

**MINUTES OF THE JANUARY 20, 2011 REGULAR MEETING OF THE
PETALUMA HEALTH CARE DISTRICT BOARD OF DIRECTORS**

CALL TO ORDER:

President Adams called the meeting to order at 6:15 p.m. at 1425 N. McDowell Blvd., building conference room.

PRESENT:

Fran Adams, RN, BSN, President
Robert Ostroff, MD, Vice-President
Kathryn Powell, MS, Member-At-Large
Stephen Steady, MD, Secretary

ABSENT:

Josephine S. Thornton, MA, Treasurer

ALSO PRESENT:

Richard Abbey, District Counsel
Suzanne Cochrane, Board Liaison
Vic De Melo, Browman Development Company
Daymon Doss, CEO
Nurit Licht, Medical Director, Petaluma Health Center
Tim Moran, CFO, Petaluma Health Center
Richard Nadale, Controller
Jane Read, VP of Operations, Petaluma Valley Hospital
Jim Stephens, Browman Development Company

CONSENT CALENDAR:

A motion was made by Director Ostroff seconded by Director Steady to approve the January 20, 2011 Agenda.

A motion was made by Director Ostroff to approve the December 15, 2010 minutes with changes noted under the Petaluma Valley Hospital report, seconded by Director Powell and approved by all present.

PUBLIC COMMENTS / QUESTIONS

There were no public comments.

BOARD COMMENTS / QUESTIONS

There were no board comments.

PETALUMA HEALTH CENTER – PHASE II REQUEST:

Due to conflict of interest, Director Kathryn Powell recused herself from the Board room during the following presentation.

Tim Moran, CFO, Petaluma Health Center and Nurit Licht, MD, Medical Director for the Petaluma Health Center were in attendance of this evenings Board meeting to request a loan from the Petaluma Health Care District to complete Phase IIA of the renovation project for Petaluma Health Center's new building.

Mr. Moran explained in preparation of a grant application for the purchase of the new building a proposed architectural drawing was completed and submitted. Upon approval of the grant, additional evaluation to utilize the space to its fullest capacity required a revised floor plan. Mr. Moran, through a power point presentation, provided an overview of the building displaying the revised floor plan and explanation of Phase I and II.

The new Petaluma Health Center will expand to 47,000 square feet eventually serving around 90,000 patients per year. Services available will include, OB/GYN, primary care, mental health services, nutritional services, requiring the health center to expand their FTE's to 39.5.

At this time, the Petaluma Health Center has available funding sources to complete most of Phase I. A Phase IIA plan has been identified that would provide nutritional services to their patients along with an area to accommodate group visits and additional office space. Implementing Phase IIA with Phase I will allow the Petaluma Health Center to expand services that would serve the current needs of our community. Costs would also be controlled as Phase IIA would not require additional construction set up and allow this phase to be integrated into the current building project.

Nurit Licht, MD, Medical Director of the Petaluma Health Center discussed the interest from outside physicians requesting to work at the Petaluma Health Center under their new model facility. At this time, three physicians are contracted to begin work at the Health Center on July 1, 2011.

Dr. Licht further noted that the Health Center is interested in incorporating additional ancillary integrated services that will improve the health of Petaluma. With the Phase III build out not being completed at this time, it allows for future planning of additional programs that could utilize this space as the need arises.

Mr. Moran is requesting a loan from the Petaluma Health Care District in the amount of \$1,338,922 at an interest rate of 5.75% on a 10 year note. A loan amortization schedule at 5.75% interest was presented as an example of the monthly principal and interest payment. The

proposed loan would include no payments for the first five months with the interest accruing as additional principal during that time to be amortized in future payments.

Directors discussed a concern that the Petaluma Health Care District's Lease with St. Joseph Health System is due to expire in six years and would like to be able to call the note due in six years and payable if the District is in need of financial assistance depending on the future plans for Petaluma Valley Hospital.

Mr. Moran supported establishing a loan to include a balloon payment due in six years. Mr. Moran further explained that at the end of six years, the Petaluma Health Center would have the option to pay the loan in full to the Petaluma Health Care District or submit a loan application to California Health Facility Financial Authority (CHFFA) for the remainder of the loan. CHFFA processes loans for requests up to \$750,000 and currently provides a lower interest rate.

Mr. Moran discussed the Health Center's plans for a capital campaign designed to be earmarked with the first funds out of this campaign to be applied to the PHCD loan payoff. The capital campaign is designed to raise enough money to complete the Phase III portion of the building.

Richard Nadale, PHCD Controller, explained that funding from the District to the Health Center could be available upon the maturity of bonds that are set to mature before April, 2011.

Mr. Moran noted that the Petaluma Health Center would not need to obtain the full loan of \$1,338,922 at one time and would request for funds to be drawn down on an as needed basis.

Mr. Moran further explained that the District would hold a second deed of trust on 1179 North McDowell Blvd. as collateral for the loan. Mr. Moran stated that the loan payments to Cal Mortgage and Petaluma Health Care District would be close to the amount that is currently being paid to the Petaluma Health Care District for rent of their current location.

Directors noted that with the Petaluma Health Center vacating the 1301 Southpoint premises the District will have a decrease in cash flow. Using the proposed loan amount of 5.75%, the District could recoup some of those losses through a secured loan with the Petaluma Health Center.

A motion was made by Director Ostroff, seconded by Director Steady to approve a loan to the Petaluma Health Center in the amount of \$1,338,922 at an interest rate of 5.75% amortized over a 10 year period with a balloon payment built in at 6 years at the District's discretion. This motion was approved with a vote of 3 ayes, 1 absent and 1 excused.

PROPOSED JOINT VENTURE LYNCH CREEK:

Richard Nadale introduced Richard Abbey, Legal Counsel for the District, and Vic De Melo and Jim Stephens from Browman Development Company.

Mr. Nadale explained the proposed Letter of Intent between the Petaluma Health Care District and Browman Development Company presented at this meeting has been reviewed in closed

session at Asset Management Committee and previous Board of Directors meetings over the past 14 months. Richard Abbey has also reviewed the proposed documents and included recommendations through communications with Browman Development Company.

The document presented at this meeting was reviewed by the Asset Management Committee on January 18, 2011 with a recommendation for the full Board to review the revised Letter of Intent to Joint Venture between Browmen Development Company and the Petaluma Health Care District. The Agreement includes establishing an entity for the development of a building on the vacant Lynch Creek property owned by the District.

Board of Directors requested clarification on financial liability to the District upon entering into this agreement.

Jim Stephens explained that liability of the District is capped at \$40,000 during the process of acquiring entitlements to the land. Once entitlements are received, the District would enter into a LLC and jointly develop the land. If entitlements are not approved, the District would be liable for expenses incurred during the entitlement process up to the cap of \$40,000.

Mr. Stephens further explained the District will receive a capital account land value of \$1,100,000 with a preferred guaranteed return of 6% for 5 years once the project opens for business. In addition, the District will enter into a Joint Venture Agreement with a residual split of 40% to the District and 60% to the Property Management Company.

Mr. Nadale further explained revisions include specific time lines that need to be met by the development company as recommended by the Asset Management Committee. The Letter of Intent also allows Browman Development Company the right to purchase PHCD's interest in the Joint Venture eight years after the business on the property opens.

Board of Directors expressed concern relative to the use of public property and the risks associated with entering into a Joint Venture Agreement.

Mr. Abbey, District Counsel, has reviewed the proposed documents noting that entering into joint ventures does impose some risk to the District but no personal risk to the Directors. The District would be incorporating the Lynch Creek property as their contribution to the Joint Venture. If in fact, the tenant does close their business, the lender would acquire the piece of property. Mr. Abbey noted that the proposed tenant has established a long working relationship with Browman Development Company and appears to be a sound investment.

Daymon Doss explained that no action can be taken at tonight's meeting due to the necessity to inform the public that the District is considering moving forward with a Joint Venture Agreement between Browman Development Company and the Petaluma Health Care District for the vacant Lynch Creek property. Board approval will occur at the February 23, 2011 Board meeting allowing the public the opportunity to present any concerns regarding this topic. Mr. Doss will prepare a press release regarding the Letter of Intent to Joint Venture for the Press Democrat and the Argus Courier.

President Adams asked for opinions from each Board of Directors. Responses included:

Director Steady: Complimented the Asset Management Committee and Board of Directors on an excellent due diligence process and would support moving forward with a joint venture as proposed.

Director Powell: Recognized the excellence of Browman Development Company and although concerned about the risk of losing the property is in support of this project.

Director Ostroff: Looking into the future, the PHCD will need to increase their income and while the District has never built a building, investments in bonds continues to go up and down, and in comparing the financial benefit the District would receive, supports the joint venture.

President Adams: This topic has been discussed for a long period of time and will provide the District with a revenue stream. Although there are risks involved, it appears to be the best opportunity for the District to increase cash flow.

Vic De Melo and Jim Stephens thanked the District for the opportunity to work together on a project and understand that a final vote will be made at the February 23, 2011 Board of Directors meeting.

Richard Abbey acknowledged Browman Development Company's integrity and honesty during this phase of the proposed project.

STRATEGIC PLANNING COMMITTEE REPORTS:

Asset Management Committee:

Daymon Doss reported an agreement has been reached regarding Cader Lane escrow deposit. Documents are in the process of being signed and submitted to release escrow funds to the owners of Cader Lane and the Petaluma Health Care District.

Petaluma Valley Hospital:

Jane Read, VP of Operations, Petaluma Valley Hospital noted Meditech issues continue to be worked through and are now focusing on the ED and Pharmacy Departments and how they interact with other units within the Hospital.

Ms. Read reported that census at PVH has recently increased but financials in December reflected a negative due to the installation costs associated with the Meditech system as well as a decrease in surgeries and an increase in charity care. Meditech expenses are being reviewed for appropriate distribution relative to costs.

Reports have indicated there was no significant increase in ED volume due to the recent promotion around patients being seen by a physician within 30 minutes of arriving in the ED.

Discussions on developing a system to notify primary care physicians when their patients arrive in the ED are ongoing.

Ms. Reid also noted the mammography equipment is still awaiting OSHPD approval.

Ms. Read reported staffing of a hospitalist will consist of one physician for the day shift and one physician for the night shift. As the current contract for locum coverage is due to expire in April, the plan is to implement a new program that allows PVH to grow and provide appropriate coverage. At this time, locum coverage is meeting the needs for all surgeries and patient health issues at PVH.

The CNA contract will be re-opened on February 7th relative to wages and on-call pay.

Daymon Doss attended the recent SRM Alliance Board meeting where an overview of St. Joseph Health System's overall plan was shared by Darrin Montalvo, EVP Chief Financial Officer of SJHS. Mr. Doss asked if this information could be shared with the District's Board of Directors.

Jane Read will research this request with Mich Riccioni.

Director Ostroff discussed concerns relative to the PVH Balance Sheet being managed reasonably well due to reasonable losses due to decreased census and decreased surgeries. It appears that a concrete plan to develop new programs, new businesses, recruiting new surgeons would increase census and/or surgeries and generate revenue. Dr. Ostroff stressed his interest in developing an area plan for the next six years of the Lease that could reverse the course so that managing the balance sheet could be more positive allowing PVH to look at increasing services instead of the current practice of reducing services.

Ms. Read noted the Regional Action Plan (RAP) is in process along with possible interest of orthopedic surgeons coming to our area. An intensivist is also being recruited to provide 24 hour coverage and to assure that patients are not being transferred from PVH to another facility.

Director Powell attended her first SRM Alliance Board meeting as the PHCD representative. At this meeting discussion ensued regarding estimation on federal stimulus return for meditech installation which should occur in 2012.

Director Steady questioned if meditech reimbursement funds (meaningful use repayment) will be sent directly to PVH or will funds go directly to SJHS. Director Steady noted the PVH budget states an increase in expenses due to the implementation of the Meditech system and as Administration looks to reduce costs due to this increase in expenses, will the monies be reimbursed directly to PVH and allow PVH to increase services with these monies.

Director Powell will clarify this request at the next meeting.

Director Powell discussed the balance sheet amount that PHCD owes SRM Alliance which is at \$1.4 million. Directors asked for clarification of this amount as previous records indicated the amount owed was at \$5.6 million.

Also discussed at the SRM Alliance Board meeting was an update on the list of fundraising equipment the Petaluma Valley Hospital Foundation is working on to secure. Items included a laparoscopic camera, arthroscopic cart, labor bed, EKG station, and remodeling of the ER lobby.

Hospital Stewardship Committee:

No meeting has occurred or is scheduled.

Joint Venture Committee:

Director Steady reported the next Regional Action Plan meeting is scheduled for Friday, January 21, 2011 from 1:00 p.m. to 3:00 p.m. An overview of a recent Health Information Exchange meeting will be on the Agenda as well as a report from Marin/Sonoma IPA relative to credentialing of physicians. An invoice for purchase services of infrastructure support and advertising costs of \$31,250 per District will also be distributed.

Lease Oversight Committee:

Director Ostroff noted the Lease Oversight Committee and the Joint Venture Committee will be merging and developing a new name.

The Lease Oversight Committee will be reviewing two bids from consultants that will assist to obtain a better understanding of the PVH financials as the District nears the end of the Lease with St. Joseph Health System.

Mr. Doss and Rick Nadale had a conference call with Wipfli CPAs and Consultants who have provided a proposal. The scope of services includes the following:

- Develop a projected income statement for the Hospital based on the District assuming the Hospital's operations from SJHS at the end of the current lease term.
- Identify the Hospital's existing market share and the competitive landscape to determine opportunities or challenges the District could face should the Hospital be operated independently by the District.
- Summarize the existing integration of staff and systems at the Hospital with SJHS to determine the extent of changes that would be needed in both systems and staffing should the District operate the Hospital independently.
- Present a report of findings at a special District Board meeting at a time to be determined later by mutual consent between the District and Wipfli.
- Present a report upon completion of the project (estimated completion date of March 31, 2011)

Upon receipt of the second proposal, a meeting of the new committee will be scheduled.

Mr. Doss recently met with Joel Criste, CEO Marin IPA to discuss and review the Prima OB program and review the organization and financials of Petaluma Women's Health.

Representatives from Prima OB took a tour of the Petaluma Women's Health office and appeared impressed with the location and operations of the practice.

Mr. Doss also met with Dr. Julie Clark and reviewed the two funding systems implemented to operate her practice. Mr. Nadale and Dr. Clark will be meeting next week to review financial data.

South County Mental Health Collaborative:

Mr. Doss noted South County Mental Health Collaborative met on January 20, 2011 with a presentation made by Dr. Gary Bravo on Medical Clearance for Mental Health Patients. A copy of his presentation was distributed to each Director.

Mr. Doss also noted that the Sonoma County Psych Facility located on Fulton Avenue is awaiting OSHPD clearance. This facility will be licensed for 96 beds.

CEO Selection Committee:

Director Adams noted the selection committee met with a potential candidate and at this meeting did not reach an agreement due to salary issues. The candidate contacted the Selection Committee requesting to meet to review a counter offer.

Discussion ensued with a motion made by Director Ostroff to submit an offer within the established salary range and a benefit package currently provided to PHCD employees. This motion was seconded by Director Steady and approval by a vote of 4 ayes and 1 absent.

Community Health Initiatives for Petaluma Area:

Director Powell noted this is a newly formed committee with herself and Josephine Thornton as participants on the Committee. A summary pertaining to the purpose of this committee will be presented at the February Board meeting.

PVH FUTURE PLANNING:

Director Adams noted that January 19th was the 14th year anniversary of the Lease between the Petaluma Health Care District and St. Joseph Health System. There are six years remaining on the Lease and this topic is designed to discuss the lease ending process. This is not designed to discuss changes to the lease but to address the process involved in ending the lease. For example, licensure, transfer of data, employees and to determine what is needed for the Board of Directors to make a decision about the future of the lease over the next six years.

Director Adams further explained that if for some reason the District takes back Petaluma Valley Hospital (PVH), there is a lot that needs to be completed that could not be accomplished in a short period of time. Specifics need to be developed in order for a smooth transaction to occur.

Director Adams noted that the current Board of Directors has a fiduciary responsibility to make sure that the hospital will be available to the residents of Petaluma and provide services to the community. St. Joseph Health System will have operated the hospital for 20 years, but the District is the elected body responsible for assuring the hospital is functioning to its fullest ability. Not only do we want to look at the end of the Lease but how do we work with St. Joseph Health System to develop business plans and projects that will benefit PVH now and in the future. The District only knows that a plan needs to be developed on how to move forward. In addition, there is no assurance that St. Joseph Health System (SJHS) is going to renew the lease.

Director Adams further stated that concerns have been voiced that PVH lacks a business plan with no strategic plan specific to PVH in place that outlines how SJHS will be growing the business over the remaining years of the lease. As previously discussed, concerns relative to loss of surgeries, decrease in census, and an organization chart that does not appear to focus on PVH need to be addressed.

As previously discussed in the meeting, the committee currently called the Lease Oversight Committee will be renamed as a Committee designed to develop a process for ending the lease. The Lease Oversight Committee has reviewed OSHPD data to evaluate costs, shared concerns with the SRM Alliance Board, and has discussed the ending of the lease with District Counsel and will be hiring a consulting firm to evaluate this process.

President Adams explained the need to establish a specific Agenda item each board meeting to provide time for the Board of Directors to discuss the end of the lease process and to allow community input.

Director Steady supported information obtained from the Committee be presented to the full Board noting that six years will go fast and decisions should be contemplated within the next year or so as well as obtain a better understanding where SJHS wants to be at the end of six years. In order to accomplish this, and not to be confrontational, discussions need to occur openly. Due to conflict of interest, discussions would need to be limited to eligible Board members.

Mr. Doss noted that Gregory Moser, Attorney will be conducting the bi-annual ethics training on Wednesday, March 2, 2011 reviewing conflict of interest issues.

Director Ostroff noted that SJHS has not presented their intention for the future or a clear explanation of why they took this lease or what their goals were at PVH. The SRM Alliance Administration changes every three to four years and with each change comes a new set of goals.

Director Ostroff further stated that ending a lease is difficult and there is a lot to be done. It will go much more smoothly if it was done collaboratively rather than in a rush six months before the end of the lease. At this time, there appears to be a good working relationship with PVH Administration and he recommends meeting with SJHS to see if they would like to re-lease with PHCD or if PHCD wants to re-lease with SJHS and review the next steps relative to the Lease so that this Board does not have to pass on the information to the next elected officials. The current

lease needs to be reviewed, opinions obtained on the process to move forward in a positive manner with all options available and to work collaboratively in the best interest of the hospital.

Director Steady reiterated that he supported discussing future plans of SJHS for PVH. The District needs to be prepared and in three years the negotiations could be different with the new health care reform laws.

Director Powell supported the hiring of consultants that could provide the necessary information for the Board to make a decision that will be in the best interest of PVH and the Community. Questions include if the District is capable financially to run a hospital and the development of a new lease. These are areas of needed expertise and the process needs to start at this time. Until the District determines what is best for the Hospital, SJHS can not be approached but hopefully experts can help us to make this decision. It is also unclear how to prepare the community for this transition and how to build up our reputation in the community.

Directors agreed that the Board needs to become educated on the development of plans for PVH and would like to work with SJHS in building new businesses that would support the hospital for the next six years and provide a beginning for the District if they were to take back the hospital.

After discussion, Directors recommended PVH Future Planning be an Agenda Item for all future Board meetings and discussed in closed session.

Daymon Doss distributed a section of the Lease Agreement (pages 23 and 24) regarding Acceptance, Surrender and Holding over of the Lease. Mr. Doss explained that when SJHS took over the hospital, they utilized PHCD's licensure until the transfer was completed. This section outlines the cooperation of transferring the Lease at the end of the lease period.

Daymon Doss is working with Gary Hicks regarding obtaining information on a parcel study and GO Bond information for the District.

WORK ITEM: REPORTS

Finance Report:

Richard Nadale reported on PHCD financials ending December 31, 2010. As of December 31, 2010 the Statement of Net Assets reflected assets of \$16,362,127 and liabilities and deferred revenue of \$3,283,385 leaving the net fund balance at \$13,078,742.

The year to date Statement of Revenue and Expense shows a loss of \$87,518 which is \$67,857 less than budgeted.

In December \$50,000 was borrowed from the District's bank line of credit to cover operating expenses.

PHCD operational loss from Petaluma Women's Health (PWH) in the month of December 2010 was \$397. The total advanced to PWH through December 2010 is \$522,695.

The District's rate of return on investments increased .05% to 5.16% for December 2010.

President Reports:

Director Adams reviewed the current Ongoing Task List noting no changes. Committee assignments were reviewed.

Director Powell noted that she will not be participating on the Asset Management Committee due to her recent appointment as the District representative to the PVH Board.

Information regarding ACHD/ALPHA Fund Legislative Day are scheduled for March 7th and 8th along with ACHD's annual meeting scheduled for May 11-13, 2011 was distributed. All interested Directors are to notify Suzanne if they would like to attend.

The Next PHCD Board meeting is scheduled for Wednesday, February 23, 2011.

CEO Report:

Daymon Doss reviewed with the Board upcoming events sponsored by the District as follows:

- Osteoporosis Panel with AAUW scheduled for January 25, 2011
- Eating Disorder Conference is scheduled for February 4 and 5, 2011
- The Community Health Foundation's Mardi Gras event Honoring Daymon Doss is scheduled for March 5, 2011

DISCUSSION OF PUBLIC COMMENTS:

There were no topics discussed.

NEXT STEPS:

No items were discussed.

ADJOURN:

President Adams adjourned the meeting at 9:50 p.m.

Respectfully submitted,

Stephen Steady, MD, Board Secretary

RECORDED BY:

Suzanne Cochrane, Board Liaison