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DAVID H. YAMASAKI
Chief Executive Officer/Clerk,
Superior Court of CA County of Santa Clara
BY D. ALDYCKI

File No. 62721

VIA OVERNIGHT MAIL AND U.S. MAIL

Honorable Richard J. Loftus, Jr.
Presiding Judge
Santa Clara County Superior Court
191 North First Street
San Jose, CA 95113

Re: El Camino Hospital District Response to Civil Grand Jury Report Titled: *El Camino Hospital District*

Dear Judge Loftus:

This letter is being submitted on behalf of the El Camino Hospital District (the "District"). The District has tremendous respect for the Santa Clara County Civil Grand Jury and the important work that its volunteer members do on behalf of the County and its residents to ensure the maintenance of sound principles of governance and public accountability. It is the District's intent that its actions and operations be open and transparent and thus appreciates and welcomes external review. In this spirit, the District has fully cooperated and coordinated with the Civil Grand Jury during its analysis of District operations.

In accordance to Penal Code Section 933(c), the District submits its timely response to the findings and recommendations set forth in the June 16, 2011 Civil Grand Jury Report titled *El Camino Hospital District* (the "CGJ Report"), as set forth below. The Board of Directors of the District approved this response on August 10, 2011.

District Response to Civil Grand Jury Findings and Recommendations

Finding 1:

There is a lack of transparency with regard to where the El Camino Hospital District spends tax revenues. Tax revenues from the 1% tax levy, tax revenues from the 2006 bond measure, and hospital operating revenues are intermingled in published audits. The District provides no published detailed breakdown of how tax revenues are actually spent, such that the public may determine whether monies are well spent.

Response to Finding 1:

The District respectfully disagrees with Finding 1. As noted in the CGJ Report, all meetings of the District are open to the public, videotaped and available on the El Camino Hospital website for

public review. Each tax-dollar expenditure is specifically authorized by the District at such a public meeting. In addition, separate annual budgets of the District and the non-profit El Camino Hospital Corporation (the "Hospital") are reviewed and approved by the District and Hospital boards, respectively, at videotaped public meetings. Meeting agendas, board packets and minutes are available online as well.

Consolidated financial statements are required by accounting practices and are a standard for financial reporting for government agencies and others. The District's independently-audited financials are thorough, exhaustive and complete. As recognized in the CGJ Report, financial statements for both the District and the Hospital are subject to annual review by independent auditors that are made available for public review. Specifically, the District's and the Hospital's financial statements are independently audited annually by Moss-Adams, LLP, and published on the website. The audits are also published in the local newspapers of Los Altos, Mountain View, and Sunnyvale. The independent audit breaks out financial information for each of the District's operating entities on an individual basis, including stand-alone financial information regarding the District which can be found in the supplemental schedules.

The District is a vigilant steward of the public money it receives. The District board ensures that District funds are expended for the benefit of the District and the people served by the District. As noted in the CGJ Report, the District annually publishes a Community Benefit Report to explain how District "tax receipts are used ... for community benefit." This report includes an accounting of the District's Community Benefit programs, the numbers of persons served and the benefits paid. Moreover, the District follows best financial practices, including those pertaining to the expenditure of funds from the proper accounts, and has a compliance committee to oversee such expenditures.

The District is committed, however, to ensure that such expenditures are documented in the most transparent and open manner and thus agrees with the Civil Grand Jury's recommendation to provide more detailed itemized financial information specific to the District, as discussed below.

Recommendation 1A:

The District should develop and implement an itemized financial statement that shows how much money came in from taxes and toward which community programs the monies are spent and specifically how much.

Response to Recommendation 1A:

The District agrees with Recommendation 1A and, in furtherance of its commitment to open and transparent operations, the District will develop and implement a process whereby the supplemental schedules in the District's consolidated financial audits include more detailed itemized financial information describing the separate tax revenues and expenditures of the District, including expenditures for each Community Benefit program administered or funded by the District. The District intends to implement such process this calendar year.

Recommendation 1B:

The District should perform an annual financial and performance audit of the District's tax revenues and expenditures, to be published separately from the Hospital revenues and expenditures.

Response to Recommendation 1B:

The District agrees with Recommendation 1B. As noted above, under applicable accounting standards, the District cannot conduct a financial audit of the District that does not include the Hospital, because the District is the sole voting member of the Hospital and consolidated financial statements are required. However, the District agrees that the supplemental schedules in the consolidated financial audit should include more detailed itemized financial information describing the tax revenues and expenditures of the District, separate from the Hospital revenues and expenditures. In addition, separate unaudited financial information of the District will be prepared and presented to the District Board at its regularly scheduled quarterly Board meetings and will be publicly available. The District intends to implement such process this calendar year.

Finding 2:

There is no one who is accountable to the District taxpayers as to how taxpayer monies are spent. Every member of the District board is on the Corporation board, and as such, every member of the District board is responsible for management and profitability of the Corporation. Should a conflict arise, such as the Corporation wanting to purchase and operate a facility outside of the District's SOI, it is unclear how the essentially common board would be able to successfully represent the independent interests of the District.

Response to Finding 2:

The District respectfully disagrees with the first sentence of Finding 2. It is not true that no one is accountable as to how taxpayer monies are spent. Indeed, there are five such people whose primary responsibility is to the District and therefore, by extension, to the taxpayers of the District – the publicly elected District board members. The elected District board members are well aware of their responsibilities to the District, and they take this responsibility seriously.

The second sentence of Finding 2 is correct in stating that every District board member is also on the Hospital board. However, these boards meet separately, and when meeting as a board of the District, the board members are acting solely on behalf of the District. The Hospital is owned by the District, and ultimately by the people of the District, and it is the District board's responsibility to see that it is cared for in the most appropriate manner. The District is proud to be the ultimate owner of a District hospital that answers to the community, and knows that without community support for the Hospital (both financial and human support), the Hospital may become susceptible to being acquired by a for-profit based corporation or a chain of non-profit hospitals where decisions about local health care are made in a distant city and/or with an emphasis on profitability. The District board is 100% committed to maintaining the District's ownership of the Hospital and to do

that, the District understands that the District's loyalty and commitment must remain with the District residents and taxpayers.

The District respectfully disagrees with the last sentence of Finding 2. If an issue should arise where the interests of the District and the Hospital were in conflict, the District board is clear that its responsibility is to serve the best interests of the District. As a practical matter, there is rarely if ever any conflict of interest by having the District board members also serving on the Hospital board, because decisions that benefit the Hospital are generally also decisions that benefit the District, as the sole owner of the Hospital, and vice versa.

Recommendation 2:

The District should appoint an independent manager accountable to the District who is responsible only for the detailed District financial reporting, or, alternatively, allow only a minimum number of overlapping board positions (i.e., maximum of 2) between the District and the Corporation boards.

Response to Recommendation 2:

The District respectfully disagrees with Recommendation 2, which is based on the premise that the District board cannot effectively serve the best interests of the District taxpayers without appointing an independent manager or allowing only a minimum number of overlapping board positions between the District and Hospital boards. The District already operates very efficiently and cost-effectively through a management agreement with the Hospital for administrative services, and establishing a separate manager would be redundant and costly. The District board will continue to periodically evaluate whether it is in the best interests of the District to modify the make-up of the Hospital board, and the addition of 2-4 new members of the Hospital board is currently under active consideration. However, as elected officials responsible to the District, the District board does not at this time believe that it would be in the best interests of the District or the people served by the District to allow only a maximum of two (2) overlapping board positions between the District and the Corporation boards. Democracy and good governance are clearly built upon the will of the people and the actions of those who are voted into office to represent them.

Finding 3:

Board members do not seem to know whether they represent a District or a Corporation, switching roles as needed and ignoring certain responsibilities of being a special district, such as communication with LAFCO.

Response to Finding 3:

The District respectfully disagrees with Finding 3. The elected officials constituting the District board are fully aware that their obligation as District board members is to represent the District and the people served by the District. The District board does not ignore its responsibilities as a special district, and is aware of and fulfills its obligations to LAFCO as required by applicable laws. The District board has provided the community with a world class hospital that is recognized both

within the District and in communities afar as being a cost effective health care provider whose doctors, nurses, and other health care professionals provide quality of care and quality of experience. The Civil Grand Jury report specifically recognizes the District board and congratulates the hospital for being so successful.

Recommendation 3A:

Going forward, the District should inform LAFCO about actions that involve activity outside the District's boundaries or SOI.

Response to Recommendation 3A:

The District agrees with Recommendation 3A and that it should continue to inform LAFCO about actions that involve District activity outside the District's boundaries or SOI to the full extent required by applicable law. The District will continue to work with LAFCO to discuss and evaluate the scope of such requirements. The District currently implements this practice and will continue to do so in the future.

Recommendation 3B:

The District should continue to work with LAFCO to understand the requirements of being a special district and to resolve previous actions taken without LAFCO approval.

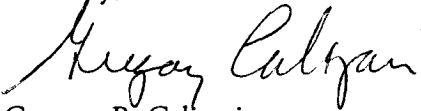
Response to Recommendation 3B:

The District agrees with Recommendation 3B. Although the District is unaware of any past District actions taken without all required LAFCO approvals, the District appreciates Recommendation 3B's acknowledgement that the District has historically worked with LAFCO to understand the requirements of being a special district. As stated above, the District will continue to work with LAFCO to discuss and evaluate the requirements of being a special district, and to ensure that any LAFCO approvals for District actions are obtained in accordance with applicable law. This has always been, and will continue to be, District policy.

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In closing, the District reiterates its respect for the Civil Grand Jury process and is committed to implementing the actions described above. The District requests that this response be published on the Civil Grand Jury's website so that it may be easily obtained by all interested parties.

Sincerely,



Gregory B. Caligari

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