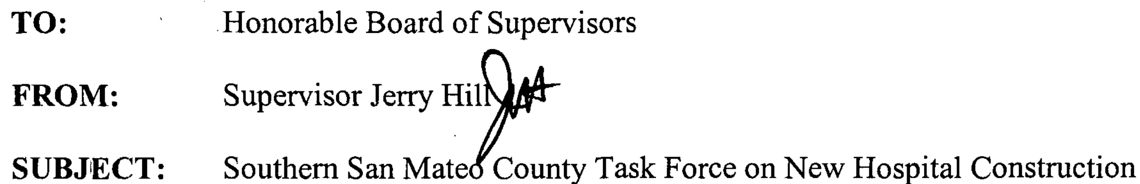
COUNTY OF SAN MATEO
Inter-Departmental Correspondence

Board of Supervisors

DATE: June 23, 2004

BOARD MEETING DATE: June 29, 2004



TO: Honorable Board of Supervisors

FROM: Supervisor Jerry Hill

SUBJECT: Southern San Mateo County Task Force on New Hospital Construction

Recommendation

Accept the Final Report from the Southern San Mateo County Task Force on New Hospital Construction.

Background

On December 16, 2003, this Board approved the creation of the Southern San Mateo County Task Force on New Hospital Construction (Task Force) in response to various proposals for construction of new hospitals in South County.

The goal of Task Force was to gather information from the affected communities and constituencies, develop a set of policy recommendations and share the findings with this Board, the cities and the various healthcare organizations in order to make more informed decisions. A grant was obtained from the California Healthcare Foundation to hire a consultant to plan and facilitate the meetings and produce the attached report. The Task Force was composed of members of the San Mateo County Board of Supervisors and City Councils representatives. The Task Force met over a period of ninety days in publicly noticed meetings held in various locations in South County to learn more about the proposals from industry representatives and to solicit community comments in "town hall" style gatherings.

Discussion

Initially the concern was the feasibility of building three new hospitals in South County without an apparent lack of need for more beds. Tied to this were questions about: the current and future shortages in nursing and ancillary healthcare workers and the ability to adequately staff these hospitals; impact on healthcare choice should one or more of these hospitals fail; scope and accessibility of services to be provided; and impact on San Mateo Medical Center.

During the course of the Task Force's work these and other issues were explored, and the attached report details those findings. While 90 days and five meetings is hardly enough time to delve deeply into an issue as complicated as healthcare, a number of issues arose which may require future work and oversight by the Task Force or this Board.

Sequoia Healthcare District – The District was invited to present at the first Task Force meeting so that we could better understand the relationship with Sequoia Hospital, the corporate partner Catholic Healthcare West (CHW), and the non-profit created to govern the hospital Sequoia Health Services. With a new Palo Alto Medical Foundation (PAMF) hospital proposed within the District's jurisdictions, the District's future role and function were also subject to question.

What we learned is that the District was created to build and operate a community hospital, but that charge has been completed and operation of Sequoia Hospital is in the hands of CHW. After Sequoia Hospital's affiliation with CHW in 1996, the District has continued to collect taxes and distribute funds to non-profits that provide healthcare services within the District's boundaries.

Some of the questions that must be addressed include:

- Should the Sequoia Health Care District continue to distribute funds as it has been doing, e.g., investing funds philanthropically?
- Should voters be allowed to decide the District's future direction?
- The District was formed to guarantee a community hospital within its boundaries. If one or more hospitals are already meeting the needs of the community, should tax dollars be spent on supporting one hospital over another?
- Should decisions made for the Sequoia District also apply to the Peninsula Healthcare District?
- Should some or all of District funds be devoted to charity care?
- Should other avenues for distribution of funds be chosen?

Charity Care – As the meetings progressed, the Task Force became aware of the disparity in providing healthcare to the indigent in San Mateo County. San Mateo Medical Center provides 95% of the indigent care in this County. In contrast, San Francisco General Hospital provides 78% of the charity care. This is care that is not subsidized by private insurance, Medical, Medicare or any other type of reimbursement. Charity care is provided without the expectation of compensation. Given the San Mateo Medical Center's fiscal situation, shared statewide by county-operated hospitals, providing this amount of charity care is an even greater financial burden.

However, the Task Force also learned that even though all the healthcare organizations that provide service to San Mateo County are not-for-profit, their behavior and tactics are competitive and profit motivated. As non-profits, they benefit from a tax-exempt status and in recent years they have experienced a very health "profit." They do provide many programs, health education activities and financial support that benefit the community. But charity care, which would be of great assistance to the broader community and the San Mateo Medical Center, is lacking.

This County, through the creation of the Health Plan of San Mateo, the reconstruction of the San Mateo Medical Center, and the launch of the Children's Health Initiative, has made a commitment to providing a standard of care in good time as well as bad. Each and every local hospital should be expected to participate in providing charity care in the County as part of its mission as a non-profit entity and to help maintain that standard of care. This Board should seek, if needed, appropriate measures to require public reporting of charity care. And if needed, this Board should also seek appropriate legislative remedies to ensure that all local hospitals participate in providing charity care in the County as part of their mission as non-profit entities.

Vision Alignment

Approval of this recommendation would further the County's following commitments:

- Ensure basic health and safety for all and goal # 5 that Residents have access to healthcare and preventative care
- Responsive, effective and collaborative government and support Goal #20 that government decisions be based on careful consideration of future impact rather than temporary relief or immediate gain.
- Leaders work together across boundaries to preserve and enhance our quality of life and goals #23 Leaders throughout the County provide the impetus for broader regional solutions in land use, housing, childcare, education, health and transportation and #25 Residents express their support for regional, collaborative approaches to issues.

Fiscal Impact

No Fiscal Impact

Board of Supervisors
County of San Mateo
Interdepartmental Correspondence

To: Honorable Board of Supervisors, County of San Mateo
From: Southern San Mateo County Task Force on New Hospital Construction
Re: Final Report on New Hospital Construction in Southern San Mateo County
Date: June 14, 2004

Executive Summary

This report presents the results of the Southern San Mateo County Task Force on New Hospital Construction. This summary highlights those results, including, first, factors driving new hospital construction, and second, Task Force recommendations.

There are four significant factors influencing new hospital construction: State law; the need to integrate new technologies and achieve new efficiencies; demographic changes; and economics.

- First, State law requires all California hospitals meet new seismic safety standards by 2013.
- Second, hospitals built decades ago are inefficient for delivering care with today's technologies.
- Third, the aging of the Baby Boomer generation creates new demands that hospitals must address.
- Fourth, economic factors affecting hospital planning include the rising cost of health care and the difficulty of finding enough doctors, nurses, and other medical professionals who can afford to live in or near San Mateo County.

Millions will be spent in rebuilding acute care facilities. Decisions made in the next few years will affect health care for multiple generations of San Mateo County citizens.

Given that background, the Task Force has identified four broad issues facing public leaders and hospital executives in Southern San Mateo County. Those issues are clarifying public interests regarding Sequoia Healthcare District funding; ensuring a workforce adequate in size and skill to meet future needs; providing access to affordable health care services, including particularly charity care; and monitoring the impact of future hospital construction or closure on health care access and cost.

This report discusses each of these issues in detail further below. In summary, here are Task Force recommendations regarding each of these four issues:

Sequoia Healthcare District

1. If one or more hospitals can be built in the District and without District assistance, the District should initiate a public dialogue on the District's future.

Workforce

2. All hospitals should consider ways to encourage the creation of workforce housing.
3. All hospitals should consider collaborative investments in workforce training and development.
4. Sequoia Health Care District should explore more options to further develop the workforce.

Charity Care

5. The County should create a vehicle that includes all hospitals in order to dialogue as a group and see how the charity care issue can be resolved.

Impact of New Hospital Construction

6. If future hospital construction or closure adversely affects health care access or cost, the Task Force on New Hospital Construction should reconvene to evaluate the impact.

The rest of this report consists of the following parts: an introduction to the project; a discussion of key elements of community interest regarding hospital construction plans; Task Force recommendations; and an appendix listing supporting documents available on the County of San Mateo website.

Introduction

Background

State law (Senate Bill #1953, Statutes of 1994) requires all hospitals in California to meet new seismic safety requirements. The deadline for meeting these requirements has been extended to 2013, with additional changes required by 2030. In San Mateo County, only the San Mateo Medical Center already fully meets the standards set for both 2013 and 2030. To meet these new standards, Kaiser Permanente Redwood City and Sequoia Hospital are rebuilding their facilities. At the same time, the Palo Alto Medical Foundation is planning to build a first time acute care facility in San Carlos.

As hospitals embark on spending hundreds of millions building new facilities, the County's prime concern is that separately planned projects meet the collective needs of the community. Specific community concerns include the following:

- The ability to adequately staff these hospitals in light of current and projected shortages in physicians, nurses and other licensed health care workers.
- Scope and accessibility of services to be provided by these hospitals

- Impact of increased competition on San Mateo Medical Center
- Impact on healthcare choice and cost should one or more of these hospitals fail
- Impact on taxpayers

County leaders and the public want residents to have easy geographic access to quality health care within the County, or not have to travel great distances outside the County for care. All want this health care available at a reasonable cost. Accordingly, County leaders want to see fair competition among the hospitals serving Southern San Mateo County. Given economic and demographic realities, some constituencies are concerned that if one or more providers come to dominate the market, this could drive up costs for the public.

Description of the Project

Charter. To understand these issues, the San Mateo County Board of Supervisors on December 16, 2003 passed a resolution chartering the Southern San Mateo County Task Force on New Hospital Construction (for a copy of the resolution, please see Attachment #1). The objectives of the Task Force were to gather information, develop a set of policy recommendations, and share its findings with local government agencies and healthcare organizations. Its overall goal is to support well-informed decisions that assure quality health care for San Mateo County.

Membership. The Task Force was chaired by San Mateo County Supervisor Jerry Hill. In addition to Supervisor Hill, the Task Force included Supervisor Rich Gordon, Supervisor Rose Jacobs Gibson, and representatives of five of the eight communities affected, as follows:

- Belmont: Mayor George Metropulos.
- Menlo Park: Mayor Lee Duboc
- Redwood City: Councilmember Diane Howard
- San Carlos: Vice Mayor Inge Doherty
- Woodside: Councilmember Dave Tanner

Public Meetings. The work of the Task Force unfolded in five public meetings, which took place between February 4 and April 29, 2004. Meeting agendas are described below; notes for each meeting found in the appendix; and copies of all presentations are found in the attachments.

- *Meeting #1, February 4, 2004.* This meeting had three key parts: the introduction of Task Force purpose and process; a presentation by Wanda Jones, Consultant, of the acute health care picture in San Mateo County, both current and future (Attachment #2); and a presentation by the Sequoia Healthcare District, which covered their history, current mission, and the organizations that benefit from tax funds that they distribute (Attachment #3). At the end, the Task Force identified questions of interest for future sessions and asked for the addition of presentations by Lucile Packard Children's Hospital, San Mateo Medical Center, and Stanford

Hospital and Clinics. Public comment followed the presentations. Meeting #1 notes are included in Attachment #4.

- *Meeting #2, February 26, 2004.* Prior to this meeting, Task Force questions from Meeting #1 were distributed to hospital presenters so that they could respond to them, if they chose to do so. This meeting featured presentations by Kaiser Permanente Redwood City Medical Center (Attachment #5); Palo Alto Medical Foundation / Sutter Health (Palo Alto Medical Foundation declined to provide a soft copy of its presentation); and Catholic Healthcare West/Sequoia Health Services (Attachment #6). Each hospital provided an overview of their building plans and responded to Task Force questions. Public comment followed the presentations. Meeting #2 notes are included in Attachment #7.

- *Meeting #3, March 18, 2004.* Again, prior to this meeting, the Task Force questions from Meeting #1 were distributed to hospital presenters so that they could respond to them, if they chose to do so. Similar to Meeting #2, presentations were made by Lucile Salter Packard Children's Hospital (Attachment #8); San Mateo Medical Center (Attachment #9); and Stanford Hospital and Clinics (Attachment #10). Public comment followed the presentations. Meeting #3 notes are included in Attachment #11.

- *Meeting #4, April 8, 2004.* The format for Meeting #4 was a roundtable dialogue between Task Force members and hospital executives to explore six possible future scenarios. This format gave these parties an opportunity to look at the system-wide impact and interactions of various building and market scenarios. Some long-range questions regarding community interests were also posed to the hospitals. Public comment followed the dialogue. Meeting #4 notes are included in Attachment #12.

- *Meeting #5, April 29, 2004.* This final meeting began with public comment to allow the Task Force to hear community comments and concerns prior to discussion of any recommendations. The remaining long-range questions from the previous meeting were posed to hospital representatives. The Task Force discussed and considered a menu of possible recommendations and refined those that would be included in this final report. Meeting #5 notes are included in Attachment #13.

With the above introduction as background, we turn now to a discussion of what the Task Force learned about changing needs, hospital plans, and the key issues facing the County, taxpayers, and hospital executives.

<u>Changing Needs</u>

Even without the State's seismic upgrade requirements, most hospitals would have to rebuild their facilities to deliver efficient, state-of-the-art health care in the 21st century.

First, changes in technology and in the practice of health care make it expensive and inefficient to provide care in old structures. Such changes include the following:

- *New standards for accessibility.*
- *Increased regulatory requirements.*
- *Scientific and technological innovations.* Most accidental deaths in hospitals are due to medication errors, and these errors are often a byproduct of manual record keeping and outdated information technology systems. New systems make it possible to save lives.
- *Healthcare practice changes.* These changes include a greater demand for single patient rooms; the need to configure rooms more flexibly; and the need for more space and equipment when providing higher acuity care and care that relies on combined modalities and multiple high-tech procedures.

Equally significant are demographic changes. As hospitals and the County consider the future, a central question is, "What will be the future need for acute hospital capacity in San Mateo County?"

Currently, the population of San Mateo County is about 707,000 people. Of that, about 76,000 people are hospitalized each year, which is about 11% of the County's population.

Looking to the future, at the state level, by 2030 the population of California is expected to double. Locally, as of the last census in 2000, the population of San Mateo County was expected by 2005 to increase 6.7%, and by 2030, by 10.7%. However, the percent of the population that is over 65 is expected to more than double between the years 2000 and 2030, or a 108% increase. These County trends reflect national trends.

The overall population is aging. In the 20th century, longevity increased by 45 years. Seniors are accounting for a growing share of national acute care admissions. Nationally, the oldest of the old, those 85 and older, is the fastest growing segment of the population. For example, by 2010 the oldest old (85+) in San Mateo County will total about 17,000. Moreover, by 2030, those 65+ in San Mateo County will account for 27% of the total County population! The aging of the Baby Boomer generation and its impact on the make up of the population of San Mateo County will dramatically change the demand for healthcare in the County.

Conclusions

In summary, three conclusions stand out.

- Separate from State seismic requirements, most hospitals, either now or soon, need new facilities to deliver cost-effective, quality healthcare.
- The growth in the total population of San Mateo County will create greater demand for health care services of all types.
- The aging of the Baby Boomer generation will create greater demand for acute and chronic care hospital beds and other services for the aged.

Hospital Plans

To meet the needs of a population changing in size and age, keep pace with changes in health care practices, and take better advantage of space and technology, planning is underway at all hospitals serving Southern San Mateo County. In many cases, these plans involve reconfiguring their number of beds. Please see below Table 1, "Licensed Acute Care Beds Now and Planned in Hospitals Serving Southern San Mateo County."

Hospitals in Southern San Mateo County

Kaiser Permanente Redwood City has a 5-phase plan through 2025. The first two phases are the most significant parts of the plan. Phase One consists of building a Clinical Services Building. Phase Two consists of building the Hospital and Central Utility Plant; the Administrative, Clinic, and Wellness Building; a parking structure; and a central open space and Redwood Creek walkway, all by 2011. By 2025, Kaiser projects that KPRC members will increase from 100,000 to 121,000, employees from 1,400 to 1,600; and physicians and providers from 185 to 201. Licensed beds will decrease from 209 to 192.

Table #1
Licensed Acute Care Beds Now and Planned
in Hospitals Serving Southern San Mateo County

Hospital	Now	Planned
Southern San Mateo County		
Kaiser Permanente Redwood City Medical Center (KPRC)[1]	209	141
Palo Alto Medical Foundation (PAMF) / Sutter Health[2]	0	110
San Mateo Medical Center (SMMC)[3]	100	100
Sequoia Health Services (SHS)[4]	250	130
Northern Santa Clara County		
Stanford Hospital and Clinics (SHC)[5]	625	625
Lucille Salter Packard Children's Hospital (LPCH)[6]	264	303
Totals	1,448	1,409

Palo Alto Medical Foundation is planning to locate its new acute care facility in San Carlos. Palo Alto Medical Foundation's plans include a full range of inpatient and outpatient services, including emergency services, cardiovascular services, and urgent

[1] The planned 141 total is for *only* acute care beds; per KPRC email 5/10/04.
[2] The planned 110 total is for *all* beds (acute care sub-total not available); per PAMF email 5/12/04.
[3] The 100 is for *active* acute care beds (not included: 34 acute care beds suspended from use); per SMMC telephone communication 5/27/04.
[4] Both totals include *only* acute care and psych beds (not included: 115 acute care beds suspended from use); per SHS email 5/9/04.
[5] The 625 total is *all* beds (acute care sub-total not available).
[6] Both totals include *all* beds (acute care sub-total not available); per LPCH email 5/13/04.

care 365 days a year. These plans will enable them to provide integrated care for patients, and the new facility will add 110 new licensed beds within the County.

San Mateo Medical Center already meets the new seismic requirements, so no rebuilding is planned. It has 529 licensed beds, with 228 of those on the main campus. It currently has unused bed capacity.

Sequoia Health Services has just announced its building plans. It projects total licensed acute care beds will go from 421 to130.

Hospitals in Northern Santa Clara County

Neither Stanford Hospital and Clinics nor Lucille Salter Packard Children's Hospital require major rebuilds. Both, however, are planning minor upgrades and expansions over the course of the next few years, primarily to improve patient services and conveniences. Stanford Hospital and Clinics serve approximately 190,000 patients from the eight southern San Mateo cities and employs 1,000 residents of those cities. Neither hospital expects any change in its total licensed beds.

In the event that beyond 15 years more beds are needed, all hospitals anticipate undertaking incremental expansions if and when required.

Discussion

In reviewing these plans, either individually or collectively, it is important to note the following. The current number of licensed beds in this community was based on the population 40-50 years ago. Since then, there has been a shift to outpatient care and shorter lengths of stay. Consistent with that, current hospital building projects are reducing beds and changing configurations of rooms to better serve current and future patient needs. The Task Force finds that the number of beds projected will be generally right-sized for the anticipated County population over the next 15 years.

Whatever the longer-term demand may be, in the shorter term the addition of another hospital serving Southern San Mateo County will affect each hospital's market share. For example, Palo Alto Medical Foundation's projected business model assumes the addition of 50,000 patient lives. Some of this growth may come from incremental population growth, but most of it would likely come from increased market share. The net result could be more hospitals but weaker hospitals.

While the bed numbers that hospitals are projecting appear to be right-sized, there are wild cards that cannot be predicted. Robust planning beyond 10 years is hard to achieve because of the uncertainty of the future of health care. Those uncertainties include the following:

- What will be the needs of the Baby Boom population? No one has experience caring for an aged population as large as the Baby Boomers generation, and Baby

Boomers have consistently challenged and changed American society. Today's trend is toward more consumer-driven health care.

- What affect will new technologies have on length of stays? Technological developments may greatly reduce the need for hospital stays. For example, in the future heart disease may be treated with pills—in other words, we may have more clot busting, and less surgery. Chemotherapy may become an in-home treatment.

- What about universal health care? If adopted, universal health care could significantly alter demand. Under universal health care, the County might not need a *public* hospital.

Conclusions

In summary, the following conclusions stand out.

- Today, Southern San Mateo County has more acute care hospital beds than it needs.
- However, the number of hospital beds planned for Southern San Mateo County looks right-sized for the anticipated County population over the next 15-20 years.
- Wild cards that make it difficult to plan beyond 15 years include the impact of the Baby Boomer generation, new technology, and, if adopted, universal health care.
- In the event that beyond 15 years more beds are needed, all hospitals anticipate undertaking incremental expansions if and when required.

Having completed the above discussion of changing needs and hospital plans, we turn now to a discussion of the three key issues the Task Force identified facing taxpayers, hospital executives, and County leaders.

Sequoia Health Care District: Taxpayer Interests and Public Policy Issues

The purpose of this section is not to analyze District funding in detail, but instead to summarize key issues and present Task Force conclusions and recommendations.

Discussion

The District is funded by property tax revenue and now has (as of the close of 2003) assets of $64.7 million. When the District was formed, it both owned and operated a hospital. Today it does neither. The intended purpose of the tax supporting the District does not reflect the current reality of how that money is spent. In 2002, the San Mateo County Civil Grand Jury stated their belief that "District voters were unaware they were still being taxed to maintain a hospital that the District does not own."

Instead, the District uses taxpayer dollars to make grants to Sequoia Hospital and other community health organizations. These organizations include, among others, Children's

Health Initiative, Samaritan House Redwood City Medical Clinic, and Baccalaureate Nursing Program.

Catholic Healthcare West (CHW) has stated that they would like to continue to receive funds from the Sequoia Healthcare District, but that if CHW does not receive those funds, CHW's rebuilding plans will continue to move forward without them.

The District's current situation raises the following questions:

- Should taxpayer money continue to be spent in the form of philanthropic grants; or, should it be used to address the other health care gaps discussed in this report, such as the gap in charity care?
- Is the District model outdated and should the District continue to exist? Districts were initiated some 50 years ago in order to assure the presence of a quality community hospital within its jurisdiction. If there is another alternative (or in this case, multiple alternatives) in the community, should a District be providing funds to a community hospital in order to compete with other quality options? In sum, the district structure may no longer make sense for San Mateo County.

Conclusions

In summary, the following conclusions stand out.

1. The District has both reserves and tax income that are not being used for what is intended under its charter; its current mission is Board driven, not charter driven.
2. Catholic Healthcare West is planning to build new hospital facilities with or without support from Sequoia Healthcare District, and Palo Alto Medical Foundation is planning to build a new hospital in the County without Sequoia Healthcare District help.

Recommendation

The Task Force recommends the following:

- If one or more hospitals can be built in the District and without District assistance, the District should initiate a public dialogue on the District's future.

<u>Workforce: Future Workforce Supply</u>

Most of the cost of operating a hospital is labor. If workforce shortages exist and hospitals compete for labor by raising pay, the cost of health care will go up. For example, in 2000-2001, operating costs for hospitals went up 8-9%, and labor accounted for 70% of the increase. Being able to compete for, recruit, and retain a workforce is key for any hospital. Hospitals compete in the recruitment of physicians; and in the recruitment and training of nurses and other licensed health professionals.

Physicians

The relationship of physicians and hospitals is symbiotic, so physician recruitment is a critical part of the success of any hospital. Several factors require hospitals competing in Southern San Mateo County to have a clear strategy in place to assure their ability to retain and recruit physicians.

First, recruitment of physicians in San Mateo County is a particular challenge for every hospital because of the high cost of housing. A typical single-family home in the County requires an annual income of about $133,000.

A second important factor affecting hospital planning is the aging of the physician workforce in the County. The average age of all physicians in the County is 52. However, in Southern San Mateo County hospitals, the average age is slightly lower. For example, at Kaiser Permanente Redwood City, the average age is 43. At San Mateo Medical Center, the average age of all physicians is 46. At Sequoia Health Services, the average age of primary care physicians is 47, and for specialists, it is 48. In the other three institutions serving Southern San Mateo County, the average age is similar; for example, at Palo Alto Medical Foundation, it is 43. As the general population ages, so too will the physician workforce.

Third, the hospitals serving Southern San Mateo County vary in their physician recruitment models. Kaiser Permanente and Palo Alto Medical Foundation have strong group practice models that allow them to recruit and retain their physician workforce. Packard and Stanford have academic affiliations, which essentially provide them with a captive audience.

Sequoia Hospital uses a traditional community physician model, which relies on community doctors in independent practice. While this model has been highly successful in the past, it may or may not work as well in the future. It may limit Sequoia's ability to replace medical staff as they retire and to compete with other hospitals in a tighter labor market.

Another challenge facing Sequoia is that Palo Alto Medical Foundation has signed a letter of intent (LOI) with the cardiovascular group that has practiced at Sequoia for many years. The Sequoia Health Services cardiovascular program has accounted for 40% of the hospital volume and 90% of its profits. The LOI allows the physician group to continue practicing at Sequoia Health Services, but it could shift significant market share from Sequoia Health Services to Palo Alto Medical Foundation.

More than any other hospital, San Mateo Medical Center would feel the pressure of difficult workforce recruitment. They are tied to County compensation schedules, are heavily subsidized to provide indigent care, and hence would be unable to compete in a salary bidding war.

Nurses and other licensed health care professionals

The same challenges facing hospitals in competing for physicians also face them in competing for nurses and other licensed health care professionals. What makes the challenge harder is that workforce shortages already exist in these health care professions--both in the Bay Area and nationally--and are expected to become worse over the coming years.

Illustrative of the situation is the shortage in nursing. Nationally, the Health Care Advisory Board reports that (depending on whether one assumes conservative, moderate, or aggressive growth in the need for nurses) between 18% and 78% more Registered Nurses will be needed by 2010. California is already worse off than other states in that out of all 50 states, it ranks next to last in the number of registered nurses per capita.

This nursing shortage will become worse due to four factors.

- First, the State now requires a higher ratio of nurses to patients.
- Second, nurses are getting older: the average age of nurses in California is 47, but projections are that in the Year 2010, 40% of all Registered Nurses will be age 50 or older.
- Third, as new medical technology becomes available, that increases the need for workers trained in that technology.
- Fourth, when Baby Boomers reach the age when they need hospital care, their larger numbers will demand more nurses. About that time, however, the number of registered nurses is anticipated to decline significantly.

Many more licensed health care professions also face shortages. In the Bay Area, in addition to the nursing positions, health care positions that are particularly hard to fill include the following: pharmacist, clinical laboratory scientist, medical laboratory technician, radiological technologist, radiation therapist, medical sonographer, X-Ray technician, nuclear medicine technician, personal and home health care aide, and office support professionals, including medical transcriptionist and medical records coder.

Again, as in the case of physicians, making these workforce shortages even more difficult to address in the Bay Area and San Mateo County is the high cost of housing. For example, a two-bedroom apartment in the County requires an annual income of $56,000.

Today, hospitals are managing with some difficulty to fill such positions. However, the addition of another hospital (Palo Alto Medical Foundation) in Southern San Mateo County will increase competition for these professionals. If hospitals have to pay more for these professionals, that will result in higher cost of care for all. The worst impact of rising workforce costs will be felt by San Mateo Medical Center, as it cannot compete with the private sector on compensation and most benefits. The retirement program available at San Mateo Medical Center is generous, but people have to be here long enough to get it. Many young nurses care more about salary than long-term retirement benefits.

Workforce Development Pipelines and Recruitment

In the face of these shortages, what are hospitals doing, and what more can they do?

Currently, hospitals use various approaches to attract, train, and retain the medical and health care professional staff that they need. Some, such as Palo Alto Medical Foundation, have strong vocational training partnerships with local community colleges. Some compete with sign-on bonuses. Some, such as Sequoia Health Services, recruit globally. While many hospitals have previously solved part of their nurse shortage problem this way, the shortage ahead will be local, national, and worldwide.

Given that, local training and education efforts become all the more important. Most schools have expanded their nursing programs, but it is still not enough. Inadequate to meet today's needs, they certainly will not meet the anticipated future need.

Conclusions

In summary, the following conclusions stand out.

- The County and Bay Area face serious current and projected workforce shortages in medical, nursing, and many other health care professions.
- The high cost of housing in the Bay Area contributes to the difficulty of recruiting and retaining health care staff at all levels.
- Current training and educational programs for nurses and other health care professionals are inadequate to meet current and projected needs.

Recommendations

In light of the above, the Task Force recommends the following:

- The County should encourage all hospitals to participate in the creation of workforce housing.
- All hospitals should consider collaborative investments in workforce training and development.
- Sequoia Health Care District should explore more options to further develop the workforce.

<u>Access to Services</u>

San Mateo County residents have access to outstanding medical care. The diversity and quality of the six major medical institutions serving Southern San Mateo County is exceptional. All six institutions made two different presentations to the Task Force, and the Task Force is especially appreciative of their support for its effort.

In looking at access, the Task Force looked at five areas: range of services available, geographic access, emergency room access, meeting multicultural needs, and access to

charity care. Of the five, charity care is the area in which the County faces the most significant challenges. Comments on each of the five areas are as follows.

Range of Services

Together, the six major medical institutions serving Southern San Mateo County offer a rich range of choices in all aspects, including cost and types of care available, all of it high quality. Here are highlights of what each institution offers. For more detail, see the attached hospital presentations.

- Kaiser Permanente provides pre-paid care. Through its hospital, health plan, and medical group, Kaiser provides comprehensive, integrated health care services with an emphasis on prevention and wellness. Kaiser Northern California has received many awards for excellence, including the highest overall marks for clinical care by California Cooperative Healthcare Reporting Initiatives in 2003.

- Lucille Packard provides internationally recognized hospital and clinical services in pediatrics and obstetrics. Its six Centers of Excellence include centers for Brain and Behavior, obstetrics and neonatology, Cancer, Cystic Fibrosis and Pulmonary Disease, Heart, and Transplant and Tissue Engineering.

- PAMF provides integrated care through the resources of a large medical group. It has a tradition of innovative firsts, including the first outpatient surgery center on the West Coast, and has received many awards, including the 2003 Winner of the e-Healthcare Leadership Award. It has made significant research contributions in many fields, and is one of the top 15 independent research institutes in the U.S.

- San Mateo Medical Center is the Safety Net provider of health care for San Mateo County residents, providing 95% of the charity care in the County. It provides a wide range of services, including senior care, long term care, clinical research and trials, surgery, standard and psychiatric emergency, inpatient psychiatric, rehabilitation, radiology, and the Keller Center for Family Violence Intervention.

- Sequoia Health Services provides full medical and surgical services, including Emergency Room services, and is distinguished by its Cardiovascular Center of Excellence, and Women and Obstetric Center of Excellence. In 2003 and 2004, it received the HealthGrades Distinguished Hospital Award as #1 in California for Cardiac Care, and #1 Emergency Room in 2002 by California Emergency Room Physicians.

- Stanford Hospitals and Clinics is a teaching hospital with a huge staff that provides a full range of the most advanced medical services. It has received numerous awards and honors: for example, in 2003 the National Research Corporation awarded it the "Consumer Choice Award" for the 5th year in a row, and the Bay Area "Preferred Hospital" award for the 4th year in a row.

Geographic access

Southern San Mateo County residents have easy geographic access to hospital-based health care. When most hospitals were built, El Camino Real was the primary traffic corridor on the Peninsula. As a result, most hospitals were built in what have since become residential or suburban neighborhoods. Now the primary corridors are Highways 101 and 280, but all hospitals are easily accessible from both.

The Task Force discussed with hospital representatives the former Bay Meadows racetrack as a possible hospital site. This location has the advantage of being central to the entire County. The site is large enough either for the new Sequoia Health Services hospital, or for a combined hospital for the two Sutter affiliates, Mills-Peninsula in the North County and the new Palo Alto Medical Foundation facility in South County. However, this site does not fit hospital plans: Sequoia will use its current site, to serve its existing client base in and around Redwood City; and Palo Alto Medical Foundation will build in San Carlos, to serve existing and future clients in Southern San Mateo County.

Emergency services

Kaiser, San Mateo Medical Center, Sequoia, and Stanford all provide emergency room service. Lucille Packard does not. Palo Alto Medical Foundation does not in its clinic, but will in its new hospital. It should be noted that emergency services are not mandated to be part a hospital's service offerings. Emergency departments are expensive to run, so there is no guarantee in the future that they would always be part of every facility. If a hospital has an emergency room, then by law it is required to provide emergency services to all patients who arrive there.

Meeting Multicultural Needs

All hospitals participate in regular 3-year assessments of community needs, and all have various programs in place to address needs significant in the communities they serve. For example, all hospitals have medical, nursing, and other health care professionals on staff that speak multiple languages, particularly those most common in the populations they serve. In addition, all have arrangements that allow them to provide interpretative services for emergency, clinical, and administrative needs.

More significantly, each institution has programs designed to address important needs of specific community groups, although the groups served vary from one institution to the next. For example, Kaiser provides support to the San Mateo County Children's Health Initiative. Palo Alto Medical Foundation has a program focusing on diabetes in the Latino community. Sequoia has programs for kids in smoking and obesity, and one for seniors on fall prevention.

The above examples are only a few of many that all six institutions mentioned in their presentations to the Task Force at Meeting #5, April 29, 2004. For more detail, please see Attachment #13.

Charity care

As the Task Force did its work, charity care emerged as a far more significant issue than the Task Force realized when it began. *Providing charity care poses the most significant challenges to the County in continuing to provide access to health care for all residents.* These challenges come about as a result of the intersection of legal requirements, government funding limitations, rising costs, and increased workforce competition.

In looking at charity care, the Task Force identified three key questions:

1) Who should pay for indigent care?
2) If not paid for by District taxes, should other taxes be levied to support indigent care?
3) Are there other funding models that should be pursued?

Consistent with legal requirements, San Mateo County is committed to assure access to health care services for all residents of the County. California Welfare and Institutions Code Section 17000 defines the obligation of all counties and cities to provide medical care for residents without other means of support:

> *"Every county and every city and county shall relieve and support all incompetent, poor, indigent persons, and those incapacitated by age, disease, or accident, lawfully resident therein, when such persons are not supported and relieved by their relatives or friends, by their own means, or by state hospitals or other state or private institutions."*

The citizens of San Mateo County have already committed to the current level of care and support in both bad times and good times, by virtue of rebuilding San Mateo Medical Center several years ago.

The term charity care as used here means *unreimbursed* care. It is not *under-funded* care, such as Medi-Cal. In San Mateo County, charity care has been born almost exclusively by the County. San Mateo Medical Center provides 95% of charity care in the County. To help provide this care, San Mateo Medical Center receives an annual subsidy from the County General Fund, which for the most recent year totaled $52M.

This status quo is not sustainable for San Mateo Medical Center. San Mateo Medical Center's payer mix is 97% government funded. Given threats to County, State, and Federal government funding, and the County's specific financial problems, the revenue stream is very much in jeopardy. In order for San Mateo Medical Center to continue, it will have to find new sources of revenue. Or, alternative means of funding must be provided: such alternatives might include additional taxes, cash support from private hospitals, in-kind contributions, etc.

Historically, as non-profit institutions, many with a religious affiliation, nearly all hospitals participated in providing charity care. Over time, this behavior has shifted.

Today, most hospitals are maintaining their non-profit status by contributing to the community for the community's benefit. Examples include participation in health fairs, community education, mobile vans, etc. They are doing this in lieu of any significant contribution to charity care, despite logging high profits and maintaining large reserves. For an indication of the relative magnitude of these net gains and fund balances, see Table 2, "Net Gain (Loss) and Fund Balance of Hospitals Serving San Mateo County."

Table #2
Net Gain (Loss) and Fund Balance of Hospitals Serving San Mateo County[1]

Hospital	*Net Gain (Loss)*	*Fund Balance*
Kaiser Foundation Health Plan (KFHP)	$70,000,000[2]	N.A.
Palo Alto Medical Foundation (PAMF)[3]	6,719,586	$231,790,579
San Mateo Medical Center (SMMC)[4]	(54,521,440)	0
Sequoia Hospital (Sequoia Health Services)[5]	15,643,320	31,122,437
Stanford Hospital and Clinics (SHC)[6]	13,224,385	168,792,102
Lucille Salter Packard Children's Hospital (LPCH)[7]	100,754,031	316,027,309
Seton Hospital	N.A.	N.A.
Mills-Peninsula[8]	22,930,589	87,269,776

Conclusions

With regard to access to hospital-based medical and health care services, particularly charity care, the Task Force reached the following conclusions:

- Because of increasing costs, decreasing government funding, and increasing workforce competition in the face of workforce shortages, the County will soon face a major crisis in its ability to rely on San Mateo Medical Center as a safety

[1] For consistency, the most recent data from Guidestar.org (an online financial database for non-profit organizations that compiles data from IRS Form 990) is used, unless another source is noted. The abbreviation "N.A." is used if data was not available. Net gain/loss is based on Revenue minus Expenses. Fund balance is based on Assets (cash & equivalent, accounts receivable, pledges & grants receivable, other receivables, inventories for sale or use, investment securities, other investments, fixed assets and other) minus Liabilities (accounts payable, grants payable, deferred revenue, loans & notes, tax exempt bond liabilities and other).
[2] Per KFHP press release 2/28/03, for year ending 12/31/02. Profit for previous year ending 12/31/01 was $681,000,000. Break out sub-total for Kaiser Permanente Redwood City and South San Francisco not available.
[3] Per Guidestar, for year ending 12/31/01.
[4] From OSHPD Hospital Annual Disclosure Reports, for CY 2002.
[5] Per Guidestar, for year ending 6/30/02.
[6] Per Guidestar, for year ending 8/31/02. Per SHC press release 12/17/03, profit for year ending 8/31/03 was $36,000,000.
[7] Per Guidestar, for year ending 8/31/02. Per LPCH press release 12/17/03, profit for year ending 8/31/03 was $60,200,000.
[8] Per Guidestar, for year ending 12/31/02.

net provider. SMMC provides a range of services that other institutions cannot, either individually or collectively.
- While other hospitals cannot be expected to bear the full burden of unreimbursed care, neither can they legitimately distance themselves from participating in the solution.

Recommendations

In light of the significant crisis that will soon face the County in the area of charity care, the Task Force recommends the following:

- The County should create a vehicle that includes all hospitals in order to dialogue as a group and see how the charity care issue can be resolved.

Impact of New Hospital Construction on Hospital Market Share

What will be the impact of the addition of Palo Alto Medical Foundation's new facility in the Southern County on the ability of existing hospitals to hold market share and remain financially viable?

While only the future will tell, we know some of the factors that will shape the answer to that question. Those already discussed above in this report include the following:

- *Increased demand for acute care services.* The increased demand for acute care will be driven by growth of the total population and by the increasing numbers of aging Baby Boomers.
- *Right sizing of the number of acute care hospital beds available in the County.* After planned new construction, even including a new hospital, there will be fewer beds than now.
- *Workforce availability.* Serious shortages exist now and are projected to become worse. How hospitals and educational institutions step up to this challenge will play a big role in determining hospital cost structures and ability to compete.
- *Wild cards.* Two wild cards are the unknown impact of new technologies on length of hospital stays, and the unknown impact, if ever adopted, of universal health care.
- *Sequoia Healthcare District.* The role the District chooses to play or not play in various arenas will affect the future of hospital competition in the County. For example, it could choose to play a larger role in workforce development; it could choose to use its reserves and revenue to assist one or more hospitals financially.

Another major factor, not discussed above, is the cost of providing care. Due to the special populations they serve, three hospitals have higher costs of care than the typical hospital. Those three are Stanford, Lucile Packard, and San Mateo Medical Center.

Stanford and Lucile Packard hospitals have exceptionally high patient acuity—they see the sickest of the sick. High acuity care is more expensive due to higher costs of

technology, higher nursing ratios required in intensive care and post-surgical care, higher levels of experience of staff providing care, etc.

In addition, teaching programs such as those at Stanford and Lucile Packard are expensive. Not only are such programs core to the academic mission, but the community depends on these programs to train a portion of the primary and specialty care physicians who will be part of the County's future. With more local competition, one of the results could be increased cost to the consumer in order to sustain these programs.

San Mateo Medical Center has high costs due to providing care to a specialized population. This is also a higher acuity population, often with multiple problems. This population requires multiple languages and multicultural competence, social services, and skills with homelessness, lack of literacy, infectious disease, victims of violence, and the severely mentally ill, etc. Of the three hospitals that have higher costs because of the populations they serve, San Mateo Medical Center is the only one that must rely on public funding. San Mateo Medical Center has begun efforts to generate more private-pay funding revenue. While difficult now, increased competition for the private-pay health care dollar could make it far more difficult for San Mateo Medical Center to generate such revenue and use it to remain financially viable.

Conclusions

In summary, with regard to the potential impact of new hospital construction on hospital market share, the Task Force has the following conclusion:

- While factors affecting future hospital market share can be listed, it is impossible to know or accurately predict the impact of new hospital construction on the future market share of individual hospitals.
- Of the three hospitals that have higher costs because of the populations they serve, the future of only one, the San Mateo Medical Center, is in question--because of its heavy reliance on public funding.
- If the health care market in Southern San Mateo County came to be dominated by one or more private hospitals, San Mateo Medical Center's limited ability to compete would make its situation even more precarious.

Recommendation

In light of the unknown impact of future developments on hospital competition and market share, and hence on health care access and cost in Southern San Mateo County, the Task Force recommends the following:

- If future hospital construction or closure adversely affects health care access or cost, the Task Force on New Hospital Construction should reconvene to evaluate the impact.

Concluding Summary

In final summary, the Task Force's recommendations are as follows.

Sequoia Healthcare District

1. If one or more hospitals can be built in the District and without District assistance, the District should initiate a public dialogue on the District's future.

Workforce

2. The County should encourage all hospitals to participate in the creation of workforce housing.
3. All hospitals should consider collaborative investments in workforce training and development.
4. Sequoia Health Care District should explore more options to further develop the workforce.

Charity Care

5. The County should create a vehicle that includes all hospitals in order to dialogue as a group and see how the charity care issue can be resolved.

Impact of New Hospital Construction

6. If future hospital construction or closure adversely affects health care access or cost, the Task Force on New Hospital Construction should reconvene to evaluate the impact.

Appendix

The following documents are included in this report by reference only; they are not physically attached. Instead, they may be found on the County of San Mateo's website, as follows:

- Go to http://www.co.sanmateo.ca.us/smc/county/home.
- On the left menu, under "Departments/Commissions," scroll down to and double click on "Board of Supervisors."
- Scroll down and double click on "Southern San Mateo Task Force on New Hospital Construction."

Project Charter

1. Board of Supervisors Resolution December 16, 2003.

Meeting #1, February 4, 2004

2. "New Century Healthcare Renewal"; by Wanda J. Jones; March 2003.
3. "Sequoia Healthcare District"; by Frank Gibson and Art Faro; February 4, 2004
4. "February 4, 2004 Meeting Summary"

Meeting #2, February 26, 2004

5. "Kaiser Permanente Redwood City Medical Center: Master Plan"; by Timothy Wong, MD.
6. "Sequoia Hospital: Planning the Future with Our Community"; by Glenna Vaskelis.
7. "February 26, 2004 Updated Meeting Summary"

Meeting #3, March 18, 2004

8. "Lucille Packard's Children's Hospital at Stanford"; by Christopher G. Dawes; March 18, 2004
9. "San Mateo Medical Center"; by Nancy J. Steiger.
10. "Stanford Hospitals & Clinics"; by Martha Marsh; March 18, 2004
11. "March 11, 2004 Meeting Summary"

Meeting 4, April 8, 2004

12. "April 8, 2004 Meeting Summary"

Meeting 5, April 29, 2004

13. "April 29, 2004 Meeting Summary"