



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager's Office



DATE: November 28, 2016
BOARD MEETING DATE: December 6, 2016
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: John L. Maltbie, County Manager
John C. Beiers, County Counsel

SUBJECT: Agreement with Seton Medical Center

RECOMMENDATION:

Measure A: Adopt a resolution authorizing an agreement with Seton Medical Center for seismic upgrades, for the term of January 1, 2017 through December 15, 2030, in an amount not to exceed \$15,000,000.

BACKGROUND:

The **Measure A** one-half cent sales tax was approved by the voters in November 2012 and recently extended by the County's voters pursuant to Measure K in November 2016.

In adopting the **Measure A** sales tax and extending the tax through Measure K, the Board of Supervisors has identified as County priorities ensuring that hospitals and emergency rooms are seismically safe and remain open and that long term care beds remain available for low income patients, as well as ensuring the ongoing availability of low-income healthcare. In particular, when it adopted **Measure A**, the Board stated that it would considering the use of funds to provide "substantial assistance" to Seton Medical Center to rebuild and meet seismic standards so that it can continue providing critical healthcare services in the community.

DISCUSSION:

Seton Medical Center is a nonprofit hospital located in Daly City, California that serves as an important part of the County's health care safety net. County staff recognizes the importance of Seton's mission to provide medical care to underserved residents of the County, including Health Plan of San Mateo/Medi-Cal members and indigent County residents who receive healthcare under the County's Access to Care for Everyone program. Seton operates an emergency department and provides a significant number of long term care beds to low income patients.

Seton currently operates as an affiliate of the Verity Health System of California, Inc., and is managed by Integrity Healthcare, LLC, which is an affiliate of BlueMountain Capital Management, LLC. Beginning on December 15, 2018 through December 14, 2030, BlueMountain has the option to acquire the Verity Health System and, if BlueMountain exercise this option, the health system (and Seton) could cease to operate as not for profits.

Pursuant to statutory requirements and certain conditions imposed by the California Attorney General on continued operations of Seton as an affiliate of Verity Health System, Seton must complete certain seismic safety improvements by 2020. Seton contemplates expending at least five million dollars in the 2016-2017 fiscal year, and at least the same amount in each of the next two fiscal years (2017-2018 and 2018-2019). Seton has indicated that the total cost for the seismic upgrade project is expected to be up to sixty-five million dollars.

In order to assist Seton to continue to deliver health care services to County residents in the northern part of San Mateo County and to complete required seismic work that will allow it to continue to operate, staff recommends that this Board enter into an agreement pursuant to which the County will make a total of \$15,000,000 in grants available to Seton for its seismic project, with \$5,000,000 made available in the current fiscal year (2016-2017), and the same amount in each of the next two fiscal years (i.e., \$5,000,000 in 2017-2018 and \$5,000,000 in 2018-2019). These funds would be disbursed to Seton upon presentation of invoices establishing that Seton has incurred qualifying expenses related to the seismic upgrade work on the hospital.

While these funds are being made available to Seton in the form of grants, in the event that Seton ceases to operate as a non-profit hospital prior to 2030, Seton, or any successor entity of Seton, would be required to make grants for programming or activities benefiting residents of the County in an amount equal to what the instant agreement defines as "Outstanding Funding."

The agreement defines "Outstanding Funding" as the amount of money that the County makes available to Seton (anticipated to be \$15,000,000), provided that, beginning with the 2019-2020 fiscal year, the Outstanding Funding will be reduced by one-tenth at the end of each fiscal year (i.e., assuming that the County makes \$15,000,000 available to Seton for the seismic project, on the last day of the 2019-2020 fiscal year, the Outstanding Funding will be reduced to \$13,500,000).

If Seton ceases to operate as a non-profit hospital prior to 2030, Seton will make grants, as described above, in each of the four years after Seton ceases to operate as a non-profit hospital with the grants each year equal to one-quarter of the Outstanding Funding at the time Seton ceases to operate as a non-profit hospital. Thus, for example, if Seton ceased to operate as a non-profit hospital on July 1, 2020 and the Outstanding Funding is \$13,500,000, Seton would make \$3,375,000 in grants within one year of ceasing to be a non-profit hospital and would make \$3,375,000 in grants in each of the next three years.

FISCAL IMPACT:

The term of this agreement is January 1, 2017 through December 15, 2030 and the maximum fiscal obligation is \$15,000,000. Funds in the amount of \$5,000,000 are included in the FY 2016-2017 budget, and the same amount will be included in the FY 2017-2018 and FY 2018-2019 budgets. This agreement will be funded with proceeds from the **Measure A**/Measure K sales tax.