



COUNTY OF SAN MATEO
Inter-Departmental Correspondence

County Manager's Office

DATE: October 2, 2006

BOARD MEETING DATE: October 17, 2006

SPECIAL NOTICE/HEARING: None

VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: John L. Malbie, County Manager

SUBJECT: Memorandum of Understanding Between the County Manager and the San Mateo Medical Center Regarding Repayment of Outstanding Financial Obligations

RECOMMENDATION:

Adopt a Resolution:

- A. Authorizing the County Manager to execute a Memorandum of Understanding with San Mateo Medical Center regarding outstanding financial obligations
- B. Amending Resolution 65311 maintaining the \$60 million upper limit of General Fund cash advances through June 30, 2006, and reducing the limit to \$30 million as of July 1, 2006

VISION ALIGNMENT:

Commitment: Responsive, effective and collaborative government

Goal(s): Government decisions are based on careful consideration of future impact, rather than temporary relief or immediate gain.

This MOU contributes to this goal by (1) setting a limit on funds borrowed by the San Mateo Medical Center (SMMC) from the General Fund to close out year-end budget deficits and negative cash balances, (2) recording all SMMC borrowing as liabilities in its financial statements, and (3) establishing a repayment schedule to be used for budgeting annual loan repayment amounts.

BACKGROUND:

The County is mandated by Section 17000 of the Welfare and Institutions Code to

provide healthcare to its indigent residents. The County currently funds this mandate by providing a General Fund subsidy of approximately \$54 million per year toward San Mateo Medical Center (SMMC) operations. The subsidy has been capped at the current amount while the County develops an MOU with the Medical Center for the provision of services to medically indigent residents. When the MOU is in place, the County will be billed for services to this population on a per-member/per-month basis. This payor-payee relationship will replace the current practice of transferring one-twelfth of the subsidy to SMMC each month.

In addition to the \$54 million subsidy, the General Fund also provides loans to SMMC to cover year-end budget deficits (when expenses exceed revenues), and cash advances to close out negative cash balances at year-end. As of June 30, 2006, there is a balance of \$31,464,938 in loans to cover budget deficits, and \$20,166,736 in cash advances (subject to year-end audit), for a total borrowing of \$51,631,674 in excess of the annual subsidy.

Cash advances to the Medical Center are authorized by Board Resolution. These advances represent an operating line of credit which is used by the Medical Center during the fiscal year to pay for expenses while awaiting revenue from patients and reimbursement from the state and federal government. Resolution 65311, which was approved on June 4, 2002, increased the cash advance limit from \$40 to \$60 million through FY 2001-02 due to issues with billing and collections. As noted above, the current amount in cash advances is down to \$20.2 million due to major collection efforts by the Medical Center and Treasurer's Office.

DISCUSSION:

Staff from SMMC and County Manager's Office have been meeting over the last two years to discuss repayment of outstanding loans from the General Fund. The Grand Jury auditors have indicated that a repayment agreement and schedule, along with projected cashflows, would be needed before all loans could be recorded as liabilities in the balance sheet. Of the \$51.6 million in total borrowing through June 30, 2006, only \$24 million has been recorded on the balance sheet, with the remainder appearing as disclosures in the notes section of the financial statements due to the lack of a repayment agreement. Once a repayment agreement is in place, SMMC and County Manager staff will work with the Controller's Office and auditors to record the loans in the FY 2006-07 balance sheet.

The recommended MOU provides that approximately \$8.1 million related to loans prior to FY 2003-04 will be forgiven. These were provided more than three years ago prior to the current Medical Center administration. The MOU also provides that SMMC shall reimburse the County over a period of 30 years for all other outstanding financial obligations totaling \$43,533,926 (subject to year-end audit). With regard to cash advances, the MOU reduces the upper limit of General Fund cash advances from \$60 million to \$30 million and establishes a total borrowing limit of \$70 million. This borrowing limit represents approximately 33% of SMMC's operating budget.

Given the current loan amount, it is estimated that SMMC's annual repayments to the General Fund will be approximately \$1.5 million. This amount will be appropriated in SMMC's budget beginning in FY 2007-08. SMMC will be preparing a longer-term cash flow forecast in preparation for including outstanding financial obligations as liabilities in the FY 2006-07 balance sheet. Sources of repayment will include improved cash collections due to current efforts to more aggressively monitor and collect accounts receivable, revenue from the Health Plan of San Mateo through additional intergovernmental transfer agreements with the state to draw down federal funds, and increased recovery of indirect costs from future service lines.

County Counsel has reviewed and approved the agreement. The MOU was presented at the September 7, 2006 San Mateo Medical Center Board of Directors meeting.

Below is a table summarizing the Medical Center's outstanding financial obligations (subject to year-end audit):

Balance of Operating Line of Credit as of 6-30-06	\$20,166,736
Balance of mental health transfers prior to 7-1-03	\$4,041,603
Balance of loans to address budget deficits for FY03-04 and FY04-05	\$14,474,661
Loan to address budget deficit for FY05-06	\$4,850,926
Total Loan Amount	\$43,533,926
Annual Repayment Amount	\$1,451,131

FISCAL IMPACT:

Under the MOU, SMMC shall be obligated to reimburse the County for outstanding financial obligations in the amount of \$43,533,926. Repayment of loans under this agreement would begin in FY 2007-08. Each General Fund loan provided to SMMC after July 1, 2006 will have a separate repayment schedule incorporated by reference into this MOU.