

## FINAL REPORTS

# SEQUOIA HEALTHCARE DISTRICT TAX REVENUES

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### Summary:

The 2000-2001 grand jury believes that the voters of the Sequoia Hospital District may not know:

They are still being taxed to maintain a hospital that the district does not now own.

Their taxes are not going for the purpose of maintaining the hospital.

The revenues in great part are not going for the purposes described in the 1996 Measure H.

In 1946 voters established the Sequoia Hospital District, generally comprising the area from the southern San Mateo County line to northern Belmont, to maintain a tax-supported hospital with the understanding there would be future bond issues to build and add to the hospital. In 1947 the San Mateo County Board of Supervisors assessed those district taxpayers a total amount of \$46,578. The hospital opened in 1950. Today the assessment continues and in fiscal year 2000-2001 exceeds \$4 million.

In 1996 the voters of the district approved Measure H that, among other things, sold some assets of the district, including the hospital, to Catholic HealthCare West (CHW), a private non-profit organization. By this sale, maintenance of the hospital became the responsibility of CHW.

Measure H and the ballot literature accompanying it did not mention in any way that the district taxpayers were still being assessed and would continue to be assessed for the purpose of maintaining a hospital that would be owned and maintained by a private entity - CHW. Measure H stated that its primary purpose was to maintain and continue emergency services, acute medical/surgical care, and special healthcare services such as the Sequoia Hospital cardiovascular program.

Today these tax revenues and other district revenues are being directed by the Sequoia Health Care District Board in great part to charitable activities within the district but not in significant part to the purposes described in Measure H or the 1946 ballot measure.

The grand jury believes that property taxes for district taxpayers should be reduced unless district voters approve expenditures for purposes not described in 1996 Measure H or the 1946 ballot measure. This reduction would effectively limit district expenditures to those purposes previously approved by voters.

**Background:**

In November of 1946 a ballot issue passed forming the Sequoia Hospital District generally comprising the area from the southern San Mateo County line to northern Belmont. It read:

*FORMATION OF SEQUOIA HOSPITAL DISTRICT. Shall the proposed hospital district be formed as described by Resolution No. 2202 of the Board of Supervisors designated herein as "Sequoia Hospital District?"*

The campaign literature\* accompanying the ballot clearly stated the tax would support the operation of a hospital that would be built from funds generated by subsequent bond issues. The newspaper ads and editorials stated that the district would have a governing board to run the hospital and present a bond issue to build the hospital, and that the tax levies stemming from this ballot measure would be for the maintenance of the district of which the main asset would be the hospital. Since that time there have been multiple bond issues to construct and build additions to the hospital that opened in October 1950. The initial property tax levy in 1947 for the maintenance of the district including the soon to be built hospital was \$46,578. Today, tax revenues exceed \$4 million annually.

**\*(Campaigning literature and full measure of text for Measure H are available in filed version of report.)**

In 1996 the voters passed Measure H, whereby certain assets of the hospital district including the hospital were sold to Sequoia Healthcare Services, a California non-profit organization, according to a Memorandum of Understanding. Measure H read as follows:

*In order to maintain Sequoia Hospital and continue local emergency services, acute medical/surgical care, and specialized healthcare services like the Sequoia Hospital cardiovascular program, shall the action of the Sequoia Hospital District governing board to transfer certain district assets to a new non-profit corporation, in accordance with the Memorandum of Understanding of May 8, 1996, and pursuant to Resolution 96-4, adopted May 8, 1996, be approved?\**

**\*(Campaigning literature and full measure of text for Measure H are available in filed version of report.)**

The 1996 Measure H literature furnished to district voters stated:

*The Board of Directors has determined that the transfer is necessary to provide for the continued maintenance and operation of Sequoia Hospital and would ensure availability to the community of local emergency and hospital services.*

It also stated that passage of Measure H would provide funds for emergency

services, heart care programs, acute/surgical care and prenatal/maternity care. Resolution 96-4 said, among other things, that the proposed healthcare system would satisfy the objective of preserving and protecting, for the benefit of district residents, the district's assets.

Measure H did not mention either the tax revenues already being received by Sequoia Hospital District or what would become of future tax revenues. The documents made available to the voters, including Impartial Analysis of Measure H, Argument in Favor of Measure H, and Resolution 96-4 which is referred to in Measure H, are all silent regarding the continuing tax revenues. Examination of the documents, including the Memorandum of Understanding, of the sales transaction of the district's assets to CHW reveals that there is no mention of the continuing tax assessments and revenues to the district.

Neither was there any mention in any in the 1996 election literature that the continuing tax revenues used to maintain the hospital would in the future, at the board's discretion, be donated for other purposes including, but not limited to, support of non-profit charitable organizations.

At the present time the elected five-member Sequoia Healthcare District (formerly Sequoia Hospital District) still exists. Its members sit together with the five-member CHW Board to form the ten-member Sequoia Health Services Board. In addition to approximately \$50 million in cash and other investments, the Sequoia Healthcare District Board has exclusive control of the more than \$4 million annual tax revenues initially designated for the purpose of maintaining the hospital. Despite the language of the 1996 ballot that the district was to maintain the hospital and certain described hospital care and service programs, these tax generated revenues are today going in some part to other destinations not mentioned in Measure H.

Since 1946 the California Health and Safety Code §32000 and following sections have been amended on several occasions conferring upon hospital districts significantly increased powers, including spending money.

The grand jury has received a legal opinion from San Mateo County Counsel to the effect that the California Taxation and Revenue Code §96.8 authorizes a hospital district such as Sequoia Healthcare District to request the county auditor make a tax reduction in any amount down to zero for the district's taxpayers on a yearly basis without reallocation of the reduced taxes to other agencies.

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#### **Findings:**

The voters of the Sequoia Hospital District voted in 1946 that they were willing to be taxed for the purpose of maintaining the Sequoia Hospital, and in 1996 the voters agreed to a sale of the Sequoia Hospital and other district assets to the non-profit corporation Hospital Acquisition Corporation so that the emergency and other services of the hospital could be continued. The assets were later transferred to CHW.

Property tax revenues stemming from the 1946 ballot issue now exceed \$4 million annually. The Sequoia Healthcare District has significant revenues from

the \$30 million fund created by the 1996 sale of the taxpayers' financial assets; the fund has now grown to about \$50 million.

A significant portion of the \$4 million plus tax revenues are not being used to maintain the hospital or to continue emergency or other services described by the 1996 Measure H. Further, the Sequoia Healthcare District Board is donating these tax funds in significant part to other non-profit and governmental organizations. While these other destinations of the tax revenues are generally perceived to be worthy ones ([Exhibit 1](#)), clearly they are not all for the maintenance of the hospital according to the mandate of the 1946 voters, and they are not consistent with the mandate of the 1996 Measure H which was to maintain a hospital and to continue certain services at the hospital which has been sold to CHW.

Although hospital districts have broad powers in the distribution of revenues, nonetheless, it is the responsibility of the Sequoia Healthcare District to expend its tax and other revenues for the purposes approved by the voters. The grand jury finds that the Sequoia Healthcare District has not done so.

The tax assessment against the district taxpayers and the revenues to the district can be reduced at the request of the Sequoia Healthcare District Board. The grand jury finds that the district voters should be made aware that they are paying taxes to maintain a hospital that the district does not now own and that substantial taxes are being distributed to purposes not described and approved in 1996.

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#### **Recommendations:**

##### **Recommendation 2.20**

The Sequoia Healthcare District should reduce property taxes for district taxpayers unless in a future election district voters approve expenditures for purposes not approved by district voters in the 1946 measure establishing the district or in 1996 Measure H. This reduction would equal the amount expended by the district for purposes not approved by the voters in the 1946 measure or in 1996 Measure H and effectively limit district expenditures to those purposes approved by district voters. By this reduction in property tax receipts to be requested under the Revenue and Taxation Code [96.8](#), property taxes would be lowered for all district taxpayers.

##### **Recommendation 2.21**

The San Mateo County 2001-2002 and 2002-2003 grand juries monitor the above recommendation.

#### **Response from Sequoia Healthcare District**

The Board of Directors of the Sequoia Healthcare District has carefully reviewed and discussed the Grand Jury's report and believes that it is well intentioned and points to the need for better communications with the District residents. However, the Board respectfully disagrees with its other findings.

1. The report states that District voters may not be aware of the District's

activities. All District Board meetings are publicly noticed and open to the public. The District publishes a newsletter, has a web site and representatives speak to community groups about the District's activities. Board members campaign for election and have publicly presented and discussed their interests and focus.

2. The report states that the voters are still being taxed for a hospital the District does not own. That is technically correct. Sequoia Hospital is owned by a nonprofit hospital corporation (Sequoia Health Services) and is governed by a 10 person board of directors which consists of all five publicly elected members of the Sequoia Healthcare District, plus 3 local physicians, 1 local community representative and 1 employee of Catholic Healthcare West (CHW). In other words, the District's board constitutes 50% of the hospital's governing board and any effort to discontinue key services, incur debt, adopt a budget, credential medical staff, must be approved by the District. The assets of the hospital can only revert to the District and cannot be sold, disbanded or transferred without District authorization. The District clearly maintains fiduciary responsibility for the hospital.
3. The report states that revenues in great part are not going for purposes described in the 1996 Measure H. In fact, more than 77% (over \$10 million) of the tax revenues received have gone for the purposes described in Measure H, namely "continue maintenance and operation of the hospital including certain specialty services." Measure H authorized the District to enter into an affiliation with CHW and was approved by 96% of the voters. The measure did not limit the District's authority (contained in Section 32121 of the California Health and Safety Code) to fund other projects or programs that the Board deems will promote the health of the community.

In conclusion, the Hospital District Act that governed the actions of the District in 1946 has been amended by the State legislature many times since Sequoia Hospital was formed. Current Healthcare District Law allows a District to address any issues that the Board feels will improve the health of the community, whether it is services rendered for inpatient, outpatient, wellness or preventive care. The Board believes that the Grand Jury's work was well meaning, however, it does not reflect a complete understanding of the District's legal authority as a public body, it's ongoing role in governing the hospital or its fiduciary obligations to protect the community's assets. The Board does not believe that it would be in the best interests of the District to implement the Grand Jury's recommendations at this time and so declines to do so.

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