

RESOLUTION NO. 2012-05

**RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION
OF SANTA CLARA COUNTY**

AUDIT AND SERVICE REVIEW OF THE EL CAMINO HOSPITAL DISTRICT

RESOLVED by the Local Agency Formation Commission of Santa Clara County, State of California, that

WHEREAS, Government Code Section 56430 requires the Commission to conduct service reviews in order to prepare and update spheres of influence in accordance with Government Code Section 56425; and

WHEREAS, the Commission previously authorized the Audit and Service Review of the El Camino Hospital District (ECHD) to be prepared; and

WHEREAS, the Executive Officer set May 30, 2012 and August 1, 2012 as public hearing dates for the Audit and Service Review; and

WHEREAS, the Commission considered the report of the Executive Officer; and the attachments thereto, the comments received in writing and comments presented at the May 30, 2012 and August 1, 2012 public hearings;

WHEREAS, the Commission, as Lead Agency has complied with the California Environmental Quality Act (CEQA), as described below;

NOW THEREFORE, the Local Agency Formation Commission of Santa Clara County does hereby resolve, determine, and order as follows:

SECTION 1:

The El Camino Hospital District Audit and Service Review is exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to the following sections of the State CEQA Guidelines: §15306 Class 6; §15061(b)(3) General Rule; and §15378(b)(5);

SECTION 2:

Comments on the ECHD Audit and Service Review are hereby accepted and requests for revisions to the Revised Draft Report are hereby considered.

SECTION 3:

The El Camino Hospital District Audit and Service Review Report is hereby accepted without revisions and Exhibit 1 in the ECHD's July 30, 2012 letter is hereby accepted.

SECTION 4:

The Service Review determinations for the El Camino Hospital District, as included in the Audit and Service Review Report, are hereby adopted as follows:

1. Growth and population projections for the affected area.

The District and Sphere of Influence (SOI) are expected to experience a five-year population growth rate of 2.8 percent compared with a countywide population growth rate of approximately 5.0 percent. Also, because of the differences in the populations by age cohort, the District and SOI will experience a lower 5.8 percent inpatient volume increase compared with a 9.0 percent inpatient volume increase for the county overall.

2. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.

With the exception of ICU beds, it is unlikely that growth in local demand will lead to capacity concerns at the Mountain View hospital in the next five years. In addition, current facility plans under consideration for the Mountain View campus include the possibility of relocating physician offices in the Women's Hospital to make approximately 40,000 square feet available for inpatient use in 2013-14.

3. Financial ability of agency to provide services.

The District, Corporation and five affiliated non-profit entities collectively held Unrestricted Net Assets of approximately \$440 million as of June 30, 2011, which was 76.3% of annual operating expenses in that year. Of this amount, \$408 million was reportedly held in cash and investments. Other financial indicators suggest that the combined organization is in a strong position compared with Standard and Poors (S&P) A+ rated hospitals: (a) the Hospital operating margin is 9.4% vs. 3.8% for the S&P group; (b) the Hospital profit margin is 8.3% compared with 6.0% for the S&P group; and, (c) the Hospital debt to capitalization ratio is 17.0% compared with 30.9% for the S&P group (i.e., for this indicator, a lower percentage suggests better performance). Therefore, the District's financial ability to provide services is strong.

4. Status of, and opportunities for, shared facilities.

No opportunities for shared facilities were identified during the service review.

5. Accountability for community service needs, including governmental structure and operational deficiencies.

To improve accountability, the District and the Corporation should establish enhanced budgetary reporting and controls on an accrual basis in order to better reflect the use of District resources. This should include detailed reporting of transfers between entities

as well as debt service requirements. In addition, budgetary and financial information should be reported on a component unit level (i.e., separate budgets and financial reports for the District, Corporation and each of the five non-profit entities). These budgets should provide character level detail and be reviewed, discussed and adopted by the respective boards at public hearings.

The governance structure of the District, the Corporation and the five affiliated non-profit entities blurs the distinctions between the organizations. As the "sole member" of the Corporation, the District is able to directly impose its will, financial benefit and financial burden on the Corporation, which link the boards together and create fiscal dependency. In addition, the Corporation serves as the manager and administrator, not only for the Hospital as a nonprofit public benefit corporation, but also for the District, the Foundation, and the additional affiliated entities. Accordingly, all financial transactions and activities occur through the accounts and records of the Hospital, further blurring distinctions between the entities.

The District should consider changes that would clearly distinguish between the entities for governance and management purposes. This is discussed more fully in Section 6 of this Audit and Service Review Report. In addition, the District should enhance processes for monitoring expenditures for capital improvements and community benefits, through improved budgeting and more transparent financial reporting.

SECTION 5:

The existing Sphere of Influence for the El Camino Hospital District, as recommended in the Audit and Service Review Report, is hereby retained.

The Sphere of Influence (SOI) determinations for the El Camino Hospital District, as included in the Audit and Service Review Report, are hereby adopted as follows:

1. The present and planned land uses in the area, including agricultural and open space lands.

The ECHD has well-developed suburban land use designations without plans for significant changes that would affect the purpose and mission of the District.

2. The present and probable need for public facilities and services in the area.

The El Camino Hospital Mountain View campus provides a vital healthcare service in the community. A review of population projections for the District and the County, as well as analysis and capacity by major service, indicates that additional healthcare capacity is not required at this time. Overall, the County is using only 60.9 percent of

its licensed beds and El Camino Hospital Mountain View is using only 60.7 percent of its licensed beds, suggesting sufficient medical facility capacity in the County and District.

3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.

See Statement Number 2.

4. The existence of any social or economic communities of interest in the area if the Commission determines that they are relevant to the agency.

The Commission did not identify any social or economic communities of interest in the area and none were identified as part of the Service Review.

5. The nature, location, and extent of any functions or classes of services provided by the existing district.

Although the District does not directly operate El Camino Hospital, it leases the land, transferred and sold assets, and entered into various agreements with the El Camino Hospital Corporation to operate a hospital on property that it owns in Mountain View. In addition, the District has contributed approximately \$110 million to the Corporation in the past five years to pay for debt service related to the rebuilding of the Mountain View hospital, other capital improvements and community benefits.

El Camino Hospital is a full service acute care hospital located on a 41-acre campus in Mountain View, California. The campus in Mountain View includes the main hospital, the Women's Hospital, the El Camino Surgery Center, the Breast Health Center, the Oak Dialysis Center, the CyberKnife Center, the Cancer Center in the Melchor Pavilion, the Taft Center for Clinical Research, and the Genomic Medicine Institute. El Camino Hospital Corporation (EHC) also owns the El Camino Surgery Center, LLC, and Silicon Valley Medical Development, LLC, and has 50 percent ownership of Pathways HomeCare and Hospice.

El Camino Hospital is licensed for 374 General Acute Care beds and 25 Psychiatric beds, for a total of 399 beds, based on data available from the California Office of Statewide Health Planning and Development (OSHPD). In 2012, the number of medical-surgical beds at the Hospital will be reduced by 99 beds in the old hospital, from 279 to 180 licensed beds. The total inpatient bed capacity of the Hospital will be reduced to 310, including 285 Acute Care and 25 Acute Psychiatric beds.

SECTION 6:

The ECHD is hereby requested to do the following:

- a. Implement improvements in governance, transparency and public accountability as recommended in the Audit and Service Review Report and included in Attachment "A."
- b. Provide a report back to LAFCO within 12 months regarding implementation of the above improvements. At the end of the 12 month period, LAFCO shall reevaluate the ECHD and its Sphere of Influence, and consider the need for further changes or follow-up actions.
- c. Clearly demonstrate to LAFCO that no ECHD funds will be used if the El Camino Hospital Corporation plans to purchase property outside of the ECHD's boundary and provide an explanation for how the purchase will benefit the ECHD since the ECHD's contributions to the Corporation over the years have benefitted the Corporation's reserves and financial standing. This analysis should be specific to the particular purchase.

SECTION 7:

LAFCO staff is directed to seek the State Attorney General's opinion on the applicability of the Gann Limit to Health Care Districts.

SECTIONS 1, 2 & 3

PASSED AND ADOPTED by the Local Agency Formation Commission of Santa Clara County, State of California, on August 1, 2012 by the following vote:

YES: CONSTANT, ABE-KOGA, WILSON, WASSERMAN, KNISS

NOES: None

ABSENT: None

ABSTAIN: None

SECTIONS 4, 5, 6 & 7

PASSED AND ADOPTED by the Local Agency Formation Commission of Santa Clara County, State of California, on August 1, 2012 by the following vote:

AYES: CONSTANT, ABE-KOGA, WILSON, WASSERMAN

NOES: KNISS


ABSENT: None

ABSTAIN: None



Pete Constant, Chairperson
LAFCO of Santa Clara County

ATTEST:



Emmanuel Abello, LAFCO Clerk

APPROVED AS TO FORM:



Malathy Subramanian, LAFCO Counsel

Attachment to Resolution No. 2012-05

Attachment "A" – Recommendations to the El Camino Hospital District for Improvements in Governance, Transparency and Public Accountability

ATTACHMENT "A"

**RECOMMENDATIONS TO THE EL CAMINO HOSPITAL DISTRICT
FOR IMPROVEMENTS IN GOVERNANCE, TRANSPARENCY
AND PUBLIC ACCOUNTABILITY**

1. The El Camino Hospital District should limit its financial contributions to El Camino Hospital Corporation to payments for principal and interest on debt incurred by the District for the El Camino Hospital Mountain View Rebuild (i.e., a balance of \$143.8 million in General Obligation Bonds, discussed in Section 4). In addition, the District should cease all automatic contributions to the El Camino Hospital Corporation to support the Hospital capital improvement program or to be used as a general revenue source. Instead, LAFCo should seek a legal interpretation of the applicability of GAL to the District and, if permitted by law, the District should divert these funds to community benefit programs that more directly benefit the residents of the District. Had this been the practice over the past five years, additional community benefit dollars amounting to approximately \$73.7 million would have been available to directly benefit District residents. Should contributions exceed the 50% threshold pursuant to Health and Safety Code 32121 (p)(1), a vote may be required.
2. Cease all automatic payments to the El Camino Hospital Corporation or its affiliates to support the Corporation's community benefit program and divert these funds to other programs that more directly benefit the residents of the District. Under this approach, the District Board should consider establishing a Community Benefit Trust Fund for the purpose of awarding District funded community benefit grants to public and private non-profit organizations that would provide healthcare related services to District residents. While the Corporation and its affiliates should not be barred from receiving community benefit grants from the District, the organizations should be required to compete for dollars along with other providers that might offer services.
3. Implement changes to the budget and financial reporting structure of the District, to provide clear and distinct segregation of budget priorities and reporting of financial activities. The budget process should be restructured to enhance transparency and public accountability, including clear presentation of financial policies, including those related to reserves, as well as projected and actual revenues and expenditures by purpose and program. The budget should report on specific line items financed by the District, including appropriations that support Mountain View hospital debt service, capital improvements (for example, the district should adopt a capital improvement plan), staffing and operations (including compensation paid to District Board members and/or executive staff, other employees and consultants, if any), and community benefit

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ATTACHMENT "A"

programs by grant category and recipient. In addition, the District Board should routinely appropriate all property taxes and non-operating revenues each fiscal year to prevent accumulation of resources, except in designated reserves or trust funds. A strengthened budget monitoring and reporting system should be established to ensure funds, such as community benefit grants, are being spent in accordance with Board policy.

4. Evaluate current and otherwise necessary professional services agreements with firms or individuals (including the corporation) used by the district for services, to ensure that the District receives the administrative and legal support necessary to conduct business and differentiate between the two entities. Review and revise the District's code of ethics and conflict of interest policy to ensure that the District avoids circumstances of perceived or actual conflicts of interest.