



**NOTICE OF AND AGENDA FOR
SPECIAL MEETING OF THE CITY COUNCIL
TOWN OF COLMA**

Colma Community Center
1520 Hillside Boulevard
Colma, CA 94014

**Monday, January 5, 2015
6:00 p.m.**

NOTICE IS HEREBY GIVEN that the City Council of the Town of Colma will hold a Special Meeting at the above time and place for transacting the following business:

1. NEW BUSINESS: Sale of Seton Medical Center

Consider: Consider a motion authorizing Mayor's signature on a letter of support for the sale of Seton Medical Center.

Posted: December 31, 2014

A handwritten signature in blue ink that reads "Sean Rabé".

Sean Rabé, City Clerk

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STAFF REPORT

TO: Mayor and Members of the City Council
FROM: Sean Rabé, City Manager
MEETING DATE: January 5, 2015
SUBJECT: Sale of Seton Medical Center

RECOMMENDATION

Staff recommends that the City Council adopt:

MOTION AUTHORIZING THE MAYOR'S SIGNATURE ON A LETTER OF SUPPORT FOR THE SALE OF SETON MEDICAL CENTER.

The Council should also discuss whether or not the Mayor should speak on behalf of the Council at an upcoming meeting regarding the sale.

EXECUTIVE SUMMARY

The potential sale of Seton Medical Center could have significant repercussions on the ability of the Town's residents to obtain affordable healthcare. According to information shared by the hospital's President and CEO Joanne Allen, if the sale of the hospital is denied the hospital will be forced into bankruptcy on April 1, 2015. The hospital will then begin winding down its services and will eventually close. The California Attorney General will be conducting a public meeting concerning the sale of the hospital on January 9, 2015, beginning at 1:00 p.m., at Daly City's Merced Room, 145 Lake Merced Blvd., Daly City. Ms. Allen has requested a letter of support from the Council for this meeting. She has also asked that Mayor del Rosario speak at the meeting.

FISCAL IMPACT

There is no direct fiscal impact for this action.

BACKGROUND

As the Council knows, Seton Medical Center in Daly City provides affordable healthcare to the northern portion of San Mateo County. The hospital is a significant resource for emergency care to the greater community, as shown in the MDS medical impact report provided to the

California Attorney General¹, with 26,955 emergency room visits in 2013 (page 82). Of that number 12,244 visits were from low/moderate to moderate income visitors.

The Daughters of Charity Healthcare System, which operates the hospital, faces significant financial issues which no longer make the operation of the hospital viable. According to the MDS report, the Daughters note the following:

1. The current structure and sponsorship of Daughters and the Health Facilities (hospitals) are not feasible as a result of the dire financial conditions and cash projections;
2. Based upon cash flow projections, Daughters would fall below minimum liquidity thresholds in the first quarter of Fiscal Year (FY) 2015 and would ultimately run out of cash in the third quarter of FY 2015;
3. In July and August of 2014, Daughters accessed a short-term financing bridge loan in the amount of \$125 million to mitigate the immediate cash needs for an estimated period of time long enough to allow for the transaction to close. The bridge loan of \$125 million must be repaid in full, on or before, July 10, 2015, at which time if the full amount is not repaid, Daughters will be at risk of defaulting on both the 2014 and 2005 Revenue Bonds; and
4. The lender holds liens on substantially all of Daughters' assets. If there is a default, Daughters' operations, without the protection of a bankruptcy proceeding, could not continue.

ANALYSIS

As noted above, the hospital faces significant cash flow problems that would necessitate filing bankruptcy if the sale of the hospital is denied. In fact, according to the MDS report, the hospital ran an \$18.9 million deficit in fiscal year 2014 and a \$28.3 million deficit in fiscal year 2013 (page 21).

The Daughters of Charity System began soliciting bids for the sale of the hospitals in its system in 2013. According to the MDS report (page 8),

"Bids were solicited for individual hospitals, groups of hospitals, medical office buildings/facilities, as well as for Daughters' full system. The first round, in March 2014, included 29 bids; 11 bids for the full system, 14 bids for individual (or groups of) hospitals, and four bids for the medical office buildings. The second round, in May 2014, included 15 bids; eight bids for the full system and seven bids for the individual (or groups of) hospitals. As stated in the minutes from Daughters' Board meeting in May 2014, Daughters decided to focus efforts on buyers interested in a full-system transaction as they felt there was not a combination of bids for individual (or groups of) hospitals to form a comprehensive solution. In Daughters' application to the Attorney General, the following reasons were cited for focusing efforts on full-system offers:

¹ All statistics and charts shown in this staff report come from the December 24, 2014 Medical Development Specialists, LLC impact report titled, "Effects of the Proposed Change in Governance and Control of Ownership & Operation of the Daughters of Charity Health System to Prime Healthcare Services, Inc., & Prime Healthcare Foundation, Inc., on the Availability & Accessibility of Healthcare Services to the Communities Served by Seton Medical Center & Seton Medical Center Coastsides," prepared for the California Attorney General. The report may be viewed at <http://oag.ca.gov/sites/all/files/agweb/pdfs/charities/pdf/seton-medical-center-ag-report.pdf>

- None of the bidders interested in individual hospitals and/or groups of hospitals were prepared to assume Daughters' pension obligations;
- Attempting to execute multiple transactions could expose Daughters to the risk of transaction failure if all agreements were not executed simultaneously;
- If there was any transaction failure, there would be a withdrawal liability on the Multiemployer Pension Plan⁴ of approximately \$200 million; and
- A number of bidders for the full system indicated willingness to satisfy all of Daughters' obligations, whereas the aggregate value provided by the individual hospital bids would not satisfy all of Daughters' obligations.

A total of four final bids were vetted in September 2014. The MDS report notes that the Daughters Board of Directors used the following 11 criteria to evaluate the bids:

1. Post-closing healthcare services: Bidder's commitment and ability to sustain healthcare services in the communities served by the Health Facilities following the close of the transaction;
2. Treatment of pension obligations: Bidder's treatment of Daughters' employee pension obligations, the level of future funding assurance provided to the pension beneficiaries, and the financial means of the bidder to fully fund future pension obligations;
3. Treatment of collective bargaining agreements (CBAs): Bidder's willingness to assume the current CBAs;
4. Operational and transactional experience: Bidder's prior experience and success in turning around distressed hospitals and breadth of experience in owning and operating acute care facilities, particularly within California;
5. Historical service quality: Evaluation of the bidder's relative performance on quality measures for its California-based operations (if applicable), including relative patient safety, practice of evidence-based care, readmission rates, mortality rates, and patient satisfaction scores in comparison to Daughters, the national average, and the other final bidders;
6. Financial wherewithal: Bidder's financial strength, measured in terms of cash and other assets, and its potential access to additional capital for Daughters' cash requirements at closing and post-closing;
7. Capital commitment: Bidder's willingness to invest in the Health Facilities following the closing of the transaction;
8. Need for bankruptcy: The likelihood of the bidder to require bankruptcy proceedings in order to reduce liabilities as a condition of closing;
9. Valuation: Distributable value of the offer, calculated as the sum of the estimated cash consideration paid at closing, plus the face value of the short-term and long-term liabilities;
10. Closing risk: Potential risk of not being willing or able to close due to financing contingencies, regulatory issues, or other barriers, including a strong consideration of the bidder's potential to fund a meaningful good-faith deposit; and

11. Timeline: Bidder's ability to meet the necessary strict timeframe for closing in light of Daughters' deteriorating working capital.

As the MDS report states on page 11,

"After consideration of these eleven criteria, on October 3, 2014, Daughters' Board selected the offer proposed by Prime. Daughters' Board believed Prime's proposal satisfied the selection criteria and that no other proposal demonstrated similar strength. Daughters' Board stated Prime was the only candidate that was able to fully fund the employee pensions and who made the commitment for all of the capital required to close the transaction. Additionally, Daughters' Board believed that Prime's offer materially exceeded the other offers, and provided a higher level of assurance, relative to the other bidders, in terms of Prime's balance sheet, experience in operations, depth of existing operations to support the Health Facilities, and access to capital in order to ensure that the assumed liabilities were honored in the long-term."

The attached draft letter details the Council's support for the sale of the hospital due to the potential impact of the hospital's closure on the community. Staff recommends the Council authorize the Mayor to sign the letter of support, and that the Council's support of the sale be contingent on the conditions outlined on page 96 of the MDS report (with some conditions summarized for brevity).

Values

Sending a letter of support for the hospital's sale is consistent with the Council's values of *Vision* and *Responsibility* because supporting the sale of the hospital looks to the future and considers the overall impact of the potential closure of the hospital on the residents of the Town and the northern region of San Mateo County.

Alternatives

The Council could choose to not send a letter of support. This is a viable alternative given that this issue is a policy-related issue only. The Council could also request modifications to the letter during the special meeting.

CONCLUSION

Staff recommends the Council authorize the Mayor to sign the attached letter of support for the sale of the Seton Medical Center. Staff also recommends the Council discuss whether or not the Mayor should speak on behalf of the Town at the California Attorney General meeting on Friday, January 9, 2015.

ATTACHMENTS

- A. Draft Letter of Support



TOWN OF COLMA

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City Council

Joanne F. del Rosario
Mayor

Diana Colvin
Vice Mayor

Helen Fiscaro
Council Member

Raquel "Rae" Gonzalez
Council Member

Joseph Silva
Council Member

City Officials

Sean Rabé
City Manager

Kirk Stratton
Chief of Police

Chris Diaz
Interim City Attorney

Cyrus Kianpour
City Engineer

Brad Donohue
Public Works Director

Michael Laughlin, AICP
City Planner

Brian Dossey
Director of Recreation
Services

Lori Burns
Human Resources Manager

Honorable Attorney General Kamala Harris
c/o Scott Chan, Deputy Attorney General
455 Golden Gate Avenue, Suite 11000
San Francisco, CA 94102

January 5, 2015

Honorable Attorney General Harris,

The purpose of this letter is to express the Colma City Council's support of the proposed sale of Seton Medical Center to Prime Healthcare Services, Inc., & Prime Healthcare Foundation, Inc., contingent on several conditions as outlined in the Medical Development Specialists, LLC's impact report dated December 24, 2014 (the "MDS report").

Seton Medical Center provides a critical lifeline to affordable healthcare for Colma residents and residents of the northern portion of San Mateo County. As noted in the MDS report (page 82), the hospital saw nearly 27,000 emergency room visits in 2013. Of that number, more than 12,000 visits were from low/moderate to moderate income visitors – visitors that make up a large portion of Colma's population.

As outlined in the MDS report – the hospital has been experiencing a significant cash flow problem for several years. In fact, according to the MDS report, the hospital ran an \$18.9 million deficit in fiscal year 2014 and a \$28.3 million deficit in fiscal year 2013. As we understand it, if the sale of the hospital is not approved, the Daughters of Charity will have no other option but to file for bankruptcy. If this were to occur the hospital will have no other choice but to cease operations and close its doors to the most vulnerable of our population. The impact to the northern part of San Mateo County will be huge, and other nearby hospitals may not be able to accommodate the patient flow that Seton now sees.

Because of the negative impacts associated with any closure of the hospital, the Colma City Council supports its sale, contingent on the following conditions as outlined in the MDS report:

1. For at least 10 years from the closing date of the transaction, the Hospital shall continue to operate as a general acute care hospital;
2. For at least 10 years from the closing date of the transaction, the Hospital shall maintain 24-hour emergency medical services at a minimum of 18 treatment stations with the same types and/or levels of services;
3. For at least 10 years from the closing date of the transaction, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:

- a. Cardiac services, including the 2 cardiac catheterization labs, and at minimum, the San Francisco Heart & Vascular Institute, and the designation as a STEMI Receiving Center;
 - b. Critical care services, including a minimum of 28 intensive care beds;
 - c. Advanced certification as a Primary Stroke Center;
 - d. Obstetric services, including a minimum of 8 beds, and at minimum, the Saint Elizabeth Ann Seton New Life Center;
 - e. Women's health services, including the Saint Elizabeth Ann Seton New Life Center, Seton Breast Health Center, and women's imaging and mammography services; and
 - f. Sub-acute services, including a minimum of 44 sub-acute beds and Medi-Cal Certification and Joint Commission Accreditation as a sub-acute unit.
4. For at least 5 years from the closing date of the transaction, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:
- a. Gastroenterology services, including enteroscopy, endoscopy, and colonoscopy services;
 - b. Cancer services, including inpatient oncology unit, interventional radiology, radiation therapy, and the Outpatient Infusion Center;
 - c. Orthopedics and rehabilitation services, including joint replacement and spine care services, San Francisco Spine Institute;
 - d. Diabetes services, including Northern California Diabetes Institute;
 - e. Urgent Care services, including Seton Express Care;
 - f. Wound care services, including Seton Center for Advanced Wound Care; and
 - g. Nephrology services, including inpatient and outpatient dialysis services.
5. For at least 10 years from the closing date of the transaction, the Hospital should maintain the following services at current licensure, types, and/or levels of services at Seton Coastside:
- a. 24-hour "standby" Emergency Department, with a minimum of 7 treatment stations; and
 - b. Skilled nursing services, including a minimum of 116 licensed skilled nursing beds.
6. For at least 5 years from the closing date of the transaction, the Hospital shall maintain a charity care policy that is no less favorable than the Hospital's current charity care policy and in compliance with California and Federal law, and the Hospital shall provide an annual amount of Charity Care equal to or greater than \$1,948,367 (the "Minimum Charity Care Amount") ...
7. For at least 5 years from the closing date of the transaction, the Hospital shall continue to expend an average of no less than \$1,054,020 annually in community benefit services. The following community benefit programs shall be maintained with

the same or greater level of financial support and in-kind services that are currently being provided:

- a. Health Benefits Resource Center;
 - b. RotaCare Clinic; and
 - c. Saint Elizabeth Ann Seton New Life Center.
8. For at least 10 years from the closing date of the transaction, the Hospital shall maintain its participation in the Medi-Cal managed care program, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease of quality, or gap in contracted hospital coverage, including continuation of the Health Plan of San Mateo contract;
 9. For at least 10 years from the closing date of the transaction, the Hospital shall maintain its participation in the Medicare program, providing the same types and/or levels of emergency and non-emergency services to Medicare beneficiaries, on the same terms and conditions as other similarly situated hospitals, by maintaining a Medicare Provider Number;
 10. Prime shall maintain privileges for current medical staff members at the Hospital who are in good standing as of the closing date of the transaction. Further, the closing shall not change the medical staff officers, committee chairs or independence of the Hospital's medical staff and those such persons shall remain for the remainder of their tenure;
 11. Prime shall commit the necessary investments required to maintain Office of Statewide Health Planning and Development (OSHPD) seismic compliance requirements at the Hospital through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070), including:
 - a. Construction and completion of the New Patient Tower, with at least 104 beds for general acute care, perinatal care, and intensive care services, as set forth in the "Master Plan" as follows: 84 general acute care beds, 12 critical care beds, and eight perinatal beds.
 12. Prime shall comply with the \$150 million "Capital Commitment" set forth in section 7.9 of the Definitive Agreement.

The Colma City Council appreciates the opportunity to provide its comments on this critical issue to our community. Please feel free to contact City Manager Sean Rabé at the phone number above should you have any questions or need any clarification.

Sincerely,

Joanne F. del Rosario
Mayor