MENDOCINO COAST HEALTH CARE DISTRICT

Sick, but Returning to Health

SUMMARY

The Mendocino Coast Health Care District (MCHCD), which stretches from Westport in the north to Gualala in the south, was formed on January 1, 1967. MCHCD then constructed an Acute Care Hospital, in Fort Bragg, which was dedicated on June 26, 1971. The original facility is still in operation today, over 50 years later. In 2020 when MCHCD affiliated with Adventist Health (Adventist), responsibility for managing the hospital passed over to Adventist. This affiliation agreement essentially set up MCHCD as the landlord for the facilities, as well for being responsible for addressing the non-hospital related health care needs of the coast. This change is one that MCHCD has struggled with ever since.

The Mendocino County Civil Grand Jury's (Grand Jury) intent is not to focus on specific people or specific actions, but rather to shine a light on the root causes of MCHCD's troubles over the last few years for the purpose of ensuring that both the public and Board are aware of these issues and to help prevent past mistakes from being repeated.

The Grand Jury has identified several key areas where change or improvement in governance is needed. This report will discuss those areas and highlight in clear and simple terms the issue, the suggested resolution for that issue, and recognize and commend those involved where they are already working toward resolution of the problems.

These are not the only issues that MCHCD is facing; however, of the issues that are within the jurisdiction of the Grand Jury these are the ones where improvements and changes would make the most significant difference in the future of healthcare on the coast.

These are the issues the Grand Jury has focused on:

- Board Training and Support
- Bylaws, Policies, Mission
- Financial status
- Facilities Plan – hospital buildings, improvements, and retrofit
- Community Education and Engagement
- Long term strategic plan – after the hospital facility issues are addressed, then what…?

Since the beginning of our investigation, MCHCD has undergone a transformation. In particular, in 2024 the Grand Jury saw that MCHCD has taken many steps to rectify the above issues and is to be congratulated for their renewed focus and hard work. That work remains incomplete, but progress is being made so rapidly that some of the Grand Jury's recommendations may be completed by the time this report is published.

GLOSSARY

Agency Administrator - An agency administrator is the managing officer of an agency, jurisdiction, or division, and has statutory responsibility for incident mitigation and management.

ACHD - Association of California Healthcare Districts

Brown Act - California's Ralph M. Brown Act (Government Code section 54950, *et seq*.) guarantees the public's right to attend and participate in local legislative bodies' meetings. The Brown Act covers almost every type of local government body, including special districts. The Brown Act requires local government business to be conducted at open and public meetings, except in certain limited situations.

Bylaws and Policies -

Bylaws are the most basic items that govern the internal operations of the board such as adding/removing a board member, how voting is handled, legal responsibilities, how meetings are conducted, conflict of interest and ethics, and board positions. Bylaws usually require either supermajority (or sometimes even unanimous) vote to change, so they should be just core rules that are not likely to change.

Policies define the operational practices of the organization, such as financial management, human resources, job descriptions and training requirements, IT and security, etc. Policies usually require a Board majority vote to change, or sometimes the authority to change them is designated to a director or staff executive.

CFO - The Chief Financial Officer oversees a company's financial operations. A CFO's responsibilities include internal and external financial reporting, stewardship of a company's assets, and execution of cash management.

Comity - Courtesy and considerate behavior towards others; polite or friendly behavior that shows respect, especially in public life.

CSDA - California Special Districts Association, a not-for-profit association which promotes good governance and local services through professional development, advocacy and other services to Special Districts.

General Manager - A General Manager is a high-ranking executive who manages the daily operations of a special district.

ILG - Institute for Local Government is a non-profit agency that promotes good governance by providing real world expertise to help manage complex issues.

LAFCo - Local Agency Formation Commission, a regulatory agency in California that oversees boundary changes, new agencies, and the consolidation of cities and special districts. There is a LAFCo in each of the 58 counties of California.

California Little Hoover Commission - The California Little Hoover Commission was created in 1962, and is an independent state oversight agency modeled after the U.S. Hoover Commission. It investigates state government operations and promotes efficiency, economy and improved service through reports, recommendations and legislative proposals. Created by SB 37 in 1993.

Mission and Vision Statement -

A **vision statement** is an organization's guiding purpose. What does the ideal end result of its efforts look like? The ideal that the organization's mission and values build toward. "Our vision is a ..."

A **mission statement** is how your organization will achieve its vision. This doesn't need to include every action, just the main areas of focus. "We'll achieve our vision by..."

National Provider Identifier (NPI) - A National Provider Identifier (NPI) is a unique 10-digit identification number issued to health care providers in the United States by the Centers for Medicare and Medicaid Services (CMS).

RGS - Regional Government Services (RGS) is a Joint Powers Authority public agency serving the consulting, administrative and project management needs of local governments. RGS, a public agency itself, works exclusively for the benefit of other public agencies. It provides a ready source of support and consulting services to meet the needs of its partner agencies in a broad range of disciplines and to help local governments meet three challenges:

1. Decreasing revenues
2. Increasing demands (and costs) for services
3. Loss of experienced staff.

Special Districts - Special Districts are independent local public agencies created by the people under state laws. These districts deliver specialized services essential to the local area's health, safety, economy and well-being. Special Districts are vital to providing services cities and counties do not provide. Special Districts are funded by local voters and accountable to the community they serve, not accountable to local or state government.

Governing Board Model - Board is responsible for providing strategic and financial planning and oversight, legal and ethical accountability, oversight of operations and results to ensure efficiency, hiring executive staff, setting key policies. For example: Governing Boards manage financial plans, not budget sheets. Working Boards are responsible for both.

Working Board Model - In addition to the same governance responsibilities above, a working Board also does the day-to-day work of the organization, from bookkeeping to answering correspondence to event planning. This is not an ideal Board structure and is usually only used when the organization lacks funding for staff.

BACKGROUND

There have been multiple complaints filed with the Grand Jury over the last several years regarding the MCHCD, over three times as many as filed regarding any other county governing body over the same period. These complaints have ranged from possible financial improprieties to Brown Act violations to concerns of negligence and severe lack of comity. Often by the time the Grand Jury could start an investigation the issue would either be resolved, or the individuals concerned were no longer involved with the MCHCD.

This year's Grand Jury, noting the frequent issues, decided to pick up an investigation of the MCHCD at a higher level than any of the individual complaints, instead focusing on systemic problems within the MCHCD that have allowed for so many issues to remain unresolved over several years and through several Boards. The investigation began in the very beginning of this term (summer 2023) and extended through early 2024. The Grand Jury understands the MCHCD has been consistently evolving and some matters may have changed since the writing of this report.

METHODOLOGY

In conducting the investigation that culminated in this report, the Grand Jury:

- interviewed complainants, MCHCD Board of Directors and staff, members of the community, and local physicians, and some Mendocino LAFCo board members
- reviewed MCHCD and other health care district websites,
- conducted online research on over 20 websites,
- requested and analyzed 28 reports and documents from the District.

The Grand Jury recognizes the time given freely by all those interviewed and appreciates the interviewee's understanding that the Grand Jury exists to support and improve the operations of all areas of the local government. The Grand Jury commends interviewees on their passion about improving healthcare on the coast, and their willingness to answer openly and honestly and provide necessary information in the spirit of partnership.

DISCUSSION

The Mendocino Coast Health Care District (MCHCD) is currently responsible for overseeing the healthcare access of the entire Mendocino Coast population. This area is geographically separated by a heavily forested mountain range that runs between the coastal area and inland Mendocino cities (see map and history Appendix A). The drive to inland hospitals is, at minimum, 45 minutes, but for many can be several hours along heavily winding mountain roads. The wide spread of the population along about 100 miles of rugged coastline also limits the other medical services that could be sustained by a denser population.

Until 2020 MCHCD operated the Mendocino Coast District Hospital as its main responsibility, as well as supporting the healthcare needs along the coast. Because of poor financial health, changes in the healthcare industry that reduced revenues, and the difficulty in recruiting healthcare professionals in such a remote setting, MCHCD voted in 2020 to affiliate with Adventist Health, which ran the two inland hospitals in Willits and Ukiah. This affiliation agreement essentially set up MCHCD as the landlord for the facilities, as well for being responsible for addressing the non-hospital related health care needs of the coast, while Adventist was responsible for running the hospital itself.

Since then, the functionality of the MCHCD Board has been a frequent concern of locals in community meetings, in the media, and has been the subject of numerous complaints to the Mendocino County Civil Grand Jury (Grand Jury). This is understandable as the operations of MCHCD are critical to the survival of the healthcare structure for the entire Mendocino Coast. Thousands of people rely on its success for their lives as well as day to day health.

The Grand Jury has identified several areas for the Board to focus its attention on:

- Board Training and Support
- Bylaws, Policies, Mission, Comity
- Financial Status
- Facilities Plan – hospital buildings, improvements, and retrofit
- Community Education and Engagement
- Long Term Plan – after the hospital is addressed, then what…?

Board Training and Support:
Enabling success

Training

The MCHCD Board is made up of elected community volunteers who are tasked with a large and complicated responsibility. These Board members are not seasoned professionals in this area, and are not getting paid to do this work. They are a community Board whose job is to provide guidance and oversight on behalf of their constituents in an area in which most of them have no background.

MCHCD Board members are elected based on their vision and policy ideas, not on their experience operating in this environment. The expectation that these volunteers come with all the skills and understanding on how to do the job they are tasked with is unrealistic.

With the support of Regional Government Services (RGS), which has a vast background in this area, the Board needs to create a basic training curriculum to be made available to new Board members. Some basics such as Brown Act and Ethics (including AB1234) are required. Other trainings can be made available to Board members as needed. The goal is that among the five members of the Board, there will be the skills and knowledge needed to fulfill the roles and responsibilities of the Board.

There is appropriate training available for Board members from many sources. The Grand Jury recommends in particular that when new Board members are elected or appointed, that they be educated on what is available from the California Fair Political Practices Commission (FPPC), California Special District Association (CSDA), and the Institute for Local Government (ILG) as they are geared specifically toward the unique skills and understandings needed for local government Boards such as MCHCD. Many of these trainings are free for the MCHCD as a CSDA member, or scholarships are available. In particular we feel MCHCD would benefit from:

- FPPC - Ethics AB1234 (this is state mandated training, required every two years).
- CSDA –
    - Best Practices 1st year Board Member Bundle
    - Special District Leadership Foundation.
- ILG –
    - TIERS (Building Trust Through Public Engagement)
    - Effective Meetings
    - Ballot Measures and Campaigns
    - Civility in Public Meetings
    - Governance Handbooks and Policies

There are also certification programs available from CSDA, available at little to no cost. There are many certifications that will help educate Board members, and certification will help the public have confidence that Board members are equipped for their job. Specifically, the Grand Jury recommends:

- CSDA Transparency Certificate of Excellence,
- District of Distinction Accreditation.

The first will help the Board regain the public trust, and the second will help reassure the public of the district's financial management in preparation for a bond vote.

The goal of training is to enable our community members who take up the difficult task of MCHCDs mission to be successful by helping them gain the skills needed to do the job the public has given them.

Support

When the affiliation (see complete history Appendix A) occurred in 2020 and the Board turned over management of the hospital to Adventist, the MCHCD organization went from a full staff to none. The Board tried for several years to operate under a Working Board model where the

volunteer Board members do all of the administrative tasks in addition to policy and decision making. This model has not worked for this organization; a Governing Board model would be more appropriate. The heavy time commitment with a Working Board model can dissuade people with the needed expertise from joining the Board, and can burn out those that do. What the organization can get done is limited by the free time the Board is able to commit. Working Boards often strive toward becoming financially able to transition to a Governing Board. In addition, the Brown Act makes it difficult to have a Working Board model. The Brown Act requires that all discussions and decisions take place in a public board meeting; there have already been concerns from the public that serial meetings (illegal private discussions) may be occurring among Board members. Elected volunteer Board members cannot do all the necessary work. The MCHCD Board needs paid staff to help with preparing for Board meetings, daily operations, and finance.

RGS brings much-needed skills and understanding in this area, and some results are already evident. The current RGS expense is not sustainable within the $250,000 operational budget of the Board. The Grand Jury encourages the Board to have a plan on how this money is going to be spent to support the operations of the District long term, and to clearly communicate this plan to the public. The public is right to be concerned that the Board has hired RGS without giving the public a long term understanding or plan on how this will work. The Board can determine what fits their situation best:

- have RGS support them on an ongoing basis,
- give RGS the task to help get them organized with a solid foundation and train hired staff during the first year and then end their contract, or
- some hybrid of the two.

Bylaws, Policies, and Mission:
A stable base is needed for a functional organization

Bylaws, policies and procedures, and a clear mission are the stable foundation on which any organization is built. Without those any organization of this size, responsibility, and obligations is doomed to chaos, and likely to result in process disputes and discord preventing the organization from making any meaningful progress towards its goals. Indeed, this lack of progress is what we observed when reviewing what Board meeting recordings were available for the last few years through the end of 2023. This lack of progress was also reflected in media articles and public feedback.

Bylaws

A copy of the Bylaws that is properly approved by a vote of the Board and documented in the minutes, dated and signed by the Secretary, should be given to all Directors and posted for the public. As far as the Grand Jury could discern, the Board has been operating for several years without an officially signed and documented set of bylaws that is applicable to their new role.

- In late 2023, the Grand Jury asked for an updated copy of the bylaws and were told that there were multiple versions on their document storage server, but it was not immediately clear which one was the last document approved.

- As of the writing of this report, there are two different versions of the Bylaws posted on the website.
    - One has three different dates on it; the title page states "Adopted 2020", the footer on each page has the date of November 2021, and the signature page has a date of 2022. There is no witness signature by the Secretary certifying that the bylaws were approved by the Board.
    - The other is an "in progress draft" dated 2023.
- The Grand Jury was eventually given a copy of the bylaws in 2024 indicating they were approved by the Board at a November 2020 meeting, but signed in witness August 16, 2023 by a current Board member who was not on the Board in 2020 to witness the vote.
    - The Grand Jury tried to review meeting minutes from 2020 to confirm that the 2020 version of Bylaws was voted and approved at a Board meeting, but could find no evidence of a vote in the minutes.
    - The current Board said they resolved this by voting in August 2023 to approve a version; however, the Grand Jury were not able to find that vote in the 2023 minutes posted on the MCHCD website. In fact, there was not an August 2023 meeting listed on the site. A request for clarification did not receive a response.
- In addition, as of May 2024, the 2023 signed version given to the Grand Jury does not match either of the versions posted on the MCHCD website.

If these Bylaws were properly approved, that would be a start; however, they appear to be incomplete.

Policies and Procedures

Assuming there was a policy and procedure manual (as it is standard for all organizations, and is referenced in the MCHCD Bylaws), the Grand Jury asked some questions about the Board policies. When the Board responses revealed members weren't familiar with their own policies, the Grand Jury asked for a copy of the Policies and Procedures for MCHCD. Most Board members said that nothing had been passed forward from the prior Board. The Grand Jury eventually received a Policies and Procedures Manual from one of the Board members who found it on a shelf in the Board office. It was the only copy they had. It was dated 1999, with the latest change made in 2018.

There are 15 sections to the manual (see table of contents Appendix D), and all 15 are either irrelevant or outdated. Sections 3, 4, 5, 6, 7, 9, and 12 are no longer relevant because they refer to running a hospital, which has not been part of the Board's responsibility for four years. Sections 1, 2, 8, 10, 11, 13, 14 and 15 need to be rewritten and/or updated. In addition, there are several standard policies that are not included at all and need to be written.

In 2024 the MCHCD Board has been working on some needed additions such as conflict of interest, records retention, and code of ethics. The Grand Jury recommends they continue their focus on policies, and in particular ensure that they prioritize policies around financial controls, technology, security, and comity. The Grand Jury asked Board members if they had taken AB1234 Brown Act and Ethics training. All Directors stated they had, but there was no official record of completion for any member. As stated above, the Grand Jury also recommends a policy that all

Board members be required to take Brown Act and Ethics training at the beginning of their term, that it is recommended to take the class annually, and that the certification is officially documented. The Grand Jury recommends that the Board reach out to other health care districts and the CSDA to acquire sample policies and procedures manuals. Start with these as baselines and make changes and/or additions as seems appropriate for MCHCD. The Association of California Healthcare Districts
(ACHD) may be able to help with making appropriate changes as well.
(https://www.achd.org/example-certified-healthcare-districts-library/)

One example of how the lack of policies can have severe impacts is how the absence of minutes for over a year of Board meetings almost derailed the hospital's ability to meet retrofit deadlines.

California has mandated that hospitals such as the one in Fort Bragg must comply with seismic safety standards by 2030. If it does not do so the State could close the hospital.

- In order to pay for this compliance, the best and potentially only way that money can be raised is through a voter approved bond.
- In order to get an acceptable rate of interest on a bond, the Board must get a positive bond rating to confirm the Board's credit worthiness.
- In order to do this bond rating, rating agencies require an audit.
- In order to complete an audit, a review of the Board's actions is required, which includes reviewing the minutes of the Board's activities for several years.

The lack of minutes for over a year impaired the completion of the audits. It took almost a year for the Board to piece together minutes of the prior years' meetings from emails, prior Board member notes, and the few recordings that could be found. This is only one of the many reasons that minutes are a critical and standard part of running an organization, and why having a policy requiring the creation and retention of minutes is important. In addition, the lack of minutes raises into question the official historical record and allows for potential improprieties, and lost or improperly recorded Board actions.

Another example of how a lack of policies can have negative impacts is in addressing financial expenditures. There is no up-to-date Board policy outlining reimbursement for expenses. Requiring receipts is a standard policy for all organizations, especially those using tax dollars. In addition, to avoid the potential or even the appearance of an improper expenditure of funds (which might be construed as negligence), many organizations have a written policy for approval of payments to Board members. This policy often requires multiple board members to approve a payment going to any board member, or any payment over a certain amount, and some require multiple signatures on a check. Without either of these policies, an authorized signatory was able to write checks for reimbursement of their travel expenses without receipts or Board review of the expenses.

All versions of MCHCD Bylaws we reviewed state, "At least three signed copies of the Bylaws shall be maintained on file in the District office and a current copy maintained on the District website. Each Director shall be given a copy of the Board Bylaws and Policy Manual." Regardless of which version, if any, is the current approved version, it is clear that the Bylaws are not being followed as none of the current Board members were provided copies of the Bylaws or Policies

when they started. It is also clear from reviewing recent meetings that the current Board is discussing and working on both Bylaws and Policies, and we encourage them to continue that work as a priority.

Vision and Mission

The Grand Jury found different statements of mission between the Bylaws, the website, and other Board documents (some of these are outlined in Appendix B). When asked about the publicly shared versions, Board members stated they were not sure where the version on the website came from, that it had not to their knowledge been thought through and officially approved, and has now been removed from the website. They also stated the version in the Bylaws was not an appropriate mission statement for the district and has not been discussed by the current Board.

From the MCHCD bylaws:

> "The mission of the Board is to:
> a. Ensure that the resources of the Health Care District are used in the best interests of the public.
> b. Meet its financial, contractual and regulatory obligations.
> c. Implement and support programs providing they are congruent with regulations and existing contracts."

While differences of opinion on how to approach the Mission are to be expected (indeed that is one of the intentions of having a diverse board), when asked what the Mission of the Board is, the different answers were concerning. This is the role of having an agreed upon vision, mission, and values statement in an organization. When asked what the Mission of MCHCD was, most of the Board made a statement about having a healthy coast population, however from there their responses diverged. A '*...healthy coast population…*' is a vision for the organization, not a mission. The vision statement is what the ideal end result of the organization's work will be, the mission statement is how they will achieve that vision.

A good example of these is from The Alzheimer's Association:

> Vision statement - A world without Alzheimer's and all other dementia.
> Mission statement - The Alzheimer's Association leads the way to end Alzheimer's and all other dementia—by accelerating global research, driving risk reduction and early detection, and maximizing quality care and support.

Or, closer to home, the Mendocino Community Foundation is a good example:

> Vision statement - We envision a thriving, equitable Mendocino County that is resilient, where every resident can learn, create, contribute, prosper, and reach their full potential.
> Mission statement - We inspire and steward generosity to foster vibrant, inclusive, and healthy communities throughout Mendocino County.

While all Board members seemed to be in basic agreement on the Vision, they were not in agreement on the Mission (how they would achieve their vision). The Grand Jury encourages the Board to annually discuss and review their vision, mission, and values to determine if they are still relevant, that the Board is still acting in accordance with them, and to refresh the vision, mission, and values in their minds and ensure that they are all on the same page as far as these are concerned. This discussion commonly happens as part of an annual retreat. The lack of a clear mission

statement and agreement on priorities can at a minimum slow an organization's progress toward making a difference for their community, at worst cause complete dysfunction and collapse.

How did we get a building without a foundation?

As Bylaws, Policies and Procedures, and Mission Statement are the core foundation of an organization, it normally falls to the founding Board to set them up. In this case MCHCD has been around for years and had all of these already; however, when the affiliation with Adventist happened, the role of MCHCD changed dramatically, so significantly that it was essentially a new organization. Their first order of business post-affiliation should have been to rewrite or create from scratch new policies and procedures, bylaws, and mission statements that applied to the new organization.

The Grand Jury believes that if this had been done, the public would not be seeing the lack of comity that has been injurious to the organization and to our county. In addition, it would have helped ensure that basic requirements such as meeting minutes were completed, finances were handled appropriately, and that Board members were agreed as to the mission and their role in it. Most of all, a Bylaws, Policies Manual, and Mission Statement would have helped the Board ensure that they spent their meeting time making progress on the issues at hand rather than bickering about process and direction.

Comity

> Comity: Courtesy and considerate behavior towards others; polite or friendly behavior that shows respect, especially in public life.

Before the Grand Jury closes out this section, there was one issue in particular that it would be remiss not to address specifically and directly. A major barrier in making progress on items at Board meetings has been a lack of comity. This is clearly evident after watching any of the Board meeting recordings through 2023, and has been often commented on by the media and public with statements such as “I stopped watching the meetings because the constant fighting was too difficult to bear” and “hours spent with no progress being made.” This has improved in 2024 but problems with comity still rear up on occasion. Board members will not always agree with each other, and in fact should not, however the way they disagree should not be disruptive to the meetings or obstructive to completing the mission of the Board.

While a Civility Policy or Code of Conduct Policy is not a required part of an organization's governing documents, it is not unusual either. The Grand Jury would encourage the MCHCD Board to consider adding one to their policies. ILG has a list of examples from other similar entities in California, it would be a good place to start. (https://www.ca-ilg.org/codes-conduct-civility-and-ethics)

Shoring up the foundation for a stable future

The lack of clear direction, lack of progress, and the divisive environment displayed to the public in the last several years may also be a reason polling shows the public has been struggling to

believe in the MCHCD's ability to manage the changes and work needed to improve healthcare on the coast.

The public's belief and trust is critical to the Board's ability to get a bond measure approved by the two-thirds majority vote needed. Unless something changes with the state's requirements for the retrofit, the bond approval is critical to getting both the retrofit completed and funding any improvements to the building that would support improved healthcare quality and options at the hospital.

The Grand Jury would like to commend the 2024 Board and leadership in starting to address the long overdue basics above. Between the beginning of 2024 and the publishing of this report, the Board has approved 10 new policies and started discussions surrounding their Bylaws and their Mission. The Grand Jury hopes for the health and security of the Mendocino coast, that they complete work on their foundation before building on it.

Financial Status

While the MCHCD does not have an overflow of cash, they do have enough for their annual operating expenses. Their financial issues do not stem from lack of money, but rather mismanagement of what they have. The Board's financial struggles have been well documented in the press, and in Board meetings, including financial accounts which they lost access to, money they lost track of for a period of time, getting years behind in their annual audits, lacking clear reporting and budget, all which contribute to a failure in one of their prime responsibilities, transparency with the public on how their tax dollars are being spent. When the Grand Jury asked for clarity on the district budgets, no documentation showing what the budgets include could be provided.

To be fair, a portion of their financial issues were due to the unfortunate timing of the affiliation and COVID. Right as MCHCD was going through a complex process of disengaging their finances from that of the hospital operations (i.e., patient payments, employee salaries, etc), COVID hit. On top of the well-known impacts of COVID, they faced downstream COVID issues such as a long delay in Adventist's ability to get a National Provider Identifier (NPI) number for the Mendocino Coast Hospital from the US Government Health and Human Services Department. An NPI number is how healthcare providers get paid by Medicare/Medicaid/insurance. Without a NPI, patient payments for the hospital had to continue to go to MCHCD even after Adventist took over hospital operations. This transition process which would have been expected to take about six months, stretched on for years, with more and more money flowing into accounts it shouldn't have. This created a mess that has taken a year of accounting work to sort out.

The MCHCD has wisely elected to hire an outside finance specialist to help. This temporary CFO role is tasked with both directly helping them clean up their accounting, and setting them up for successful maintenance of their finances long term by making recommendations on how to fix the financial problems, which include:

- a lack of financial policies and controls,

- a lack of skills and understanding to manage district finances,
- a lack of structure and staff to maintain their finances,
- a lack of clarity around the Treasurer's role to oversee the finances, and report to the Board and the public,
- a lack of clear guidelines for what each budget includes.

For example, a letter dated April 9, 2024 from the CFO (Appendix C), and policies shared at the April 10th Board meeting, outlined some of the areas where work is needed regarding their investment policies and the risks of not doing that work. The letter does a good job of detailing specifics. Among other concerns it addresses how a lack of financial expertise led to:

- housing the District's money in improper non-interest-bearing accounts which may have added up to $300,000 in lost interest a year,
- 25 bank accounts racking up tens of thousands of dollars in unnecessary fees each quarter,
- a large portion of the district's money not being covered by the FDIC insurance that would protect taxpayer money from loss in a bank insolvency situation.

The Grand Jury applauds the recommendations outlined in the letter, and policies covered at the April and May 2024 Board meetings are a great start in the right direction.

MCHCD may also want to consider having the current CFO or someone of similar skill set to come in and do a brief financial review every three to four months for the next few years to ensure they are still on the right path and help with recommendations as issues arise.

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Act) requires LAFCo to review and update, as necessary, each local agency's and special district's Sphere of Influence (SOI) and Municipal Service Review (MSR) report before January 1, 2008, and every five years thereafter. Different counties have interpreted this state law differently. Many counties have decided it means they need to issue all MSRs every five years. Mendocino LAFCo has interpreted that to mean they only need to issue MSRs on municipal (police, water, fire, etc.) every five years, all others can be done "as necessary." Regardless of which way the state law is interpreted, Mendocino LAFCo has not issued an MSR for MCHCD since 2014. Parts of those MSRs are a discussion of the financial health, operational efficiency, and the accountability to community needs of the local district. It is the opinion of the Grand Jury that both the major change in how MCHCD was run after the affiliation which, as discussed previously, essentially created a new organization, and the subsequent very public and visible fiscal and administrative problems with MCHCD, should have qualified MCHCD for an "as necessary" review. If LAFCo had issued an MSR, some of the problems MCHCD has been experiencing may have been recognized, and potentially addressed, much earlier.

Finally, the Board needs to ensure that completing audits is a top priority; without the audits MCHCD will not be able to acquire a bond to do the retrofit.

Facilities Plan

As one of the core responsibilities of the District is to be landlord for the hospital building, the District needs a facility plan. Cooperation between MCHCD and Adventist is important to build a plan that includes but is not limited to:

- a plan for seismic retrofit,
- a prioritized list of facility issues including estimated costs, responsible party, etc,
- a list of potential future upgrades,
- a list of any inspections required and dates,
- a Problem Reporting Process for facility issues,
- a maintenance schedule.

A facilities plan should be clarified before lease negotiations happen later this year. Many of these items are included in the lease, so the clarifications may drive needed changes in the lease.

Public Input and Education

Public Education

The Grand Jury found through listening to public input during past Board meetings, discussions with members of the public, and interviews, that the public is struggling to understand the role and responsibilities of the MCHCD since affiliation with Adventist. For example, some still see MCHCD as responsible for their medical care at the hospital, or that MCHCD has authority over hospital policies or staffing. This misunderstanding could lead to difficulties in getting public support for Board actions, and in particular the effort to raise money for the hospital retrofit. An educational campaign on the MCHCD Board's new responsibilities and roles since affiliation can help clarify this with the public. Options could include things such as messaging on the website and during Board meetings, but given to low numbers of public who attend these meetings or visit the MCHCD website it may require more proactive activities such as announcements in the paper, town hall meetings, social media posts, and articles or interviews with media.

Public Input

The Board should be more proactive in getting general public feedback and input. Ideally the public would come to the monthly Board meetings to provide input. Board meetings are typically attended by the same two or three people each month. Though public input at Board meetings is extremely important, these few people cannot be seen as representative of the general public. In addition, the legal requirements and structure of a board meeting do not allow for the open discussion about the direction of healthcare on the coast that is needed. The same can be said for carefully crafted surveys. These have their role in gauging public opinion on specific issues, but are not a substitute for open public input and discussion.

The Board should go to the public rather than expecting the public to come to them, using for example: public town halls, social media, call in shows on the radio, or a booth at large community

events. Subjects for these should include, but are not limited to, feedback and input on the role of the healthcare district, and priorities of healthcare needs on the coast.

In addition, the Grand Jury also suggests creating a Public Advisory Committee consisting of 10-20 people selected from around the district to consult, run ideas by, and ask for input from on an ongoing basis. The makeup could be two Board members, plus representation from the medical community, city councils, community leaders, and the general public.

After World War II, the government passed laws enabling "hospital districts" to build and manage hospitals in rural areas where there were none. In the late 1900s healthcare started changing, increasingly moving out of the hospital setting. In response, the California legislature changed the name to "health care districts" in 1994 and during that time many districts have actually closed or sold their hospitals and taken on a role of overseeing community health and wellness. The 2017 Little Hoover Commission report on special districts entitled "Special Districts: Improving Oversight & Transparency" gave special focus to healthcare districts in particular (starting on page 41) for a large portion of their report. (https://tinyurl.com/Hoover-Report)

In their report The Little Hoover Commission mentioned many findings and recommendations worth reviewing. However, the Grand Jury felt the need to call attention to one in particular; that there is an identity crisis in health care districts that have stopped running hospitals… MCHCD is not alone in this. The Grand Jury recommends that the Board and those interested in the public review the Little Hoover Commission report. Rather than figuring out how to do this on their own, the Board could reach out to other healthcare districts that have gone through selling or closing their hospital (examples: Petaluma and Sonoma, links in Bibliography), including looking at their websites and asking them for copies of their bylaws, policies, and opening discussions with them to share best practices.

Reaching out to other districts which have been through this, and to the public served by the District, can help bring focus to the MCHCD mission.

Long Term Plan

The Grand Jury encourages the MCHCD to continue to prioritize the retrofit, maintenance, and improvements of the hospital building, but also to build a strategic plan as to what is next with feedback from both the public, and Adventist Health. This plan might include items such as community health education, wellness/preventative care programs, support in public health emergencies, ways to improve healthcare access, improvements to the hospital and surrounding facilities, etc. The health care district for the Petaluma area (Healthy Petaluma) has a good example of a district strategic plan. (https://tinyurl.com/3ncwhmbk)

Since the public elects Board officials and pays for the operation of the Board, they should help guide the Board on its role in this new "post-hospital" world. The Grand Jury encourages the public to take this responsibility seriously; participate actively and vocally, thoughtfully and respectfully. This public input should be gathered and discussed within the Board for practicality, adherence to

mission and funding. From that input, the Board needs to put together a plan that makes the priorities clear so the public can understand how public monies are to be spent.

This is another example of why adequate staffing is critical. Rather than the Board trying to come up with those options themselves during a public meeting under Brown Act requirements, staff can take the Board's priorities, determine potential ways to implement those priorities, and bring those options back to the Board for review and approval.

A five-year strategic plan with specific goals, timelines, and realistic options about what will be done to achieve those would be ideal, but that will take a long time to put together. In the short term a preliminary high-level plan with ideas that are realistic and some possible ways they might be achieved can go a long way to helping the public understand why MCHCD is here and, more so, why they should support it.

FINDINGS

The Mendocino County Civil Grand Jury finds that:

F1. The Board struggled with the basics of organizational management and a lack of any significant progress on achieving core district goals for several years. However, the Grand Jury found that beginning in 2024 they turned a corner and improvements are happening quickly. The Board is to be commended for these improvements.

F2. All versions of the Bylaws found contained a section that stated, "At least three signed copies of the Bylaws shall be maintained on file in the District office and a current copy maintained on the district website. Each director shall be given a copy of the Board Bylaws and Policy Manual." It was clear that Directors had neither received the Bylaws nor the Policy Manual.

F3. It is unacceptable that a copy of the Bylaws, properly approved by Board vote, signed and dated by the Secretary, and documented in the minutes, could not be found.

F4. All the versions of the MCHCD Bylaws the Grand Jury viewed contained most of what is needed; however, the Bylaws still need work and do not meet the current role and structure of the District.

F5. Without a usable Policies Manual, significant issues with finances, recordkeeping, comity, etc. hampered the Board from completing their duties to the public.

F6. Some agendas and many meeting minutes were missing from the website and Board records. This delayed and could jeopardize the audits and, therefore, the retrofit project.

F7. There were no audits conducted for several years, placing the District in a precarious legal and financial position, and contributing to significant public distrust because of the lack of transparency.

F8. There are several versions of the Mission Statement on the website and in Board documentation. It's not clear what the current approved Mission and Vision statements are, and none of them properly reflect the MCHCDs current role, hindering its ability to function cohesively.

F9. The Board has done little to educate and inform the public about the Board's new role and mission since the affiliation with Adventist Health, causing confusion and contributing to mistrust in the public.

F10. Violations of Brown Act: Meeting agendas did not have an appropriate level of detail and attachments were missing. There were also concerns by the public that serial meetings between

some of the Board members were happening. There has been a clear effort by the Board in 2024 to address these issues and they are to be commended.

F11. The reinvention of MCHCD, post affiliation, and the significant and public financial and administrative issues with the District, along with the fact that an MSR has not been completed in 10 years, should have initiated a LAFCo MSR.

F12. After two years of struggling to complete the volume of work required of them, the present Board voted 4-1 to hire or contract with an agency administrator (general manager), and contracted with a financial expert as a temporary CFO. This staff support has made clear improvements in progress toward the district goals.

F13. The budgets have no written guidelines that could be shared with the Grand Jury and there was a lack of clarity about use of funds.

F14. The Board has not proactively reached out to the general public in an open forum for their input and discussion regarding the public needs, the future of healthcare at the coast, or the role of the MCHCD.

F15. The Board has struggled to create from scratch what has already been successfully implemented in other health care districts.

F16. It is unacceptable that there is no Bylaws or Policy requirement to take AB1234 Brown Act and Ethics training, or official record that all Board directors had taken the required AB1234 training.

F17. The public has continually expressed concerns with transparency and with the financial management capabilities of the Board.

F18. Incoming Board members are not expected to have the knowledge necessary to run a health care district, but little training or support is provided to bring them up to speed.

F19. While due focus has been given to the retrofit, the Board does not have a comprehensive facilities plan and therefore have been more reactive than proactive in their maintenance responsibilities as a landlord.

F20. The lack of a five-year strategic plan has contributed to public confusion regarding the role and mission of the MCHCD, and the lack of a clearly outlined future path has prevented the public from having faith that the Board is leading the district in the right direction.

RECOMMENDATIONS

The Mendocino County Civil Grand Jury recommends that the MCHCD Board:

R1. Update Bylaws, vote for approval and document in minutes, sign, date, and post on the MCHCD website. Distribute to all Board Directors. *Complete by: August 31, 2024.* (F2, F3, F4)

R2. Include in MCHCD Bylaws or Policies a requirement that all Board members take a Brown Act and Ethics training that meets AB1234 requirements upon taking office, and post verification of completion on the website. *Complete by: August 31, 2024.* (F16)

R3. Update or create MCHCD Policies, including, but not limited to: IT and Security, Document Retention and Handling, Financial Record Keeping and Reporting, Board Administration, and Comity. Approve, sign, date, post on the website, and distribute to all Board Directors. *Complete by: November 30, 2024.* (F2, F5)

R4. Agree and vote upon the mission statement of MCHCD. Post it on the website and include it in the MCHCD Bylaws and in the Policies Manual. *Complete by: October 31, 2024.* (F8, F9)

R5. Complete all tasks needed to enable auditors to complete audits for the last three years (this includes providing all missing minutes and agendas, approved, signed, and posted on the website). *Complete by: November 31, 2024.* (F6, F7)

R6. Complete an educational campaign for the public to help them understand the Mission and scope of authority of MCHCD. *Complete by: December 31, 2024.* (F9)

R7. Initiate community outreach as outlined in Discussion to gain insight into public priorities and needs. *Initiate by: December 31, 2024.* (F14)

R8. Post minutes and agendas in a timely manner, and adhere to Brown Act requirements regarding agendas, and meetings. *Complete by: August 1, 2024.* (F6, F10)

R9. Provide adequate professional staffing (i.e., a full-time general manager, and part time admin and finance support) to support the Board. This could be accomplished using a consultant model, hiring support staff, or some combination of the two. *Complete by: December 31, 2024.* (F12)

R10. Take advantage of CSDA certification programs: (F17)

A. Get CSDA Transparency Certificate of Excellence, and a District of Distinction Accreditation. *Complete by: April 1, 2025.*
B. Encourage at least one member of the Board annually to get a Certificate of Special District Governance to serve as a resource for the Board. *Complete by: Ongoing.*
C. If a permanent General Manager (Director) is hired, encourage them to get a Special District Essential Leadership Skills Certificate. *Complete by: Ongoing.*

R11. Gather and provide training options to new Board members upon election or appointment, as outlined in Discussion. *Complete by: Ongoing* (F18)

R12. Define and vote on the guidelines for using funds from all budgets. *Complete by: December 31, 2024.* (F13)

R13. Create a public advisory committee of 10-20 members of the public as described in the Discussion section. *Complete by: December 31, 2024*. (F14)

R14. Review other health care district's websites and open dialogue with other health care district boards and the CSDA regarding ideas for policies, bylaws, and best practices. *Complete by: May 1, 2025.* (F15)

R15. Clarify and develop the facilities plan before lease negotiations begin later this year. *Complete by: before signing of new lease* (F19)

R16. Develop a five-year MCHCD Strategic Plan. *Complete by: April 30, 2025.* (F20)

R17. Develop an onboarding process and manual that outlines the expectations of Board members (roles and responsibilities), requirements (such as Brown Act and Ethics), and resources available (such as training). *Complete by: April 30, 2025*. (F18)

The Grand Jury recommends that Mendocino LAFCo:

R18. Provide a Municipal Service Review on MCHCD on a priority basis. *Complete by December 2024* (F11)

RESPONSES

Pursuant to California Penal Code §§ 933 and 933.05, the Civil Grand Jury requests each entity or individual named below to respond to the enumerated Findings and Recommendations within specific statutory guidelines.

Responses to Findings shall be either:

- The respondent agrees with the finding.
- The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.

Responses to Recommendations shall be one of the following:

- The recommendation has been implemented, with a summary regarding the implemented action.
- The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.
- The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency where applicable. This time frame shall not exceed six months from the date of the publication of the Civil Grand Jury report.
- The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefore.

REQUIRED RESPONSES - Within 90 days

MCHCD Board of Directors: (F1-F10, F12-F20) and (R1 - R17)

Mendocino LAFCo: F11 and R18

Responses are to be sent to:

The Honorable Judge Ann Moorman
Mendocino County Superior Court
100 North State Street, Dept. E Ukiah CA 95482

Office of the County Counsel
County of Mendocino
501 Low Gap Road, Room 1030 Ukiah CA 95482

Mendocino County Civil Grand Jury
County of Mendocino
501 Low Gap Road, Room 1030 Ukiah CA 95482

IMPORTANT NOTE ABOUT CIVIL GRAND JURY FINDINGS

The Civil Grand Jury derives Findings from testimony and evidence. All testimony and evidence given to the Civil Grand Jury remains confidential by law, and it is the Civil Grand Jury's responsibility to maintain it. California Penal Code § 929 provides "... the name of any person, or facts that lead to the identity of any person who provided information to the Civil Grand Jury, shall not be released." Further, 86 Ops. Cal. Atty. Gen. 101 (2003) prohibits Civil Grand Jury witnesses from disclosing anything learned during their appearance including testimony given. This is to ensure the anonymity of witnesses and to encourage open and honest testimony.

BIBLIOGRAPHY

ILG site - https://www.ca-ilg.org/
Mendocino LAFCo - https://mendolafco.specialdistrict.org/
CA LAFCo - https://calafco.org/About_LAFCOs
California Special Districts Association - https://www.csda.net/
California Fair Political Practices Commission - https://www.fppc.ca.gov/
Association of California Healthcare Districts - https://www.achd.org/
Little Hoover Commission Report on CA Special Districts - https://lhc.ca.gov/report/special-districts-improving-oversight-transparency/

Other local districts who have gone through selling or closing a hospital:
https://nschd.com/
https://healthypetaluma.org/our-district
Healthy Petaluma Strategic Plan -
https://static1.squarespace.com/static/633b6c9e8e752b794dfe94e3/t/6424bafc65cb4b5322d23bcc/1680128768712/Strategic+Plan.pdf

APPENDICES

Appendix A

MCHCD History (from MCHCD.org):

Special Hospital Districts:

In the aftermath of World War II, California faced a severe shortage of hospital beds and most rural areas had almost no access to basic hospital and health care services.[1] In response, the California legislature enacted the Local Hospital District Law that allowed communities to create a new government entity, a special hospital district, that had the power to impose property taxes, issue debt, hire staff and so on in order to provide acute care. The legislature amended this law in 1994 and renamed these special districts as "health care districts", reflecting that health care was increasingly being provided outside of the hospital setting.

The first step in creating these new districts was for a group of community members to petition the county Board of Supervisors to submit a ballot measure to the voters. Residents within the proposed district boundaries would then approve the formation of the district with interim Directors appointed by the Board of Supervisors. At the next opportunity, members of the five-person Board of Directors would be directly elected by the people. By 1985 and a number of legislative changes, creation of new healthcare districts became the responsibility of Local Agency Formation Commissions (LAFCos).

The Mendocino Coast Health Care District (the "District"), which stretches from Westport in the north to Gualala in the south, was formed on January 1, 1967. The District then constructed an Acute Care Hospital which was dedicated on June 26, 1971. The original facility is still in operation today, nearly 50 year later. The hospital has 49 licensed beds.[2] However, as will be explained, Critical Access Hospitals like our Coast hospital are limited to using only 25 acute care beds.

Rural Health Care and its Changing Environment:

In its early years, the Coast hospital thrived on the basis of a strong local economy, bolstered by the Georgia-Pacific mill and commercial fishing. The majority of patients at the hospital had private insurance and between insurance revenues and the property tax, the hospital experienced financial success.

This would continue until the early 2000s when significant changes in the local economy and in health care finances finally culminated. The local economy was hurt by the closure of the G-P mill site in 2002. At the same time, commercial fishing was undergoing significant changes that led to the closing or downsizing of fisheries. The loss of these jobs and the accompanying private insurance meant that taxes and insurance revenues were not enough to pay for the rising costs of health care. In 1971 when the hospital first opened its doors, these costs were 6% of the GDP but are today 20%. To contain the cost of health care, insurance companies began using carefully controlled contractual relationships with providers and Medicare and MediCal began implementing their own cost-saving strategies.

By the late 1990s, almost all rural hospitals were struggling financially. To provide financial support for these hospitals, the Critical Access Hospital (CAH) program[3] was created in 1997 as part of the Balanced Budget Act. The program is intended to improve the finances of small hospitals in rural areas that if closed would result in residents travelling a long distance to receive emergency care. The primary feature of this program is that it allows Medicare to reimburse hospitals for nearly 100% of their costs, regardless of how many patients it sees. The Coast hospital was converted to a CAH in order to take advantage of the better reimbursements. The hospital is today a 25-bed CAH and nearly 85% of its patient revenues come from Medicare or MediCal.

Bankruptcy and Continuing Financial Struggles:

Nonetheless, the cost of operating the hospital continued to exceed revenues. Another change was taking place that adversely affected hospital finances everywhere. This was the migration of patients from overnight hospital care (inpatient services) to care that was provided in clinics or did not require overnight stay (outpatient care). This resulted in declining revenues since reimbursement rates for outpatient care, until recently, were much less. As of today, 20% of the patients served by District's facilities are inpatients and 80% are outpatients, a near reversal in the numbers.

This came to a head when between July and December of 2012, the District lost $1.9 million and had only three days of cash on hand. As a result, the District filed for Chapter 9 bankruptcy in November of 2012.

In 2014, the District emerged from bankruptcy with $14M in cash but more long-term debt. In 2018, the voters approved a new parcel tax which would contribute $1.6M a year to the hospital's bottom line. Despite this the hospital's finances continued to deteriorate and in early 2020, a combination of layoffs and other cost cutting measures was necessary to bring the budget back in balance.

There remained clouds, however, over the hospital – the further aging of the hospital due lack of money for major maintenance, a pending seismic retrofit for all facilities and an inability to recruit providers.

Maintaining the Hospital and Affiliation:

Despite the significant cost reductions, it was increasing clear that the District would be financially unable to maintain the hospital for which there was a $15M backlog of repairs. Nor would it be able to set aside enough money to pay for the cost of upgrading the facilities (current estimate is $30M) to the higher seismic standards imposed on all hospitals after the Northridge earthquake of 1977 which saw a hospital there to collapse causing multiple fatalities. After several postponements, the state legislature has mandated these upgrades be completed by 2030.

Moreover, even if the District found a way to fund these facility needs, it was recognized that the result would only keep the existing hospital open without any improvement in health care.

Due to the uncertainty surrounding the hospital's finances and future, the District found that it could no longer successfully recruit providers. The threat was that providers would leave and not be replaced, triggering a quick collapse of the District's revenues.

The solution to these multiple problems was to affiliate with a large health network with stable financial and professional resources. In August of 2019, the Board of Directors resolved to affiliate with the Adventist Health Network. Later in November 92% of the voters provided a resounding vote of approval. Adventist Health (AH) officially took operational control of the hospital, clinic and other services on July 1, 2020.

Affiliation is governed by a Lease Agreement in which AH provides the District with lease income that increases over time. These lease payments in conjunction with tax revenues will be enough to pay off all of the District's long-term debt and to pay for the cost of the seismic upgrades (or be a down payment on a new facility.)

The Future:

The primary mission of the District is to ensure the continuity of essential health care in the coastal communities. When seen in that light, the affiliation with AH is a major accomplishment. However, the District must maintain diligent oversight of affiliation but also do what it can to ensure the success of AH.

After relinquishing operational control of the hospital, clinic and other services to AH, the District is in the process of reorganizing itself and seeking new opportunities to contribute the health and well-being of our community.

December 2020

Appendix B

MCHCD Mission Statements:

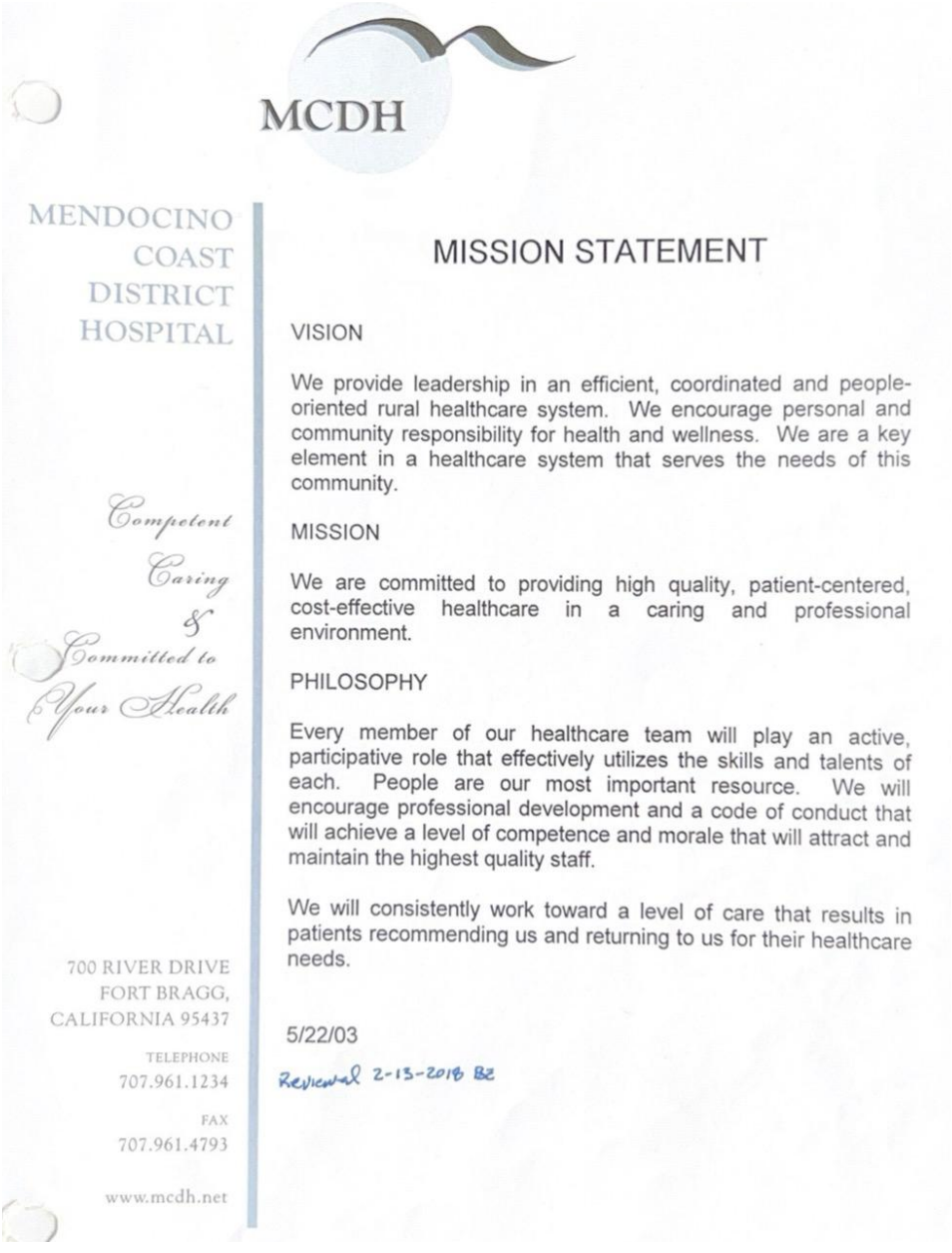
From the website – About Us section (early 2024):

> "The purpose of the Mendocino Coast Health Care District has been and continues to be to ensure the continuity of essential health care in the remote communities on the Mendocino Coast." … "The primary mission of the District is to ensure the continuity of essential health care in the coastal communities."

From Bylaws:

> "The mission of the Board is to
>
> a. Ensure that the resources of the Health Care District are used in the best interests of the public.
>
> b. Meet its financial, contractual and regulatory obligations.
>
> c. Implement and support programs providing they are congruent with regulations and existing contracts.
>
> 1. Ensure that the district maintain its fiscal solvency with its limited resources.
>
> 2. The bylaws and the mission should be reviewed annually for continued relevance"

From the MCHCD website 2024:



MCDH

MENDOCINO COAST DISTRICT HOSPITAL

Competent Caring & Committed to Your Health

700 RIVER DRIVE
FORT BRAGG,
CALIFORNIA 95437

TELEPHONE
707.961.1234

FAX
707.961.4793

www.mcdh.net

MISSION STATEMENT

VISION

We provide leadership in an efficient, coordinated and people-oriented rural healthcare system. We encourage personal and community responsibility for health and wellness. We are a key element in a healthcare system that serves the needs of this community.

MISSION

We are committed to providing high quality, patient-centered, cost-effective healthcare in a caring and professional environment.

PHILOSOPHY

Every member of our healthcare team will play an active, participative role that effectively utilizes the skills and talents of each. People are our most important resource. We will encourage professional development and a code of conduct that will achieve a level of competence and morale that will attract and maintain the highest quality staff.

We will consistently work toward a level of care that results in patients recommending us and returning to us for their healthcare needs.

5/22/03

Reviewed 2-13-2018 BE

Appendix C

CFO letter:

APRIL 9, 2024

ATTN: MENDOCINO COAST HEALTH CARE DISTRICT
BOARD OF DIRECTORS
RE: COMPLIANCE REPORT FINDINGS

Good afternoon, let me begin with thanking each of you for attending a special Board meeting. I do respect your time and effort to participate in this meeting and it is very much appreciated.

I am going to review with you a very important investment policy. The policy is really a blend of policy statements with implementation steps to launch the actual investments.

Regarding investing, the key takeaway I want to stress with you: there must be a very disciplined focus on three pillars named **safety, liquidity and yield** and in that priority order. I repeat safety, liquidity and yield.

When a District has surplus funds to invest it must abide by the California government statute number 53000 (titled investment of surplus).

The policy you are being asked to approve today complies with that statute.

I have been reviewing the District's investment procedures for the last two weeks with the support and cooperation of Kathy.

The compliance findings of that review were disturbing because:

(1) funds in all three banks (Tri-Counties Bank, Bank of America and California Bank of Commerce) were at risk for loss of principal dollars with no FDIC insurance (a **safety** issue),

(2) funds at the CBC bank were at risk of a delay in the timely payment of withdrawals (a **liquidity** issue) and

(3) zero interest income yields on certain accounts (a **yield** issue).

I find it just a little bit unbelievable and shocking that all three pillars of a solid investment policy are being violated currently: safety, liquidity and yield.

Regarding #1 a safety issue- if a bank has a solvency situation and goes into bankruptcy or even liquidation, the District's funds are only insured for the FDIC limit of $250K. the deposits at the three banks that are at risk with no FDIC coverage total $6.8M.

This lack of safety for principal dollars could be considered as negligence.

****

Regarding #2 a liquidity issue- per the CBC agreement if the receiving banks fail to meet withdrawal requests timely to the custodian bank (CBC), the funding of all or a portion of the District's withdrawal request could be delayed.

This lack of liquidity could be considered as negligence.

****

Regarding #3 a yield issue- the money lost from having no interest income yields cannot be recovered. In finance terms, it is referred to lost opportunity cost.

Lost opportunity cost means that a potential gain is sacrificed when the District chose one option over another (no interest income returns vs. a 5% interest achievable return).

You may be thinking no big deal if we lost a little bit of interest income. Unfortunately, it is a very significant dollar amount.

My name for cash that is not earning any investment yield is idle cash. It is like idle hands. It can become a problem for the District.

About $4.2M of idle cash was invested at the California Bank of Commerce and about $1.8M of idle cash at the other two banks (Tri Counties Bank & Bank of America) for a total of $6.0M in idle cash.

The lost annual interest returns on that $6.0M at 5% would be $300,000 or the equivalent of $822 every single day. If the average worker is making $60,000 per year that $300K lost annual interest is the equivalent of the annual salaries combined for five workers.

This lack of investment yield dollars could be considered as negligence.

Fortunately, these possible negligent defaults were discovered and have been quickly rectified by transferring the funds to the LAIF account where their safety, liquidity and yield will be complying with the California statute. All of the transfers should be completed no later than Friday, April 12, 2024.

I reviewed the LAIF account and it was not a compliance issue.

OK, let us review the policy document now: I will move thru the pages as rapidly as I can and will be focusing on the areas that I have yellow highlighted. If you have questions, please stop me and we can discuss it at that time.

Respectfully submitted,

Wayne C. Allen, CFO

Appendix D

Policy Manual Table of Contents

MENDOCINO COAST DISTRICT HOSPITAL

Mendocino Coast Health Care District
Board of Directors
Manual
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