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AUG - 1 2018

BY: _____

July 30, 2018

The Honorable Patricia L. Kelly
Superior Court Presiding Judge
County of Santa Barbara
1100 Anacapa St.
Santa Barbara, CA 93101

The Honorable Patricia L. Kelly

We have read and reviewed the Grand Jury's 2017-18 Report titled "Lompoc Valley Medical Center's Champion Center." The response requested of Lompoc Valley Medical Center in the above referenced report follows below.

The LVMC Board disagrees with the Grand Jury's Conclusions, Findings and Recommendations as evidenced by the responses below.

Conclusion 1: The reliance on only one chemical dependency recovery hospital to validate their decision to proceed.

LVMC Response: Prior to recommending we move forward to establish a Chemical Dependency Rehabilitation Hospital (CDRH) LVMC retained Rosenberg and Associates to perform an initial assessment of the quality and financial performance of the CDRH in Hemet, CA. After completing their assessment Mr. Steve Rosenberg gave a presentation to the Board of his findings. After reviewing his report, the Board authorized retaining The Camden Group to perform a formal Feasibility Study, performed per Cal Mortgage guidelines, on the development and viability of a chemical dependency facility. Both reports were provided to the Grand Jury. The Camden Group feasibility study defined the market area as San Luis Obispo, Santa Barbara and Ventura counties. Once again, the analysis of the Hemet Valley Recovery Center, which is outside the defined market area, was performed internally to establish the viability of contract payment rates for potential patients and the quality of care provided. The Hemet facility was not the only facility researched. The study included a listing of 10 hospitals providing inpatient detoxification services. Additionally, the feasibility study evaluated demand projections for the Champion Center for the years 2014-18, using key utilization drivers such as: healthcare reform providing insurance coverage to a larger population; prevalence of substance abuse; achievement of market-share and in-migration; planned service provided by the program and strength of AMS's referral relationships.

Conclusion 2: The failure to engage in appropriate market research to determine the potential number of patients.

LVMC Response: A professional feasibility study by The Camden Group indicated the population growth for the chemical dependency service area was projected to grow by 3.2 percent between calendar years 2014-18. The population trend also implied that the number of people eligible for treatment, based on age only, would “continue to increase.” Additionally, a comprehensive market analysis of health status trends was completed, and determined that in the tri-county area surrounding the Champion Center, there was a higher-than-average percentage of alcohol and illicit drug use compared to the state overall. “These trends imply that the demand exists for the Program within the chemical dependency service area,” the feasibility study noted. Furthermore, because the Champion Center was to be a Chemical Dependency Recovery Hospital, the study noted “it can be implied that opportunity exists for the Program to capture a large portion” of patients needing inpatient chemical dependency services. Additionally, Mr. Collier held multiple tours of the facility with the members of the LA Police Department, San Jose Police Department, Officials at Vandenberg Air Force Base and other first responders.

Conclusion 3: The lack of comprehensive risk assessment to examine what could go wrong, instead relying on a feasibility study to determine the District’s ability to repay the bond debt that based financial projects on the same sole chemical dependency recovery hospital.

LVMC Response: As a condition of the revenue bond, Cal-Mortgage required LVMC to conduct a failure analysis, which was a comprehensive risk assessment. In the analysis, it is indicated that the District “has developed some alternative options for the existing building in the event the projected financial performance of the CDRH is not realized.” Options to be developed would “achieve the maximum amount of operating income.” Options currently being considered, and discussed with the Grand Jury, are to lease the facility, sell the facility, develop joint ventures as a surgery center and/or a crisis stabilization center. The facility can also be used to solve overcrowding of current services provided by the District.

Conclusion 4: The decision not to retrofit seismically, which caused delays for licensing and insurance coverage.

LVMC Response: LVMC informed the Grand Jury multiple times that the project would not have been recommended to the LVMC Board if seismically retrofitting the former Lompoc Hospital was required. From the start, LVMC was aware the costs to seismically retrofit the old hospital could have doubled the total project cost and therefore made the project financially nonviable. As a result, the decision from the start was to develop a free-standing Chemical Dependency Rehabilitation Hospital to avoid seismic retrofitting requirements and keep the

total project cost to \$18 million rather than \$36 million. Additionally, there were absolutely no delays in the facility being licensed as a Chemical Dependency Rehabilitation Hospital. Once construction was completed we immediately notified licensing that we were ready for an onsite licensing survey. The successful inspection took place on August 29, 2014 and after the inspection the facility was licensed. Delays in contracting with insurance companies was due to a multitude of issues but most problematic was the chaos in the insurance industry due to the passage of the Affordable Care Act.

Finding 1: At this point only the income from Lompoc Valley Medical Center operations is available to service the debt obligations of the Cal-Mortgage revenue bond, which will require at least a \$1 million per year repayment until 2042.

LVMC agrees with the finding. The bond repayment will be paid with revenue from the district's assets.

Recommendation 1a: That the Board of Directors of the Lompoc Valley Medical Center report to its constituents how they propose to repay the Cal-Mortgage revenue bond.

Response: This will not be implemented because it is not warranted or reasonable. The LVMC Board of Directors is repaying the Cal-Mortgage revenue bond from the revenue of the district's assets. This is not a General Obligation bond that requires approval of the district voters. In a newspaper article published in August 2017, CEO Raggio indicated the district would be able to financially absorb the cost of bond repayment and that it would not "put the district in financial jeopardy." Additionally, information is provided monthly via financial reports that are reviewed at a monthly Finance Committee and LVMC Board meeting. Both meeting agendas are posted at the Lompoc Library and are open to the public.

Recommendation 1b: That the Board of Directors of the Lompoc Valley Medical Center report to its constituents how the repayment to Cal-Mortgage will affect its existing operations.

Response: Has been implemented, with a brief summary. The annual bond payment to Cal-Mortgage, although significant, will not severely impact existing operations. Since the closure of the Champion Center LVMC has evaluated multiple options for retiring the bond debt. Under consideration, and disclosed to the Grand Jury, include sale of the building, leasing the building and/or transitioning existing services/departments into the building which would avoid expansion construction programs identified in LVMC's Master Plan. As seen in past practice, LVMC will inform the community via our website, social media and local media outlets once a decision is made. Additionally, all of the deliberations and decisions regarding the financial impact of the Champion Center on the District take place at our monthly Board meeting. The monthly LVMC Board meeting is open to the public, the

agenda is posted three days in advance, and all actions taken are in open session. Finally, Cal Mortgage requires LVMC to maintain minimum financial indicators since it insures the revenue bonds. Two of those indicators are Debt Service Coverage Ratio (DSCR) and Days Cash on Hand. The minimum requirement to be compliant with the bond covenants are a DSCR of no less than 1.25 and Days Cash on Hand not to drop below 30 days. As of April 2018, LVMC's DSCR is 7.4. LVMC's Days Cash on Hand as of June 19, 2018, is 121 days – both indicators far exceed the Cal Mortgage requirements and also the California Gov. Median DSCR of 2.74 and Days Cash on Hand of 68 days. LVMC is in the best financial position in its history.

Finding 2 The Lompoc Valley Medical Center leadership did not provide a full explanation to its constituents for the failure of the Champion Center. LVMC disagrees wholly with an explanation. The LVMC CEO was never asked by the Grand Jury to provide any information regarding the communication to the community about the closure of the Champion Center. Regardless, information provided via the media and on the district's website and social media sites contained an explanation as to the reason behind the closure. In June 2017, an LVMC press release stated that in "the three years it was open, the Champion Center never met the projections anticipated in its financial pro forma." Additionally, the release noted that "the recruitment and retention of physicians specializing in Addiction Medicine – a requirement for the admission of patients – was an ongoing issue." Furthermore, a Lompoc Record newspaper article "The Rise and Fall of the Champion Center," published Aug. 1, 2017 contained an extensive interview with CEO Raggio, providing further explanation and discussion of the Champion Center's "failure." The story also included information about health insurance firms not loading contracts for the Champion Center into its systems and the passage of the Affordable Care Act creating more mental health funding and thus more competition. See attached exhibit listing media coverage.

Recommendation 2: That the Board of Directors of the Lompoc Valley Medical Center provide a clear and detailed explanation of the failure of the Champion Center to its constituents, consistent with its stated core principle of transparency.

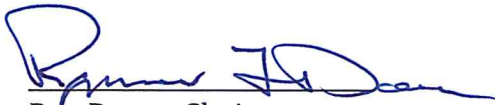
Response: Has been implemented, with a brief summary. Upon the closure, a press release was widely distributed explaining that the Champion Center did not meet the projections anticipated in its independently produced financial pro forma. The release was sent electronically to numerous media outlets; posted on social media and on the hospital website. CEO Jim Raggio conducted numerous media interviews for print and television on the closure.

Decisions made by the LVMC Board of Directors about the Champion Center were completed with full transparency of a public agency. For 36 months, monthly updates and financial accounting about the Champion Center were discussed, often at length, by the LVMC Board of Directors at a monthly meeting which is open the public. The performance of the Champion Center was a regular board agenda item

included on the publicly-disclosed agendas, with updates every month on the Champion Center's marketing efforts; staffing and finances. A verbal report was delivered monthly by Champion Center Administrator Steve Collier to the Board.

Every aspect of the project was available for public review and conducted with complete transparency.

Signed,



Ray Down, Chairman
LVMC Board of Directors

MEDIA COVERAGE OF THE CLOSURE OF THE CHAMPION CENTER

May 3: Noozhawk.com: "Key Staffing Vacancy leads to Champion Center Unit Closure"

May 3, 2017: KSBY, Lompoc's drug treatment center's medical detox unit to close

May 6, 2017: Santa Barbara News-Press, "Lompoc Detox Center Shutting down."

June 23, 2018: Noozhawk.com, "Lompoc Champion Center to Close After Graduating Final Patient."

June 23, 2017: Lompoc Record, "Lompoc's Champion Center closes its doors – possibly for good."

Aug. 1, 2017: Lompoc Record, "The Rise and Fall of Lompoc's Champion Center"

cc: Santa Barbara County Grand Jury
1100 Anacapa Street
Santa Barbara, CA 93101