

LAFCO *of Monterey County*

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

2018 Municipal Service Review and Sphere of Influence Study:

Salinas Valley Memorial Healthcare System



Adopted by the Commission on March 26, 2018

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Table of Contents

District at a Glance5

Executive Summary

 Introduction.....7

 Report Overview and Organization7

 Key Findings7

 Recommended Actions.....10

Municipal Service Review and Sphere of Influence Study

 District History and Facilities 15

 District Boundary and Sphere of Influence..... 20

 Innovative Partnerships and Shared Services 26

 Governance, Transparency and Accountability 28

 Finances..... 30

 Additional Services and Accomplishments 36

 Future Challenges and Opportunities 39

 Conclusion.....41

Determinations

 Municipal Service Review Determinations 43

 Sphere of Influence Determinations..... 45

Appendix

 Sources and Acknowledgements 47

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**2018 MUNICIPAL SERVICE REVIEW AND SPHERE OF INFLUENCE STUDY
FOR SALINAS VALLEY MEMORIAL HEALTHCARE SYSTEM**

Salinas Valley Memorial Healthcare System – At a Glance	
Formation Date	June 20, 1947
Legal Authority	Local Health Care District Law (Health & Safety Code, Division 23, Sections 32000-32492)
Board of Directors	Five-Member Board of Directors, each of which is elected to a four-year term by registered voters within a specific District geographic zone
District Area	The District boundaries contain approximately 478 square miles. The District currently has no Sphere of Influence beyond its boundaries.
Sphere of Influence Area	The District’s Sphere of Influence is coterminous with its jurisdictional boundary.
Population	Approximately 212,000 (United States Census Bureau, 2016 Data)
Authorized Powers	Health and Safety Code Sections 32121-32138 authorizes various powers including the ability to build and operate hospitals and other healthcare facilities in underserved areas.
Budget (FY 2017-18)	\$481 million operating revenues \$8 million non-operating revenues \$464 million operating expenses \$25 million net District income
Vision	To be a center of excellence where an inspired team delivers compassionate and culturally sensitive care, outstanding quality, and an exceptional patient experience. (Website) The Vision of Salinas Valley Memorial Healthcare System is to be a leader in healthcare and state-of-the-art technology with a team of highly trained, motivated healthcare professionals. (Bylaws)
Mission	It is the mission of Salinas Valley Memorial Healthcare System to provide quality healthcare to our patients and to improve the health and well-being of our community. (Website) The mission of Salinas Valley Memorial Healthcare System is to improve the healthcare of individuals residing within the geographic boundaries of the District as well as in areas contiguous to the District. (Bylaws)
President/Chief Executive Officer	Pete Delgado
Contact Information	450 East Romie Lane Salinas, CA 93901 831-757-4333
Website	http://www.svmh.com/
The SVMHS Vision and Mission Statements reflect the purpose and values which guide the District’s delivery of healthcare services. The District By-Laws reflect the District’s purpose as a political entity.	

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EXECUTIVE SUMMARY

INTRODUCTION

This Municipal Service Review and Sphere of Influence Study provides information about the services and boundaries of Salinas Valley Memorial Healthcare System (SVMHS). The report is for use by the Local Agency Formation Commission in conducting a statutorily required review and update process. The Cortese-Knox-Hertzberg Act requires that the Commission conduct periodic reviews and updates of Spheres of Influence of all cities and special districts in Monterey County (Government Code section 56425). It also requires LAFCO to conduct a review of municipal services before adopting Sphere updates (Government Code section 56430). As discussed in the Key Findings, below, this study finds that Salinas Valley Memorial Healthcare System is a well-organized district that engages with the community and successfully provides essential medical services to residents within and outside its existing jurisdictional and sphere boundaries. The study also recommends a sphere expansion for the District.

REPORT OVERVIEW AND ORGANIZATION

This Executive Summary presents a brief overview of the study, key findings, and recommended actions.

The **Municipal Service Review and Sphere of Influence Study** has a total of 7 sections highlighting the District's history, existing jurisdictional and sphere boundaries, current service provisions, governance structure, shared services, financial performance, and future opportunities and challenges.

The **Determinations** section concludes the study with statutory determinations required for all municipal service reviews and sphere of influence studies pursuant to the Cortese-Knox-Hertzberg Act.

These sections are followed by a brief **Appendix** with sources/acknowledgements.

KEY FINDINGS

Following are the key findings of the Municipal Service Review and Sphere of Influence Study:

1. Salinas Valley Memorial Healthcare System is one of the largest healthcare districts in California.

The Salinas Valley Memorial Healthcare System, with over half a billion dollars in total assets, is ranked the fifth largest public healthcare district in the entire state. While the Salinas Valley Memorial Hospital continues to be the District's core component, SVMHS now operates an integrated network of healthcare programs and services with medical facilities located in Monterey and Santa Cruz Counties. The District's boundary currently includes the Cities of Gonzales and Salinas, a portion of the City of Marina and the communities of Castroville, Chualar, Prunedale, Moss Landing and Spreckels. Because services are not limited to District residents, pursuant to Health and Safety Code Section 32001, SVMHS provides services to a larger population beyond its designated boundary. In total, 50% of SVMHS patients are residents within the District, with the remaining 50% originating outside the District's jurisdiction and sphere of influence boundaries.

2. Salinas Valley Memorial Healthcare System is financially sound.

The District has experienced a significant financial turnaround since 2012. For the past five years, total revenues have exceeded total expenditures on an annual basis. Policies, procedures and practices include regular audits and oversight of revenue and expenses by the Chief Executive Officer and Board of Directors. Based on the audited financial statements ending in June 30, 2016, total revenue for SVMHS was \$450 million. Patient service revenues account for 97% of overall revenues. Only one-percent of Salinas Valley Memorial Healthcare System's revenues are derived from property taxes. The remaining two-percent of total revenue is primarily donations, investment income and other miscellaneous funds. SVMHS also reinvests revenue surplus back into its facilities, technology and

equipment in order to maintain quality care. For the past five years, on average, Salinas Valley Memorial Healthcare System's revenues exceeded expenses by approximately \$32 million. Based on the fiscal indicators analyzed in this study, SVMHS operates in a financially responsible manner.

3. **Salinas Valley Memorial Healthcare System has undergone a dramatic transformation following an improvement initiative and a District-wide restructuring effort to advance internal operations, improve district representation, maintain excellence in patient care, and meet the needs of a changing healthcare landscape.**

2012 was a pivotal year for Salinas Valley Memorial Healthcare System. During that time, SVMHS transitioned from at-large election process to zone-based elections. That same year, SVMHS initiated a performance improvement plan to comply with legal requirements for public transparency and accountability following recommendations from the State Auditor. Utilization of strategic partnerships with neighboring hospitals, including Community Hospital of the Monterey Peninsula and Natividad Medical Center, further extended the District's goal of making healthcare available and accessible beyond its existing boundary. Lastly, SVMHS completed the \$42 million hospital retrofit in 2012 deeming the District earthquake-compliant until 2030. These significant events led SVMHS to address public health challenges and fulfill state mandates without negative impacts to its overall financial status for the past six years. Today, SVMHS serves over half a million patients through a network of affiliations and in 42 different locations.

4. **Salinas Valley Memorial Healthcare System owns one of the remaining publicly-operated hospitals in California. The Salinas Valley Memorial Hospital has been recognized for excellence at the local, state, and national level.**

According to the 2017 Little Hoover Commission Special Districts Report, less than 50% of healthcare districts in the state operate a hospital. Salinas Valley Memorial Hospital is one of four hospitals in Monterey County and represents one of the 39 district hospitals in California. Publicly-operated hospitals represent only 10% of all hospitals in the state. SVMHS has also received very high ratings from various medical-assessment establishments including Joint Commission, Healthgrades, and the Leapfrog Group. Within the last fiscal year, over 100,000 patients were administered at the Salinas Valley Memorial Hospital.

5. **Salinas Valley Memorial Healthcare System has a long history with CHOMP and Natividad Medical Center. Despite the highly competitive environment, SVMHS has built a strong partnership with these neighboring hospitals.**

While the Community Hospital of the Monterey Peninsula (CHOMP), Natividad Medical Center and SVMHS have historically competed for hospital admissions, the three hospitals have laid out a new form of cooperation following a series of collaborative efforts - improving the healthcare delivery countywide in the process. In 2006, SVMHS and CHOMP stepped forward and agreed to give bail-out funds to revitalize Natividad as the regional public safety net hospital. In 2012, SVMHS faced financial difficulties and sought to affiliate with a partner to strengthen its ability to provide high quality, full-service, cost efficient healthcare for local residents. While SVMHS opted to continue to operate as a stand-alone medical facility, these past efforts encouraged further coordination with the neighboring hospitals and ultimately sparked a dramatic transformation for Salinas Valley Memorial Healthcare System.

Today, the District has a network of affiliations in multiple counties including the recently approved joint ownership venture between SVMHS and Montage Health's three companies: Aspire Health Plan, Community Health Innovations and Coastal Management Services. Under this historic partnership, Salinas Valley Memorial Healthcare System now owns 49% stake of the three entities and equal representation on the governing boards while Montage retains 51% ownership. The two hospitals remain independent; however, this joint-venture supports their shared goals of making healthcare available and accessible to all Monterey County residents. SVMHS has also joined Montage Health

and Natividad Medical Center to provide patients with access to their health information online via a secure internet portal called Central Coast Health Connect. CCHC allows patients to keep tabs on their appointment information and test results and communicate with care providers conveniently when they have non-urgent health questions and concerns.

6. Salinas Valley Memorial Healthcare System is a model healthcare district spearheading efforts to address community needs through geographic expansions and establishing service networks.

Salinas Valley Memorial Healthcare System continues to invest in medical facility upgrades, improvements to outpatient services, and expansions of critical medical amenities to underserved communities. Most recently, SVMHS opened a new \$4 million Diabetes & Endocrine Center in July 2017 to be a one-stop shop for diabetes treatment and research in the county. While SVMHS has a variety of healthcare facilities in operation, the District continues to reinvest in areas outside its limits to further expand medical services to communities in need through partnerships with private and public organizations. SVMHS is working to streamline the transfer of patients from Hazel Hawkins Memorial Hospital (operated by the San Benito Healthcare District in San Benito County) and Mee Memorial Hospital in King City to its facilities for medical services and procedures those institutions cannot provide. SVMHS also provides a weekly cardiology clinic at Mee Memorial Hospital to connect its patients with advanced cardiac care.

7. Salinas Valley Memorial Healthcare System and Soledad Community Health Care District collaborate in delivering healthcare services to South Monterey County.

Monterey County has two healthcare districts: SVMHS and the Soledad Community Health Care District (CHCD). While SVMHS provides services throughout Monterey County, Soledad CHCD primarily serves the Soledad community in South Monterey County which is defined by the Federal Government as a medically underserved area with a medically underserved population. This designation includes areas that demonstrate a shortage of healthcare services. Soledad CHCD currently operates two healthcare facilities in the Soledad community. SVMHS provides further assistance by operating an additional three facilities in South Monterey County including the new Taylor Farms Family Health & Wellness Center in Gonzales. This state-of-the-art center specifically focuses on prevention, wellness and disease management in South Monterey County communities. Both healthcare districts are championing efforts to deliver much-needed healthcare in the southern region by complementing one another's medical services.

8. Salinas Valley Memorial Healthcare System's sphere of influence boundary warrants expansion to the remaining portion of Marina and the communities in northern and southern regions of Monterey County.

Boundaries of Salinas Valley Memorial Healthcare System have not changed since 1947 (see Figure 1). The LAFCO Executive Officer has reviewed the District's current Sphere of Influence and service boundary in consultation with the SVMHS Executive Team and found that a sphere expansion is appropriate to better reflect Salinas Valley Memorial Healthcare System's actual service area. SVMHS currently serves several communities within the northern and southern region of the county which are outside the District's existing service and sphere boundaries. LAFCO staff recommends expanding the District's sphere to the north and south. This proposed sphere expansion should also include the remaining portion of the City of Marina. Approximately 1,300 acres of Marina are already within the District's jurisdictional boundary. SVMHS also owns and operates one of its seven Doctor on Duty locations in the City of Marina but the facility is currently outside its District boundary. Additionally, SVMHS owns a vacant parcel in the City of Marina which may be developed as a future medical facility – further investing resources and expanding healthcare services to the Marina community.

If approved, the recommended sphere of influence, which utilized school district boundaries and other municipal borders, would include the unincorporated communities of Las Lomas, Oak Hill, and Pajaro and the Cities of Greenfield, Gonzales, King City, Marina (remaining portion) and Soledad. The proposed sphere expansion would also overlap with Soledad CHCD. Due to the importance of SVMHS

and Soledad CHCD in the southern region, no changes to Soledad CHCD's jurisdictional or service delivery are being recommended. The proposed sphere expansion for SVMHS will simply reflect the established and complementary service relationship between both healthcare districts. Representatives of Soledad CHCD support the recommended sphere expansion for SVMHS.

9. Salinas Valley Memorial Healthcare System is actively preparing for emerging trends.

Salinas Valley Memorial Healthcare System regularly evaluates critical health needs through an extensive community health needs assessment in an effort to address healthcare issues and expand methods of providing healthcare services. Future service efforts are based on the results of these community assessments. SVMHS is also making it a priority to continue improving the District's overall financial performance to help its bond rating in preparation for a potential bond measure to improve outdated facilities. This effort would provide locally-controlled funding to reduce emergency room wait time, expand treatment centers, upgrade operating rooms and intensive care units, enhance women and children services, and improve access to high-quality care. Community input is currently underway before SVMHS moves forward with this potential ballot measure.

Another future challenge being addressed by the District is state mandates. Hospitals are required to meet state seismic safety regulations. While the 2012 retrofitting has deemed the District earthquake-compliant until 2030, SVMHS is still required to meet state regulations going forward. Anticipated retirement of nurses and physicians has also caused the SVMHS to continue its emphasis on recruitment as an ongoing priority. The District has adopted an aggressive recruitment program to attract additional physicians and medical professionals in various specialties to the area. In addition to anticipated internal adjustments, SVMHS also continues to adapt to significant external changes such as the implementation of the Affordable Care Act and its potential repeal. SVMHS and other healthcare providers may need to explore options to maintain current health coverage to all California residents. As a proactive healthcare district, SVMHS is already taking steps to provide medical services to uninsured and underserved areas throughout the county. In FY 2016-17, SVMHS provided more than \$86 million in uncompensated care to uninsured and underinsured communities countywide.

RECOMMENDED ACTIONS

Based on the analysis and recommendations in the 2018 Municipal Service Review and Sphere of Influence Study for Salinas Valley Memorial Healthcare System, the Executive Officer recommends adoption of a resolution to:

1. Find that pursuant to Section 15061(b)(3) of the State CEQA Guidelines, the recommended sphere expansion is not subject to the environmental impact evaluation process because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment and the activity is not subject to CEQA;
2. Find that pursuant to Section 15306 of the State CEQA Guidelines, the service review and sphere of influence study is not subject to the environmental impact evaluation process because the service review and sphere study consist of basic data collection, research, management, and resource evaluation activities that will not result in a serious or major disturbance to an environmental resource. The project is strictly for information gathering purposes and is a part of a study leading to an action that has not yet been approved, adopted or funded;
3. Determine, pursuant to Government Code Section 56430, the Local Agency Formation Commission for Monterey County is required to conduct a service review before, or in conjunction with an action to establish or update a sphere of influence;

4. Determine, pursuant to Government Code Section 56425, the Local Agency Formation Commission for Monterey County is required to develop and determine a sphere of influence for Salinas Valley Memorial Healthcare System, and review and update, as necessary;
5. Adopt the Municipal Service Review and Sphere of Influence Study for Salinas Valley Memorial Healthcare System;
6. Based on the Study's recommended determinations,
 - a. Expand Salinas Valley Memorial Healthcare System's sphere of influence boundary to add the unincorporated communities of Las Lomas, Oak Hill, and Pajaro and the Cities of Greenfield, King City, Marina (remaining portion) and Soledad (See Figure 2).
 - b. Direct the Executive Officer to continue discussions with Salinas Valley Memorial Healthcare System to explore other opportunities including but not limited to the annexation of the SVMHS-owned parcel located within the City of Marina.

Figure 1: Existing Boundaries of Salinas Valley Memorial Healthcare System

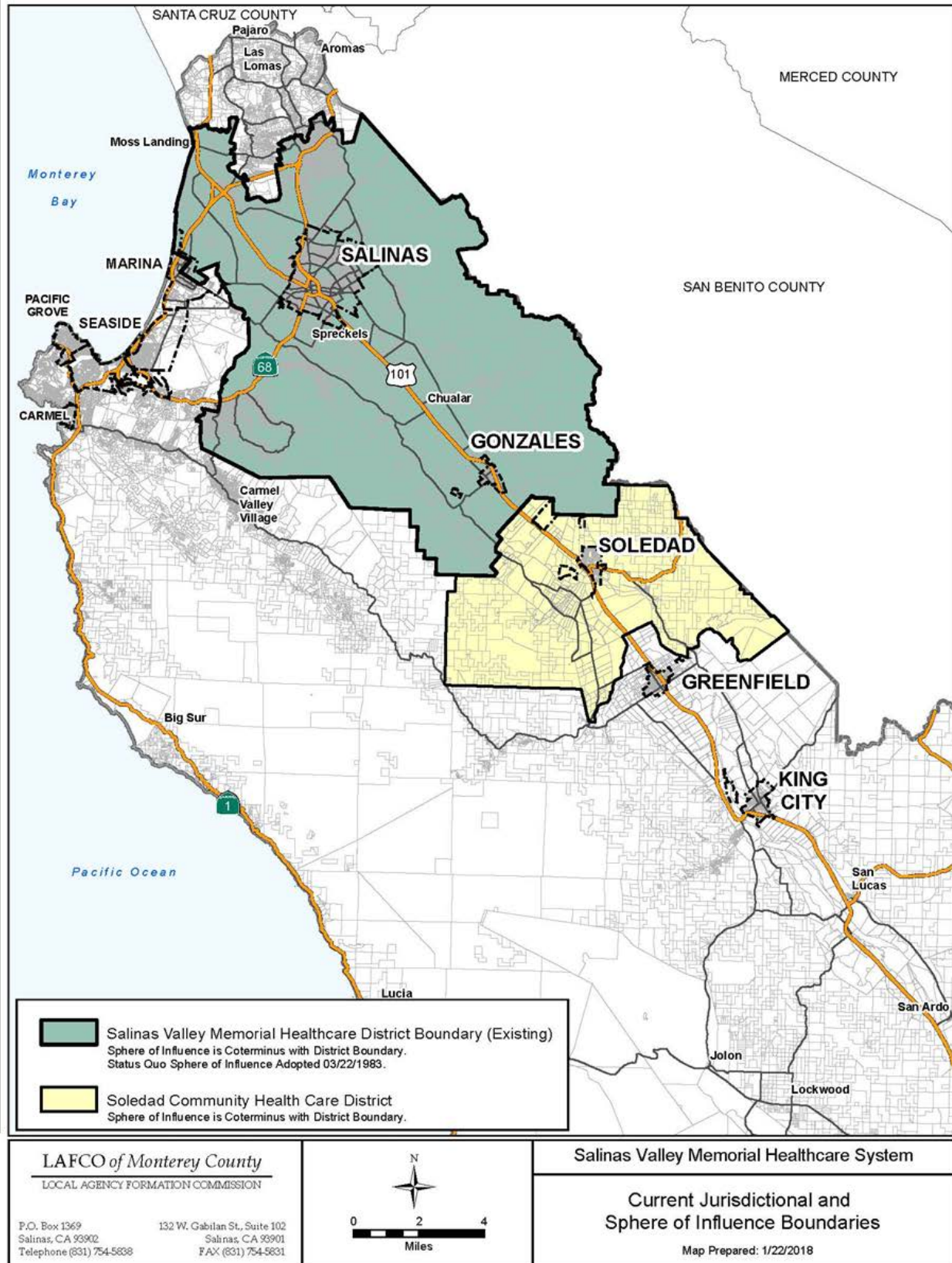
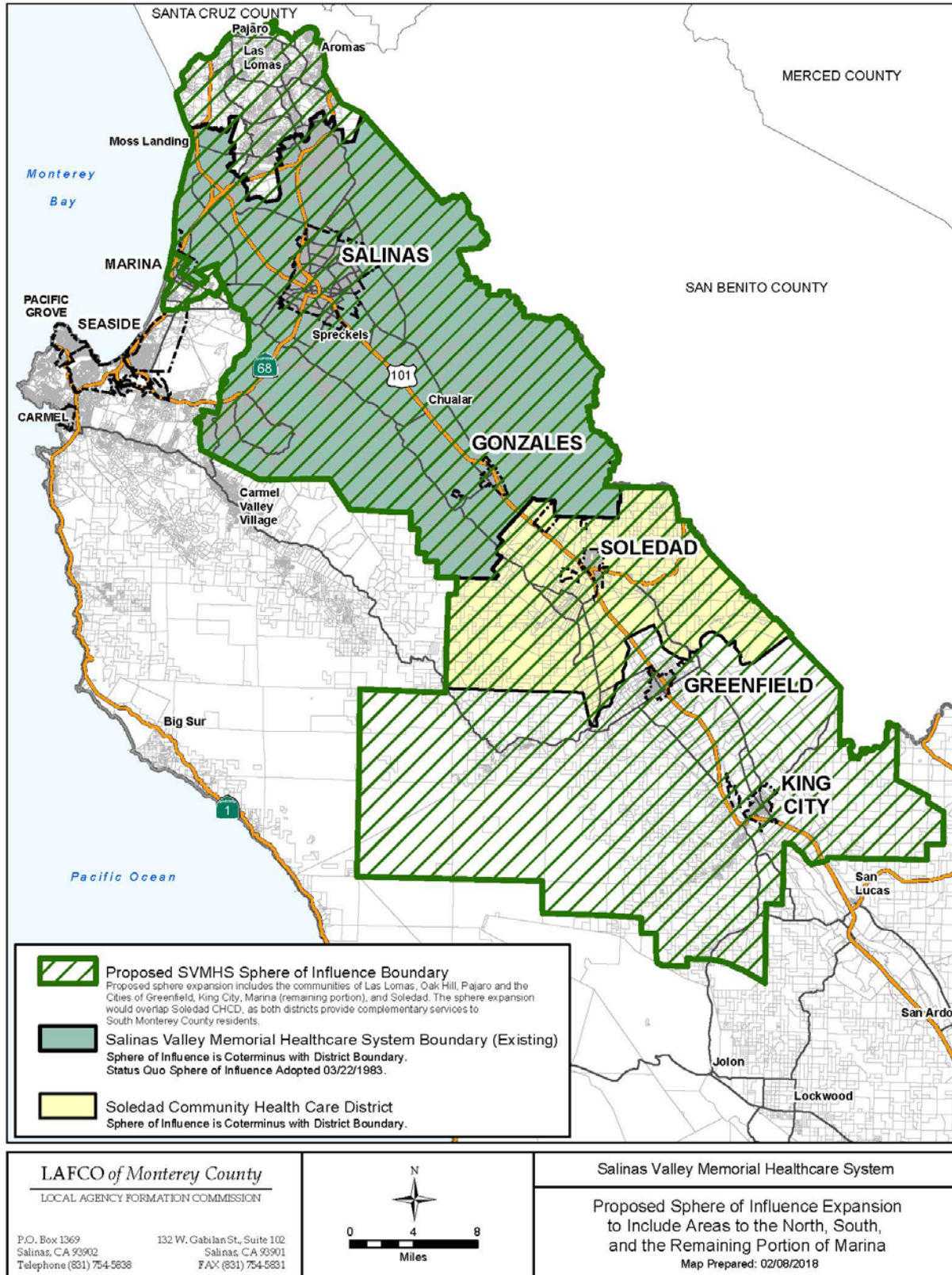


Figure 2: Recommended Sphere of Influence of Salinas Valley Memorial Healthcare System



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MUNICIPAL SERVICE REVIEW AND SPHERE OF INFLUENCE STUDY

SALINAS VALLEY MEMORIAL HISTORY AND FACILITIES

The planning and fundraising efforts for Salinas Valley Memorial Healthcare System began in 1941, when the Salinas Community Hospital Association was formed. A local businessman donated the land for the hospital's Romie Lane site, and nearly \$300,000 was raised. The campaign was put on hold with the onset of World War II. In 1947, the California State Legislature passed legislation allowing communities to establish taxation districts to build hospitals. In the same year, local voters approved the formation of the "Salinas Valley Memorial Hospital District" with a five-member board of directors. The District boundaries covered a largely rural, and primarily unincorporated, area in the northern Salinas Valley.

The 138-bed Salinas Valley Memorial Hospital opened on April 20, 1953 with 100 employees and 45 physicians. The modern facility, at that time, offered medical and surgical patient floors, pathology and radiology labs, operating rooms, a fracture room, a physical therapy unit, and a pediatric unit with a nursery and a "pacing room" for fathers-to-be. **Exhibit A** illustrates historical achievements by Salinas Valley Memorial Healthcare System since its inception in 1941.

Significant advancements in technology and medicine have since evolved the District's acute care hospital. Salinas Valley Memorial Healthcare System's main hospital building today contains a 263-bed general acute care facility. It encompasses 263,000 square feet, with an additional 135,000 contained in other main campus structures and 35,000 square feet in off-campus hospital parking, storage and administrative space.

To date, there are 398 hospitals in California. Salinas Valley Memorial Hospital is one of 39 district hospitals. Publicly-operated hospitals represent only 10% of all hospitals in the state. The rest of the hospitals in California include 209 nonprofit hospitals, 90 investor-owned private hospitals, 50 hospitals run by health systems and 10 veterans hospitals. According to the 2017 Little Hoover Commission Special Districts Report, less than half of the 79 healthcare districts in California operate a hospital.

Salinas Valley Memorial Healthcare System has now grown beyond its acute care hospital to meet community needs. **Exhibit B** provides an overview of Salinas Valley Memorial Healthcare System's operational components. A total of 42 facilities, owned or affiliated with SVMHS, are in operation or scheduled for operation in the near future throughout Monterey, San Benito and Santa Cruz Counties. These facilities include the Salinas Valley Medical Clinic, Wellness Centers, Outpatient Care and Diagnostic Centers, and Urgent Care Clinics such as Doctors on Duty. While SVMHS has a variety of healthcare facilities available at this time, the District continues to reinvest in areas to further expand medical services to communities in need. SVMHS currently owns a vacant parcel in the City of Marina which may be developed into a new medical facility in the foreseeable future. Additionally, SVMHS is collaborating with the San Benito Healthcare District to provide services within the Hazel Hawkins Memorial Hospital in San Benito County. **Figure 3** identifies the location of each SVMHS current and future facility.



Exhibit A: Summary of Salinas Valley Memorial Healthcare System's History

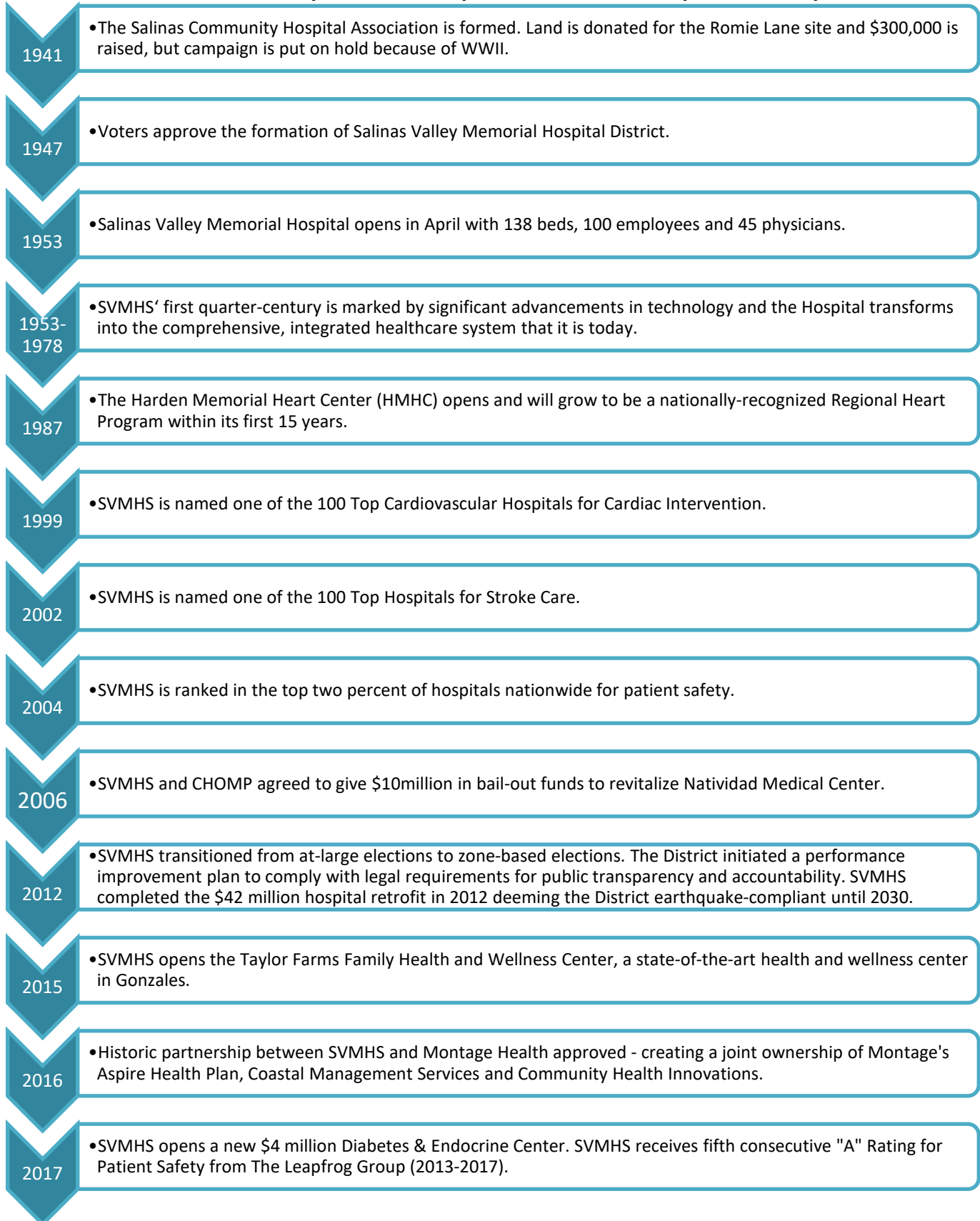


Exhibit B: Overview of Salinas Valley Memorial Healthcare System Operational Components

Salinas Valley Memorial Hospital

- An acute care hospital licensed for 263 beds and a medical staff of 335 physicians practicing in 42 medical specialties and subspecialties. The hospital employs more than 1,600 people and has 269 volunteers.

Urgent Care Clinics

- SVMHS serves as the 85% majority owner of 10 urgent care centers in Monterey and Santa Cruz counties, including Doctors on Duty, Salinas Urgent Care, Harden Urgent Care and the student health center at California State University, Monterey Bay. Salinas Valley Memorial Healthcare System also has 20% ownership in three Pinnacle Urgent Care centers—two in Salinas and one in King City.

Salinas Valley Medical Clinic

- A multispecialty clinic operated pursuant to California Health & Safety Code 1206(b), which includes 15 physician specialties, approximately 85 providers, and a Diabetes Care Clinic.

Taylor Farms Family Health & Wellness Center in Gonzales

- A primary care clinic that provides preventive care, wellness initiatives and disease management programs. This center helps local families stay on track with checkups and immunizations, make healthy changes to their lifestyles and manage chronic conditions.

Outpatient Care and Diagnostic Centers

- The Ryan Ranch Center for Advanced Diagnostic Imaging, provides patients access to cardiology experts and top technologies for comprehensive cardiovascular diagnosis.
- The Cardiovascular Diagnostic Outpatient Clinic in Salinas, provides cardiac and vascular imaging and cardiac stress tests for patients with coronary artery disease, peripheral vascular disease, neurovascular disease, cardiomyopathy, congestive heart failure and vascular disease, as well as those needing cardiovascular risk assessments and help with cardiovascular disease prevention.
- The Cardiac Wellness Center, provides comprehensive cardiac care and wellness services for patients who have undergone a heart procedure. One of only 37 such programs in California certified by the American Association of Cardiovascular and Pulmonary Rehabilitation, this program includes medically supervised exercise, education, support and encouragement in a safe, monitored setting.
- The Wound Healing Center – a physician-led, technologically advanced outpatient center designed specifically for patients with chronic, non-healing wounds.
- The Cancer Resource Center, a program that provides patients, family members and the public with information and resources related to cancer diagnosis, treatment, risk reduction and emotional support. This program is available free of charge to the entire community and is not restricted to patients of SVMHS.
- The Nancy Ausonio Mammography Center, provides breast cancer diagnostic and screening procedures.
- The Sleep Medicine Center, provides diagnoses and therapies for people with sleep disorders such as insomnia, narcolepsy, sleep apnea, snoring and restless leg syndrome.

Figure 3: Overview of Salinas Valley Memorial Healthcare System Facilities (Part 1 of 2)

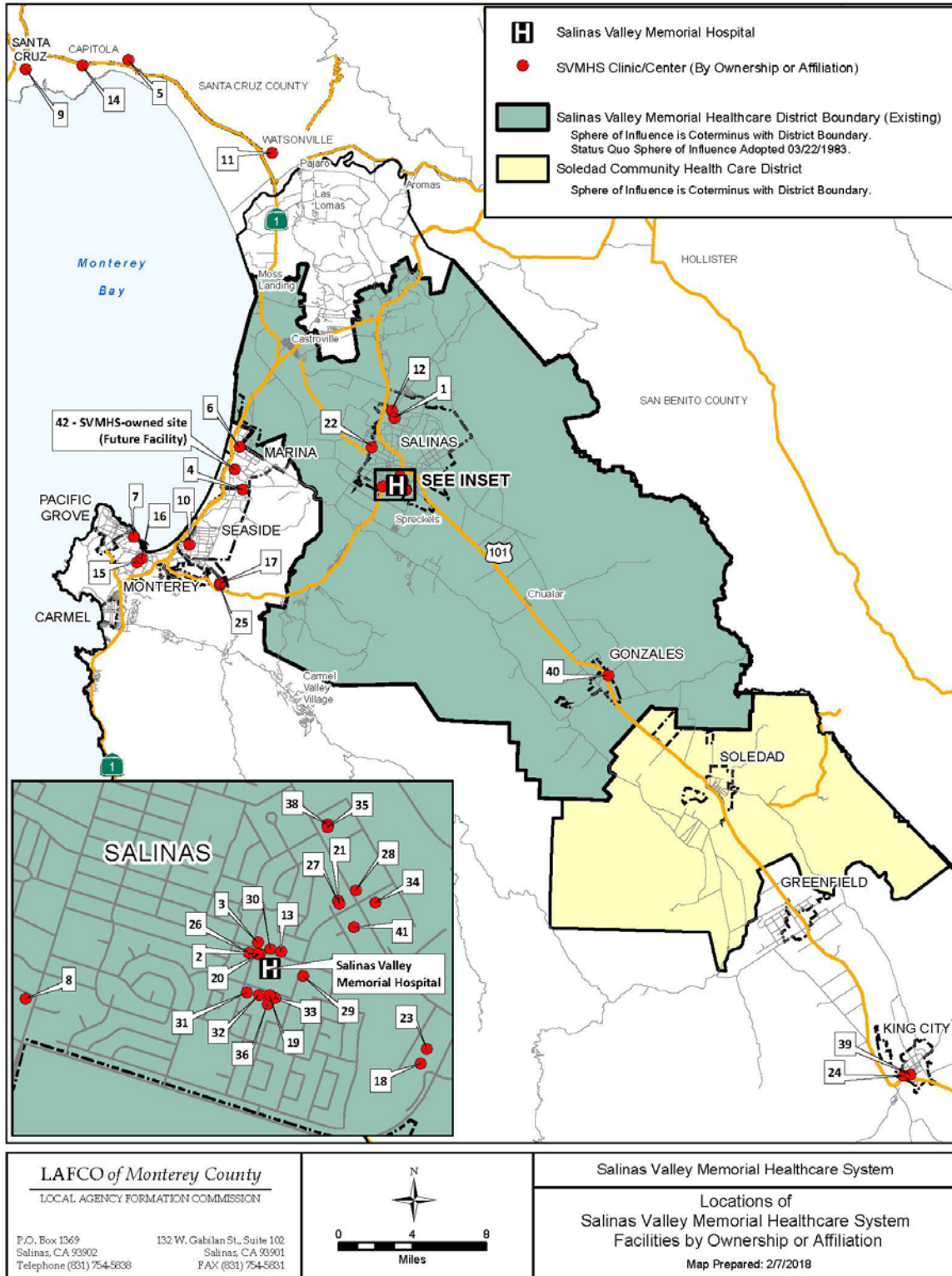


Figure 3: Overview of Salinas Valley Memorial Healthcare System Facilities (Part 2 of 2)

Salinas Valley Memorial Healthcare System Facilities (By Ownership or Affiliation)	
1	Brookdale at Harden Ranch
2	Cardiac Wellness Center/Salinas Valley Medical Clinic Sleep/Wake
3	Comprehensive Cancer Resource Center
4	CSUMB Campus Health Center
5	Doctors On Duty – Aptos
6	Doctors On Duty - Marina
7	Doctors On Duty - Monterey
8	Doctors On Duty - Salinas
9	Doctors On Duty – Santa Cruz
10	Doctors On Duty- Seaside
11	Doctors On Duty - Watsonville
12	Harden Urgent Care
13	Human Resources
14	Monterey Peninsula Surgery Center - Capitola Surgery Center
15	Monterey Peninsula Surgery Center - Cass Street Facility
16	Monterey Peninsula Surgery Center - Munras Avenue
17	Monterey Peninsula Surgery Center - Ryan Ranch Facility
18	Monterey Peninsula Surgery Center - Salinas Surgery Center
19	Nancy Ausonio Mammography Center
20	Outpatient MRI Services
21	Patient Financial Services
22	Pinnacle Healthcare Urgent Care Center - Salinas
23	Pinnacle Healthcare Urgent Care Center - Salinas
24	Pinnacle Healthcare Urgent Care Center - Kings City
25	Ryan Ranch Center for Advanced Diagnostic Imaging/Salinas Valley Medical Clinic PrimeCare Monterey/Salinas Valley Medical Clinic Central Coast Cardiology Monterey
26	Regional Wound Healing Center
27	Salinas Urgent Care
28	Salinas Valley Imaging Center
29	Salinas Valley Medical Clinic – Multi-Specialty
30	Salinas Valley Medical Clinic – Cancer Care/Salinas Valley Medical Clinic Palliative & Supportive Care
31	Salinas Valley Medical Clinic – Cardio Thoracic Surgery/Perinatal Diagnostic Center
32	Salinas Valley Medical Clinic – Central Coast Cardiology/Cardiovascular Diagnostic Outpatient Center
33	Salinas Valley Medical Clinic – Health Care for Women
34	Salinas Valley Medical Clinic – Orthopedics, Podiatry & Sports Medicine/Salinas Valley Medical Clinic MRI Services/Salinas Valley Medical Clinic Physical Therapy/SVMHS Education Center
35	Salinas Valley Medical Clinic – PrimeCare Medical Group Salinas/Salinas Valley Medical Clinic Diabetes & Endocrine Center
36	Salinas Valley Medical Clinic – Surgery
37	Salinas Valley Memorial Hospital
38	Salinas Valley PrimeCare Medical Group
39	SVMHS Cardiology Clinic at Mee Memorial Hospital
40	Taylor Farms Family Health & Wellness Center
41	Vantage Eye Center
42	SVMHS-owned Undeveloped Site (Potential Future Facility)
Note – Locations are based on District’s website (https://www.svmh.com/Locations.aspx) and from information provided by SVMHS staff	

Existing Boundaries and Sphere of Influence

The original boundary of the District was approved by voters in 1947 and has remained unchanged. The Sphere of Influence was first adopted by LAFCO in 1983, which is coterminous to the District boundary, has also remained unchanged. The District boundary and Sphere of Influence are shown in Figure 1. Salinas Valley Memorial Healthcare System includes the communities of Castroville, Chualar, Prunedale, Moss Landing, Spreckels, and the Cities of Gonzales, Marina (portion of) and Salinas. Along its southern boundary, the District abuts the Soledad Community Health Care District, which is the only other healthcare district in Monterey County.

Within the past 50 years, one boundary change proposal has been submitted to LAFCO for consideration. In 1978, the District considered detaching a portion of the incorporated City of Marina. Proponents stated that these areas should be detached because the majority of the City of Marina was outside the healthcare district and most residents used hospital facilities at Fort Ord or on the Monterey Peninsula. LAFCO denied the proposal because the District lacked a Sphere of Influence at the time and the future status of the Fort Ord Hospital was still unknown. The Silas B. Hays Army Community Hospital at Ford Ord has since closed following closure of the military base in 1995.

Monterey County Healthcare Districts

Monterey County has two healthcare districts: Salinas Valley Memorial Healthcare System and the Soledad Community Health Care District (CHCD). Both play a critical role in Monterey County, which experiences a higher rate in health issues in comparison to other counties in the state. Based on SVMHS' 2017 Community Health Needs Assessment Report, a number of health needs were identified including (1) diabetes & obesity, (2) access to & delivery of care, (3) behavioral health, (4) violence & preventable injury, (5) economic security, (6) cardiovascular disease/stroke, (7) cancers, (8) maternal/infant health, (9) oral health, and (10) infectious diseases. Two major health issues affecting Monterey County today are uninsured patients and obesity. The Public Policy Institute of California reports that Medicaid and uninsured patients account for more than 80% of inpatient stays in California's county hospital systems. In FY 2016, SVMHS provided more than \$86 million in uncompensated care to uninsured and underinsured communities countywide. Obesity is another medical issue affecting Monterey County. A 2011 study prepared by the UCLA Center for Health Policy Research and the California Center for Public Health Advocacy noted that nearly half of the children in Monterey County are overweight or obese (44.59% among California 5th, 7th, and 9th Graders). Childhood obesity is even more prevalent in the Salinas and Soledad communities (46.7% in Salinas and 48.5% in Soledad).

The federal government has also designated South Monterey County as a Medically Underserved Area with a Medically Underserved Population. These designations identify areas and populations that have limited access to personal health services. Medically Underserved Populations may include groups of persons who face economic, cultural or linguistic barriers to healthcare. Fortunately, both healthcare districts in Monterey County are championing efforts to combat these issues by opening new centers, offering more free services and working collectively



to deliver a significant level of healthcare and other related services to its residents including uninsured, Medicaid recipients, and other vulnerable patients. Currently, Soledad Community Health Care District owns and operates two healthcare facilities in the Soledad community: Eden Valley Care Center and Soledad Medical Clinic. SVMHS also operates or has interest in an additional three facilities in South Monterey County: Pinnacle Healthcare Urgent Care Center and a cardiology clinic at Mee Memorial Hospital in King City, and the new Taylor Farms Family Health & Wellness Center in Gonzales. This state-of-the-art health and wellness center (photo shown on page 20) opened in 2016 and specifically focuses on prevention, wellness and disease management in South Monterey County communities. Both healthcare districts are spearheading efforts to deliver much-needed healthcare in the southern region by complementing one another's medical services. SVMHS is also considering opportunities to provide services in the Hollister region and in the Watsonville area (in addition to care currently provided by its Watsonville urgent care center – Doctors on Duty). SVMHS is responding to requests from existing healthcare providers in both communities, and teams are currently evaluating the opportunity to effectively serve the people in these communities.

Service Provision without Borders

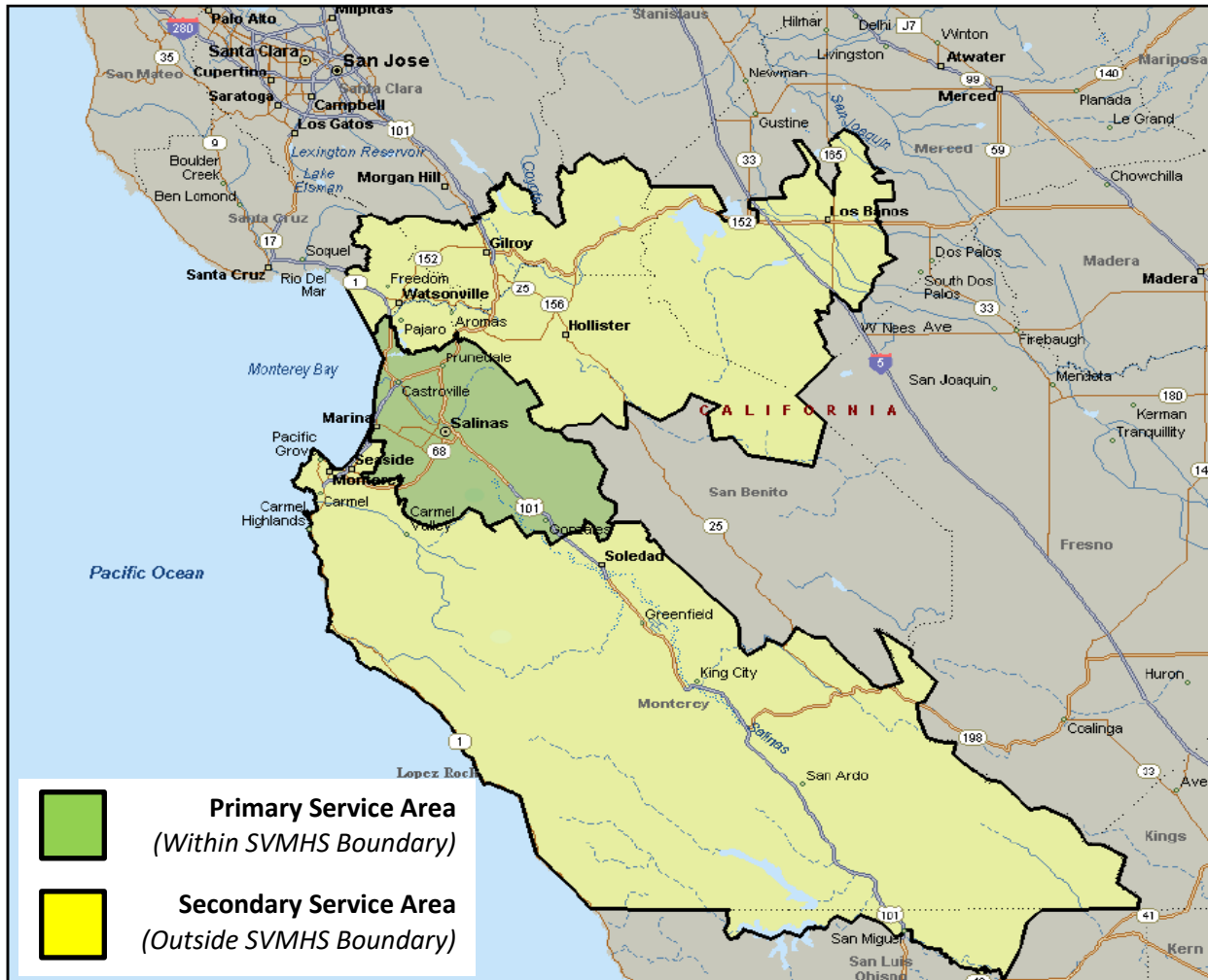
Because services are not limited to Salinas Valley Memorial Healthcare System residents, pursuant to Health and Safety Code Section 32001, SVMHS defines its service area as being larger than its jurisdictional boundary. As previously stated, 42 SVMHS facilities are in operation or scheduled for operation in the foreseeable future. These medical facilities are primarily located throughout Monterey and Santa Cruz Counties. **Figure 4** shows Salinas Valley Memorial Healthcare System primary and secondary service areas as defined by the District. The Primary Service Area (PSA) encompasses the District's jurisdictional boundary and includes the City of Salinas and all, or portions of, the communities of Marina, Spreckels, Gonzales, Prunedale, Castroville and Moss Landing. Based on FY 2016-17 data, approximately 50% of the District's total patients originated from the Primary Service Area. The Secondary Service Area (SSA) extends throughout Monterey County, and additionally includes portions of San Benito, Santa Cruz, Santa Clara and San Luis Obispo Counties. Included within the SSA are the communities of Big Sur, Carmel, Monterey, Pacific Grove, Pebble Beach, Seaside, King City, Watsonville, Hollister, Gilroy and Los Banos. Based on FY 2016-17 data, approximately 20% of the District's total patients originated from the Secondary Service Area.

Within the last fiscal year, over half a million patients were served by SVMHS facilities. **Exhibit C** illustrates the patient origination by service area. The exhibit also shows that the District serves a number of individuals who reside outside both the primary and secondary service areas. In FY 2016-17, almost 140,000 patients, who reside outside the PSA and SSA, represent 30% of the District's total patients. More than half of the total Doctors on Duty patients in FY 2016-17 reside outside the District's primary and secondary area. In summary, 50% of SVMHS patients are residents within the District, with the remaining 50% originating outside the District's jurisdiction and sphere of influence boundaries.

Exhibit C: Patient Origination by Service Area

SVMHS Site	Primary Service Area (PSA)	Secondary Service Area (SSA)	Areas Outside PSA & SSA	Total
Hospital	78,745 (75%)	17,779 (17%)	8,428 (8%)	104,952
Taylor Farms	6,490 (74%)	1,965 (23%)	267 (3%)	8,722
Salinas Valley Medical Clinic	29,318 (65%)	9,604 (21%)	6,136 (14%)	45,058
Primecare	64,450 (66%)	18,818 (19%)	13,835 (14%)	97,103
Central Coast Cardiology	25,626 (57%)	10,365 (23%)	8,890 (20%)	44,881
Doctors on Duty	72,002 (27%)	57,918 (22%)	136,067 (51%)	265,987
Total	276,631 (50%)	116,449 (20%)	173,623 (30%)	566,703

Figure 4: Salinas Valley Memorial Healthcare System’s Primary & Secondary Service Areas



Note: Primary Service Area is the District’s current jurisdictional boundary. The Secondary Service Area is served by SVMHS but located outside its existing boundary and expands into multiple counties (San Benito, San Luis Obispo, Santa Clara, and Santa Cruz).

Projected Growth

The current population of the county is approximately 430,000 based on the latest United States Census Bureau data. The current District population for Salinas Valley Memorial Healthcare System is estimated to be approximately 212,000¹. The City of Salinas represents 75% of the District’s population. Two other cities are located in the District’s boundary, Gonzales and a portion of Marina. The City of Gonzales represents 4% of the District’s population while the portion of the City of Marina represents 2%. The remaining 20% are residents living in unincorporated communities of Castroville, Chualar, Prunedale, Moss Landing, and Spreckels. While there are no specific population growth forecasts for SVMHS boundaries, projections for the City of Salinas provide an approximation. The Association of Monterey Bay Area Governments projects that the City of Salinas will grow at a 0.55% average compound annual growth rate from 2010 through 2035. This rate of growth will increase the City’s population from 156,000 to 173,000 by 2035. If this compound annual growth percentage were applied to SVMHS’ existing boundary, the District would grow to almost 238,000 by 2035. Exhibit D shows the estimated population growth in the areas within the District’s existing jurisdictional boundary.

¹ Based on 2016 United States Census Bureau Data extracted from the Monterey County’s GIS Database

However, as noted in the previous section of this study, staff analysis indicates that the SVMHS provides services outside its jurisdiction. By adding the population of communities that are already served by SVMHS, specially communities in the northern and southern regions of the county, the District’s projected population is expected to reach 341,000 by 2035.

Exhibit D: Forecasted Population Growth

Population Forecast	2016 (current)	2025 (projected)	2030 (projected)	2035 (projected)
Forecasted population served by SVMHS and within the District’s Boundary				
City of Gonzales	8,400	9,000	9,200	9,500
City of Marina (portion of)	4,000	4,200	4,400	4,500
City of Salinas	156,000	166,000	170,000	175,000
Unincorporated Communities	43,000	46,000	47,000	49,000
Salinas Valley Memorial Healthcare System (existing jurisdictional boundary)	212,000	225,000	231,000	238,000
Forecasted population served by SVMHS but outside the District’s Boundary				
City of Greenfield	17,000	22,000	23,000	24,000
City of King	14,000	16,000	18,000	19,000
City of Marina (remaining portion)	16,500	17,500	18,000	18,500
City of Soledad	26,000	32,000	33,000	34,000
Las Lomas Community	3,000	3,200	3,300	3,400
Oak Hill Community	100	105	110	115
Pajaro Community	<u>3,500</u>	<u>3,700</u>	<u>3,800</u>	<u>4,000</u>
Additional Population (sub-total)	80,000	95,000	99,000	103,000
Salinas Valley Memorial Healthcare System (population within and outside the District)	292,000	319,000	330,000	341,000

(Source: Association of Monterey Bay Area Governments. 2014 Regional Growth Forecast, June 2014)

Proposed Sphere of Influence Expansion

LAFCO staff recommends expanding the District’s existing sphere to more closely reflect its actual service area. Several benefits would result from a sphere expansion. In late-2017, LAFCO and SVMHS representatives evaluated the areas already being served by SVMHS but currently outside the District’s jurisdictional and sphere boundaries and explored different sphere expansion options. Based on our collaborative efforts, it was determined that Salinas Valley Memorial Healthcare System has been serving several communities outside the District’s jurisdictional and sphere of influence boundaries.

While LAFCO is not recommending a sphere expansion to include the entire secondary service area discussed in the previous section of this study, which includes multiple counties, a sphere expansion to include more Monterey County residents is a first step to better reflect the District’s current service boundary. Our analysis shows that SVMHS provides services to residents from Las Lomas, Oak Hill, and Pajaro in north Monterey County; residents from Greenfield, King City, and Soledad in south Monterey County; and residents in the City of Marina. Therefore, LAFCO staff recommends expanding the District’s

sphere to the north and south with the inclusion of the remaining portion of the City of Marina. Approximately 1,300 acres of Marina are already within the District’s jurisdictional boundary. SVMHS also owns and operates one of its seven Doctor on Duty locations in the City of Marina but the facility is currently outside its District boundary. Additionally, SVMHS owns a vacant parcel in the City of Marina which may be developed into another future medical facility – further investing resources and expanding healthcare services to the Marina community.

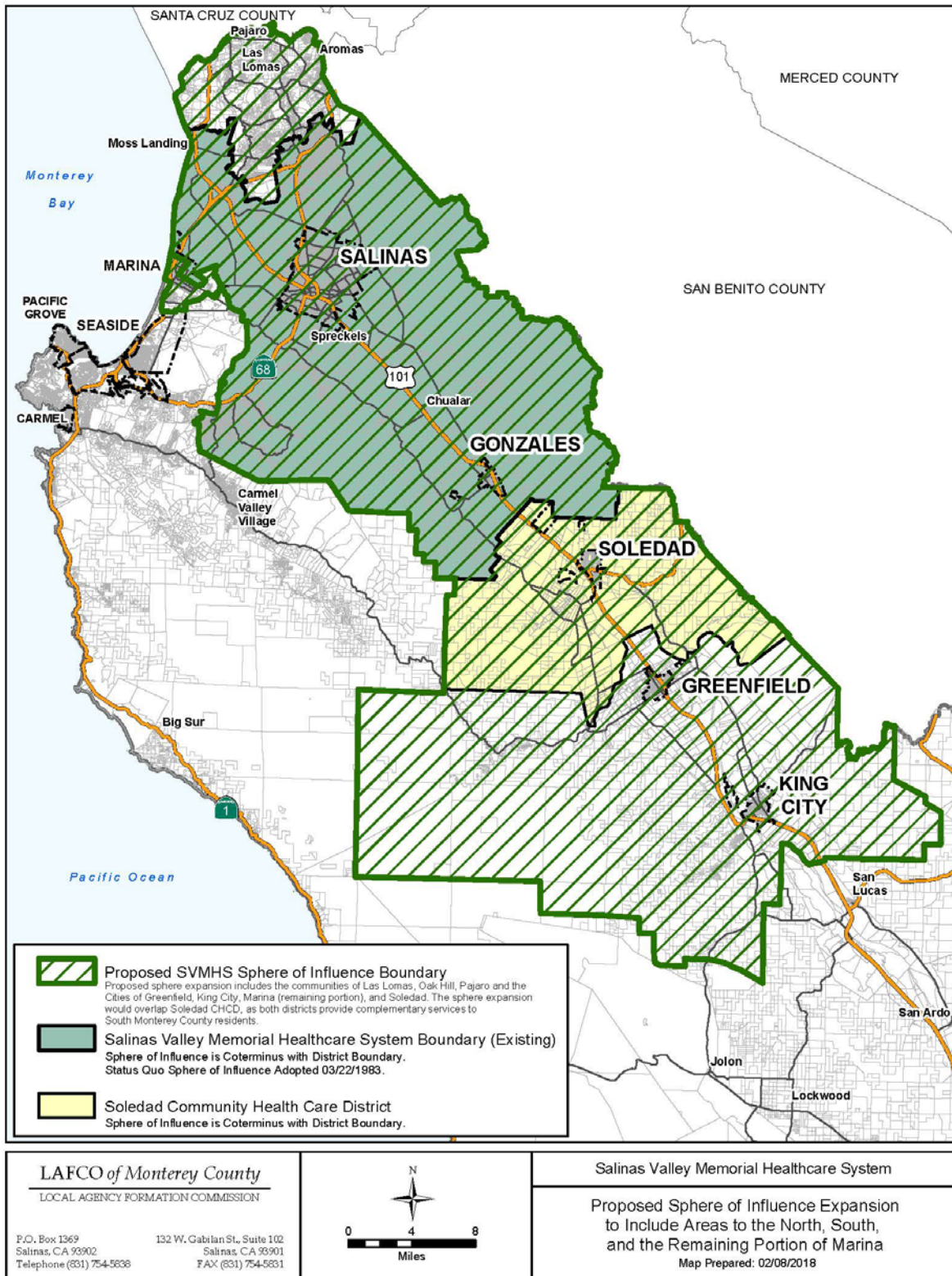
The recommended sphere expansion boundary is based on Marina’s existing city limits as well as the following school district boundaries: Greenfield Union, King City Union, Mission Union, North Monterey County, Pajaro Valley Unified, and Soledad Unified. If approved, the recommended sphere of influence, would include the unincorporated communities of Las Lomas, Oak Hill, and Pajaro and the Cities of Greenfield, Gonzales, King City, Marina (remaining portion) and Soledad. **Figure 5** shows the proposed sphere expansion. LAFCO gave a presentation on all the sphere expansion options to the SVMHS Board of Directors and 60 community leaders at the February 9 SVMHS Annual Retreat.

The proposed sphere expansion would overlap with Soledad CHCD. Due to the importance of SVMHS and Soledad CHCD in the southern region, no changes to Soledad CHCD’s jurisdictional or service delivery are recommended. As stated in page 20 of this study, both healthcare districts play a critical role in the collaborative delivery of medical services in Monterey County. The proposed sphere expansion for SVMHS will simply reflect the already established service relationship between both healthcare districts. In February 2018, both healthcare district chief executive officers, Pete Delgado (SVMHS) and Steve Pritt (Soledad CHCD) met to discuss the proposed sphere expansion within the southern region. The two healthcare districts support the recommended sphere expansion for SVMHS as part of their ongoing efforts to provide essential medical services in South Monterey County.

Benefits from a Sphere Expansion and Future Annexation

An increase in a sphere of influence provides the opportunity for the residents to ultimately be part of the District through annexation. If the sphere is expanded and these areas are annexed to the District in the foreseeable future, Monterey County residents would also receive the lower “in-District” room rates at the Salinas Valley Memorial Hospital and would have the opportunity to vote and run on the District’s Board of Directors. An incentive for the District, if the areas are eventually annexed, would include a small increase in revenue as a result of landowners contributing to District services through property taxes.

Figure 5: Recommended Sphere of Influence of Salinas Valley Memorial Healthcare System



Salinas Valley Memorial Healthcare System operates in a highly competitive institutional environment. Within Monterey County, admissions to Salinas Valley Memorial Hospital and Community Hospital of the Monterey Peninsula (CHOMP) each account for approximately 30% of the market share. CHOMP is an independent not-for-profit (“501[c][3]”) hospital. County-owned Natividad Medical Center, located just four miles north of Salinas Valley Memorial Hospital, accounts for approximately 22%. Mee Memorial Hospital, in King City, accounts for approximately 6% of the market share, and the remaining 12% of market share is spread among out-of-county hospitals. In all, there are eleven acute hospitals, with approximately 2,400 staffed beds, located within a 75-mile radius of Salinas Valley Memorial Hospital.

While CHOMP, Natividad, Mee Memorial and SVMHS compete for hospital admissions, the four hospitals have also found that there are times when cooperation is advantageous. In 2006, Natividad posted a financial loss of over \$25 million and there were discussions that the hospital might need to close. These losses followed an unsuccessful 2003 sales tax ballot measure to increase support for the County-owned facility. Salinas Valley Memorial Healthcare System and CHOMP stepped forward and agreed to give bail-out funds to the County hospital totaling \$8 million and to provide healthcare executives from each hospital to serve on Natividad’s Interim Board of Trustees. This assistance helped revitalize Natividad as the regional public safety net hospital, which provides a significant level of care to low-income, uninsured and vulnerable populations.

By 2012, SVMHS was also experiencing financial difficulties. The District sought to affiliate with a partner to strengthen its ability to provide high quality, full-service, cost efficient healthcare for local residents. The Salinas Valley Memorial Healthcare System proposal was consistent with a national trend for hospitals to seek efficiencies of scale through mergers and affiliations. The District originally received two bids in response to its offering, although one from a large for-profit health provider was later withdrawn. In July 2012, the Salinas Valley Memorial Board rejected the remaining bid from the County of Monterey and Natividad Medical Center, and opted to continue to operate as a stand-alone medical facility. This effort was part of an improvement initiative to advance internal operations, maintain excellence in patient care, and meet the needs of a changing healthcare landscape which resulted a dramatic transformation for Salinas Valley Memorial Healthcare System. Today, the District has a network of affiliations in multiple counties. The following section explores the ongoing strategic partnerships in an effort to improve service quality, reduce costs and create a healthier population.

In 2016, SVMHS entered a groundbreaking joint-venture ownership of three entities with Montage Health (Aspire Health Plan, Community Health Innovations, and Coastal Management Services). Montage Health is the parent company of CHOMP. Both CHOMP and Salinas Valley Memorial Hospital remain completely independent, however, this partnership between their subsidiaries helps make healthcare more affordable and accessible for all Monterey County residents. That same year, SVMHS completed a three-year project which opened the first Medical Respite Center in Monterey County. The center connects clients to services in hopes to achieve better health outcomes and start their journey towards housing stability and self-sufficiency. This public/private partnership includes CHOMP, Natividad Medical Center, Community Homeless Solutions, and the Hospital Council. More recently, SVMHS has also joined Montage Health and Natividad Medical Center to provide patients with access to their health information online via a secure internet portal called Central Coast Health Connect (CCHC). CCHC allows patients to keep tabs on their appointment information and test results and communicate with care providers conveniently when they have non-urgent health questions and concerns – a tool that helps each healthcare system meet its new preventive, patient-centered and cost-effective goals. SVMHS has 50% ownership and governance of CCHC. Additionally, SVMHS is working to streamline the transfer of patients from Hazel Hawkins Memorial Hospital (operated by the San Benito Healthcare District) and Mee Memorial Hospital in King City to SVMHS for medical services and procedures those institutions cannot provide. SVMHS already

provides a weekly cardiology clinic at Mee Memorial Hospital to connect Mee Memorial's patients with advanced cardiac care. As healthcare reform continues to reshape the industry, these collaborations are becoming vital to ensure smaller communities can provide cost-effective, quality healthcare services to their residents.

Another form of innovative partnership includes the establishment of a joint powers authority. In 2012, State legislation was passed which allows for the formation of a "Central Coast Hospital Authority" to manage, administer, and control the Natividad Medical Center and other healthcare facilities. This Authority could be used to facilitate the future merger of Natividad and SVMHS if considered by the affected parties. While the idea of merging with another hospital is not currently under consideration, Salinas Valley Memorial Healthcare System has a long history of affiliating with other groups in specific joint ventures. These joint ventures and affiliations are listed below.

Montage Health – Joint ownership of three entities designed to improve community health: Aspire Health Plan, Community Health Innovations (CHI) and Coastal Management Services. Aspire Health Plan offers a Medicare Advantage plan, which allows for top-rated hospital care, doctors and drug benefits within a single plan. CHI supports the new focus on wellness and prevention through coordination of care, disease management and patient experience improvements. Coastal Management Services provides administrative services, including claims processing. The partnership gives SVMHS a 49% stake in the three companies.

Monterey Peninsula Surgery Centers (five locations) – SVMHS is a 12% owner of these outpatient surgical centers, which partner with 200 top area surgeons to offer a wide variety of surgeries.

Central Coast Visiting Nurse Association & Hospice (VNA) – SVMHS is a governing member of the VNA. This program provides home healthcare services and hospice for people living throughout Monterey and San Benito counties as well as the southern portions of both Santa Cruz and Santa Clara counties.

Cardiac Surgery Program – In a move that advanced central coast heart care to an unprecedented level, SVMHS and Stanford Hospital & Clinics together created the Stanford Cardiac Surgery Program at Salinas Valley Memorial Hospital in October, 2008. The combination of the District's rich history of excellence in cardiovascular services, and Stanford's leadership in academic center medicine, significantly advanced cardiovascular healthcare in this region.

Stanford Children's Health - Joint venture with Stanford Children's Health in a Level III neonatal intensive care unit (NICU) and Perinatal Diagnostic Center. The NICU partnership allows SVMHS to care for critically ill babies on-site. Additionally, Salinas Valley Memorial Healthcare System's Perinatal Diagnostic Center, a partnership with Stanford Children's Health Lucile Packard Children's Hospital, is the first and only center in Monterey County specializing in high-risk pregnancies.

Vantage Eye Surgery Center – SVMHS is a 10% owner of this Medicare-approved outpatient facility offering a wide range of services, including surgical procedures for the care of all ocular conditions.

Salinas Valley Imaging – SVMHS is a 50% owner in Magnetic Resonance Imaging (MRI) services.

Brookdale at Harden Ranch – SVMHS owns 100% of the building and land at this assisted living residence, which serves memory care residents (those with Alzheimer's and dementia) as well as assisted living residents.



GOVERNANCE, TRANSPARENCY AND ACCOUNTABILITY

Governance

Salinas Valley Memorial Healthcare System is an independent special district governed by a five-member board of directors. From 1947 to 2012, board members were elected at-large by all District voters. In 2011, Salinas Valley Memorial Healthcare System formed an Electoral Advisory Committee to determine if the at-large election system continued to serve the needs of District residents, or if a zone-based election would provide better representation. Upon the Committee's recommendation, Salinas Valley Memorial Healthcare System Board approved a transition to zone-based elections.

District voters elected two newcomers to the district board in the first zone-based election in November 2012. This election was for board members from Zones 2 and 3 which are the most urban of the zones and centered in the City of Salinas. The first two members elected under this system were Latino males with roots in East Salinas. No incumbent board members ran in either the 2012 or 2014 elections, which resulted in a complete turn-over of board membership. In 2012, prior to the switch to zone-based elections, the average tenure of board members was 15 years, with one board member having served for 29 years and another for 24 years. Exhibit E lists the current Board of Directors.

Exhibit E: Current Board of Directors

Director	Title	District Zone
Chris Orman	President	Zone 1
Carissa Purnell	Assistant Treasurer	Zone 2
Alfred Diaz-Infante	Treasurer	Zone 3
Margaret D'Arrigo-Martin	Vice President	Zone 4
Carmen Gil	Secretary	Zone 5

Regular meetings of the Board of Directors occur monthly at Salinas Valley Memorial Hospital in the Cislini Plaza Board room. Board members also attend committee meetings that are scheduled through the month. There are currently Board committees for Corporate Compliance and Audit, Finance, Personnel, Pension and Investment, Transformation, Strategic Planning and Governance, Community Advocacy, and Quality & Efficient Practices. Board Members are compensated \$100 per meeting attended, up to a maximum of \$500 per month.

Transparency and Accountability

Each meeting of the Board of Directors has a time on the agenda reserved for public comments. Salinas Valley Memorial Healthcare System publicizes public meetings and District operations through the media, through mailings and by use of the District's website. Salinas Valley Memorial Healthcare System posts agendas for past and upcoming Board meetings on its website. Reports prepared for these meetings are posted online and available at the Board Meeting and in the District's Human Resources Department. Videos of the most recent Board meeting are available online. Salinas Valley Memorial Healthcare System's offices are open to the public during normal business hours, Monday through Friday. District revenues and expenses are audited annually by a private auditing firm with significant healthcare experience.

A 2012 audit conducted by the California State Auditor² identified what the Auditor believed to be Salinas Valley Memorial Healthcare System violations of public openness and ethics standards. The Auditor reviewed District executive compensation levels and recommended that the District take specific actions to provide the public with opportunities to participate meaningfully in Board meetings regarding executive compensation. The State Auditor found that the Board of Directors had violated the Ralph M. Brown Act, which requires legislative bodies to conduct their meetings in an open manner during Board

² California State Auditor, "Salinas Valley Memorial Healthcare System: Increased Transparency and Stronger Controls Are Necessary as It Focuses on Improving Its Financial Situation," March 2012 Report 2011-113.

deliberations on executive compensation. The Auditor also identified eleven instances between 2006 and 2010 in which SVMHS had business relationships with entities where its executives or Board Members had economic interests. The Auditor found that Salinas Valley Memorial Healthcare System did not ensure that many of the individuals its conflict-of-interest code identified as needing to submit statements of economic interest have submitted these statements, that it lacked a written policy and procedures to demonstrate that its community funding furthers its public purposes, and that the District generally did not document how it selected contractors in a way to obtain the best value.

While Salinas Valley Memorial Healthcare System contested many specifics in the State Auditor's report, the District stated that it welcomed the scrutiny of the report and acknowledged that the report "contains valuable conclusions and recommendations that have been or will be acted upon." Salinas Valley Memorial Healthcare System made significant changes based on the recommendations listed in the 2012 State Auditor Report. The District developed, implemented and educated their staff on policies and procedures that ensured full public disclosure. SVMHS policies are now designed to meet State requirements for the filing of Statements of Economic Interest and the avoidance of actual or perceived conflicts of interest, as well as to inspire trust and confidence among their constituents. Below is an overview of their updated policies which addressed the 2012 State Auditor Report:

Public Disclosure

Transparency in local government allows for accountability and public access to an agency's governance and operations. The SVMHS Public Records Policy clearly defines what information is available to the public by request, while safeguarding confidential information. The SVMHS Human Resources Department administers this policy, ensuring that public requestors receive timely and accurate responses.

Brown Act

The Brown Act facilitates public participation in local government decisions and creates broad public access rights to the meetings of legislative bodies. On a semi-annual basis, the District conducts training for all of the organization's executive leaders and members of the SVMHS board of directors to ensure understanding and compliance with AB 1234. Their thorough approach entails engaging expert legal counsel to support and review training agendas so that all relevant information is addressed and compliance is assured. Every member of the SVMHS board of directors is given information regarding compliance with the Brown Act. The District Legal Counsel is also present at all regularly called meetings of the board of directors to advise the board chair in regards to compliance with the Brown Act.

Conflict of Interest

SVMHS employs a multi-faceted approach to avoiding real or perceived Conflict of Interest situations. The District's Conflict of Interest Code and Policy outlines the elements that define issues and situations that demonstrate a conflict of interest. Each year, SVMHS reviews its policies and processes and submit conflict of interest filings along with any identified schedules. A specific Gift, Ticket and Honoraria Policy outlines management of FPPC requirements and District funds. SVMHS also provides annual and ongoing education to their organization's leaders that specifically addresses conflict of interest policies.

Procurement Management Policy and Competitive Solicitation Policy

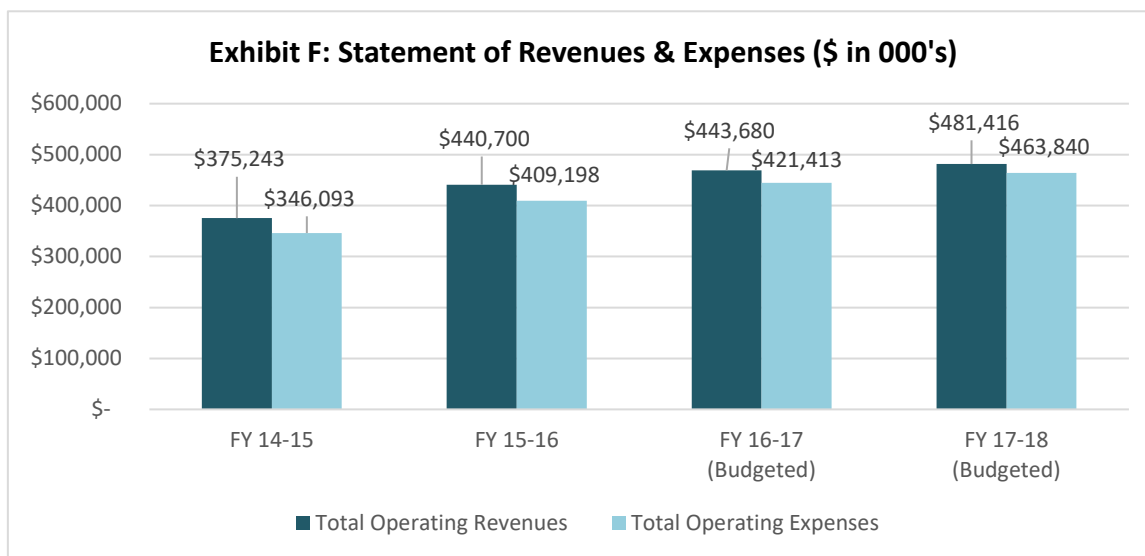
As part of Salinas Valley Memorial Healthcare System's commitment to openness and transparency, the District has two policies in place regarding procurement and solicitation. These policies ensure compliance with District regulations related to procurement and obligation for District fund oversight as well as demonstrate fairness in all of their practices. SVMHS also provides annual and ongoing education to the organization's leaders that specifically addresses Procurement Management and Competitive Solicitation policies.

FINANCES

A local government in good fiscal condition generally maintains adequate service levels during economic downturns, identifies and adjusts to long-term demographic changes, and develops resources to meet future needs³. For the past five years, on average, Salinas Valley Memorial Healthcare System’s revenues exceeded expenses by approximately \$32 million. This section will highlight its financial performance during the most recent fiscal years.

Fiscal Year 2015-16 is the latest audited financial statement available. At the end of Fiscal Year 2015-16, total income from operations totaled \$31.5 million representing an 8% increase from the previous year (\$29.2 million in 2015). Net patient service revenues in 2016 was \$434.8 million, an increase of \$67.4 million from 2015’s net patient service revenues of \$367.3 million. Increases in total revenue was due primarily to a rise in patient stays per day and emergency room visits. Salinas Valley Memorial Healthcare System also continues to generate a significant portion of its income from nonoperating activities, predominantly from investments (both marketable securities and real estate) and income from affiliates. Nonoperating income for 2016 was \$9.5 million as compared to \$9.0 million for 2015. Based on the latest adopted budget (FY 2017-18), total operating revenue is expected to reach \$481 million, representing a 9% increase from FY 2015-16 (\$440 million).

Total expenses for FY 2015-16 was \$409 million which increased from the previous year by approximately \$63 million (\$346 million in 2015). Similar to other healthcare districts, salaries and benefits contribute to the majority of Salinas Valley Memorial Healthcare System total expenses. At the end of Fiscal Year 2015-16, salaries and benefits totaled approximately \$235 million. Other expenses include supplies, purchased services, medical fees, and depreciation and amortization. Even with increases in total expenditures, the District’s total revenue exceeded total expenses each year since 2014 and is projected to continue. Exhibit F depicts total revenue exceeding total expenditures from 2014 to 2018.



Source: SVMHS Consolidated Financial Statements, for the years ending June 30, 2014 through 2018

Revenues

Patient service is the source of approximately 99% of the operating revenues for the last five years. Exhibit H offers a breakdown of total operating revenue. In Fiscal Year 2015-16, the gross patient service revenues of the SVMHS totaled \$1.3 million. 85% of these gross revenues (\$1.1 million) was derived from routine and ancillary inpatient services and 14% (\$181 million) was from outpatient services. As is standard in the medical field, these gross revenues were significantly reduced by deductions for contractual allowances for

³ Perceptions of Local Fiscal Stress During a State Budget Crisis, Public Policy Institute of California

statutory and negotiated rates. In Fiscal Year 2015-16 these allowances reduced gross revenues by 65% or \$840 million. The District deducted an additional 1% for doubtful accounts (\$16.3 million) and less than one-percent for charity care (\$5.7 million). Exhibit G provides an overview of the District's revenue stream since 2012.

Exhibit G: Salinas Valley Memorial Healthcare System's Revenue Source (\$ in 000's)

Gross Patient Service Revenues	2012	2013	2014	2015	2016
Routine Inpatient Services	\$179,598	\$207,138	\$210,225	\$256,024	\$266,448
Ancillary Inpatient Services	\$573,689	\$617,076	\$691,972	\$721,315	\$850,458
Outpatient Services	\$71,090	\$96,129	\$80,582	\$121,215	\$180,769
Total Gross Patient Service Rev	\$824,377	\$920,343	\$982,779	\$1,098,554	\$1,297,675
Deductions from Gross Patient Services Revenues					
Contractual allowance for statutory and negotiated rates	\$477,866	\$555,121	\$608,516	\$708,175	\$840,835
Provision for Doubtful Accounts	\$12,235	\$14,667	\$18,987	\$15,188	\$16,380
Charity Care	\$12,622	\$9,825	\$10,304	\$7,880	\$5,705
Total Deduction	\$502,723	\$579,613	\$637,807	\$731,243	\$862,920
Net Inpatient Service Revenue	\$321,654	\$340,730	\$344,972	\$367,311	\$434,755
Hospital Operations					
Medicare	\$80,936	\$76,885	\$83,222	\$90,008	\$99,042
Managed Care	\$181,383	\$197,675	\$194,743	\$207,771	\$224,824
Medi-Cal and CCAH	\$25,152	\$28,965	\$38,436	\$41,413	\$48,792
Other	\$19,026	\$22,436	\$11,713	\$5,050	\$7,715
Consolidated Subsidiaries	\$15,157	\$14,769	\$16,858	\$23,069	\$54,382
Net Patient Service Revenue	\$321,654	\$340,730	\$344,972	\$367,311	\$434,755

According to the District audits, patient service revenue comes from five sources:

Managed Care: Managed care, defined as care to patients with private insurance, provides approximately 52% of the net patient service revenue. While agreements between the hospital and insurers provides for payments to the hospital at amounts different from established rates, the discount applied is less than that required for publically-funded insurance. The financial importance of managed care patients is underscored by the fact that 52% of the District's net revenues are derived from Managed Care while this category accounts for only approximately 26% of patient gross billings.⁴

Medicare: The District derives approximately 23% of its net patient service revenue from Medicare, the national insurance program that guarantees access to health insurance for Americans aged 65 and older and younger people with disabilities. This program accounts for about 42% of gross patient billings.

Medi-Cal and CCAH: These California-based programs account for about 11% of net patient service revenue and 28% of patient gross billings. Medi-Cal is California's Medicaid program serving low-income families, seniors, persons with disabilities, children in foster care, pregnant women, and certain low-income adults. The Central California Alliance for Health (CCA) is a locally governed nonprofit health plan that uses the State's preferred County Organized Health System model of Medi-Cal managed care.

⁴ Percentages of net patient service revenue is based on data from the District audit for the fiscal year ending in June 2013. This percentage is similar to percentages experienced over the last few years. Percentage of gross billings is for Fiscal Year 2010-11. Data later than this is not available in the audits. This gross billings data also combines revenues for "Other" and "Consolidated Subsidiaries" into a single category.

Other: A variety of other patient groups account for approximately 2% of net patient service revenue and 4% of gross billings. This group includes private-payee patients who do not rely on health insurance.

Consolidated Subsidiaries: These subsidiaries account for approximately 13% of net patient service revenue. This includes an 85% interest in a partnership, Doctors on Duty Associates, an outpatient medical clinic organization; 100% of Salinas Valley Memorial Hospital Foundation, which is authorized to solicit contributions on the Hospital’s behalf; 100% of Salinas Valley Memorial Healthcare System Assisted Living, LLC, the owner of an assisted living facility; 100% of Pulmonary Medical Center of the Central Coast, operator of pulmonary and neurology clinics; and 50% of a joint venture with Lucille Packard Children’s Hospital to operate the Neonatal Intensive Care Unit.

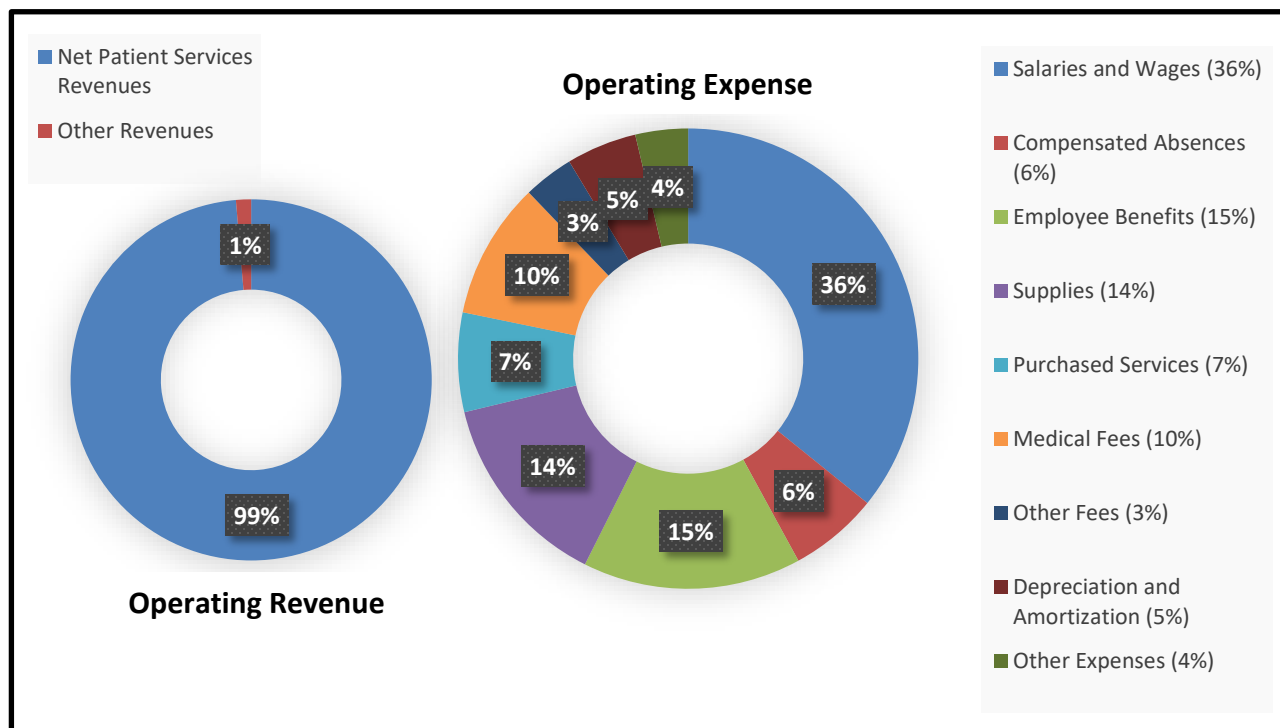
Taxes and Contributions

Salinas Valley Memorial Healthcare System receives a portion of the statewide “one percent” ad valorem tax for properties within its boundaries. The amount of property taxes received by the District has increased from \$3.6 million in Fiscal Year 2014-15 to \$3.8 million in Fiscal Year 2015-16. Additionally, donations to the District have averaged \$3.1 million over the last three years, ranging from \$2.7 million to \$3.9 million. Nevertheless, these two revenue streams only account for just over one percent of District revenues. **Exhibit H** offers a breakdown of total operating revenue.

Expenditures

As previously stated, salaries and benefits contribute to the majority of Salinas Valley Memorial Healthcare System total expenses. As of January 1, 2016, SVMHS had a total of 2,172 employees: 978 active, 268 inactive, 497 retired and beneficiaries, and 429 vested terminated. Approximately 57% of expenses are towards salaries and benefits. A total of nine operating expenditures are identified in the District’s annual audits. **Exhibit H** offers a breakdown of each operating expense.

Exhibit H: Salinas Valley Memorial’s Operating Revenue and Expense Breakdown as of June 30, 2016



According to the District audits, other annual expenditures include:

Pension Plans – All permanent employees, including executive management, are eligible to participate in appropriate pension plans sponsored by SVMHS. Under the various plans sponsored by Salinas Valley Memorial Healthcare System, permanent employees can participate after completing three years of service and reaching the age of 21 and, in other cases, eligible employees can participate after one year of service. The plans are single employer defined benefit retirement plans administered by SVMHS. The plans also provide retirement, disability, and death benefits based on the employee's years of service, age and annual compensation during covered employment.

Operating Lease - Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rental expense for the years ended June 30, 2016 and 2015, was approximately \$1.5 million and \$2 million respectively.

Litigation - SVMHS is involved in litigation related to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these matters will not have a material adverse effect on the Salinas Valley Memorial Healthcare System's consolidated financial position.

Compliance - The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of regulations which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. SVMHS is subject to such regulatory reviews and, while these reviews may result in repayments and/or civil remedies, management believes that such repayments and/or civil remedies would not have a material effect on the Salinas Valley Memorial Healthcare System's consolidated financial position.

Unpaid Services – SVMHS offers numerous services to the community for which charges are not generated. The services include health related programming and education that reached over 37,000 people in our community and participation in health fairs that reached over 7,000 people. The estimated costs of Medicare programs in excess of reimbursement from Medicare were \$113,504 and \$100,776 for the years ended June 30, 2016 and 2015, respectively.

Assets and Liabilities

Total assets of the Salinas Valley Memorial Healthcare System stood at almost \$600 million at the end of the June 2016. This accumulation of investments, cash and equivalents, receivables, and other funds makes SVMHS one of the largest healthcare districts in California. Based on 2016 data, only four other healthcare district in the state have more total assets: Kaweah Delta Health Care District (\$818 million), Washington Township Healthcare System (\$1.1 billion), Palomar Health Care District (\$1.6 billion), and El Camino Healthcare District (\$1.7 billion).

Approximately \$270 million of total assets were in the form of capital assets, net of accumulated depreciation. Capital assets include the value of the District's land, structures, and equipment. \$206 million in assets were classified as current assets, which included \$135 million in cash and cash equivalents, \$58 million in patient accounts receivable, and \$12 million in other. The audit for the fiscal year ending June 30, 2016 listed almost \$600 million in total liabilities and net position. This includes \$94 million in long-term liabilities, including pension liability of \$71 million. Current liabilities totaled \$64 million with Net Position amounting to \$435 million. Net Position includes investments in capital assets, reserves for minority interest, and funds unrestricted as well as temporarily or permanently restricted.

Improvements in District finances are illustrated in its statement of assets and net position. While the primary financial assets of District are capital assets that cannot be easily converted to pay liabilities, the District's current assets increased significantly in Fiscal Year 2015-16. An organization's liquidity, or its ability to pay short-term obligations, is shown through its current ratio (total current assets/current liabilities). The higher the current ratio, the more capable the District is of paying its obligations, as it has

a larger proportion of asset value relative to the value of its liabilities. Salinas Valley Memorial Healthcare System's liquidity ratio increased from 2.16 to 3.22 between Fiscal Years 2013 and 2016. The reason for the strong liquidity ratio is two-fold: SVMHS current assets have increased each year since 2013 while current liabilities experienced a decrease in 2014 and a slower growth in 2015 and 2016. Cash and Cash Equivalents alone saw an increase of 170% or \$85 million since 2013 as shown in Exhibit I. The District reports that it has no outstanding long-term loans or bonds.

Exhibit I: Consolidated Statements of Net Position

(\$ in 000's)	2013	2014	2015	2016
ASSETS				
<u>Current Assets</u>				
Cash and cash equivalents	\$ 50,191	\$ 80,860	\$ 123,634	\$ 135,495
Patient Accounts Receivable, net	\$ 46,107	\$ 46,508	\$ 44,417	\$ 58,445
Other	\$ 13,275	\$ 10,264	\$ 14,751	\$ 12,430
Total Current Assets	\$ 109,573	\$ 137,632	\$ 182,802	\$ 206,370
Restricted Funds	\$ 35,159	\$ 47,486	\$ 59,887	\$ 73,260
Capital Assets, net	\$ 295,569	\$ 280,096	\$ 265,539	\$ 270,102
Other Assets, net	\$ 17,065	\$ 17,749	\$ 17,271	\$ 24,092
Total Assets	\$ 457,366	\$ 482,963	\$ 525,499	\$ 573,824
Deferred Outflows	\$ -	\$ -	\$ 13,055	\$ 24,118
Total Assets and Deferred Outflows	\$ 457,366	\$ 482,963	\$ 538,554	\$ 597,942
LIABILITIES				
Current Liabilities	\$ 50,667	\$ 46,232	\$ 50,152	\$ 64,042
Long-term Liabilities	\$ 22,964	\$ 26,771	\$ 90,532	\$ 94,371
Deferred Inflows	\$ -	\$ -	\$ 3,692	\$ 4,340
Net Position				
Invested in Capital Assets, net	\$ 292,687	\$ 279,203	\$ 262,155	\$ 267,587
Reserved for Minority Interest	\$ 543	\$ 586	\$ 515	\$ 1,168
Temporarily Restricted	\$ 4,039	\$ 4,418	\$ 4,280	\$ 4,659
Permanently Restricted	\$ 351	\$ 1,165	\$ 1,129	\$ 1,129
Unrestricted	\$ 86,108	\$ 124,588	\$ 126,099	\$ 160,646
Total Net Position	\$ 383,728	\$ 409,960	\$ 394,178	\$ 435,189
Total Liabilities, Deferred Inflows and Net Position	\$ 457,359	\$ 482,963	\$ 538,554	\$ 597,942
Liquidity Ratio (Current Assets/Current Liabilities)	2.16	2.98	3.64	3.22

Source: Salinas Valley Memorial Healthcare System Consolidated Financial Statements, for the years ending June 30, 2013 through 2016.

Capital Improvement Projects

Each year, Salinas Valley Memorial Healthcare System evaluates its annual budgets and assesses available capital funds for the following year. As a public healthcare district and a nonprofit organization, SVMHS reinvests any revenue surplus back into its facilities, technology and equipment in order to maintain quality care. For the past five years, on average, Salinas Valley Memorial Healthcare System's revenues

exceeded expenses by approximately \$32 million. Revenue surplus, also known as District's Net Position, are deposited in four reserve accounts.

The following is a summary of those four reserve accounts:

1. Invested in capital assets, net of related debt – Capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
2. Reserved for minority interest – Net position of legally separate organization attributable to other participants.
3. Restricted – SVMHS classifies net position resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact. Restricted funds are further designated as either Expendable or nonexpendable. Expendable funds used by SVMHS is subject to externally imposed restrictions that can be fulfilled by actions of SVMHS pursuant to those restrictions or that expire by the passage of time. Nonexpendable funds are subject to externally imposed restrictions that must be retained in perpetuity by SVMHS.
4. Unrestricted – Net position that are neither restricted nor invested in capital assets, net of related.

SVMHS also makes it a priority to continue improving the District's balance sheet and overall financial performance to help its bond rating in preparation for the revenue bond issue pertaining to its hospital upgrade project necessitated by SB 1953. SVMHS capital improvement projects are segregated into two categories: strategic capital and routine capital. Unlike routine capital improvement projects, strategic capital projects require at least 25% return on investment with a payback period of less than 3-4 years. The District's executive team, in collaboration with physician partners and the business development team, evaluates and prioritizes capital needed to support strategic initiatives and to further the organization's ability to meet its community's healthcare needs.

Examples of recent strategic capital priorities include expansion of physician access and development of diabetes and infusion/oncology programs previously discussed in this study. Salinas Valley Memorial Healthcare System's process to assign discretionary routine capital funds is to first assess future capital needs that are not discretionary, including information technology, facilities and construction, and replacement of equipment. Information technology involves the replacement of computers, clinical workstations and IT infrastructure, and provision of additional storage to meet requirements for current applications. Facilities/construction involves the financial commitments to projects already underway or contracted/committed projects that have yet to begin and facility maintenance needed for regulatory and/or safety reasons. Replacement of equipment involves identifying which entities are at the end of its life and no longer supported by its vendor.

The SVMHS executive team reviews and confirms the nondiscretionary capital requirements discussed in the previous page and then determines remaining capital funds that can be used for discretionary projects and equipment acquisitions/improvements. The process to identify and approve discretionary capital entails:

1. A review of items identified during the year that were deemed critical for capital funding assessment the following year
2. A review of items not approved in the current year for potential inclusion the following year

3. Development of capital requests (projects, equipment and IT) by department directors and their physician partners and reviewed by their respective administrators
4. Forwarding of VP-reviewed requests to the capital committee, which then reviews the requests for completeness and adds them to the Master Request List
5. An executive review of the Master Request List and approvals (items not approved but deemed important are put on a list and reviewed during the year as funds become available due to approved projects being delayed, re-scoped or canceled)
6. Inclusion in the District's annual budget for approval by the Board of Directors

ADDITIONAL SERVICES AND ACCOMPLISHMENTS

Salinas Valley Memorial Healthcare System offers a full spectrum of inpatient and outpatient services. Refer to **Exhibit B** and **Figure 3** for a summary of the components and facilities operated by Salinas Valley Memorial Healthcare System. The core component of SVMHS is the Salinas Valley Memorial Hospital. In 2016, the hospital had over 10,600 inpatient admissions with an average daily census of 127 and an average length of stay of four days. The Hospital also served approximately 55,000 outpatients and had over 55,600 emergency room visits. More than 100,000 patients were served at the District's urgent care centers and Doctors on Duty locations during that same fiscal year. SVMHS continues to expand medical operations by improve existing facilities, developing innovative services, or offering educational events. The construction of an infusion center within the Comprehensive Community Cancer Program at Salinas Valley Memorial Hospital in late 2016 is only one example of the recent efforts to increase healthcare throughout the county. The following section provides a more in-depth review of the other facilities, services and accomplishments completed by SVMHS.

Salinas Valley Medical Clinic

Through the Salinas Valley Medical Clinic (SVMC), which is located in the Cities of Monterey and Salinas and includes approximately 100 providers in 21 specialties across the SVMHS jurisdictional boundary, Salinas Valley Memorial Healthcare System brings medical services to patients who were previously unable to access certain specialties. This multi-specialty clinic is staffed by board-certified specialists in 12 locations concentrating in cardiology, pulmonology and critical care, palliative care, endocrinology, thoracic, vascular and general surgery, dermatology, infectious diseases, neurology, rheumatology, hospitalist medicine, oncology/hematology, obstetrics/gynecology, urogynecology, sleep medicine, physical therapy, orthopedics, podiatry, sports medicine, and pain management. By bringing these practices into SVMC, Salinas Valley Memorial Healthcare System was able to lift the administrative burden from the practices by accepting all forms of payment for services including Medi-Cal and Medicare. SVMC aligns physicians with the needs of their communities and continuously seeks new physicians to add healthcare capabilities and address ever-evolving patient health issues and expectations.

In 2015, the physician practice that provided medical oncology and chemotherapy infusion services in Salinas went through significant operational and financial challenges, threatening its viability. In order to maintain a stable and reliable cancer care for residents in Salinas, SVMHS acquired the distressed practice and recruited an additional hematology/oncology physician. In July 2017, SVMHS opened a new Diabetes & Endocrine Center on the second floor of its building at 355 Abbott Street. This \$4 million project provides a one-stop shop for diabetes treatment and research in the county. The 10,000 square-foot facility will be led by board certified endocrinologists, nurse practitioners, physician assistants, diabetes educators and nutritionists. These medical professionals work together with various partners including Monterey County, other hospitals, and the YMCA to provide advanced treatment and management of this disease. More recently, SVMHS celebrated the grand opening of its Pediatric Diabetes Clinic in February 2018. This new clinic is part of the Diabetes and Endocrine Center and is a result of an ongoing partnership with UC San Francisco Medical Center to address the growing needs of children facing Type 1 and 2

diabetes. SVMHS also provides the only chemotherapy treatment in the City of Salinas as part of Salinas Valley Medical Clinic. This facility is accessible to all patients, regardless of their insurance coverage or ability to pay.

Educational Opportunities

Salinas Valley Memorial Healthcare System has a robust schedule of community education events. “Ask the Experts” events allow residents an opportunity to communicate with physicians and learn useful information on pressing health topics. On average, approximately 15,000 people attend these events and other health promotion and educational events throughout Monterey County each year. Salinas Valley Memorial Healthcare System also hosts the Medical Adventure Camp annually. 2017 marks the 17th year SVMHS has offered this summer camp as an opportunity for students 10 through 12 years of age to learn about careers in medicine. The program is held at the SVMH campus and includes presentations on nutrition, physiology, laboratory science, physical therapy, forensic medicine, infection control and more. Field trip destinations include the Tech Museum, Hyperbaric Chamber and the U.S. Coast Guard Training Center. Additionally, the Summer Health Institute invites high school students to participate in paid internships that combine 100 hours of classroom presentations and field trips with 60 hours of internship work. Students come from throughout the region to take advantage of this valuable opportunity. Exhibit J provides an example of the total number of students that completed the Medical Adventure Camp and Summer Health Institute since 2001.

Exhibit J: Total Medical Adventure Camp and Summer Health Institute Participants by Region

Region	Medical Adventure Camp Students	Summer Health Institute Students	Total
Salinas	246	169	415
Monterey Peninsula	9	21	30
Marina/Castroville	6	16	22
South Monterey County	12	6	18
Gilroy/Hollister	6	0	6
Santa Cruz	5	0	5
Watsonville/Aromas	0	2	2
Total	284	214	498

Salinas Valley Memorial Hospital Foundation

Since 1981, the District has been assisted by the affiliated nonprofit Salinas Valley Memorial Hospital Foundation. The goal of the Foundation is to provide education and outreach to the community, improve the overall quality of life for people facing serious or life-threatening illness, arrange elective surgeries, and offer a safe place for mothers and babies. Philanthropic support has enabled this single hospital to grow into an integrated network of healthcare programs, services and facilities throughout the Central Coast. Recent accomplishments include the completion of the Taylor Farms Family Health and Wellness Center (Gonzales) in 2015 and the opening of the new Diabetes and Endocrine Center (Salinas) in 2017 which both received campaign funds and donations through the Hospital Foundation. In Fiscal Year 2015-16, Salinas Valley Memorial Hospital Foundation raised \$2.9 million in donations to support patient care at the hospital.

Awards & Recognitions

Salinas Valley Memorial Healthcare System is proud of its reputation for excellence which is reflected in the number of awards its received during the past several years. These achievements include being recognized at the local, state, and federal level.

The Leapfrog Group, an independent national nonprofit organization recently awarded SVMHS an “A” grade in the Fall 2017 Hospital Safety Grade, which rates how well hospitals protect patients from errors, injuries and infections. Hospitals that repeatedly earn an “A” grade such as Salinas Valley Memorial Healthcare System demonstrate an ongoing commitment to the care of their patients. The Hospital Safety Grade is a twice-annual assessment of more than 2,600 hospitals across the country and uses 27 measures of publicly available hospital safety data to produce a single letter grade ranging from “F” being the worst and “A” being the best. The Hospital Safety Grade is compiled under the guidance of the nation’s leading experts on patient safety and is administered by The Leapfrog Group to represent a hospital’s overall capacity to keep patients safe from preventable harm. Additionally, Salinas Valley Memorial Healthcare System has been recognized by The Joint Commission, the Commission on Cancer, the American Heart Association and Healthgrades. Below is a summary of each achievement.

The Joint Commission - In 2015, SVMHS was recognized by the Joint Commission as one of the nation’s “Top Performers” in care of heart attacks, heart failure, and overall quality and safety.⁵ The Joint Commission is a nonprofit organization that accredits more than 20,000 healthcare organizations and programs in the United States.

Commission on Cancer - In 2016, SVMHS received full accreditation status to the Cancer Program by the Commission on Cancer.

American Heart Association - In 2017, SVMHS was recognized for its efforts in stroke prevention.

Healthgrades – In 2017, Salinas Valley Memorial Healthcare System was listed as one of the nation’s Top 5% for treatment of stroke, plus special honors for outstanding care in orthopedics, pulmonary, gastrointestinal and critical care by Healthgrades, a company that provides information about physicians, hospitals and healthcare providers.⁶



⁵ <http://www.jointcommission.org>

⁶ <https://www.svmh.com/About-Us/Awards-Recognition.aspx>

FUTURE CHALLENGES AND OPPORTUNITIES

Salinas Valley Memorial Healthcare System regularly assesses current and future community needs in order to provide the best possible preventive, chronic and acute care to patients regardless of their origination. In an effort to address healthcare issues and expand methods of providing such services to its constituents, SVMHS regularly evaluates critical health needs through an extensive community health needs assessment (CHNA). The latest CHNA report was adopted by the SVMHS Board on June 15, 2017. This assessment was created through a transparent, multi-step process by synthesizing community input and statistical data, filtering those needs against a set of criteria, prioritizing key results from a countywide community survey and ranking results after deliberating with a group of hospital representatives. Future service efforts are based on the results of these community assessments. In addition, SVMHS announced in November 2017 the District will form a Patient Family Advisory Council. This patient-oriented board will work with the existing Patient Experience Steering Committee to help shape initiatives, processes and procedures at SVMHS. This council will further assist SVMHS in identifying community needs throughout the county and provide a new outlet for patients and families to voice their concerns and share their experiences. The following section identifies other upcoming challenges and opportunities.

Future Services to Underserved Communities

Salinas Valley Memorial Healthcare System is also looking to bring medical services to underserved areas within the Salinas community but outside the District's jurisdiction. In FY 2014-15, SVMHS provided more than \$86 million in uncompensated care to uninsured and underinsured communities countywide. SVMHS also provided direct funding to several non-profit organizations whose mission contributes to or complements that of SVMHS. Such organizations include Hartnell College Nursing Program, Alliance on Aging, Coastal Kids Home Care, Food Bank for Monterey County, Leukemia & Lymphoma Society, etc. SVMHS contributions to uncompensated care and assistance to other healthcare providers fulfill the District's public purposes of ensuring access to quality, affordable healthcare to residents of the District.

SVMHS provides services to underserved communities through the operations of the Service League Program. This volunteer program provides many services free of charge including assistance and counseling to patients and visitors, daily personal contact with members of the community who are living alone, career counseling and programs for local students, spiritual care volunteers representing many local faith community congregations, palliative care program assistance, and provision of scholarship awards to qualifying students in the medical professions. In the past two years, these volunteers contributed approximately 27,000 hours in providing these services.

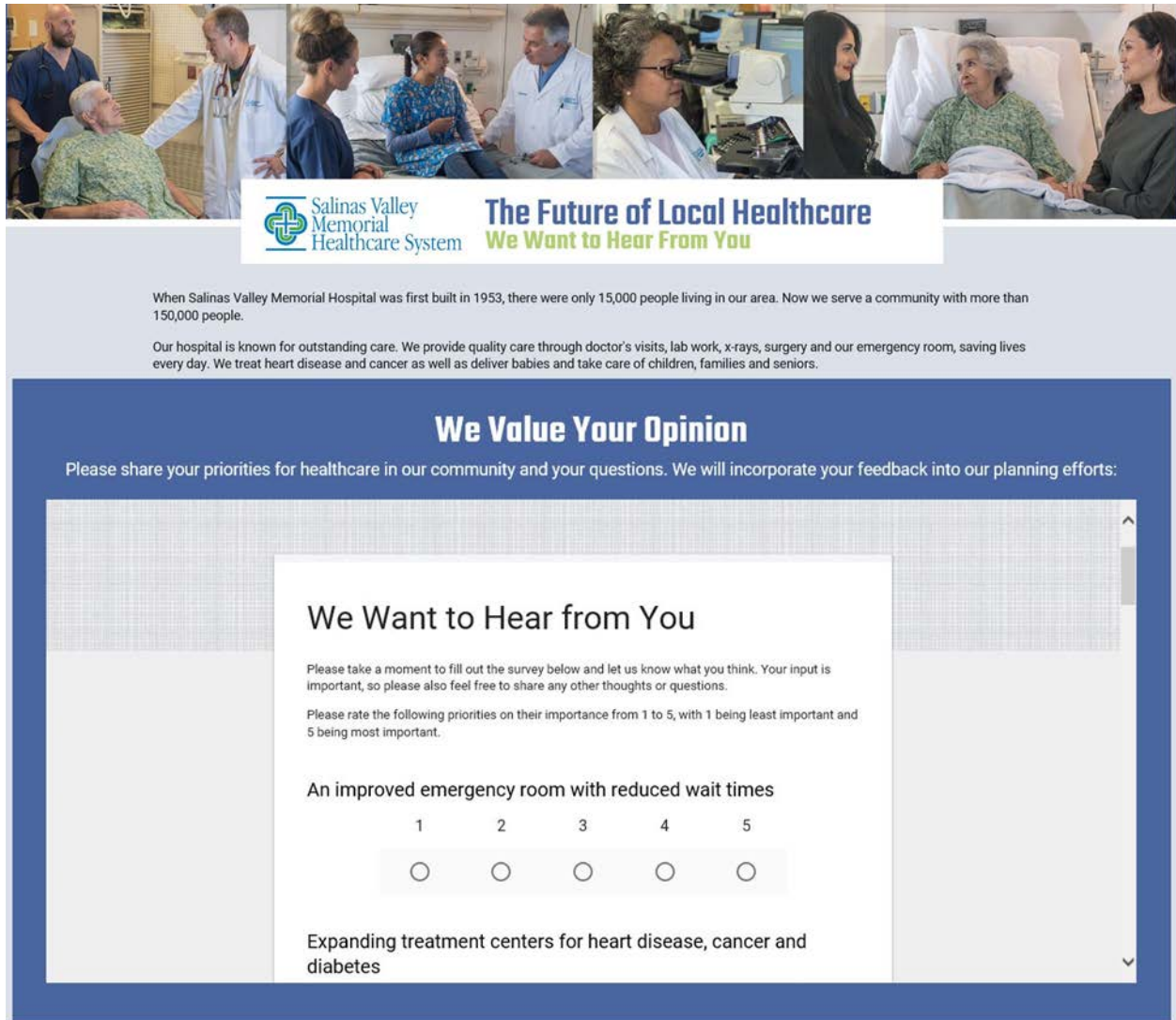
Recruitment Process for New Medical Professionals

Anticipated retirement of nurses and physicians, coupled with the growth of local communities, has also caused the SVMHS to continue its emphasis on recruitment as an ongoing priority. Salinas Valley Memorial Healthcare System has adopted an aggressive recruitment program to attract additional physicians and medical professionals in various specialties to the area. The specialties being recruited will be derived from a special study conducted by SVMHS to determine professional need in a specific area.

Future Infrastructure Improvements

While SVMHS has expanded its services beyond the Salinas Valley Memorial Hospital, much of their facilities are decades old and require improvements. One option that is being considered is placing a local bond measure on the ballot which would provide locally-controlled funding to (1) reduce emergency room wait time, (2) expand treatment centers, (3) upgrade operating rooms and intensive care units, (4) enhance women and children services, and (5) improve access to high-quality care. Before moving forward with such measure, Salinas Valley Memorial Healthcare System is gauging community interest by requesting resident input through surveys. SVMHS plans to incorporate community feedback into their planning efforts. The survey was mailed to residents throughout the county and available on the District's website (as shown in Figure 6).

Figure 6: Salinas Valley Memorial Healthcare System's Online Survey



Concurrence to Seismic Safety Requirements

Another future challenge being addressed by Salinas Valley Memorial Healthcare System is state mandates. In late 2012, Salinas Valley Memorial Healthcare System completed a multi-year \$42 million seismic retrofit project in accordance to state law. Hospitals are required to prepare both a comprehensive evaluation report and compliance plan to attain the specified structural and nonstructural performance categories. Subsequent changes to the legislation have established a final compliance deadline of 2030, by which any licensed acute-care hospital facilities not in compliance with seismic safety standards must be replaced or cease acute-care operations. While the retrofitting has deemed the District earthquake-compliant until 2030, SVMHS is still required to meet state seismic safety regulations pursuant to the amendments of the Alfred E. Alquist Seismic Safety Act following the 1994 Northridge earthquake. Such improvements will be implemented in the next couple of years.

Future of the Affordable Care Act

California has seen a significant decline in the number of uninsured residents since 2014 when the Affordable Care Act (ACA) was implemented. This dramatic shift in the national healthcare landscape resulted in profound changes to the healthcare delivery system in the Central Coast region – further allowing collaboration among local providers to reimagine the provision of healthcare services. However, the state’s expansion of health coverage faces an uncertain future. The current presidential administration has pledged to dismantle the ACA and alter the Medicaid program currently in place. Any reduction in federal funding may substantially reduce California’s ability to continue its current level of coverage. SVMHS and other healthcare providers may need to explore options to maintain current health coverage to all California residents.

CONCLUSION

Salinas Valley Memorial Healthcare System has undergone a dramatic transformation following an improvement initiative back in 2012 to advance internal operations, maintain excellence in patient care, and meet the needs of a changing healthcare landscape. Also, Salinas Valley Memorial Healthcare System is now governed by a five-member Board of Directors who are appointed through a zone-based election process rather than at-large elections. SVMHS continues to comply with legal requirements for public transparency and accountability, and engages in many community activities and partnerships. Utilization of strategic partnerships with neighboring hospitals, in concert with ongoing investments in capital improvement projects, has allowed SVMHS to address public health challenges and fulfill state and federally mandated requirements without negative impacts to its overall financial status. Today, SVMHS serves over half a million patients in 42 different locations.

Even with the ongoing service delivery to various communities, the jurisdictional boundary of the District has remained unchanged since 1947. The same can be said for the District’s sphere of influence boundary. No change to its sphere boundary has occurred since the original adoption in 1983. Staff’s analysis, with concurrence from SVMHS representatives, indicates that a sphere expansion would better reflect the District’s current service area and could lay the foundation for future annexation and ultimately provide underserved residents not only a designated healthcare service provider but also a reduction in costs and allow them to vote and run for the District’s Board.

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DETERMINATIONS

MUNICIPAL SERVICE REVIEW DETERMINATIONS⁷

1. Growth and Population Projections for the Affected Area

Based on the 2016 Census Data, Salinas Valley Memorial Healthcare System’s population is approximately 212,000. While there are no specific population projections for the District, projections for the City of Salinas provide a reasonable approximation. The Association of Monterey Bay Area Governments (AMBAG) projects that the City of Salinas will grow at a 0.55% average compound annual growth rate from 2010 through 2035. If this growth percentage were applied to Salinas Valley Memorial Healthcare System, it would grow to approximately 238,000 by 2035.

2. The Location and Characteristics of Any Disadvantaged Unincorporated Communities (“DUCs”) Within or Contiguous to the Sphere of Influence

State law defines DUCs as communities with an annual median household income of less than 80% of the statewide annual median household income. The California Department of Water Resources lists Census Places that meet this definition. Three census places within Salinas Valley Memorial Healthcare System’s boundaries and Sphere of Influence meet this definition: the unincorporated communities of Boronda, Castroville and Chualar. Additionally, the unincorporated community of Pajaro, which meets this income definition, lies approximately three to four miles north of the current District boundaries and Sphere. This community is located on the County line, across the Pajaro River from the County of Santa Cruz and the City of Watsonville.

The importance of reviewing the existence of DUCs within or adjacent to the Salinas Valley Memorial Healthcare System’s District Sphere of Influence is lessened by the fact that residents of these communities currently have the same access to hospital services as District residents. Salinas Valley Memorial Healthcare System has also indicated it is also looking to bring medical services into underserved areas around the District. If approved, the recommended sphere of influence would include the Pajaro community as well as the unincorporated communities of Las Lomas and Oak Hill, and the Cities of Greenfield, Gonzales, King City, Marina (remaining portion) and Soledad.

3. Present and Planned Capacity of Public Facilities, Adequacy of Public Services, and Infrastructure Needs and Deficiencies (Including Needs or Deficiencies Related to Sewers, Municipal and Industrial Water, and Structural Fire Protection in Any Disadvantaged Unincorporated Communities Within, or Contiguous to, the Sphere of Influence)

Salinas Valley Memorial Healthcare System is changing to meet the needs of the changing American healthcare system. One of these changes is a shift to emphasize the provision of care in outpatient clinics instead of within an acute hospital setting. Salinas Valley Memorial Healthcare System has also recently completed substantial seismic safety improvements and now meets state seismic safety standards until 2030.

Salinas Valley Memorial Healthcare System provides healthcare services. Health and Safety Code Sections 32121-32138 authorizes various powers including the ability to build and operate hospitals and other healthcare facilities in underserved areas. As outlined in the Service Review, the District is actively planning and budgeting to meet the community’s future needs. All other municipal services, such as fire, water, sewer, and public safety, are available and provided by neighboring agencies.

⁷ Municipal Service Review determinations required per Government Code section 56430.

4. Financial Ability of Agency to Provide Services

The District's financial ability to provide services is well established, as outlined in this Service Review. The District has successfully kept costs in line with revenues since the 2010 and 2011 Fiscal Years when operating expenses exceeded operating revenues. Audited financial statements from Fiscal Years 2012 to 2016 indicate that the District's total operating revenues exceeded total operating expenditures each year with a difference ranging from \$171,000 to \$31.5 million.

5. Status of, and Opportunities for, Shared Facilities

Salinas Valley Memorial Healthcare System is an integral and important part of the Monterey County healthcare system. Salinas Valley Memorial Healthcare System and other healthcare providers both compete and share in the provision of services.

Salinas Valley Memorial Healthcare System provides additional services to communities through proactive partnerships with private and public organizations. SVMHS has entered a joint-venture ownership of three entities with Montage Health, the parent company of the Community Hospital of the Monterey Peninsula (CHOMP). This partnership helps make healthcare more affordable and accessible for all Monterey County residents. SVMHS has also joined Montage Health and Natividad Medical Center to provide patients with access to their health information online via a secure internet portal called Central Coast Health Connect (CCHC). Additionally, Salinas Valley Memorial Healthcare System is working to streamline the transfer of patients from Hazel Hawkins Memorial Hospital (operated by the San Benito Healthcare District in San Benito County) and Mee Memorial Hospital in King City to SVMHS for medical services and procedures those institutions cannot provide.

6. Accountability for Community Service Needs, Including Government Structure and Operational Efficiencies

Salinas Valley Memorial Healthcare System is governed by a five-Member Board of Directors. Each Member is elected by voters from within a specific geographic zone. This zoned election system was implemented by the District in 2012 as a means to more accurately reflect the diversity within the community. The District maintains an informative web page to inform its residents and hosts a variety of community events to keep community residents informed of health issues. The District operates efficiently as outlined in this study.

7. Any Other Matter Related to Effective or Efficient Service Delivery, As Required by Commission Policy

LAFCO has reviewed its local policies and there are no other pertinent matters.

Based on the recommended determinations in this section, and the information in this study, this study provides support for the proposed Sphere of Influence expansion of Salinas Valley Memorial Healthcare System.

1. The Present and Planned Land Uses in the Area, Including Agricultural and Open-Space Lands

The Sphere of Influence and boundaries of Salinas Valley Memorial Healthcare System encompass approximately 478 square miles. While most of the District's population resides within the City of Salinas, the City covers only 23 square miles. The District Sphere of Influence and boundaries include the City of Gonzales and portions of the City of Marina. It also includes all or portions of the unincorporated communities of Boronda, Castroville, Chualar, Moss Landing Prunedale, and Spreckels. The majority of growth projected in the area is within the cities of Salinas and Gonzales. This growth will necessitate the conversion of agricultural land to residential, commercial and industrial uses. Development will necessitate environmental review through the California Environmental Quality Act (CEQA). Annexation to any city or special district providing urban services will require LAFCO approval.

Boundaries of SVMHS have not changed since 1947 (see **Figure 1**). The LAFCO Executive Officer has reviewed the District's current Sphere of Influence and service boundary in consultation with SVMHS and found that a sphere expansion is appropriate to better reflect Salinas Valley Memorial Healthcare System's actual service area. Salinas Valley Memorial Healthcare System currently serves several communities within the northern and southern areas of the county. Because services are not limited to Salinas Valley Memorial Healthcare System residents, pursuant to Health and Safety Code Section 32001, SVMHS currently provides services to a larger population beyond its designated boundary.

LAFCO staff recommends expanding the District's sphere to northern and southern areas and to the remaining portion of the City of Marina. Approximately 1,300 acres of Marina are already within the District's jurisdictional boundary. SVMHS also owns and operates one of its seven Doctor on Duty locations in the City of Marina but the facility is currently outside its District boundary. Additionally, SVMHS owns a vacant parcel in the City of Marina which may be developed into another future medical facility – further investing its resources and expanding its healthcare services to the Marina community. If approved, the recommended sphere of influence, which utilized school district boundaries and other municipal borders, would include the unincorporated communities of Las Lomas, Oak Hill, and Pajaro and the Cities of Greenfield, Gonzales, King City, Marina (remaining portion) and Soledad. The sphere expansion, if approved, would overlap with the Soledad Community Health Care District. The sphere expansion will better reflect the service boundary of SVMHS, but will not change the importance of Soledad Community Health Care District in the Soledad community. Both healthcare districts play a critical role in the delivery of medical services to Monterey County.

2. The Present and Probable Need for Public Facilities and Services in the Area

The operations of Salinas Valley Memorial Healthcare System demonstrate the area's need for hospital and related medical facilities. With an expanding population, the need for these services will expand. SVMHS continues to invest in medical facility upgrades, improvements in outpatient services, and expansion of critical medical amenities to underserved communities.

⁸ Sphere of Influence determinations required per Government Code section 56425(e).

3. **The Present Capacity of Public Facilities and Adequacy of Public Services that the Agency Provides or is Authorized to Provide**

Salinas Valley Memorial Healthcare System operates the 263-bed Salinas Valley Memorial Hospital, affiliated clinics and facilities. The Salinas Valley Memorial Hospital has received very high ratings on many of its programs from the Joint Commission, Healthgrades, and the Leapfrog Group. The District has recently updated the hospital to meet all current state seismic standards and continues to make improvements to ensure that the physical plant is functional and attractive.

4. **The Existence of Any Social or Economic Communities of Interest in the Area, if the Commission Determines That They Are Relevant to the Agency**

There are no social or economic communities of interest in the area that have been determined to be relevant to the Agency.

APPENDIX

SOURCES AND ACKNOWLEDGEMENTS

LAFCO primarily developed this Municipal Service Review and Sphere of Influence Study in coordination with Salinas Valley Memorial Healthcare System's Executive Team, specifically Pete Delgado (Chief Executive Officer) and Adrienne Laurent (Chief Strategic Communications Officer). Mr. Delgado and Ms. Laurent met several times with LAFCO staff to discuss services and boundaries, answered our questions, and provided audits, budgets, District agenda packets and other documents. LAFCO received most of the information in this study through the verbal and written information provided by the District.

While LAFCO has used a large number of written resources in the preparation of this study, the following have been key:

- a. Association of Monterey Bay Area Governments, 2018 Regional Growth Forecast, June 2018
- b. California State Auditor, Salinas Valley Memorial Healthcare System: Increased Transparency and Stronger Controls Are Necessary as It Focuses on Improving Its Financial Situation, March 2012 Report 2011-113
- c. Little Hoover Commission, Special Districts: Improving Oversight & Transparency Report, August 2017
- d. Monterey County Resource Management Agency, 2010 Census Data, GIS Database, September 2017
- e. Public Policy Institute of California, Perceptions of Local Fiscal Stress During a State Budget Crisis, December 2009
- f. Salinas Valley Memorial Healthcare System, Consolidated Financial Statements, June 30, 2011 to 2016.
- g. Salinas Valley Memorial Healthcare System, Community Health Needs Assessment, June 15, 2017
- h. UCLA Center for Health Policy Research and California Center for Public Health Advocacy, Overweight and Obesity among Children by California Cities, June 2012
- i. United States Census Bureau, American Community Survey, 2010-2014
- j. United States Department of Health and Human Services, Centers for Medicare & Medicaid Services, November 2017

Many of these Salinas Valley Memorial Healthcare System documents and other information on the District can be found on the District website at <http://www.svmh.com>.

