

**MINUTES OF MEETING
BOARD OF DIRECTORS
SEQUOIA HEALTHCARE DISTRICT
April 2, 2003**

Present:

Mr. Faro
Mr. Hickey
Ms. Kane - Acting President

Also present:

Mr. Gibson, CEO
Ms. Greenberg, Counsel
Ms. Johnson, Recorder

Absent:

Directors Shefren and MacNaughton

CALL TO ORDER:

Acting President Kathleen Kane called the meeting to order at 4:40 PM in the Sequoia Room at Sequoia Hospital. She reported that President Shefren and Director MacNaughton were unable to attend the meeting and a legal quorum of the Board was present.

Acting President Kane opened the floor to public comment for non-agenda items.

Mr. Bob Parkhurst stated he had solicited signatures for Mr. Hickey's referendum and it's his opinion that even if there are not a sufficient number of signatures put this measure on the ballot in November, the number of signatures he collected show that the voters want to participate in this decision and they do not want the hospital to move.

Dr. Steven Howard stated that he is very supportive of rebuilding the hospital on a different site. However, it is his opinion that CHW management has not been supportive of Sequoia Hospital in that they have not made efforts to recruit new physicians to Sequoia or to market Sequoia's services. As a result patients have been lost to the competition from Kaiser and Sutter. Dr. Howard suggested a long-range

ITEMS REMOVED FROM THE CONSENT CALENDAR:

Minutes of the February 19, 2003 Board of Directors Meeting. Citing a fax from Elizabeth Travers to the Board, Director Hickey stated that Ms. Travers name was misspelled in the minutes and that her comments about moving the hospital were not included. He also said that he did not think comments made by Mr. Brent Britschgi are accurately reflected in the draft minutes. Mr. Gibson responded that the minutes are not verbatim but are intended to capture the essence of the public comment and be very specific regarding Board actions. He also pointed out that Ms. Travers made derogatory and misleading comments about the hospital and the physicians, and those comments were not included. Director Faro moved to approve the minutes

of the February 19th meeting as amended (to correct the spelling of Ms. Travers' name). Director Hickey seconded the motion which unanimously passed.

UNFINISHED BUSINESS:

Director Hickey made a motion to change the order of the agenda and move to Agenda Item 6. Mr. Gibson said that Items 5.a through 5.d were carried over from the last meeting and he suggested the order of the agenda be maintained so these items can be finalized. Director Hickey withdrew his motion to change the agenda.

5.a. Consider Policy and Procedure for Nomination to Sequoia Health Services Board:

Director Faro offered a motion to approve the policy as presented. Director Hickey presented the Board with his written revisions to the policy indicating that as an elected official the District Board should have the first right of refusal for a directorship on the SHS Board; the current process should be corrected as soon as possible to correct the District's lack of its oversight function of the hospital. Director Faro disagreed with Director Hickey, stating that the District has always been diligent and had full oversight on the SHS Board. Director Faro moved to table Agenda Item 5.a. so that the Board has the advantage of discussion when all of the directors are present. Director Faro also suggested that Director Hickey submit any written changes or recommendations to the Board well in advance of the meeting so they can be considered by the Board.

5. b. Consider Policy and Procedure for Appointments to the Sequoia Healthcare District Board:

Director Faro moved to adopt the policy as presented. Director Kane seconded the motion which unanimously passed.

5. c. Consider Policy to Amortize Capital Expenditures Greater than \$2,500: Mr. Gibson stated historically the District has not amortized capital expenditures. However, during the last fiscal year the roof had to be replaced at the 2900 Whipple MOB and the auditors suggested we establish this policy. Director Hickey offered a motion to adopt the policy to amortize capital expenditures. Director Faro seconded the motion which was unanimously passed.

5. d. Update from Sub-Committee on Feasibility of Relocating Sequoia Hospital to Meet Seismic Requirements: Director Faro reported on progress of the sub-committee to date. He asked Mr. Ed McGovern to discuss the schedule of town hall meetings and the community outreach efforts. Mr. McGovern said that several meetings have been held with seniors groups, Kiwanas, Redwood City Chamber and a community meeting at the hospital last night. Upcoming meetings are: April 8th at 9:00 AM with the County Board of Supervisors; Town of Atherton on April 16 at 7:00 PM; the Belmont City Council has yet to be confirmed for April 22; the City Council of Redwood City is set for April 28 at 7:00 PM. Mr. McGovern is talking with the San Carlos City Manager to arrange a presentation to their council. Other Town Hall type meetings are being scheduled as well as work on a District newsletter. Director Hickey stated that if his referendum issue (Agenda Item 6.a.) is adopted by this Board, Mr. McGovern's work would not be necessary. Director Faro reported that the CHW Board of Directors has gone on record to support Sequoia Hospital's plan to build a new hospital campus in Redwood City. He continued that in a recent press release, Lloyd Dean, CHW's CEO/President, stated that CHW strongly

believes that a new Sequoia Hospital campus will best serve the future healthcare needs of the community.

Director Faro then asked Jay Harris of Cain Brothers to present his report on financing options.

Mr. Harris reported that since the last meeting on February 19th, further legal and financial analysis have been conducted on the four financing options.

Option 1. District Lease/Tax Revenue Debt (Bonds or Certificates of Participation): The District could finance, build, own the new hospital and lease it to SHS. This debt would be secured by both District tax revenues and the SHS lease revenues. Mr. Harris stated that no additional taxes would be incurred under this option.

Option 2. District Tax/GO Bonds and District Lease Revenue Debt: This is the option being considered by Peninsula Healthcare District. The issuance of Government Obligation Bonds (GOBs) would require a 2/3 vote of all District residents as the District would be liable for the debt. Mr. Gibson clarified that Mr. Harris is not recommending this option. Director Hickey asked what if the District's tax revenue would be removed by the Grand Jury? Mr. Gibson said that he was not aware of any action by the Grand Jury suggesting such a course of action. Under current law the District's corpus and tax revenues would not be rebated back to District tax payers.

Mr. Brent Britschgi asked Mr. Gibson if the District's MOB's are included in its \$50 million assets number and if the \$18 million appraised value on the existing hospital could be used to pledge toward the new facility? Mr. Gibson answered that the MOB's, valued at \$15 million+, are not included in the \$50 million assets and the \$18 million from the sale of the hospital could be used to pledge toward a new hospital. Mr. Gibson explained that at this point no one knows what the existing property would be used for.

Option 3. SHS Revenue Bonds: Via an issuing authority, SHS could issue revenue bonds, secured by SHS revenues, including annual support by the District. This option may be difficult to finance because the District would not own the new hospital and the District support would be less tangible to bondholders. SHS has current debt of approximately \$39 million which is guaranteed by CHW. Mr. Harris stated that this option is probably not recommendable.

Option 4. CHW Revenue Bonds. CHW, via an issuing authority, could issue revenue bonds. CHW could finance, build, own the new hospital and lease it to SHS with the District still supporting SHS via annual contributions. This option is probably the least attractive because it would require re-negotiation of the 1996 agreement. CHW has indicated it would most likely not be interested in doing this.

Mr. Harris stated that the most feasible approach is Option 1 - District Lease/Tax Revenue Debt. After securing the project site and designing and bidding the project, the District would issue debt and use the proceeds to build a new hospital. Voter approval for the lease to SHS would be sought prior to selling the debt. The debt would be secured by both District taxes and the SHS lease. Portions of the campus-the Medical Office Buildings-would be financed separately. Upon

completion of the project the new hospital would be leased to SHS at fair market value. The lease payments, along with District tax revenues, would be adequate to service the debt. Since SHS is a member of the CHW Obligated Group, CHW would guarantee SHS lease payments. CHW's support will probably be in some form of a guarantee on the lease or other means of financial support to SHS.

There were several questions from the audience regarding who owns the hospital today and why the hospital couldn't pay for rebuilding from its revenue alone? Mr. Gibson explained that the District owned the hospital and transferred assets (land and buildings) on 10/1/96 to a non-profit community-owned benefit corporation, Sequoia Health Services (dba Sequoia Hospital). CHW paid \$20 million for the right to appoint 5 members to this corporation (Sequoia Hospital) and enter into a 30-year management contract. The hospital's net revenues from operations are not sufficient to pay for rebuilding the hospital. The District would use its current assets and future tax revenues toward financing the new hospital. Since CHW does not own the hospital it is not required to put money into it, but they would most likely guarantee the SHS lease payments.

Director Faro asked Mr. Bob Garner of Cornish and Carey Commercial to present information on potential sites: a grid of ten sites was discussed including the pros and cons of each. Several of the sites would be difficult to develop due to existing zoning regulations. An environmental impact report (EIR) would address issues of air quality and traffic. Mr. Gibson reported that he is in negotiation with Mid-Point Tech Center and also talking with the owners of Bair Island and Century 21 properties.

A member of the audience asked about the feasibility of a large parcel of land near Canada College. Mr. Garner responded that he did not think that land was available. Director Hickey stated that he would be in favor of building a new facility in that general area and stated he was in favor of using eminent domain to acquire the property. Director Faro said he could not support the use of the eminent domain process to acquire land.

Director Faro said that under Option 1, voter approval is required in order for the District to lease more than 50% of its assets. He further stated it is important to have input from the public on this issue if it needs to go to the voters, we should do so before entering into an agreement to buy land; however, it is also important to continue to negotiations for the land so we don't lose the option to purchase prime property. Director Faro said he would like to see a process similar to the one used in the District's affiliation with CHW. Rather than incur the costs of a special election or wait until the November election, Director Faro asked Mr. Gibson to research the cost and timeline necessary for a mail-in ballot and to report back at the next meeting.

NEW BUSINESS:

Receipt of Report from the san Mateo County Elections Division Concerning the "Referendum Against an Action Taken by the Sequoia Healthcare District Board of Directors": Mr. Gibson reported that in accordance with the Election Code, the District Board is required to determine whether or not the number of signatures gathered were sufficient to retract the action taken previously by the Board. Citing the March 26th letter from David Tom, Elections Division Manager, in which Mr. Tom states that a raw count of signatures supporting the referendum reflected 3,771 signatures. Elections Code section 9341(b) requires that a

referendum petition bear the signatures of 10% of the total votes cast for all candidates from the District in which the petition is being circulated. Based on that code section, Mr. Tom's reported that their calculation is that 6,608 signatures are required.

Mr. Gibson reported that the Elections Office Manager, County Counsel and the District's counsel all concur with this letters interpretation of the election code. Director Faro moved to reject the referendum due to an insufficient number of signatures. Director Kane seconded the motion. Discussion: Director Hickey presented his interpretation of the election code contending that only 3,400 signatures would be required. District Counsel, Ms. Penny Greenberg, stated that Director Hickey's interpretation of the election code is not correct.

Director Kane stated that she does not feel the Board is in a position to argue with Warren Slocum's Office. Director Faro stated that in instances such as this, the Board relies on the advice of its legal counsel, and Ms. Greenberg has deemed Director's Hickeys argument as invalid. Director Faro voted to accept the interpretation as presented by the Chief Elections Officer. Director Kane was in favor of the motion which passed by a vote of 2-1 with Director Hickey opposed.

ADJOURN:

Director Kane adjourned the meeting at 6:30 PM.

Respectfully submitted,

Kathleen Kane
Secretary