

**MINUTES OF MEETING
BOARD OF DIRECTORS
SEQUOIA HEALTHCARE DISTRICT
February 11, 2002**

Present:

Mr. Faro, President
Ms. Kane
Ms. Montalvo
Dr. Shefren

Also present:

Mr. Gibson, CEO
Ms. Johnson (recorder)

Absent:

Mr. Smith

CALL TO ORDER:

President Faro called the meeting to order at 1630 hours in the Board Room at Sequoia Hospital.

PUBLIC COMMENT:

There was no public comment.

CONSENT CALENDAR:

On a motion offered by Director Shefren and seconded by Director Kane, the Consent Calendar was approved as presented.

NEW BUSINESS:

Resignation of Michael Smith -- Post Vacancy Notice:

Director Faro announced that Michael Smith moved to New York City as the result of a company transfer and has resigned from the Board. Director Kane moved to accept Mr. Smith's resignation, with regret. The motion was seconded by Director Shefren and unanimously passed. A Notice of Vacancy on the Board of Directors will be duly posted.

Resolution 02-1, Sequoia Hospital District Pension Plan:

After review, Director Shefren moved to waive reading of the resolution which, if adopted, will amend the Pension Plan to comply with a series of recent tax laws known by the acronym "GUST". Director MacNaughton seconded the motion which unanimously passed. The amendments are being requested by counsel for the Pension Plan and authorized by Sequoia Health Services and Catholic Healthcare West. Director Shefren offered a motion to approve the resolution as presented. Director MacNaughton seconded the motion which passed by roll call vote as follows:

Ayes: Director Faro, Director Kane, Director MacNaughton, Director Shefren.
Noes: None
Absent: Director Smith

Consider Board Members Attendance at Governance Institute and Estes Park Conferences:

Both President Faro and Director Kane have attended past seminars and found them to be very informative, providing valuable learning tools related to the fiduciary responsibilities of District directors. Director MacNaughton offered a motion to approve the attendance for any director interested in one of the conferences. The motion was duly seconded and unanimously passed.

Investment Report:

Last week, President Faro and Mr. Gibson met with Alan Sneider and Eric Reynolds of Fiduciary Trust International (FTI), the District's investment portfolio managers. The market value of the corpus totaled \$34,545,348 as of December 31, 2001 and the performance for the fourth quarter of 2001 reflected an increase in value of 4.5%, compared to the benchmark (Lehman Government Intermediate Index) of 5.0% and 6.8% versus 6.6% since 1990. For the calendar year ending December 31, 2001 the portfolio generated nearly \$2.1 million in investment income. The portfolio is in compliance with hospital guidelines and State regulations.

Mr. Gibson reported that the Bank of New York currently acts as custodian of documents and funds for the District. FTI has requested they be retained as the District's custodian of documents and funds as well as the investment advisor. The District pays the Bank of New York approximately \$6,000 a year as a custody fee. FTI would not charge for this service. Director MacNaughton stated that as long as there are no problems with Bank of New York, he preferred keeping the custodial and investment functions separate and considered it an additional security measure.

Director Kane offered a motion to accept the investment report as of 12/31/01. The motion was seconded by Director MacNaughton and unanimously passed. (A copy of FTI's written report is included with the original of these minutes.) No action was taken to retain Fiduciary Trust as the District's custodian.

Strategic Planning Presentation:

As part of the Hospital's Strategic Planning Process, Gerri Berg of Cattaneo & Stroud has been working with Ms. Vaskelis to prepare an environmental overview and a service line assessment of the Hospital's market and operating performance. The market area designated for the study ranges from San Bruno to East Palo Alto and Santa Clara.

Findings from the study reflect an aging population with a declining adult-to-child ratio. A major current and long-term issue for healthcare providers is the labor shortage for nursing and other skilled professionals. The nursing shortage is expected to be further impacted with the implementation of the new nurse-to-patient ratios. The Bay Area also continues to be challenged in recruitment and retention of physicians due to the high cost

of living and lower reimbursement levels than in other states. This is exacerbated by the fact that many members of Sequoia's medical staff are approaching retirement age. The number of HMOs is decreasing within San Mateo County as are the number of Sequoia physicians/groups participating in HMOs. Managing profitability under HMO contracts remains a major challenge for Sequoia and other CHW hospitals. Medical costs have risen more rapidly than all consumer prices leading employers to seek new health plan coverage options to reduce their healthcare benefit expenses.

Ms. Vaskelis reported that a physician/hospital task force was formed to address physician recruitment and retention and hospital management is working with the medical staff to identify physician needs for fiscal years 2003 to 2005. Progress is being made and a new primary care physician from Washington state has joined Dr. Marchison's group. A new OBGYN physician is coming to Sequoia from Mills; one new orthopedic surgeon and a new urologist have recently joined the medical staff with a second ortho joining in June. Contracts with these new physicians require that they take HMO patients.

In reviewing Sequoia's market and operating performance, Sequoia has experienced declining market share but improved financial performance. Sequoia achieved its highest market position in cardiac, rehabilitation and surgical specialty services. Outpatient services contribute more to profitability than inpatient services.

Aside from cardiology other services have declined either because we don't have physicians willing to take HMO contracts or physicians to perform the required procedure. Sequoia's market share of orthopedic patients has declined from 15.9% in 1998 to 12.9% in year 2000. While the hospital has achieved increased share in back services, market share levels have fallen in general orthopedics, joint and hand cases. Cardiac and surgical specialty patients contribute the largest share of net income on the acute care services and also provide the largest component of the contribution margin. Within cardiac services, HMO/PPO patients generated the largest share of profits and the second largest share of patients. Within acute level surgical specialty services, the largest share of profits were generated by HMO/PPO patients followed by the large Medicare component. Cardiovascular services reflect the best overall performance in terms of market share, regional draw and profitability. While rehabilitation services display strong market performance, their operating performance is weak.

Is Sequoia destined to become a specialty hospital? Hospital management and the medical staff must figure out how to increase market share and profitability of other departments--as well as convince physicians that they need to be more willing to expand and welcome other new physicians.

Director Shefren stated that the insurance payment mechanism within the next 5-10 years will have the potential to either drive business to Sequoia or away from Sequoia.

Retain a Strategic Planning Consultant for the District:

Mr. Gibson noted that one reason for asking Ms. Vaskelis to have this presentation is to

identify where Sequoia Hospital stands today. It is part of the District Board's fiduciary responsibility to find out where the healthcare market is headed and what healthcare issues may occur within the District. Director Kane offered a motion to authorize the CEO and President to retain a strategic planning consultant to begin the process of addressing the issues raised by Ms. Berg's presentation. Director MacNaughton seconded the motion which unanimously passed.

ADJOURN:

At 1830 hours, President Faro adjourned the meeting. The next Regular Meeting of the Board of Directors is scheduled for 1630 hours, Monday, April 1, 2002 in the Administration Board Room at the Hospital.

Respectfully submitted,

Gerald Shefren, M.D.
Secretary