



AGENDA REPORT

SAN CLEMENTE CITY COUNCIL MEETING
Meeting Date: July 7, 2020

Department: City Manager
Prepared By: Erik Sund, Interim City Manager

Subject: REQUEST FOR PROPOSAL HOSPITAL FACILITY PARTNERSHIP UPDATE

Fiscal Impact: Unknown at this time.

Summary: At the August 19th, 2019 City Council meeting, City Council approved the agreement with Wipfli to assist the City in drafting a Request for Proposal (RFP) that is to seek hospital operators for the vacant hospital site at 654 Camino De Los Mares. More specifically, assist the City in evaluating potential opportunities for the City to facilitate and/or participate in the re-opening, acquisition, and/or transfer of the San Clemente Hospital. At the December 17, 2019 City Council meeting, City Council authorized the City Manager to release the RFP for Hospital Facility Partnership. The RFP was released on January 15, 2020 and proposals were due on February 12, 2020.

Background: The San Clemente Hospital has been closed since 2016. A settlement agreement with the hospital’s owner, Memorial Health Services (“MHS”), gives the City the ability to work with MHS to facilitate the reopening, acquisition, and/or transfer of the hospital. The City contracted with Wipfli to develop and conduct a RFP process.

Discussion: Memorial Health Services and Saddleback Memorial Medical Center (“MHS”) own the San Clemente hospital. In May 2016, MHS filed a lawsuit against the City challenging the legality and effect of the City’s zoning designation on the hospital property. Through the litigation and elsewhere, the City Council has identified operation of an acute care hospital with an emergency medical services component as a vital City interest.

On June 18, 2019, MHS and the City entered into a comprehensive settlement agreement resolving all claims pertaining to the litigation. Under the settlement agreement, the City has the ability to (1) work with MHS to achieve reopening of the hospital, (2) acquire the Hospital Property through negotiations with MHS or through exercise of City’s condemnation authority, (3) reconvey the hospital, if acquired, and (4) utilize its inventory of real property for the benefit of the public health, safety, and welfare of its citizens, including the provision of health and emergency medical services.

Per City Council approval, the RFP (attachment I) was distributed to select hospital providers seeking an operator that will provide an acute care and emergency room services at the vacated site. The RFP’s primary objective was to seek an operator

who could provide acute care services and emergency services at the current hospital site.

The City received one proposal from the RFP process. The proposal was submitted by Palomar Health, attachment II. Palomar Health's proposal indicates possible partnership opportunities as well as a preferred legal and organizational structure. The City has had an opportunity to have a discussion with representatives from Palomar Health. However, once the pandemic started in March, the City paused on the RFP process due to limited staff resources while mitigating the City through the pandemic.

The City has re-initiated the review and evaluation process of the RFP and is currently scheduling a meeting with Palomar Health representatives to meet with two City Council members to review and discuss their proposal further.

The City received a correspondence from UCI Health and UC San Diego Health outside of the RFP process. Their communication is attached for your reference, attachment III.

In light of the pandemic, medical services have been impacted and the current environment is different than it was prior to the RFP being released. These changes in medical services will be considered during the RFP review and evaluation process. Once the meeting occurs with Palomar Health and staff conclude the review and evaluation process, staff will agendize a staff report for consideration at a future City Council.

Recommended

Action: STAFF RECOMMENDS THAT THE CITY COUNCIL:

Receive and file the staff report.

Attachment:

1. Hospital Facility Partnership Request for Proposal
2. Palomar Health Proposal
3. UC San Diego Health/UCI Health Correspondence

Notification: None.



CITY OF SAN CLEMENTE

REQUEST FOR PROPOSAL

REQUEST FOR PROPOSAL

HOSPITAL FACILITY PARTNERSHIP

JANUARY 15TH, 2020

910 CALLE NEGOCIO, SAN CLEMENTE, CA 92673 PHONE: (949) 361-8200

CITY OF SAN CLEMENTE

REQUEST FOR PROPOSAL JANUARY 15, 2020

Prospective Contractors:

The City of San Clemente (City) is interested in receiving proposals from Professional Services Contractors (Contractors) qualified to partner with the City in the redevelopment and operation as an acute care hospital at the former Memorial Care site ("Hospital Facility Partnership") as described in more detail in the attached Request for Proposal (RFP).

Specifically, the City is seeking to engage a partner with:

- Expertise and experience in development and operation of an acute care hospital with an emergency department;
- Vision for the development and operation of a financially viable facility; and
- Economic viability and financial strength to team successfully to accomplish the proposed Hospital Facility Partnership, including the ability to secure financing and leverage other resources to create the highest quality project for the community.;

Copies of the RFP may be downloaded from the SAN CLEMENTE website: <https://www.planetbids.com/portal/portal.cfm?CompanyID=28939>.

Schedule of Events:

- RFP Open: January 15, 2020
- RFP Questions Due via Planet Bids Portal: January 22, 2020 @ 12:00 PM
- Response to RFP Questions Posted on Planet Bids: January 29, 2020 @ 5:00 PM
- Proposals Due: February 12, 2020 @ 5:00 PM

City Point of Contact:

The sole source of contact regarding this RFP is the project facilitator, Tony Taddey of Wipfli LLP at (310) 344-4030 or ttaddey@wipfli.com. Please immediately acknowledge your receipt of this RFP by return e-mail to the project facilitator. Individuals or firms interested in submitting a proposal are asked not to contact other members of the City of San Clemente staff or Councilmembers in connection with the RFP prior to the announcement of the consultant selected.

Proposals are to be submitted confidentially to Erik Sund at the following address:

Erik Sund, Assistant City Manager
City of San Clemente
910 Calle Negocio, 3rd Floor
San Clemente, CA 92673

Confidential

Proposal Closing Date:

Three (3) hard copies of each contractor's proposal must be received by the City not later than 5:00 PM on February 12, 2020. All proposals must be delivered to the above address. Proposals received after 5:00 pm on February 12, 2020 will not be accepted.

One (1) electronic copy must be uploaded onto the City's Planet Bid portal before the closing date and time.

One (1) electronic copy must also be emailed to Tony Taddey at ttaddey@wipfli.com before the closing date and time.

Proposals will become part of the official files of the City of San Clemente and cannot be returned.

The City wishes to make meaningful progress towards identifying and preliminarily negotiating with its chosen candidate in Q1, 2020 and potentially reaching a mutually agreeable term sheet during 2020. However, consummating an affiliation agreement with its chosen partner may very well take longer than that in order to fully document and execute the final transaction. We appreciate your interest in this opportunity and look forward to further discussions with you.

Sincerely,

Erik Sund
Assistant City Manager

Attachments

CITY OF SAN CLEMENTE

REQUEST FOR PROPOSAL HOSPITAL FACILITY PARTNERSHIP

Background about the City and the project, as well as information about the Scope of Work to be undertaken are discussed in this section of the RFP.

A. INTRODUCTION

The City of San Clemente (the 'City') invites you to provide a response to this Request for Proposal ('RFP') regarding your potential interest in a possible affiliation or partnership arrangement between our organizations. This RFP is being sent to a very limited number of potential affiliation partners. This RFP is issued by the City in furtherance of identifying a qualified partner to work with the City in the redevelopment and operation of an acute care hospital at the former Memorial Care site. The City's goal is to revitalize the site to provide a mix of services, including but not limited to an emergency department, that results in a financially viable hospital.

B. PROPERTY DESCRIPTION

Please note that all the following facility information and estimates are drawn from the Scott Delahooke MAI Appraisal dated 1/16/19 as well as the Expert Disclosure Document compiled by Dr. Joshua Luke dated 1/3/19. As indicated, this summary and the statements from Mr. Delahook and Dr. Luke below represent the City's expert opinions. As part of previous litigation, MemorialCare enlisted their own experts who came to different conclusions. Proposers may seek from MemorialCare or through court records those expert opinions.

The property located at 654 Camino De Los Mares ("Property"), is the site of the former Saddleback Memorial Medical Center – San Clemente (the "Hospital"). The Property was re-zoned as a Regional Medical Facilities ("RMF") Zone in February, 2016. RMF Zones are designed to allow regional general hospital uses only, and allows for the continued development of the existing general hospital facilities at the Property which specifically includes inpatient beds and an emergency department. After a number of tries, including a bankruptcy proceeding, various owners and operators gave up and the hospital closed on May 31, 2016.

Existing improvements to the parcel include an older, acute care/urgent care hospital, which was operating uneconomically for an extended period of time, before being closed. Since the hospital has ceased operation, if reopened, it may have to be renovated or completely rebuilt up to current state regulations and market standards. Other onsite improvements include two onsite driveways from Camino De Los Mares, and a third access point off the adjacent property. The portions of the site outside the building footprint are generally paved with asphalt with concrete curbs and walkways, landscaping and parking lot improvements. There were a total of 241 parking spaces on the date of inspection, which equates to a total of 3.30 spaces per licensed bed. There is also a small care-takers building. There is a freeway visible sign. The parcel was last appraised for \$20 million in February, 2016.

C. MEMORIALCARE HOSPITAL HISTORY

Inpatient utilization (admissions per 1,000 population) has been declining across the U.S. and within California since calendar year ("CY") 2006. It is anticipated that inpatient volumes will continue to decline with the increased penetration of value-based care models and value-based payment, and as more volume is shifted to the outpatient setting. The Hospital's inpatient surgeries significantly declined between CY 2006 and 2016 when the Hospital closed. The Hospital averaged 1.7 inpatient surgeries per day in CY 2006 to less than 1 surgery per day (0.7) in CY 2015.

Prior to closing the Hospital, as a result of the transition to value based care, MemorialCare purchased a number of physician groups that not only had an impact at the Hospital, but historically were aligned with other major hospitals and providers in the area. These medical group purchases included Greater Newport Physicians Group, historically aligned with Hoag Hospital; San Clemente Family Medicine, historically aligned with San Clemente Hospital; and Bristol Park Medical Group, historically aligned with Fountain Valley Regional Medical Center and other MemorialCare competitors.

Patient volume data and discussions with local doctors confirm that after purchasing these medical groups, patients cared for by physicians from those groups were re-directed to MemorialCare owned hospitals. In the case of San Clemente Family Medicine, patients were being directed in large part to the main campus at Saddleback Memorial Medical Center in Laguna as part of MemorialCare's market share strategy. The end result is increased

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hospital volume and revenue, and more efficient financial management of those members (patients).

MemorialCare's purchase of San Clemente Hospital in 2005 may have been a 'market share play' to keep rivals Hoag Health, Mission Hospital (at that time St. Josephs Health) and Fountain Valley Regional Hospital (owned by Tenet Health) from acquiring the southern-most licensed hospital in Orange County.

Dr. Gus Gailamas and Dr. Steven Cullen indicated that the original purchase agreement with MemorialCare had a clause that prevented MemorialCare from selling the hospital for ten years after the sale closed in 2005. Prior to signing, that clause was negotiated down to only six years by MemorialCare. Dr. Gailamas, one of the physician owners who sold the hospital to MemorialCare, also stated that it was in 2012 that he and other doctors began noticing operational changes at San Clemente Hospital including the reduction of programs, events and staff, as well as the implementation of reduced spending limit authority for San Clemente Hospital department managers.

After the purchase of San Clemente Hospital, there is evidence that MemorialCare failed to put a senior leadership team in place and failed to develop or implement strategic growth initiatives. Furthermore, here is no indication that growing business revenues and increasing profitability at the facility were even a priority for MemorialCare.

D. Expert Report Conclusions by Dr. Joshua Luke:

The City believes, with the right partner, the Property is a viable site for an acute care hospital. The City is currently unaware as to whether the facility is in compliance with the Alquist Hospital Act of 1974 as amended. This position is based, in part, on the Expert Report prepared by Dr. Luke as excerpted below:

This expert witness report was prepared to support my opinion that San Clemente Hospital remains a viable option to operate as a successful, profitable acute care hospital with an emergency department. It is also my opinion that the best use for this land is to operate a hospital under both the prior and current zoning requirements.

In my opinion there is no other business use of this property that would provide the profitability opportunity that successfully operating an acute hospital with an emergency department offers. San Clemente Hospital

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remains a viable business opportunity and operating a hospital is the best use of the property and facility as well. It is the best use of the land both before and after the zone change at issue. It is also a viable business opportunity for a willing acute provider.

Having toured the physical plant with Mr. Tony Struthers, it is evident to me that San Clemente Hospital's physical plant remains operational-ready and with just a few minor tweaks could be re-opened to provide acute service to the community. I did not see any indication on the tour that any remodel or rebuild was necessary, nor that any major licensure issues existed.

San Clemente Hospital's closure appears to be the result of ten years of eroding market share, which only gained rapid momentum after the closure announcement in 2014. In MemorialCare executives own words, "it was never a financial issue but an operational issue" to close the hospital. Further, diversion rates at the nearest hospitals since the closure of San Clemente Hospital are unrelated to the need and demand for timely acute care services in the city of San Clemente. They simply show the demand at each of those hospitals.

The lack of experience running community level hospitals and the fact that MemorialCare never assigned a senior leadership team to the hospital, appears to have led to the erosion of volume and revenue at San Clemente Hospital. MemorialCare executives cited quality concerns as a reason for closure, but no evidence of quality issues, concerns or citations was provided by MemorialCare. MemorialCare's desire to operate San Clemente Hospital as a tertiary level hospital made it impossible to operate San Clemente Hospital in a profitable manner.

Effective hospital management prioritizes profitability. The manner in which MemorialCare operated San Clemente Hospital appears to have been an ineffective model. I saw and read little evidence of a decline in quality of care, and no evidence of an increase in complaints or citations. Hub and spoke approaches can be effective, but only when individual senior leadership is assigned to be accountable for the success of the spoke. This never happened at San Clemente Hospital. The management approach was to simply keep the lights on. It appears to have been a "keep the lights on" approach.

Based on this experience and details shared in this report, I concluded that San Clemente Hospital could easily operate as a financially viable and profitable operation. A hospital with a proven physical plant in a strong demographic community like San Clemente could easily succeed and

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produce an annual EBIDTA in the range of \$4-10 million. It is also my position that operating a hospital is and was the best use of this land both before and after the changing in zoning requirement.

E. PROJECT OBJECTIVES AND SCOPE OF WORK

As its prime objective, the City seeks to re-open the prior Memorial Hospital in some form to provide inpatient acute care and surgical services as well as out-patient clinical and ER services to not only the City's population but the rest of the market area as well.

The City does not have a firm, preconceived organizational or legal structure in mind. To date, the City has discussed an outright purchase, sale & leaseback, operating lease and joint ventures as potential options. A final structure would necessarily depend on both the City's preferences as well as those preferences (and the legal structure) of its potential partner. The City seeks a meaningful and substantive relationship including shared investment of capital and resources by both partners with equitable sharing of both the partnership's risks and rewards.

F. REQUIRED RFP RESPONSES

Please provide a response to each of the following questions with your proposal:

1. Relationship with Partners & Affiliates:

- What is your general approach to working with Partners & Affiliates?
- Which examples do you now have?
- Is there mutual investment of resources in any of these examples?
- Has there been an equity investment in any of these examples?
- How have/will clinical facilities and operational policies and procedures be formulated?
- What share of policy decision making would be shared with the City?

2. Possible Synergies of Reopening:

- What potential synergies might you envision?
- How do you see capturing market share?
- Do you envision operational/cost savings?
- How might this partnership affect reimbursement formulas?

3. Preferred Legal & Organizational Structure:

Do you have an initial thought as to a preferred legal, financial and organizational structure?

4. Potential Investable Resources:

Do you envision a material investment of resources? If so, what type (capital, facilities, HR, referrals, marketing, etc.)?

5. General Statement:

- Why do you believe your organization is a superior candidate for us to partner with?

G. DUE DILIGENCE VISIT

The City will endeavor to schedule a due diligence visit to the facility at the appropriate time during the negotiations.

H. SCHEDULE

The following are key dates for the Hospital Facility Partnership:

RFP Open: January 15, 2020

RFP Questions Due via Planet Bids Portal: January 22, 2020 @ 12:00 PM

Response to RFP Questions: January 29, 2020 @ 5:00 PM

Proposals Due: February 12, 2020 @ 5:00 PM

CITY OF SAN CLEMENTE

REQUEST FOR PROPOSAL HOSPITAL FACILITY PARTNERSHIP INSTRUCTIONS AND CONDITIONS

The following instructions and conditions apply to this RFP:

A. GENERAL CONDITIONS

All information contained in this RFP is considered to be the exclusive property of the City. Recipients are not to disclose under any circumstances that they have received this RFP. We reserve the right to accept or reject any or all proposals in our sole discretion. Further, we reserve the right to negotiate with one or more responders at any time in order to further evaluate or accept that proposal which best serves our interests.

In good faith, your proposal should remain open for consideration until discussions or negotiations cease or are consummated.

1. Authority to Withdraw RFP and/or Not Award Contract

The City of San Clemente reserves the right to withdraw this RFP at any time without prior notice. Further, the City makes no representations that any agreement will be awarded to any entity responding to this RFP. All costs incurred by any proposer in connection with this RFP, the evaluation, and selection processes undertaken in connection with this RFP, and any negotiations entered will be borne exclusively by the proposer.

2. Right to Reject Proposals

The City of San Clemente reserves the right to reject any or all proposals submitted. The City also reserves the right to waive any technicalities or immaterial irregularities and to issue any amendments or addenda prior to the closing date and time. Any award made for this engagement will be made to the contractor which, in the opinion of the City, is best qualified to conduct the project.

B. Proposal Format And Content

Proposals should be typed as brief as possible. They should not include any elaborate or unnecessary promotional material. The following order and content of proposal sections should be adhered to by each contractor.

1. Cover Letter

A cover letter not to exceed three pages in length should summarize key elements of the contractor's proposal. The letter must be signed by an individual authorized to bind the contractor. The letter must stipulate that the proposed price will be valid for a period of at least 90 days. Indicate the address and telephone number of the contractor's office located nearest to San Clemente, California, and the office from which the project will be managed.

I. Background and Approach

The Background and Approach Section should describe your understanding of the City and the objectives to be accomplished. This Section should include a detailed profile of your team including, but not limited to: (1) overview of the development entity; (2) biographies of team members; (3) profiles of recent relevant projects or work; (5) documentation of the financial capacity to undertake the Project and (6) information regarding any track record of successful partnerships with cities and their local communities to develop projects that are high quality and aligned with the community's goals. This information may overlap or be expanded upon in other Sections of the response.

II. Related Experience

Qualified proposers should possess relevant expertise and project experience, including hospital development, hospital operation, funding and financing, predevelopment/licensing activities and regulations, development, construction management, and other applicable experience. Qualified proposers should also possess a working understanding of state laws governing the licensing and operations of hospitals. The response should describe recent, directly related affiliation, development and operation experience. Include on each listing

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the name of the client/partner; description of the work done or hospital development/experience; primary client contact, address and telephone number; dates for the project; name of the Project Director and/or Manager.

III. Financial Capacity and Capability

Qualified proposers should demonstrate an ability to secure and leverage equity, lending, grants, and/or other public and private funding sources for predevelopment and development of a high quality project.

IV. Alignment with Community Goals

Qualified proposers should have a clear grasp of the City's vision and goals for the Project and possess the ability to execute and implement a project that is aligned with those visions and goals.

V. Statement of Compliance

Contractors must submit a Statement of Compliance with all parts of the Request for Proposal.

VI. Other Information

Include any other information you consider to be relevant to the proposal.

Exhibit A

Property Address: 654 Camino De Los Mares, San Clemente, CA 92673



Google Maps



February 12, 2020

TO: City of San Clemente

FROM: Palomar Health

RE: **Proposal to Reopen and Run the Hospital in San Clemente**

In response to your RFP dated January 15, 2020, Palomar Health is pleased to submit this proposal based on our understanding of your key issues and disclosures. Section F of the RFP asks for responses to various questions:

Palomar Health's relationships with partners and affiliates.

As the largest independent California Healthcare District, with several strong competitors in San Diego County, Palomar has used strategic partnerships extensively over the years. Here are a few highlights that make up part of the service offering today:

- Neurosurgery program with UC San Diego. Palomar Health hosts several neurosurgeons at our Escondido hospital. They share in trauma call coverage and participate in governance leadership for our work in cranial and minimally-invasive spine surgery.
- New Rehabilitation Hospital with Kindred Healthcare. The 52-bed inpatient acute facility is currently in steel and expected to open early 2021.
- Palomar Medical Center Escondido is a Kaiser-plan hospital.

These types of relationships have involved mutual commitments of both capital and operating dollars, and mechanisms for sharing in programmatic leadership of the venture.

In a potential partnership with San Clemente, while it's true that Palomar Health would bring existing policies and procedures, we would also look to our partners for input on the operational style that fits with the community and the legacy of the hospital itself. We would ask as well that any new venture would include designated leaders from city staff and community members to serve on the advisory board.

Possible synergies of reopening:

San Clemente and Palomar Health bracket the southern edge of Orange County and the northern edge of San Diego County, respectively. We are close enough, especially with our northernmost hospital in Escondido, that various key leaders can be available through an assessment, onboarding, and ramp-up. To capture the market share from the area, it will be vital to open urgent/emergent services early, and accept inpatient admissions. Later in the document, we will mention financing approaches that carry a side benefit of creating the sense that "this is our hospital," and encouraging San Clemente residents to keep their healthcare local when possible. We would also create strong outreach to the nearby physician community to develop the referral and admit patterns. Key members of our team will include leaders from managed care contracting, to ensure the payor relationships and contracted rates are in place and favorable to the venture.



Preferred legal and organizational structure:

As Palomar mentioned during the early question phases, we are interested in exploring a model used successfully here in north county San Diego: the issuance of general obligation bonds, funded through local property taxes. Not only would this provide initial funding for the re-launch of San Clemente's hospital, it would also create strong ties from the community to "their" hospital. This could be coupled with the formation of a new Healthcare District, or used as a standalone approach to provide the startup funding boost. Palomar Health, then, would serve as a management services partner or lease partner, fielding a leadership team and bringing in additional subject matter experts as needed from our other hospitals.

Potential investable resources:

It is mentioned in the RFP's *Expert Report Conclusions* that the facility itself is structurally sound, "operational-ready," and "viable." Barring any surprising findings in the upcoming due diligence visits, it appears at this point the largest investments needed will be in staffing, physician referral patterns, and marketing.

General statement and closing:

Palomar Health is your nearby neighbor to the south, with similar communities served and a strong organizational culture. We enjoy a close and deep connection with our communities and provide high-touch, personalized care. We very much look forward to continuing the conversation with the leaders and community of San Clemente, and exploring the potential of a successful partnership.

UC San Diego Health | UCI Health

February 6, 2020

VIA e-mail: ttaddey@wipfli.com

Mr. Tony Taddey
Wipfli, LLP
505 Fourteenth Street
Oakland, CA 94612

Re: City of San Clemente Hospital Facility Partnership

Dear Mr. Taddey,

University of California - Irvine Health (UCI Health) is in receipt of the Request for Proposal (RFP) from the City of San Clemente regarding a possible partnership for services at the former Memorial Care Hospital facility.

While we will not be submitting a response to the RFP, UCI Health recognizes that the City wishes to provide high quality healthcare and improve the health of San Clemente and the surrounding communities. Furthermore, we believe the presence of an academic health system would open up new possibilities for delivery and advancement of healthcare not possible with partnerships with other types of health providers. With this in mind, UCI Health has reached out to UC San Diego Health as a potential partner – taking advantage of unparalleled clinical, scientific and operational expertise represented within our two premier health organizations. Creating this type of regional partnership would bring both scale and access advantages to those patients needing more advanced care.

UCI Health and UC San Diego Health are open to exploring a range of collaboration opportunities regarding provision of healthcare services at the former Memorial Care hospital site. We would seek these conversations in partnership with the City and with the ultimate objective of identifying services that would best serve patients at this location.

We would be pleased to speak with you, or other representatives, should discussions regarding this unique opportunity be desired. Thank you for your consideration.

Regards,



Larry Anstine
Interim Chief Executive Officer
UCI Health



Patricia S. Maysent
Chief Executive Officer
UC San Diego Health