of both Districts but could provide for savings in administrative and governance and lead to health care policies and programs that address the broader community and, with annexation, the County as a whole.
- Expansion of District boundaries would address excluded areas that are identified as medically underserved, share school district attendance, and in many cases are parts of cities already included. Annexation would require willingness on the part of the County and cities that include these areas to transfer a share of the annual property tax, or the willingness of voters to support a parcel tax to fund services extended to the annexed areas. The County's coastal area also includes medically underserved communities.

Recommended Draft Sphere of Influence Update/Determinations

Based on the information and analysis presented in this report, proposed Sphere of Influence determinations pursuant to Government Code Section 56425, are presented below for Commission consideration:

<i>Present and planned land uses in the area, including agricultural and open-space lands.</i>	Lands uses within Health Care Districts' boundaries including various residential, commercial, and open space land use designations are under the jurisdiction of the County of San Mateo and several cities. Viability of open space or agricultural lands is not affected by inclusion in the District spheres of influence or boundaries.
<i>Present and probable need for public services and services in the area.</i>	The present and future needs for public health care facilities and services in the area and Countywide expected to increase as the county population grows and ages.
<i>Present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.</i>	The Health Care Districts have evolved from hospital districts to health care districts, have transferred direct responsibility for hospital construction and operation to other entities. While the Districts provide funding to community health programs, they do not directly provide these services.
<i>Existence of any social or economic communities of interest in the area if the commission determines they are relevant to the agency.</i>	<p>Sequoia Healthcare District includes the cities of Portola Valley, Woodside, Atherton, Woodside, San Carlos, and Belmont and portions of Foster City and San Mateo as well as surrounding unincorporated areas. Peninsula Health Care District includes the Cities of Hillsborough, Burlingame, Millbrae, and portions of San Bruno, South San Francisco and surrounding unincorporated areas. The Districts' combined area includes 58 percent of the County population.</p> <p>Eastern Menlo Park, East Palo Alto, portions of South San Francisco and San Bruno, the Cities of Brisbane, Daly City, Pacifica, Half Moon Bay, the urbanized unincorporated Midcoast, and small rural communities including La Honda, San Gregorio, and Pescadero (which comprise the County's agricultural district) are excluded from health care district boundaries.</p> <p>These irregular boundaries and excluded areas do not reflect unique communities of interest in regard to health care or hospital services.</p>

Recommended Sphere of Influence Determinations and Designation

Section 56425 requires that in order to carry out its purposes and responsibilities for planning and shaping the logical and orderly development and coordination of local governmental agencies so as to advantageously provide for the present and future needs of the county and its communities, the Commission shall determine and periodically update the sphere of influence of each local governmental agency. Based on the information contained in the Municipal Service

Reviews including changes in health care district enabling legislation and district purpose, boundaries that do not reflect current demographics, voter approved agreements for transfer/lease of hospitals, property tax distribution, and changes in health care delivery and financing, staff recommends that the “Transitional” spheres of influence for the Districts be reaffirmed.

#### Inventory of Active Services per GCS 56824.10

In reviewing or updating spheres of influence, LAFCo is required to establish an inventory of the active services a District provides versus those services that are authorized under the enabling legislation but not actively provided by the District. The following section lists the services authorized by Health and Safety Code. The items in bold are the services the Districts are currently providing. All other services are considered inactive and would require LAFCo application and approval to activate.

#### Health Care District Services Authorized by Health and Safety Code

- A. Establish, maintain, operate, and assist in the operation of:
  - 1. Health care facilities as defined in Health & Safety Code 1250 and Gov. Code 15432
  - 2. Clinics as defined in Health & Safety Section 1204
  - 3. Nurses’ training school (H&S 32124)
  - 4. Child care facility for the benefit of employees of facility or residents of the District
  - 5. Outpatient programs, services, and facilities
  - 6. Retirement program, services, and facilities
  - 7. Chemical dependency programs, services, and facilities
  - 8. Other health care programs, services and facilities, and activities at any location within or without the District for the benefit of the District and the people served by the District
- B. Pursuant to H&S 32121(l), the power to acquire, maintain, and operate ambulances or ambulance services within and without the District
- C. Pursuant to H&S 32121(m), the power to establish, maintain, and operate or assist in the operation of:
  - 1. Free clinics
  - 2. Diagnostic and testing centers
  - 3. Health education programs
  - 4. Wellness and prevention programs
  - 5. Rehabilitation, aftercare, and any other health care services provider, groups, and organizations that are necessary for the maintenance of good physical and mental health in the communities served by the District.
- D. Pursuant to H&S 32121(o), the power to establish, maintain, and carry on its activities through corporations, joint ventures, or partnerships for the benefit of the District

- E. **Pursuant to H&S 32126.5(a)(1) the power to enter into contracts with health provider groups, community service groups, independent physicians and surgeons, and independent podiatrists for the provision of health care services**
- F. **Pursuant to H&S 32126.5(a)(2) the ability to provide assistance or make grants to nonprofit provider groups and clinics already functioning in the community**
- G. Pursuant to H&S 32126.5(a)(3), the power to finance experiments with new methods of providing adequate health care.

**Recommended Action**

Consider the Municipal Service Review Report, this Addendum Report, and public comment and continue the hearing to the September 20 Commission meeting to allow the Districts and interested agencies and organizations to comment.

Respectfully submitted,



Martha Poyatos  
Executive Officer

Attachment: Municipal Service Review Report