

Like other small community hospitals, Palm Drive Hospital in Sebastopol operates with declining reimbursements and utilization, an increase in non-paying patients, and tight competition.

Hospitals with fewer than 100 beds are hardest hit.

The Outlook for

Palm Drive Hospital

In order to remain in operation, the Palm Drive Health Care District (PDHCD) approved a parcel tax in April 2001. PDHCD sought and received a second parcel tax in 2004 (Measure W). Despite the property tax revenue, negative cash flow caused the District to file for Chapter 9 Bankruptcy in April 2007. The future success of Palm Drive Hospital necessitates that management and the Board of Directors of the PDHCD work together to prepare and plan strategies for dealing with the major issues they are facing.

Reason for Investigation

The Grand Jury received a citizen complaint stating that:

- The electorate had insufficient financial information to make their decision on the 2004 parcel tax.
- There had been mismanagement of this public entity.

It was determined early on that Audited Financials were available to the public for review before the 2004 parcel tax election. The primary focus of this report is the charge of mismanagement of this entity.

Background

The Palm Drive Health Care District is a Health Care District providing access for the West County to local emergency, acute care, and other medical and physician services for its residents and visitors. Due to the size and diversity of the West Sonoma County region, local access to quality health care is essential. The aging population, commuting trends, and increased traffic congestion necessitate keeping Palm Drive Hospital (PDH) open for the health and well-being of West Sonoma County residents.

The Board of Directors has the responsibility, as the governing body of the District, to make appropriate delegations of its powers to officers and employees, and to make necessary policies.

Through the 1990s PDH lost money. In 2000, the people of West County created a foundation. In 2001, the first Parcel tax was passed. The PDHCD was formed and the 2nd Parcel tax was approved in April 2004. The purpose of the 2004 parcel tax was to raise revenue for the District to use in order to ensure the survival of Palm Drive Hospital. The tax provides for ongoing expenses, repair and improvements to equipment and technology. The primary purpose of the Measure was to ensure that PDH, with its Emergency Room serving approximately 8,500 patients yearly could remain open.

Investigative Procedures

Interviews Held:

- Former Chief Financial Officers (2)
- Former Board member
- Former Board Chair
- Interim Chief Financial Officer
- Finance Committee member
- Interim Chief Executive Officer
- Director, County Health Services

Meetings Attended:

- PDHCD Board of Directors meetings
- Finance Committee meetings

Documents Reviewed:

- Financial Health of California Hospitals 2007
- “California’s Closed Hospitals”
- Sonoma Valley Hospital Business Plan
- Chief Financial Officer’s Reports to Finance Committee
- Audited Financial Reports 2003-2007
- Local Media Archives
- Bylaws of Palm Drive Health Care District (PDHCD)
- Finance Committee Agendas and Reports

Findings

F1 Hospital executives and Board Members did an inadequate job of evaluating and communicating the serious financial trends and looking for ways to resolve the situation.

F2 Financial Data:

Fiscal Year Ending June 30

	2003	2004	2005	2006	2007
Net Revenues from Operations	\$17,052,090	\$14,958,886	\$15,930,615	\$16,772,800	\$15,104,279
Operating Income or (Loss)	(\$3,451,399)	(\$4,304,254)	(\$4,499,097)	(\$4,936,734)	(\$6,925,239)
Tax Revenues	\$1,838,051	\$1,859,911	\$4,402,300	\$3,687,385	\$4,030,946

Source: Audited Financial Statements

F3 Audited financial statements indicate:

- Declining net revenue from Operations
- Growing losses in operating income caused in part by low insurance and reimbursement rates.
- Poor Accounts Receivable procedures and collections.
- Bad decisions, i.e., closing and reopening the Intensive Care Unit. Opening long-term nursing facility and then closing it due to necessary repairs.

F4 2007 Auditor's comments:

"These conditions raise substantial doubt about the District's ability to continue Hospital Operations in the future."

F5 Despite a County Healthcare budget in excess of \$200 million, there were no county funds earmarked to assist the small hospitals in the county like Palm Drive.

F6 The performance review process for the executive staff was ineffective.

F7 A Joint Powers Agreement (JPA) was formed to allow hospitals to save money by coordinating purchasing, etc.

F8 Most board members have limited experience in hospital operations and financial analysis; there has been considerable turnover of Board and key hospital operations personnel in the 2003-2007 periods.

Conclusions

As noted, there are several areas of improvement:

Key Statistics Average

	7-1- 2007 YTD	12-31- 2007 YTD	Variance
Hospital IP Census	8.4	10.9	30%
ER Visits	20.9	21.4	2%
Lab & X-ray	37.1	36.1	-3%
IP & OP Surgeries	4.3	4.7	9%
Other OP	2.6	3.7	42%
Hospital Admits	524	708	35%
Hospital Patient Days (Acute & Swing)	1,796	2,339	30%
ICU Admits	N/A	187	
ICU Days	N/A	472	
ER Visits	4,484	4,593	2%
Lab & X-ray	7,975	7,762	-3%
IP & OP Surgeries	934	1,004	7%
Other OP	555	795	43%

- Higher reimbursement rates from insurance
- Improved billing and collection procedures

PROJECTIONS

- Five- year projections show a continued need for parcel taxes and long-term debt.
- An essential element of the Plan of Adjustment is for the District to issue Certificates of Participation (COP). COPs are similar to bonds in that they are used to finance debt. They are paid for by Measure “W” proceeds, and DO NOT require voter approval. A portion of the proceeds will be :
 - Used to create the “Plan Fund” to pay creditors who have allowed Claims filed with the Bankruptcy Court,
 - Used to repay the Operating Loan,
 - Applied by the district to finance future long-term capital and operating needs for the District,
 - Used to retire the approximately \$9.2 million remaining in the 2001 bond issue. The amount of the COP is approximately \$23 million.

Commendations

The District has been fortunate to have the leadership and financial acumen of Dan Smith, a concerned citizen whose financial generosity single-handedly kept the hospital doors open during dire times.

Recommendations

- R1** All Board members should receive basic financial training. California Special District Association offers training for new board members. Financial institutions and auditors also offer financial training.
- R2** A five-year strategic plan, with benchmarks, should be developed and reviewed annually.
- R3** PDHCD should create a management-support group for the doctor population.
- R4** The district should increase efforts to improve the image of Palm Drive Hospital in order to attract quality physicians and avoid losing patients to competing hospitals.
- R5** As a member of the JPA, Palm Drive should investigate specialization in specific medical areas.
- R6** The Board and Hospital Management should create job descriptions for all executive employees, emphasizing the importance of communications.
- R7** PDHCD should continue to keep taxpayers informed on financial matters.
- R8** PDHCD should institute and manage an effective A/R collection program to enhance management-support practices.
- R9** PDHCD should institute an effective performance-review program for management.
- R10** Sonoma County should show financial interest and use of influence to aid smaller hospitals. The County, as stated in its mission statement, is committed to providing superior and courteous services to support, preserve, and enhance the health of Sonoma County citizens. Therefore, Palm Drive Hospital should be preserved.

Required Responses to Recommendations

- Palm Drive Health Care District R1, R2, R3, R4, R5, R6, R7, R8, R9
- Sonoma County Board of Supervisors R10

