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AGENDA 4 April 11, 2017

April 3, 2017

Honorable Commissioners
Alameda Local Agency Formation Commission

Subject: Eden Township Healthcare District Special Study

Dear Commissioners:

In July 2016, the Alameda Local Agency Formation Commission (LAFCo) considered and approved the City of Hayward's request to initiate a special study of the Eden Township Healthcare District (also known as the Eden Health District). The Commission hired Berkson Associates to complete the study. Project consultant Richard Berkson will present the final draft of the Special Study of Governance Options for the Eden Township Healthcare District (Attachment 1) for LAFCo's consideration. The draft final study incorporates comments received on the public review draft that was presented to LAFCo at the January 31, 2017 special meeting in Castro Valley. At the January 31st meeting, the Commission indicated its preference to consider whether the special study is complete as step one, and then provide direction to staff regarding whether to take any action regarding the District.

Recommendations

Staff recommends that the Commission:

1. Receive the final draft of the Eden Township Healthcare District special study report and consider whether the special study is complete;
2. Accept the special study report along with any desired changes; and
3. Provide direction to staff regarding next steps which may include preparing materials for a sphere of influence amendment and/or a Commission-initiated dissolution, and setting a hearing date regarding future action.

Legislative Authority

The state legislature created LAFCos for the purpose of "discouraging urban sprawl, preserving open-space and prime agricultural lands, encouraging the efficient provision of government services, and encouraging the orderly formation and development of local agencies based upon local conditions and circumstances." In support of that purpose, LAFCos are empowered "to make studies and to obtain and furnish information which will contribute to the logical and reasonable development of local agencies... to advantageously provide for the present and future needs of each county and its communities" (Attachment 2 – Government Code Section 56301). The law also empowers LAFCos to shape the logical and orderly development and coordination of local governmental agencies through the

establishment of spheres of influence (SOI) which are plans “for the probable physical boundaries and service area of a local agency.” (Attachment 3 – Government Code Sections 56076 and 56425)

In addition to establishing and updating local agencies’ SOIs, LAFCos are authorized to initiate certain types of reorganization proposals pertaining to special districts including consolidation, dissolution, merger, establishment of subsidiary districts, and formation of districts (Attachment 4 – Government Code Section 56375). LAFCo can only initiate such proposals if they are supported by recommendations or conclusions of a SOI update, a municipal service review (MSR), or a special study. Pursuant to Government Code Section 56881(b) (Attachment 5), proposals initiated by LAFCo must include the following determinations:

1. Public service costs of a proposal that the commission is authorizing are likely to be less than or substantially similar to the costs of alternative means of providing the service.
2. A change of organization or reorganization that is authorized by the commission promotes public access and accountability for community services needs and financial resources.

Healthcare districts are organized under Health and Safety Code Sections 32000 – 32499.4. Of particular relevance are Health and Safety Code Sections 32121 – 32128 which specify the powers that healthcare districts may exercise. Among the powers enumerated are property ownership (H&S Code Section 32121(c)), provision of operating assistance to health programs, services, and facilities (H&S Code Sections 32121(j & m)), and provision of grants to nonprofit provider groups and clinics (H&S Code Section 32126.5 (a)(2)). Also of note, healthcare districts are authorized to exercise their powers both inside and outside the district’s boundaries (Attachment 6 – Health and Safety Code Sections 32121 and 32126.5).

Background

According to the Association of California Healthcare Districts (ACHD) there are 79 healthcare districts in 37 counties in California. Thirty-eight (38) districts operate 40 hospitals, five own but do not operate their hospital, and 41 provide other services with 21 of those providing direct health care services and 20 mainly providing grants. In addition to hospital care, examples of other types of services provided by healthcare districts include, but are not limited to, adult day care and senior services, ambulance services, hospice care, medical transportation, mental health and substance abuse services, nutrition and fitness education, outpatient surgery, physician training, school-based health services, skilled nursing facilities, and grant-making. Most healthcare districts either collect a portion of the 1% ad valorem property tax and/or levy property assessments. ACHD reports that 13 healthcare districts do not receive any ad valorem property taxes.

The three healthcare districts in Alameda County are Washington Township Healthcare District, City of Alameda Healthcare District, and Eden Township Healthcare District. Washington Township Healthcare District includes the cities of Fremont, Newark, Union City, and a small portion of southern Hayward, as well as the unincorporated community of Sunol. This healthcare district owns and operates a hospital and provides a range of services including outpatient care. Voters in the Washington Township Healthcare District approved a 0.0256% debt service assessment on properties.

The City of Alameda Healthcare District owns but does not operate its hospital in Alameda. In 2013, this healthcare district entered into a contract with the Alameda Health System to operate the facility. City of Alameda property owners pay an annual \$298 parcel tax to repay debt, defray operating losses, and ensure that the hospital remains open.

Eden Township Healthcare District (ETHD) does not own or operate a hospital, but owns and operates medical office buildings and provides grant funding to community organizations within the ETHD boundary. ETHD’s boundary includes the unincorporated communities of Castro Valley, Ashland, Cherryland, Fairview, and San Lorenzo, as well as the cities of San Leandro and most of Hayward. ETHD collects no property tax or assessments.

There are two noteworthy statewide efforts currently underway involving healthcare districts. The Assembly Local Government Committee (ALGC) held an oversight committee hearing on healthcare districts on March 8, 2017 (Attachment 7). Based on that hearing, the ALGC has introduced AB 1728 (Attachment 8) to address concerns regarding the transparency and accountability of healthcare districts. In summary, the bill would require healthcare districts to establish and maintain a website which includes specified information; adopt an annual budget; and adopt grant funding policies to ensure funding is spent on healthcare services consistent with the mission and purpose of the district. While the proposed legislation does not impact LAFCos directly, ALGC members had questions regarding healthcare district MSR process improvements and LAFCo resources needed to complete healthcare district MSRs especially with respect to non-responsive districts.

The other statewide effort is the review of special districts currently underway by the Little Hoover Commission (LHC). Your Commission received information on this effort at the September 8 and November 30, 2016 LAFCo meetings. Initially, a report with recommendations was expected to be released in Spring 2017, but after a presentation of the draft report at the LHC meeting on February 23, 2017, the publication of the report is delayed until after at least one additional hearing which may take place in Summer or Fall 2017. It is not clear what, if any, recommendations will be contained in that report for healthcare districts and/or LAFCos.

The special study notes that a spot bill, AB 645 (Quirk) was introduced in the current legislative session, but a recent update from the Assembly Member’s staff indicates that bill will not be used to advance legislation regarding ETHD.

A timeline of events relevant to the special study is presented below in Table 1.

Table 1. Timeline of Events

Date	Action
November 2013	Alameda LAFCo completed a municipal service review (MSR) of the Eden Township Healthcare District (the District) and adopted a provisional coterminous SOI with a condition that the District report back to LAFCo on progress made to implement its adopted strategic plan (Attachment 9).
November 2014	The District provided an update to LAFCo, and LAFCo then adopted a coterminous SOI for the District with a condition that the District return to LAFCo to provide an update on its strategic plan implementation efforts (Attachment 10).
November 2015	As required, the District provided an update to LAFCo.
February 2016	Assembly Member Quirk introduced Assembly Bill 2471 that would have required Alameda LAFCo to dissolve the District if certain criteria were met.
March 2016	LAFCo adopted an oppose position to AB 2471.
May 2016	LAFCo heard from AB 2471’s author, sponsor and other interested parties about the reasoning behind AB 2471. At the conclusion of the discussion, there appeared to be general agreement that a dissolution proposal would be submitted to LAFCo, but it was not clear by whom.

Date	Action
June 2016	<p>On June 14, 2016, the Hayward City Council considered and adopted a resolution of application to initiate LAFCo proceedings to explore the possible dissolution of Eden Health District. No subsequent application was filed with LAFCo.</p> <p>On June 21, 2016, the Alameda County Grand Jury issued a report containing an investigation of the District including eight findings and six recommendations, as well as an investigation of Alameda LAFCo’s oversight role with respect to the District including one finding and two recommendations.</p> <p>On June 28, 2016, Hayward formally requested that LAFCo conduct an in-depth study of the District, pursuant to Government Code Section 56378, citing controversy about the District, the Grand Jury report, the lack of a thorough and in-depth study of the District’s finances and decision making abilities, the need to understand whether District resources are used appropriately, and the lack of an inclusive, informed, and transparent community conversation about the District.</p>
July 2016	Alameda LAFCo approved Hayward’s request for the special study and authorized a contract with Berkson Associates to complete the study.
August 2016	Berkson Associates commenced the special study, and AB 2471’s author held his bill in the State Senate to allow the LAFCo process to proceed.
October & November 2016	LAFCo held three widely noticed public meetings to accept public comment regarding the District.
December 2016	The Public Review Draft of the Special Study of Governance Options for the Eden Township Healthcare District released with comments due by February 3, 2017.
January 2017	LAFCo held widely noticed public meeting on January 31, 2017 to accept comments on the Public Review Draft of the Special Study of Governance Options for the Eden Township Healthcare District.
February 2017	Public comment period closed.
March 2017	The Final Draft of the Special Study of Governance Options for the Eden Township Healthcare District, which incorporates public comments, was distributed March 15 th .

In addition to releasing the final draft study on March 15th, it was posted on the LAFCo website and distributed to affected agencies and interested parties with a request that the study be distributed widely to appropriate constituent lists and posted on relevant websites. A press release was distributed to local media on March 15th to announce availability of the study and another one distributed on April 4th regarding LAFCo’s special meeting on April 11th.

Study Summary

Alameda LAFCo initiated a special study of the Eden Township Healthcare District at the request of the City of Hayward. The special study focuses on the District’s governance structure and boundary, financial viability, and level and adequacy of services. The study does not evaluate the financial viability of hospitals in Alameda County nor does it rate the comparable value of hospital-based services compared to non-hospital based health services.

The special study provides an overview of healthcare districts, a brief review of health care services in Alameda County, and a thorough review of ETHD. The study contains conclusions and findings, and evaluates various governance options. The study analyzes numerous background documents, as well as information gathered through stakeholder interviews and numerous public meetings held in October and November 2016. The final draft incorporates public comments provided to LAFCo in writing and at

LAFCo’s January 31, 2017 special meeting. Table 1 below summarizes the study’s conclusions and findings.

Table 1: Summary of Conclusions and Findings

Conclusion	Findings
<p>A. Dissolution of the district without continuing its services is unwarranted.</p>	<p>A.1 The District provides a service of value including significant expenditure of funds for community health care purposes consistent with its mission as a healthcare district and the State of California’s Health and Safety Code.</p> <p>A.2 The District continues to budget approximately \$500,000 to \$600,000 for grants and sponsorships in FY16-17 and in future years until the Sutter obligation is repaid.</p> <p>A.3 Funding available for health care purposes could increase by \$1.5 million annually, to a total of over \$2 million including existing allocations, after funds are no longer required to repay ETHD’s obligation to Sutter.</p> <p>A.4 The District’s grants and sponsorships are generally consistent with health care needs identified by assessments prepared by other agencies, however, coordination with other County agencies could be improved.</p> <p>A.5 District expenditures for District administration and overhead are not excessive relative to total costs.</p> <p>A.6 The District’s real estate operations are the primary source of revenues for its community service grants as the District receives no property tax revenues; however, fluctuations in commercial real estate can present a risk to District assets.</p> <p>A.7 The District is accountable for its financial resources and decision process.</p> <p>A.8 The sale of District buildings (e.g., in the event of dissolution) would result in less revenue available for health care purposes over the long-term.</p> <p>A.9 Dissolution of the District without continuing services could provide needed one-time funding for hospitals, however, this would eliminate a future, ongoing source of funding unless the buildings were operated by another agency.</p>
<p>B. The district could improve the efficiency and effectiveness of its operations.</p>	<p>B.1 The District’s Strategic Plan, last amended and adopted August 2016, should be reviewed at least annually as part of the budget process and as conditions change.</p> <p>B.2 The District has received training and certification from the Association of California Healthcare Districts, but should also pursue certification through the Special Districts Leadership Foundation’s “District Transparency Certificate of Excellence”.</p> <p>B.3 The District should track hours and resources allocated to real estate activities vs. community services.</p> <p>B.4 The District should prepare an annual cash-based budget and forecast in addition to its current financial reports.</p> <p>B.5 The District should prepare a multi-year capital improvement program (CIP).</p>
<p>C. Dissolution and naming a successor agency to continue services could reduce certain costs and improve decision-making.</p>	<p>C.1 Dissolution and transfer of assets to a non-profit or other public agency (or agencies) could reduce overhead and administration costs.</p> <p>C.2 Representation and inter-agency coordination could be improved if the board of a new non-profit or other public entity, e.g., a JPA or CSA, includes city and County representatives.</p> <p>C.3 While LAFCo has no ability to form a new non-profit or JPA, LAFCo would be responsible for the ETHD dissolution process, including Terms and Conditions applicable to the transfer, and LAFCo may require a Plan to Provide Services. This option is also likely to require asset dissolution, resulting in lower revenues.</p>
<p>D. No other viable reorganization options have been identified.</p>	<p>D.1 Consolidation of ETHD with another public agency, e.g., another healthcare district, is not viable.</p> <p>D.2 Reorganizing ETHD as a subsidiary district to a city is not viable.</p>

Conclusion	Findings
E. LAFCo should consider amending ETHD’s current sphere of influence, whether or not the district is dissolved (unless a zero SOI is applied, signaling dissolution).	E.1 The current ETHD boundaries include small areas of several cities with minimal or no resident population. E.2 Eliminating the areas noted above would result in a more rational boundary reflective of ETHD’s service area. E.3 A small portion of San Leandro appears to be excluded from ETHD boundaries. This area should be considered for inclusion in ETHD’s boundaries to encompass the entire city. E.4 Expanding ETHD boundaries in Hayward would encompass the entirety of the city in ETHD boundaries, however, an expanded boundary would overlap with Washington Township Healthcare District and therefore expansion is not recommended

Governance Options

The study identifies and evaluates a number of governance options for the District, including the advantages and disadvantages of each option. Essentially, there are two governance options to consider:

1. Maintain the status quo where the District remains intact and the Board of Directors continues to be elected and conduct District business.
2. Dissolve the District and either terminate its services or continue its services via a successor agency.

In addition to these governance options, the Commission may consider amending the District’s SOI to address organizational issues.

Under the status quo option, the Commission could consider maintaining the District’s coterminous SOI or it could consider adopting a provisional SOI to indicate a need for the District to address organizational issues. In either case, LAFCo could impose specific terms and conditions and require the District to provide LAFCo with written evidence that those terms and conditions have been met. For example, LAFCo may impose a condition that the District collaborate with Alameda County regarding the provision of grant services; another example might be to require the District to adopt and implement various operational policies such as participation in county-wide health needs assessment efforts, completion of a risk analysis of investment options, and/or expansion of the District’s strategic planning efforts to include long-term financial projections and goals, capital improvement plans, analysis of community health needs, and community outreach and communication goals. The project consultant identifies other potential terms and conditions in his report. LAFCo has fairly broad, but not unlimited, authority to impose terms and conditions.

Under the dissolution option, there are two scenarios: one that would result in the termination of the existing District with no continuation of service and another that would terminate the District but continue service provision. Dissolution can be initiated by an affected local agency (e.g., Alameda County, Hayward, San Leandro, or the District itself), by petition of the registered voters or property owners within the District’s boundary, or by LAFCo under specified circumstances. Dissolution requires LAFCo to identify a successor agency to wind up the affairs of the District and, if services are to be continued, LAFCo will require the successor agency to provide a plan to continue services. In his report, the consultant identifies several potential successor agencies including the City of Hayward, a non-profit entity, a joint agency consisting of Alameda County and/or the cities of Hayward and San Leandro via a joint powers agreement, or a county service area.

If LAFCo determines that ETHD provides no services, that services provided are inadequate or that services would be more efficiently provided by another entity, an alternative to a LAFCo-initiated

dissolution might be for the Commission to consider adopting a zero SOI. Under this scenario, LAFCo would not name a successor agency, but could impose terms and conditions that require the District to meet certain requirements and timeframes. An example might include requiring that the District present a plan to strengthen its public service functions within a specified timeframe. Alternatively, the District might use the opportunity to present its own plan for dissolution.

In choosing an option, some of the issues the Commission may want to consider as it deliberates are:

- Does the District provide a community service that meets the needs of District residents and property owners?
- Is the District's boundary logical?
- Are the services provided adequate and within the District's mission, as well as the California Health and Safety Code under which it is organized?
- Does the District have the financial ability to provide services, including any future obligations?
- Are services provided in an efficient, accountable, and transparent manner?
- What are the benefits and costs of the District's services being provided by another entity?
- If the District's services should be provided by another entity, should that entity be another public agency, a private not-for-profit, a joint powers authority, or some other type of organization?
- If the District's services should not be continued, who should be the successor agency to wind up the District's affairs?

Conclusions and Next Steps

Alameda LAFCo completed a special study of ETHD through an inclusive public process. The Commission heard from ETHD Board members and staff, affected agency elected officials and staff, state legislators, community members, grantees, hospital representatives, and other interested individuals during the course of the study. After considering the conclusions and findings of the special study and all of the testimony and comments provided, the Commission will consider whether the special study of ETHD is complete. Accepting the special study report would be a step towards satisfying the requirements of Government Code Section 56375(a)(3) that authorize a LAFCo-initiated proposal.

If the Commission determines that the special study is complete and accepts the special study report, then the next step will be to consider whether to take any other action. LAFCo action could include amending the District's SOI or initiating dissolution.

If the Commission decides to amend the District's SOI, it must do so at a public hearing that requires at least 21-day notice. If the Commission desires to initiate dissolution of the District, it must adopt a resolution of application that specifies that the action being taken is consistent with conclusions of the special study; that the public service costs of the proposal are likely to be less than or substantially similar to the costs of alternative means of providing the service; and that the proposal promotes public access and accountability for community services needs and financial resources.

Regardless of how dissolution is initiated, an application would be required that would include at a minimum a resolution or petition of application and, if services are to be continued, a plan to provide services. The plan to provide services will include a range of information including, but not limited to, a description of the services to be continued, identification of the entity or entities proposed to assume the services following dissolution, a description of the costs to provide the services and how they will be financed, a description of all existing assets and liabilities and a plan to take over responsibility for those

Honorable LAFCo Commissioners


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assets and liabilities, and/or the plan to liquidate assets and discharge liabilities. Additional details and information may be required at the time of application.

The steps involved in processing a dissolution application are similar to any other type of change of organization application. However, applications involving healthcare districts require notification be sent to various state agencies. Those agencies have 60 days from receipt of the notice to provide comments to LAFCo. The typical application processing steps involve providing notice to affected agencies of receipt of the application, issuing a certificate of filing and setting a hearing date, providing public notice of the hearing, preparing a staff report with a recommendation, distributing the staff report, holding the public hearing, conducting a protest hearing, and, if needed, calling an election. The total application processing time is likely to take a minimum of six months which does not include the time required for an election.

Sincerely,



Mona Palacios
Executive Officer

Attachments:

1. Final draft special study report
2. Government Code Section 56301
3. Government Code Sections 56076 & 56425
4. Government Code Section 56375
5. Government Code Section 56881
6. Health and Safety Code Sections 32121 & 32126.5
7. Assembly Local Government Committee Oversight Hearing agenda
8. AB 1728 and fact sheet
9. LAFCo Resolution 2013-14
10. LAFCo Resolution 2014-07

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cc: Honorable Assembly Member Bill Quirk, District 20
Honorable Assembly Member Rob Bonta, District 18
Honorable Alameda County Supervisor Wilma Chan, District 3
Honorable Alameda County Supervisor Richard Valle, District 2
Susan Muranishi, Alameda County Administrator
Honorable Board members, Eden Township Healthcare District
Dev Mahadevan, Chief Executive Officer, Eden Township Healthcare District
Honorable Pauline Cutter, San Leandro Mayor
Chris Zapata, San Leandro City Manager
Honorable Barbara Halliday, Hayward Mayor
Kelly McAdoo, Hayward City Manager
Andrew Massey, Alameda LAFCo Legal Counsel
Interested parties



**Berkson
Associates**

Urban Economics
Policy Forensics & Forecasting
Planning & Policy Analysis

DRAFT FINAL REPORT

SPECIAL STUDY OF GOVERNANCE OPTIONS EDEN TOWNSHIP HEALTHCARE DISTRICT

Prepared for the Alameda Local Agency Formation Commission

Prepared by Berkson Associates

March 13, 2017



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- Appendix B.** ETHD Grants and Sponsorships through FY16
- Appendix C.** Timeline of Key ETHD Events
- Appendix D.** Written Comments post-Study Distribution

ABBREVIATIONS AND TERMINOLOGY USED IN THIS REPORT

Administrative Expense	Defined in AB2737 as “expenses relating to the general management of a health care district, such as accounting, budgeting, personnel, procurement, legal fees, legislative advocacy services, public relations, salaries, benefits, rent, office supplies, or other miscellaneous overhead costs”. Note: the Special Study assumes this definition excludes real estate operations, other than District costs allocated to real estate operations.
ALIRTS	Automated Licensing Information and Report Tracking System https://www.alirts.oshpd.ca.gov/default.aspx
CAM	Common Area Maintenance
CEO	Chief Executive Officer
Direct Health Service	Defined in AB2737 as “ownership or direct operation of a hospital, medical clinic, ambulance service, transportation program for seniors or persons with disabilities, a wellness center, health education, or other similar service.” Note: this definition is assumed by the Special Study to exclude grants and sponsorships provided to agencies that provide direct health services to consumers.
DSFRC	Davis Street Family Resource Center http://davisstreet.org/
ETHD	Eden Township Healthcare District (also doing business Eden Health District) http://ethd.org/
EMC	Eden Medical Center
Enterprise Activities	According to Gov’t Accounting Standards Board, “enterprise funds” may be used to report any activity for which a fee is charged to external users for goods or services.
FY15-16	Fiscal Year beginning July 1, 2015 and ending June 30, 2016. This fiscal year may also commonly be referred to as FY16. Other fiscal years are similarly designated.
HCSA	Alameda County Health Care Services Agency (HCSA), an agency of the County of Alameda. https://www.acgov.org/health/
JPA	Joint Powers Agreement

(cont’d)



ABBREVIATIONS AND TERMINOLOGY USED IN THIS REPORT

(cont'd)

LAFCo	Local Agency Formation Commission https://www.acgov.org/lafco/
Net Position	A measure of the District's net worth based on financial accounting principles, and is equal to assets minus liabilities. Actual net value generated in the event of a dissolution is likely to differ.
NOI	Net Operating Income is a term commonly used in real estate accounting, and equals all revenue from property leasing minus all reasonably necessary operating expenses and excludes costs of financing such as interest costs.
SLH	San Leandro Hospital http://www.sanleandroahs.org/about-us



1. INTRODUCTION

The Eden Township Healthcare District (ETHD, also doing business as Eden Health District)¹ originally was formed in 1948 to build a community hospital. Over time, the District transferred ownership of its hospital facilities but retained and expanded investments in medical office buildings. ETHD represents a unique form of district in that its revenues derive almost entirely from its ownership and operation of its commercial real estate which was purchased with funds from the sale of its hospital, originally funded by District taxpayers. Currently the District receives no tax revenues. The District also has significant cash assets that generate income; the cash assets provide for operating reserves and security for debt obligations.

The District’s real estate operations are similar to an “enterprise” operated by a public agency;² revenues from the operation of an enterprise cover operating costs and overhead of the enterprise operation. Expenses of operating the real estate are a significant portion of ETHD combined budgets, but are directly attributable to, and required for, operation of the buildings that generate ETHD’s primary source of revenues.

In the District’s case, net revenues, or “profits”, are generated that not only cover overhead and operating costs of the real estate, but also create a source of revenue in lieu of property taxes to fund health care grants and sponsorships. In a sense, the District is a “hybrid” agency that operates a traditionally private, for-profit commercial real estate enterprise but is organized as a healthcare district with elected board members, and which must comply with rules applicable to public agencies. While many healthcare districts own real estate, the ownership is generally limited to hospitals, clinics, or medical office buildings adjacent to those facilities; revenues from medical office buildings typically generate a minority of district revenues.

This “hybrid” organization offers financial benefits, but also incurs additional financial risks and costs, and creates other management issues. Real estate operations can produce significantly greater returns than investments allowed to public agencies, but also can be much riskier. Real estate operations also demand a much different knowledge base than generally represented by a healthcare district, and incur greater management and oversight costs to operate, particularly to the extent that the District must rely on and engage outside experts and consultants.

¹ <http://ethd.org/>

² According to Gov’t Accounting Standards Board (GASB) Paragraph 67 of Statement 34, “enterprise funds” may be used to report any activity for which a fee is charged to external users for goods or services.

Although many government agencies own and maintain property, typically the facilities serve public purposes and government occupancy; commercial real estate operations may be unfamiliar not only to healthcare district board members and staff, but also to other public decision-makers and residents more acquainted with traditional public sector agencies.

In 2013, Alameda LAFCo completed a Municipal Services Review (MSR) of ETHD.³ The MSR evaluated various factors including growth and population projections, adequacy of services, financial ability, accountability and organizational structure options. Alameda LAFCo's 2013 MSR for ETHD concluded that the District should continue in its current form.

Over the past years, ETHD has been involved in a number of controversial actions, including arbitration and litigation that resulted in a \$17.2 million decision⁴ against the District (plus legal costs of \$1.6 million). Members of the community, including the Alameda County Civil Grand Jury,⁵ have expressed concerns that the District's decision process and actions have not been in the best interest of the public it serves. Recent bills in the State's 2016 legislative session proposed expenditure requirements that would affect ETHD and potentially other healthcare districts meeting criteria that would include the ETHD.

In February 2016, Assembly Member Bill Quirk introduced legislation, AB 2471,⁶ sponsored by Alameda County, which would have required Alameda LAFCo to dissolve the District if specific criteria were met. That bill did not advance to the Governor's desk in the 2016 legislative session, as Quirk decided to halt the legislation and allow the LAFCo process to proceed⁷. While the LAFCo process is currently underway, Assembly Member Quirk has introduced a spot bill, AB 645, in the current legislative session. This bill may be used to advance legislation regarding ETHD. Recently enacted legislation, AB 2737,⁸ requires that a "nonprovider health care district" spend at least 80% of its budget on grants awarded to organizations that provide direct health

³ Eden Township Healthcare District MSR at:

<https://www.acgov.org/lafco/documents/finalmsr2013/eden-final.pdf>

⁴ JAMS Arbitration No. 110004646, Final Award, Conclusion of Hearing June 11, 2013.

⁵ Alameda County Grand Jury Final Report 2015-2016 released on June 21, 2016.

⁶ AB 2471 (Quirk) (2015-2016):

http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB2471

⁷ [Comments](#) by Assembly Member Quirk, Summary Action Minutes, Alameda LAFCo Special Meeting, Oct. 17, 2016.

⁸ AB 2737 (Bonta) Non-provider Health Care District (2015-2016).

http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB2737



services; this bill could limit activities of the District, however, its specific terminology and application to ETHD is not clear.^{9, 10}

To address concerns about the District, in June 2016 the City of Hayward submitted a request to LAFCo to prepare a “Special Study” to help determine the future of ETHD.¹¹ The City of Hayward subsequently submitted to LAFCo a “Resolution in Support of Efforts to Dissolve Eden Healthcare District”¹² The City of San Leandro also submitted a resolution “supporting efforts to dissolve Eden Health District.”¹³ Both cities proposed distributing the net proceeds of dissolution to San Leandro Hospital and Saint Rose Hospital.

In response to Hayward’s 2016 request, LAFCo is conducting this Special Study of ETHD to further evaluate concerns raised by the community, and to assess governance options, including dissolution, that could provide a more efficient and effective use of public assets. As described below under “Approach and Methodology”, the Special Study’s findings address determinations derived from State law regarding Municipal Service Reviews.¹⁴

In addition to focusing on the specific operations of the ETHD, its organization and expenditure of funds, the Study will help clarify fundamental questions about the role of healthcare districts that no longer own and operate a hospital, e.g., are healthcare districts an efficient and effective way of allocating public resources to health care purposes? Do better options exist? Are commercial real estate operations an appropriate function of a public agency, particularly on the scale of ETHD’s operations, even if the resulting revenues do not depend upon, or derive from, taxes on residents?

⁹ For example, AB 2737 does not define whether “annual budget” includes or excludes “revenue generating enterprises” as described in its definition of criteria of a “nonprovider” health care district per Health and Safety Code Sec. 32495(c)(5).

¹⁰ Also refer to analysis prepared for legislative hearings on AB 2737, e.g., analysis prepared for the Assembly Committee on Local Government hearing April 20, 2016 re: logistical challenges trying to comply with the bill.

¹¹ Letter from Fran David, City Manager, City of Hayward, to Commissioner John Marchand, Chair, Alameda LAFCo, June 28, 2016.

¹² Letter to LAFCo Nov. 30, 2016, forwarding a “Resolution in Support of Efforts to Dissolve Eden Healthcare District”, Resolution No. 16-190 October 18, 2016.

¹³ City of San Leandro Resolution No. 2016-169.

¹⁴ http://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=GOV§ionNum=56430.

APPROACH AND METHODOLOGY

The Special Study is based on a review of background documents and information including the 2013 MSR, ETHE financial audits and budgets, review of ETHE projections, Grand Jury reports and other documents relevant to the District. Interviews were conducted with key stakeholders including the mayors and staff of the cities of Hayward and San Leandro, representatives of Alameda County, and ETHE staff and board members. Public input was received at three LAFCo special hearings held in the community, as well as at regularly scheduled LAFCo hearings.¹⁵ LAFCo staff and legal counsel have reviewed the document.

Findings of the Special Study are summarized in Chapter 2. The findings address issues and questions raised by determinations required by the Municipal Service Review (MSR) process,¹⁶ excluding those deemed inapplicable (e.g., infrastructure capacity).

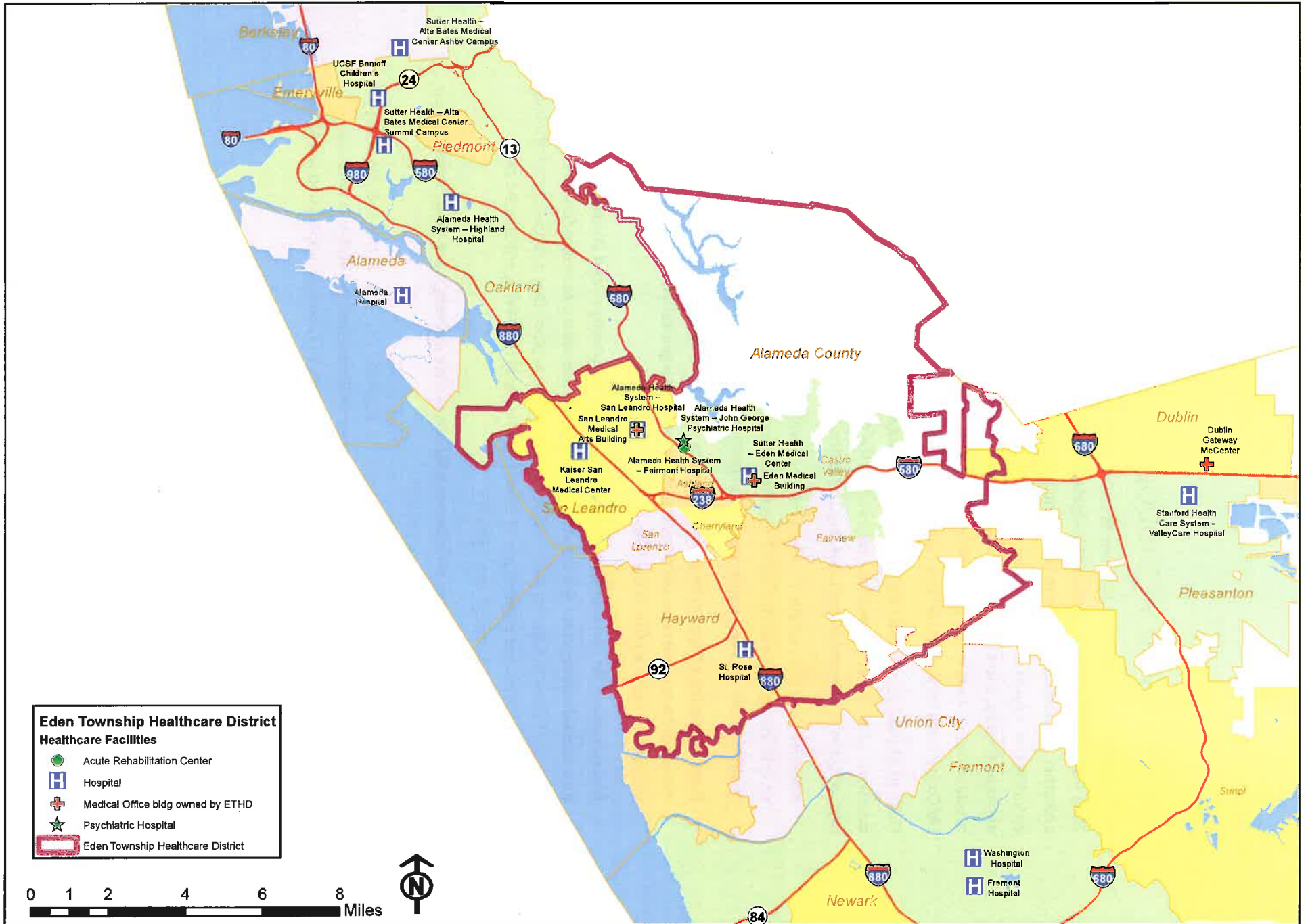
- **Adequacy of public services** – Are services provided consistent with, and do they contribute to, addressing community needs? Are the services consistent with State law as it applies to healthcare districts and public agencies in general?
- **Financial ability of agency to provide services** – Does the agency have adequate financial resources to provide services? Would dissolution or reorganization reduce financial capacity in the short-term and/or in the long-term?
- **Accountability for community service needs, including governmental structure and operational efficiencies** - Are services and outcomes monitored to assure funds are used as intended? Does the agency have policies and practices in place that it follows in determining budget priorities and expenditure of funds? Are financial risks being anticipated and monitored, and addressed strategically?
- **Any other matter related to effective or efficient service delivery** – Are funds expended on overhead and administration reasonable?

A finding as to whether or not the District should be dissolved depends on the analysis of the above questions. Governance options are considered which present the ability to improve services, but may depend upon the action of other agencies to submit an application to LAFCo including a Plan to Provide Services.

¹⁵ Special meetings were held Oct. 17 in Castro Valley, Oct. 18 in Hayward, and Nov. 7 in San Leandro. Public comments were also received at LAFCo's regular meeting Nov. 10, 2016 and January 31, 2017.

¹⁶ See Gov. Code Sec. 56430.

Figure 1 ETHD Boundaries and Facilities



- Eden Township Healthcare District
Healthcare Facilities**
-  Acute Rehabilitation Center
 -  Hospital
 -  Medical Office bldg owned by ETHD
 -  Psychiatric Hospital
 -  Eden Township Healthcare District

0 1 2 4 6 8 Miles



*Agency sphere equals the service area boundary

Created for Alameda LAFCo by the Alameda County Community Development Agency

2. SUMMARY OF FINDINGS

This chapter summarizes findings and conclusions of this report; subsequent chapters further document these findings and sources of information.

A. DISSOLUTION OF THE DISTRICT WITHOUT CONTINUING ITS SERVICES IS UNWARRANTED

In this finding, “services” of the District refer to the grant, sponsorship and education services provided by ETHD. The Special Study assumes that the District’s commercial real estate activities are an important but separate revenue-generating, “enterprise type” of activity with limited health care-related benefits to ETHD residents. The provision of medical office buildings is a service that benefits health care providers and ultimately patients, and is consistent with the District’s Strategic Plan Goal #5 to “Continue to maintain investment properties that serve a medical or health purpose or provide revenue toward that end,”¹⁷ although a majority of the property is located outside the District’s boundaries.

At LAFCo hearings and via written comment, recipients of ETHD grants and sponsorships attested to the value, importance and benefits to the community of ETHD funding, and the need for continued funding.¹⁸ While a 2012 poll found that 55% of potential voters in the District had not heard of the district, and 24% had heard of the District but had no opinion, of the remaining 21%, the poll indicated that 18% had a favorable opinion and 3% of total poll respondents had an unfavorable opinion.¹⁹

No evidence of mismanagement was identified during the course of this Special Study, although issues and specific areas for improvement were identified, as summarized in **Finding B**.

A-1. The District provides a service of value including significant expenditure of funds for community health care purposes consistent with its mission as a healthcare district and the State of California’s Health and Safety Code.

- ETHD grants total \$11.6 million from 1999 through FY15-16, and sponsorships total \$340,000. While amounts varied, the grants averaged about \$640,000 per year, or about 2% of the District’s current net position of \$26.4 million.

¹⁷ See Chp. 5 of this report, ETHD Goals, Policies and Plans.

¹⁸ Special meetings were held Oct. 17 in Castro Valley, Oct. 18 in Hayward, and Nov. 7 in San Leandro. Public comments were also submitted to LAFCo in writing and at LAFCo’s regular meeting Nov. 10.

¹⁹ Tramataola Advisors presentation to ETHD Board, Slide 3, Oct. 17, 2012.

- The District spent approximately \$25 million for the acquisition of San Leandro Hospital (SLH) in 2004, which it then leased to Sutter Health through 2009 when Sutter Health exercised its option to purchase SLH.
- The District provided \$1.3 million in grant funds to St. Rose Hospital in FY15 as forgiveness for the remaining balance and interest due on a 2011 \$3.0 million loan from ETHD.

A-2. The District continues to budget approximately \$500,000 to \$600,000 for grants and sponsorships in FY16-17 and in future years until the Sutter obligation is repaid.

- FY16-17 grants and sponsorships of \$574,300 equals about 85% of the FY17 \$676,000 community services budget; allocated District Office administrative and overhead costs comprise the remaining 15%.
- The recent Grand Jury report compared ETHD grants and sponsorships to all District activities and expenditures, including real estate operations; for FY16-17, this ratio is about 10%. However, the Special Study treats real estate operations as a separate, revenue-generating enterprise accounted separately from granting activities for the purpose of measuring grants (and administration/overhead) as a percent of budget as described in prior bullet.²⁰
- To maintain current levels of grants and sponsorships may require the District to draw down its investments in order to meet all obligations in the near term; future draw-downs, if any, depend on numerous factors, for example, market conditions, rent growth, debt and capital improvement costs, and election costs.

A-3. Funding available for health care purposes could increase by \$1.5 million annually, to a total of over \$2 million including existing allocations, after funds are no longer required to repay ETHD's obligation to Sutter.

- Future amounts available for community services, after eight years, depend on market conditions, rent growth, debt and capital improvement costs, election costs and other operating costs.

A-4. The District's grants and sponsorships are generally consistent with health care needs identified by assessments prepared by other agencies, however, coordination with other County agencies could be improved.

- Agencies and programs funded by the District include several of the basic components of the health care delivery system described by the Alameda County Health Care

²⁰ AB-2737 distinguishes administrative costs and overhead "not directly associated with revenue generating enterprises" in its description of criteria for determining a "non-provider" health care district.

Services Agency (HCSA),²¹ notably public health (including health promotion and disease prevention).

- \$250,000 is budgeted annually towards the District's commitment to the Davis Street Family Resource Center (DSFRC) in San Leandro for a five-year period to focus on a Diabetic Management Program and a Community Behavioral Health Program. DSFRC provides basic needs, childcare and counseling to underserved individuals throughout San Leandro.
- \$250,000 is directed to other grants and programs. 2016 grants will be announced in December; in 2015, grants went to programs serving District residents that provide direct health care services, health education, health maintenance, health promotion, prevention programs and services, and access to health services (see **Appendix B**).
- The District has indicated that it coordinates with the County and utilizes County data regarding health care needs, however, there is no documentation available demonstrating this coordination and data analysis and its relationship to District planning and grant funding and outcomes, nor ongoing, regular coordination with the County or participation in County Board of Supervisor Health Committee meetings.

A-5. District expenditures for District administration and overhead are not excessive relative to total costs.

- As noted above in **A-2**, administration and overhead allocations are approximately 15% of other expenditures.

A-6. The District's real estate operations are the primary source of revenues for its community service grants as the District receives no property tax revenues; however, commercial real estate can present a risk to District assets.

- The real estate operations are similar to an "enterprise" operation of a public agency, generating revenues to cover (or in this case, exceed) costs, although the real estate operations fund health care services rather than provide a basic utility or public service funded by user charges and fees.
- The provision of medical offices is indirectly related to the District's mission, although some of its holdings are outside the District and serve non-district residents.
- The revenues from commercial real estate are subject to market risks, and could place demands on District assets and investments to fund shortfalls due to market downturns. This in turn could reduce funds available for grants and sponsorships.
- As noted in **Finding B**, the District should assess its risk and evaluate options for shifting building ownership and operation to other less risky and more passive investments within the District boundaries.

²¹ Alameda County Health Care System Overview, Presentation to the Local Agency Formation Commission (LAFCo), September 8, 2016, Slide 8.

A-7. The District is accountable for its financial resources and decision process.

- District financial audits are conducted in a timely manner and financial documents are readily available on the District’s website, and other financial materials were readily provided upon request during the preparation of the Special Study.
- The Grand Jury commended the District’s public transparency, noting that ETHD officials were certified by the Association of California Healthcare Districts for meeting high healthcare district governance standards set for participating members in the association.²²
- Budgets, financial documents and policies are reviewed and approved by the District’s elected Board of Directors at publicly noticed meetings.
- ETHD adopted a process in 1999 for clearly providing application guidelines and criteria to applicants, pre-grant review, indicating sources of information for District and County priorities, reviewing applications by the Board and in public meetings, and performance management and result assessment including reporting requirements.
- While the residents of the District have the opportunity to run for ETHD’s Board of Directors in order to influence ETHD decisions, two available positions were uncontested in 2016.
- The Alameda County Grand Jury noted that a 2012 poll showed low awareness of the District. The District responded that it engaged in efforts since 2012 to improve that situation. This low awareness is not surprising considering that ETHD provides minimal “direct services” to consumers; rather, its grants and sponsorships are to direct providers. However, of the remaining 21% of respondents familiar with the District and having an opinion, the poll indicated that 18% of total respondents had a favorable opinion and 3% of total poll respondents had an unfavorable opinion.

A-8. The sale of District buildings (e.g., in the event of dissolution) would result in less revenue available for health care purposes over the long-term.

The sale of District buildings would eliminate lease revenues (net of expenses) generated by the buildings; instead, the sale proceeds could be invested. In the event of District dissolution, other District assets and liabilities would be addressed. The following examples are intended to illustrate the relative impact and differences between options due to building sales; the disposition of other assets and liabilities may result in cash that could be invested, and the current \$9.7 mill. of District investments would also be available under all options.

- The book value of District buildings is approximately \$31 million (net of outstanding debt), consistent with the market value of the properties estimated in this report. The District’s buildings generate about \$2.2 million in net revenues (cash, after overhead

²² 2015-2016 Alameda County Grand Jury Final Report, pg. 48. See also the Association of California Healthcare Districts’ website: <http://www.achd.org/achd-certified-healthcare-districts/>

allocations) available for community services and other obligations (e.g., Sutter Health payments, capital improvements).

- \$31 million invested by a public agency in “safe” investments consistent with State law currently returning one to two percent would produce about \$310,000 to \$620,000 annually before considering the Sutter obligation. If the outstanding Sutter obligation of \$13.8 million were deducted from the \$31 million building value, the remaining \$17.2 million asset balance would yield \$170,000 to \$340,000 annually. In addition, the existing \$9.7 million of District investments would continue to generate returns comparable to the Status Quo.
- Potential investment returns to a non-profit could be higher than described above for a government agency. Long-term returns from a range of investments including equities could average about 5%, or \$1.55 million annually on an investment of \$31 million. After repayment of Sutter, long-term returns on \$17.2 million could be about \$850,000 annually, in addition to existing returns on District investments of \$9.7 million
- The County of Alameda General Services Agency (GSA) has indicated that it has “the technical background and experience in managing both real property lease management and compliant maintenance operations of standard office and medical office properties.”²³ With some budget augmentation in their operating cost, GSA indicated it could assist in taking on the management of the ETHD facility portfolio, for example, in the event of dissolution, in lieu of selling the buildings. This approach would help to maintain current revenues; it is unclear whether cost savings would be achieved.

A-9. Dissolution of the District without continuing services could provide needed one-time funding for hospitals, however, this would eliminate a future, ongoing source of funding unless the buildings were operated by another agency.

As noted above, sale of ETHD buildings could net \$31 million after repayment of building debt; in addition, investments of approximately \$9.7 million would result in a total of \$40.7 million. After repayment of the outstanding Sutter obligation of approximately \$13.8 million, funds totaling \$26.9 million, including existing ETHD investments, would provide a significant benefit to hospitals.

- If the District chose to significantly increase its current funding allocations to local hospitals, over the long-term the funding to hospitals could equal or exceed the one-time funding provided by dissolution, sale and distribution of remaining assets to hospitals.
- Recent funding to hospitals by the District has been limited to its \$1.3 loan forgiveness (including accrued interest) to St. Rose Hospital in 2016. Recommendations in this report include increased District coordination with the County and other healthcare providers particularly to take advantage of leveraging of State and Federal funds,

²³ Letter from Willie A. Hopkins, Jr., Director, Alameda County General Services Agency, to LAFCO Commissioners, 3/6/17.

improved integration of healthcare needs data in its strategic planning, and explicit goal-setting for allocation priorities in its public documents, including consideration of funding to hospitals.

- As noted above in **Finding A-8**, the option exists to transfer operation of ETHD buildings to the County GSA. This would enable continuation of current cash flows that could be allocated to existing grant recipients, and/or to hospitals.

B. THE DISTRICT COULD IMPROVE THE EFFICIENCY AND EFFECTIVENESS OF ITS OPERATIONS

While this Special Study has found no evidence of mismanagement that warrants dissolution and discontinuation of services, a number of issues exist that could be addressed by the District or by a successor agency providing continuing services.

B-1. The District's Strategic Plan, last amended and adopted August 2016, should be reviewed at least annually as part of the budget process and as conditions change.

- The Plan was also updated in 2013 and 2014, but its specific actions and accomplishments should be reviewed annually to serve as a foundation for budget decisions and planning of future activities. The Plan should be expanded to include specific actions to achieve objectives by year, and measurement of outcomes. Policies regarding allocation of resources, including potential allocations to hospitals, should be assessed annually in coordination with other needs assessments prepared by the County²⁴ and other service providers and progress documented.
- The Plan should update long-term financial projections, building-related capital improvement plans, and analysis of health-related needs. Incorporating the Strategic Plan and related items into the District's annual budget, along with explanatory text, would improve communications with the public and increase accountability.
- As noted above, the District should develop other planning documents that should be integrated into its Strategic Plan and Budget. For example, a survey of competitive properties and practices could help refine leasing strategies and management fees; a facilities condition assessment could improve capital planning and financial forecasting; an organizational study could be prepared periodically to assist with appropriate staffing decisions, training, and contracting arrangements, and help assure that staffing and consulting expertise addresses organizational needs, including real estate operations.
- The District should conduct a risk analysis based on the planning described above, for example, to identify risks associated with interest rate changes, changes in market conditions, and impacts of refinancing. The expansion of the Dublin Gateway

²⁴ For example, see the Community Assessment, Planning, and Evaluation (CAPE) Unit of the Alameda County Public Health Department, Health Care Services Agency

development should also be carefully evaluated with the assistance of third-party real estate advisors. Options such as limiting real estate investments to land ownership/leases could be considered to reduce risks, although net revenues may also be reduced.

- In light of the risk analysis noted above, the District should consider the implications of the ownership and operation of commercial real estate outside of its boundaries, particularly if the real estate is not substantially serving District residents. Alternative investments, e.g., reducing building ownership/operational costs and risks, could also help bring the District into compliance with recent legislation.
- The Plan should explicitly provide for specific, measurable actions to increase public outreach and communication, and to coordinate with other health agencies to maximize public benefit, and to leverage available funding. Coordination with the County is particularly important, and should include not only the County's data sources and needs assessments, but also the County's system for evaluating grant outcomes.²⁵ This coordination could improve the District's ability to carry out its mission, clearly document the relationship of its activities to community benefits, and potentially reduce duplication if grant administration/evaluation functions are shared with the County.

B-2. The District has received training and certification from the Association of California Healthcare Districts, but should also pursue certification through the Special Districts Leadership Foundation's "District Transparency Certificate of Excellence".

- The Transparency Certificate requires many practices already met by the District, as well as additional practices such as a salary survey and benchmarking. The latter should be documented and available on the District's website.
- The Transparency Certificate only requires that six months of Board meeting minutes be posted on the District's website; however, it would be useful to post multiple years considering the range of issues and public controversy facing the District.

B-3. The District should track hours and resources allocated to real estate activities vs. community services.

- Currently the District allocates administrative and overhead costs as a percent of its building expenditures, and community services expenditures. Although this is a common allocation methodology, increases in budgets of buildings can distort allocations even if there is no change in hours required. These allocations are important to accurately evaluate overhead as a percent of budgets.

²⁵ ETHD should consider utilizing the County's Human Impact Budget and Results Based Accountability Practices.

B-4. The District should prepare an annual cash-based budget and forecast in addition to its current financial reports.

- The District’s current budget includes various non-cash expenses such as depreciation and amortization; these items should be shown separately in its budget, as non-cash expenses unnecessarily complicate public agency budgeting. These items are appropriately shown in its annual financial statements.
- A cash-based budget is important for planning purposes, and to show the impact of Sutter payments and capital expenditures on its current and future cash flows and fund balances.
- The District has prepared a multi-year financial forecast for specific financing purposes, but should prepare and update its forecast annually for strategic planning purposes and as a part of its budget process. The forecast should integrate capital improvement program (CIP) costs.

B-5. The District should prepare a multi-year capital improvement program (CIP). 26

- The CIP is important to ETHD strategic financial planning. The CIP should be based on an assessment of property conditions, and more accurately reflect the estimated improvement costs attributable to property depreciation than the calculated, non-cash “depreciation” measure currently included in its budget. The District indicated that it is preparing a more detailed CIP forecast.

²⁶ As of Dec. 15, 2016, the District is preparing a 10-year capital plan based on a facilities condition assessment.

C. DISSOLUTION AND NAMING A SUCCESSOR AGENCY TO CONTINUE SERVICES COULD REDUCE CERTAIN COSTS AND IMPROVE DECISION-MAKING

Issues and specific improvements summarized in **Finding B** and described in this report could be addressed by various governance options. A number of options exist whereby the ETHD would be dissolved and its services would be continued by a named successor agency. These options would depend on the willingness and ability of an agency to serve as a successor. LAFCo would review and approve a Plan to Provide Services prepared by the potential successor before approving dissolution and transfer of assets and services to the successor. Potential options described in the Special Study include:

- **Dissolution and Transfer of Assets to a Non-Profit** – this option has been raised as a possibility by the District²⁷ and by speakers at LAFCo hearings. This option could expand representation, and may limit the scope of activities.
- **Dissolution and Transfer of Assets to the County and/or cities** – The County and/or cities of San Leandro and Hayward through a Joint Powers Agreement (JPA), for example, would manage the real estate (or contract with the County GSA, as noted below), or liquidate assets resulting in lower revenues, and continue distribution of grants and sponsorships from asset earnings. The services of the HCSA, as noted in the following point, could be utilized for grant-related functions.
- **Dissolution of ETHD and Creation of a New County Service Area (CSA)** – LAFCo could form a new CSA, with approval by voters and by all affected cities. An advisory board could include city, County and public representatives.

The Alameda County HCSA has expressed its interest and willingness to provide assistance in the event of a reorganization, and “could host a planning and disbursement process focused entirely on the District’s region of responsibility, without significantly increasing our costs.”²⁸ This option may require the sale of assets, resulting in lower revenues, unless the County General Services Agency (GSA), which has indicated that it “has the technical background and experience in managing both real property lease management and compliant maintenance operations of standard office

²⁷ Letter from Dev Mahadevan, ETHD CEO, to The Board of Directors, Eden Township Healthcare District, October 21, 2016, Attachment D to agenda for ETHD meeting October 19, 2016.

²⁸ Letter from Kathleen A. Clanon, MD, Agency Medical Director, to Mona Palacios, LAFCo, January 31, 2017.

and medical office properties. With some budget augmentation in our operating cost, GSA could assist in taking on the management of the ETHD facility portfolio.”²⁹

C-1. Dissolution and transfer of assets to a non-profit or other public agency (or agencies) could reduce overhead and administration costs, for example:

- \$200,000 for elections every other year would not be required, although in the most recent November, 2016 election there were no contested positions or election costs.
- Certain costs related to disputes regarding the District’s legal settlements, which require the District to engage legal counsel, would be eliminated. Public relations costs and outreach to counter negative perceptions about the District could be reduced, although a non-profit or other successor agency is likely to have costs for outreach and materials publicizing its activities and services.
- A new non-profit, JPA or CSA could contract with Alameda County HCSA to provide grant accounting and grants disbursement services. Alameda County GSA indicated that it has “the technical background and experience in managing both real property lease management and compliant maintenance operations of standard office and medical office properties.”³⁰ This could also enable the new agency to focus on management of commercial real estate, if assets are not liquidated.

C-2. Representation and inter-agency coordination could be improved if the board of a new non-profit or other public entity, e.g., a JPA or CSA, includes city and County representatives.

- Coordination between the District’s successor, County and cities and determination of regional health care priorities and decision-making could be improved if the new entity is formed to include broader representation.
- Board members would no longer be elected (except for elected officials appointed to the non-profit or a JPA board, or CSA advisory board); however, there were no candidates running in the November 2016 election for two ETHD seats, indicating a low level of interest in citizen participation on the Board. This situation may be the result both of a lack of public awareness about the District, as well as the fact that the District currently does not receive property or other taxes.
- A new entity will still require some level of administrative and overhead services and costs, so the magnitude of potential cost savings is uncertain. A new entity is likely to take advantage of existing staff of member agencies, which could provide efficiencies.

²⁹ Letter from Willie A. Hopkins, Jr., Director, Alameda County General Services Agency, to LAFCO Commissioners, 3/6/17.

³⁰ Ibid, Letter from Willie A. Hopkins, Jr.

C-3. While LAFCo has no ability to form a new non-profit or JPA, LAFCo would be responsible for the ETHD dissolution process, including Terms and Conditions applicable to the transfer, and LAFCo may require a Plan to Provide Services.

- LAFCo retains the discretion to require a vote, if not otherwise required by State law.
- Transfer of assets to the new entity could be included as a condition, as well as a plan for disposition of liabilities. Whether or not the current building assets would be liquidated and the proceeds transferred, or the real estate operations transferred as-is, remains to be determined and depends on a Plan to Provide Services that would be prepared by successor agencies.
- Other Terms and Conditions may be appropriate, subject to the legal authority of LAFCo, such as: representation of cities, the County, or other representatives on a new board or as part of the successor entity; conditions on limiting grants to organizations that provide services within the ETHD boundaries; and limitations on expansion or contraction of real estate holdings and operations; disposition of assets.

D. NO OTHER VIABLE REORGANIZATION OPTIONS HAVE BEEN IDENTIFIED

D-1. Consolidation of ETHD with another public agency, e.g., another healthcare district, is not viable.

- The Washington Township Healthcare District, which also serves portions of Alameda County, has stated that it is unwilling to consolidate with ETHD.

D-2. Reorganizing ETHD as a subsidiary district to a city is not viable.

- Creating a subsidiary district would significantly reduce the boundaries of the new entity (70% of the subsidiary district must fall within a city's boundaries) and fail to serve a large portion of current District residents.

E. LAFCo SHOULD CONSIDER AMENDING ETHD’S CURRENT SPHERE OF INFLUENCE, WHETHER OR NOT THE DISTRICT IS DISSOLVED.

E-1. The current ETHD boundaries include small areas of several cities with minimal or no resident population.

- As shown in **Table 2** of this report, there are no residents within the portion of ETHD that includes the City of Union City, and the City of Oakland only contributes 100 ETHD residents. In the City of Dublin there are 1,000 ETHD residents.

E-2. Eliminating the areas noted above would result in a more rational boundary reflective of ETHD’s service area.

E-3. A small portion of San Leandro appears to be excluded from ETHD boundaries. This area should be considered for inclusion in ETHD’s boundaries to encompass the entire city.

E-4. Expanding ETHD boundaries in Hayward would encompass the entirety of the city in ETHD boundaries, however, an expanded boundary would overlap with Washington Township Healthcare District and therefore expansion is not recommended.

3. OVERVIEW OF HEALTHCARE DISTRICTS

In California there are 79 healthcare districts operating in 37 counties; of these 79 districts, 38 districts operate 40 hospitals, and 5 lease their hospitals to other entities.³¹ Many of the other 41 districts own healthcare facilities and/or provide direct health services to consumers, as well as distribute grants and funding to other agencies, and may own medical office buildings.³²

ETHD is unique in that it relies almost entirely on lease revenues from ownership and operation of medical office buildings, and receives no property taxes or parcel taxes.

Healthcare districts are allowed to “purchase, receive, have, take, hold, lease, use, and enjoy property of every kind and description within and without the limits of the district, and to control, dispose of, convey, and encumber the same and create a leasehold interest in the same for the benefit of the district.”³³ Asset investment is subject to state laws directing that the primary objective shall be: (1) safeguarding the principal, (2) meeting the liquidity needs of the District and (3) achieving a return.³⁴

Although not common, there are examples of other healthcare districts earning rents from commercial real estate building leases (healthcare related) and actively pursuing development opportunities; for example, the Peninsula Health Care District’s (PHCD) budget shows rent income of \$2.3 million out of \$8.1 million total revenues (including property taxes).³⁵ The PHCD’s investment policies direct the CEO and Board Treasurer to “actively pursue real estate opportunities and present them to the full Board for consideration of acquisition.”³⁶ Currently the PHCD is pursuing a development program on its land, formerly occupied by a hospital, for 400 residential units for seniors, 250,000 square feet of health service-related commercial space, and other related facilities on about 8 acres. PHCD policies generally limit real estate activities to projects benefitting residents within the district.

³¹ Correspondence from Amber King, Senior Legislative Advocate, Association of California Healthcare Districts (ACHD), 2/27/17.

³² No information is readily available regarding funds spent on hospitals by healthcare districts that no longer own/operate a hospital, however, may be included in forthcoming research by ACHD (Amber King, ACHD, 3/3/17).

³³ Local Health Care District Law, California Health and Safety Code Section 32121(c).

³⁴ Gov. Code Sec. 53601.5.

³⁵ Peninsula Health Care District FY16 Approved Budget.

³⁶ Peninsula Health Care District Board Policy Statement of Investment Policy, 2.C.

HEALTHCARE DISTRICTS IN CALIFORNIA

California at the end of World War II faced a shortage of hospital beds and acute care facilities, especially in rural areas. In 1945, the Legislature enacted the Local Hospital District Law to establish local agencies to provide and operate community hospitals and other health care facilities in underserved areas, and to recruit and support physicians. In 1993, the State Legislature amended the enabling legislation renaming hospital districts to health care districts. The definition of health care facilities was expanded to reflect the increased use and scope of outpatient services.

Healthcare districts are authorized to provide a broad range of services, in addition to the operation of a hospital.³⁷ Under the Health and Safety Code, healthcare districts may provide the following services:

1. Health facilities, diagnostic and testing centers, and free clinics
2. Outpatient programs, services, and facilities
3. Retirement programs services and facilities
4. Chemical dependency services, and facilities
5. Other health care programs, services, and facilities
6. Health education programs
7. Wellness and prevention programs
8. Ambulance or ambulance services
9. Support other health care service providers, groups, and organizations that are necessary for the maintenance of good physical and mental health in the communities served by the district.

As noted above, 79 healthcare districts in California provide a variety of services authorized by State statutes. Of the 79 districts, 38 districts operate 40 hospitals and 5 districts lease their hospitals to other entities. Other districts have diversified into direct medical services and/or grant making to support health care activities.

Healthcare districts are commonly funded through a share of property taxes, patient fees and insurance reimbursements, and by grants from public and private sources. Healthcare districts are special districts with the typical powers of a district such as the authority to enter into contracts, purchase property, issue debt and hire staff.

³⁷ Local Health Care District Law, California Health and Safety Code Sections 32121(j), (l), (m).

LITTLE HOOVER COMMISSION

The Little Hoover Commission (LHC) is an independent state oversight agency that was created in 1962. The Commission's mission is to investigate state government operations and – through reports, recommendations and legislative proposals – promote efficiency, economy and improved service.³⁸

The Little Hoover Commission is investigating special districts as a follow-up to its May 2000 report titled “Special Districts: Relics of the Past or Resources for the Future.”³⁹ As part of this effort, LHC is focusing on healthcare districts to clarify their role and to prepare related legislative proposals. LHC recently convened a meeting of districts, LAFcos and other interested parties on November 16, 2016. At the meeting, input was solicited and issues discussed.

The Association of California Healthcare Districts (ACHD) noted that ACHD would support increased oversight and accountability from LAFcos to ensure that healthcare districts are reviewed correctly and consistently. ACHD is looking at ways to increase transparency of the districts’ boards of directors and to better educate their residents on services the healthcare districts provide.⁴⁰

In response to a question about what makes healthcare districts special compared to counties, an ACHD representative responded that because healthcare districts manage health care alone, they are more flexible than cities or counties that must balance many services beyond health care. He pointed out that counties are strapped for funding across the board and have numerous responsibilities beyond health care alone. If healthcare districts were to go away or be dissolved into county operations there is no guarantee that property taxes currently allocated to healthcare districts would go to county health care. A representative from the California Special Districts Association (CSDA) noted that much of what counties do is mandated by the state.

The Little Hoover Commission anticipates release of its report after a hearing in the Fall of 2017.

³⁸ <http://www.lhc.ca.gov/about/about.html>

³⁹ <http://www.lhc.ca.gov/lhc/155/report155.pdf>

⁴⁰ Draft summary of November 16, 2016 Advisory Committee Meeting on Special Districts, Little Hoover Commission, December 1, 2016 (minutes currently under review/revision).

RECENT RELEVANT HEALTHCARE DISTRICT LEGISLATION

AB 2471⁴¹

In February 2016, Assembly Member Bill Quirk introduced legislation, AB 2471, sponsored by Alameda County that would have required Alameda LAFCo to dissolve the District if specific criteria were met. That bill did not advance to the Governor’s desk in the 2016 legislative session, as Quirk decided to stop the legislation and allow the LAFCo process to proceed.

Quirk introduced a “spot bill” February 14, 2017 amending a provision of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. A spot bill is a “bill that amends a code section in a non-substantive way. A spot bill may be introduced to ensure that a germane vehicle will be available at a later date. Assembly Rules provide that a spot bill cannot be referred to a committee by the Rules Committee without substantive amendments.”⁴²

AB 2737⁴³

Recently enacted legislation, AB 2737 (Bonta), requires that “...A nonprovider health care district shall not spend more than 20 percent of its annual budget on administrative expenses”; “administrative expenses” means expenses relating to the general management of a health care district, which appear to exclude, or segregate, expenses related to revenue-generating enterprises per language of the bill.⁴⁴

A “nonprovider health care district” is defined in AB 2737 as a health care district that meets all of the following criteria:

- (1) The district does not provide direct health care services to consumers.
- (2) The district has not received an allocation of real property taxes in the past three years.
- (3) The district has assets of twenty million dollars (\$20,000,000) or more.
- (4) The district is not located in a rural area that is typically underserved for health care services.

⁴¹ AB 2471 (Quirk) (2015-2016):

http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB2471

⁴² <http://www.legislature.ca.gov/quicklinks/glossary.html>

⁴³ AB 2737 Non-provider Health Care District (2015-2016).

⁴⁴ AB2737 distinguishes administrative costs and overhead “not directly associated with revenue generating enterprises” in its description of criteria for determining a “non-provider” health care district.

- (5) In two or more consecutive years, the amount the district has dedicated to community grants has amounted to less than twice the total administrative costs and overhead not directly associated with revenue-generating enterprises.

It appears that the ETHD meets the criteria and qualifies as a “nonprovider health care district” with the possible exception of (1) above, as the District does contract for health education programs, which is included in the bill’s definition of “direct services to consumers”. The law is not clear whether this type of educational service, if it is provided by contract staff rather than District staff, qualifies as a “direct” service.

The bill also requires that a “nonprovider health care district” spend at least 80% of its budget on grants awarded to organizations that provide direct health services. According to the bill, “Direct health services” means “ownership or direct operation of a hospital, medical clinic, ambulance service, transportation program for seniors or persons with disabilities, a wellness center, health education, or other similar service.” It appears that ETHD meets this requirement, if the relevant budget excludes revenue-generating enterprises.

Further legal analysis is needed to clarify the applicability of terms of this bill to the ETHD, including the definition of “budget”, i.e., whether it includes items such as the ETHD payments to Sutter, or non-cash items such as depreciation. If a legal determination is made that the District does not provide direct health care services, one of the District’s options would be to sell a portion of its real estate holdings and thereby reduce real estate expenditures. The sale of real estate assets would also reduce revenues available for healthcare purposes.

In addition to providing health education, the District could take other actions to exclude itself from the definition of a “nonprovider health care district”, for example, by acquiring medical facilities, such as St. Rose Hospital.⁴⁵

HEALTHCARE DISTRICTS IN ALAMEDA COUNTY

In addition to the ETHD, two other healthcare districts exist in the County: the City of Alameda Healthcare District, and the Washington Township Healthcare District (WTHD). The WTHD represents one option for consolidation with the ETHD, as described in **Chapter 6**.

WASHINGTON TOWNSHIP HEALTHCARE DISTRICT

As described in LAFCo’s last healthcare MSR, the Washington Township Healthcare District (WTHD) was formed in 1948 to build, own and operate Washington Hospital to provide health

⁴⁵ See also the section in Chp. 4 regarding St. Rose Hospital.

care services. Washington Hospital opened on November 24, 1958.⁴⁶ The District's boundaries include the cities of Fremont, Newark, Union City, the southern portion of Hayward, and the unincorporated community of Sunol, which together encompass 124 square miles and a population of approximately 320,000.⁴⁷ It is contiguous to the Eden Township Healthcare District boundary.

The WTHD, also known as the Washington Hospital Healthcare System, provides a range of services at the Washington Hospital, including 24-hour emergency care; childbirth and family services; cardiac surgery, catheterization and rehabilitation; nutritional counseling; outpatient surgery; pulmonary function; crisis intervention; respiratory care; rehabilitation services (cardiac, physical therapy, occupational therapy, speech, stress); social services; laboratory; medical imaging; level II nursery, and hospice care.⁴⁸

CITY OF ALAMEDA HEALTHCARE DISTRICT

The City of Alameda Healthcare District was formed July 1, 2002 after approval by over two-thirds (69 percent) of voters. The District formed because the Alameda Hospital was facing ongoing operating losses. As a condition of District formation, property owners in the City of Alameda pay a \$298 parcel tax to repay the hospital's debt, defray the operating losses of the hospital and ensure that the hospital remains open.⁴⁹

Since the preparation of the 2013 MSR for the District, the City no longer operates its hospital. The District contracts with the Alameda Health System to operate the facility, which the District still owns.⁵⁰

⁴⁶ Final Municipal Service Review, Volume I – Public Safety Services, Chp. A-1, September 16, 2004.

⁴⁷ Washington Hospital Healthcare System website, <http://whhs.com/about/history/default.aspx>, downloaded 9/22/16.

⁴⁸ Ibid, Washington Hospital Healthcare System website.

⁴⁹ City of Alameda Healthcare District Municipal Service Review Final, January 10, 2013

⁵⁰ Alameda Health System press release, Nov. 27, 2013.

4. HEALTH CARE IN ALAMEDA COUNTY

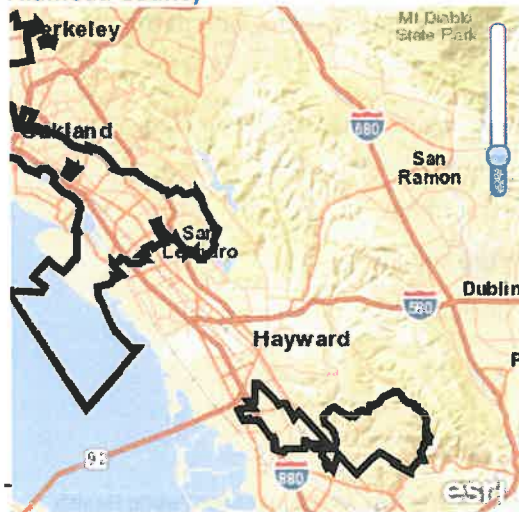
While this Special Study does not independently evaluate health care needs, facilities and programs in Alameda County, this chapter provides an overview of selected data sources relevant to ETHE's mission. Key facilities are described, focusing on facilities that have played a role in ETHE's history.

Health care in Alameda County in many ways mirrors national trends. A recent publication notes that "As hospitals increasingly lose patients to medical care delivered in clinics and home settings, hospital operators are escalating their efforts to shrink capacity."⁵¹ Factors behind hospital closures include high deductibles, better technology, more case management and shrinking reimbursements. This trend is being partly mitigated as "New public policy and marketplace incentives are encouraging health systems to promote prevention and keep patients with chronic diseases out of the hospital. The shift to outpatient care, underway for decades, is accelerating."⁵²

HEALTH CARE NEEDS

Two areas within the District's boundary are designated as Medically Underserved Areas (MUAs), as illustrated in Figure 2.⁵³ The medically underserved are people with life

Figure 2 Medically Underserved Areas in Alameda County



circumstances that make them susceptible to falling through the cracks in the health care system. Many do not have health insurance or cannot afford it; those who do have insurance sometimes face insufficient coverage.

The California Healthcare Workforce Policy Commission approved the MUA designation in May 1994.

⁵¹ "Hospitals face closures as 'a new day in healthcare' dawns", Modern Healthcare, Feb. 21, 2015, <http://www.modernhealthcare.com/article/20150221/MAGAZINE/302219988>

⁵² *ibid*, Modern Healthcare, Feb. 21, 2015

⁵³ See <http://gis.oshpd.ca.gov/atlas/topics/shortage/mua/alameda-service-area>

Numerous documents describe health care needs within Alameda County:

An **Alameda County Health Profile**, completed in 2014, provides health statistics on the Alameda County population and identifies subpopulations or geographic areas where the disease burden is highest.⁵⁴ The document was completed as part of the larger Community Health Assessment (CHA), one of the key deliverables required to achieve Public Health Accreditation. The report describes poverty rates as a major determinant of health and health equity, and notes that there are some high-poverty (greater than 20% of the individuals are living in poverty) neighborhoods in East and West Oakland, as well as parts of central county that are included within ETHD boundaries.⁵⁵

The report identifies the top ten leading causes of death in Alameda County. As noted in the report, “The great majority of these (92%) are chronic diseases: cancer, heart disease, stroke, chronic lower respiratory disease (CLRD) (chronic bronchitis, emphysema, etc.), Alzheimer’s disease, diabetes, hypertension, and liver disease.”⁵⁶

A 2013 **Community Health Needs Assessment**, prepared for the Kaiser Foundation Hospital in Hayward (KFH), included a comprehensive review of secondary data on health outcomes, drivers, conditions and behaviors in addition to the collection and analysis of primary data through focus groups with members of vulnerable populations in the KFH Medical Center service area. The KFH service area generally corresponds with ETHD boundaries. The report identified community health needs, and the relative priority among them, with particular relevance for vulnerable populations in the service area.⁵⁷

- Access to Preventive Health Care Services including Asthma Care (Language, Geographic, Cost)
- Access to Mental Health and Substance Use Treatment Services
- Access to a Safe Environment (Learn, Live, Work and Play)
- Access to Education and Training Programs (includes Parent Education)

⁵⁴ Alameda County Health Data Profile, 2014, Community Health Status Assessment for Public Health Accreditation, Alameda County Public Health Department

⁵⁵ Alameda County Health Data Profile, 2014, pg. 8.

⁵⁶ Alameda County Health Data Profile, 2014, pg. 27.

⁵⁷ 2013 Community Health Needs Assessment, Kaiser Foundation Hospital – Hayward, also referred to as the Kaiser Permanente Northern California Region Community Benefit CHNA Report for KHF-Hayward.

- Exercise/Active Living
- Access to Affordable Healthy Food
- Access to Information and Referral to Appropriate Programs

The objective of the **Community Health Needs Assessment of the Sutter Medical Center Castro Valley (SMCCV) Service Area**, prepared in 2013, was to provide information for SMCCV's community health improvement plan, identify communities with health disparities (esp. chronic disease), and identify contributing factors and barriers to healthier lives.⁵⁸ In addition to the Sutter Medical Center, the SMCCV service area also includes the San Leandro Hospital. The study identified and prioritized health needs for the population of 250,000 within communities of concern that reside largely within the ETHD boundaries.⁵⁹

- Mental Health
- Access to Health Resources
- Nutrition
- Dental Care
- Health Literacy
- Pollution

The SMCCV Assessment provided the basis for strategic initiatives and implementation strategy described in the Sutter Health Eden Medical Center's 2013-2015 Implementation Strategy.⁶⁰ The strategy includes actions the hospital intends to take, including specific programs and resources it plans to commit; anticipated impacts of these actions and a plan to evaluate impact; and planned collaboration between the hospital and other organizations.

SERVICES, FACILITIES AND PROVIDERS

Appendix A includes a map and list of major health care facilities in Alameda County; selected agencies and facilities are summarized in the following section.

⁵⁸ Community Health Needs Assessment (CHNA) of the Sutter Medical Center Castro Valley (SMCCV) Service Area, conducted on the behalf of Sutter Medical Center Castro Valley, by Valley Vision, Inc., 2013.

⁵⁹ CHNA of the SMCCV, pg. 23-24.

⁶⁰ Sutter Health Eden Medical Center 2013-2015 Implementation Strategy, Responding to the 2013 Community Health Needs Assessment.

COUNTY OF ALAMEDA

Health Care Services Agency (HCSA)

As described on the HCSA website, “Alameda County’s Health Services Program is administered by the Health Care Services Agency and includes the following program areas: Behavioral Health Care, Public Health, Environmental Health, and Agency Administration/Indigent Health. The ultimate mission of Health Care Services Agency is to provide fully integrated health care services through a comprehensive network of public and private partnerships that ensure optimal health and well-being and respect the diversity of all residents.”⁶¹

HCSA is relatively unique in that it does not own or operate a hospital or clinic. In 1996 all of the County’s clinical and hospital work was transferred to a public health authority, the Alameda Health System (AHS).⁶² HCSA oversees the distribution of County funds to clinics including Measure A funds, manages contracting activities, and participates in studies of local health care disparities and needs. HCSA also assists a network of federally qualified health centers leverage local funds to draw on additional federal dollars. The HCSA indicated that it is shifting its focus from disease care to prevention.⁶³ While the HCSA has worked with ETHD on past projects, there may be potential for more coordination with ETHD to help obtain federal funds for qualified projects.⁶⁴

Measure A

Measure A is a ½ cent sales tax adopted by voters in March 2004 to provide “additional financial support for emergency medical, hospital inpatient, outpatient, public health, mental health and substance abuse services to indigent, low-income and uninsured adults, children and families,

⁶¹ <https://www.acgov.org/health/>

⁶² For enabling legislation of AHS, see:
http://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=HSC&division=101.&title=&part=4.&chapter=5.&article

⁶³ R.Berkson and M.Palacios interview with Dr. Kathleen Clanon, HCSA, September 20, 2016.

⁶⁴ R.Berkson and M.Palacios interview with Dr. Kathleen Clanon, HCSA, September 20, 2016.

seniors and other residents of Alameda County.”⁶⁵ In FY16-17 the measure is expected to produce approximately \$126 million in revenues.⁶⁶

According to an overview provided by the Alameda County Health Care Services Agency (HCSA),⁶⁷ each year, 75% of the tax revenue is transferred to the Alameda Health System and the remaining 25% of revenue is allocated by the Board of Supervisors based on the demonstrated need and the County’s commitment to a geographically dispersed network of providers for:

- 1) Critical medical services provided by community-based health care providers;
- 2) To partially offset uncompensated care costs for emergency care and related hospital admissions; and
- 3) For essential public health, mental health and substance abuse services.

The funds are administered by the HCSA, including review of grant outcomes. The Measure A ordinance established a Citizens Oversight Committee that reviews Measure A tax expenditures to assure conformity with the Measure, and produces an annual report.

EDEN MEDICAL CENTER

The Eden Medical Center (EMC), according to its website, “...is the regional trauma center for Southern Alameda County and home to the Sutter East Bay Neuroscience Institute. Eden features many centers of excellence, including orthopedics, rehabilitation, breast imaging, childbirth, women’s health, stroke care, and cancer care. Eden has been recognized for outstanding quality, including a “Top Performer” designation by The Joint Commission (a national independent not-for-profit hospital accreditation and certification organization), Superior Intensive Care Unit (ICU) designation and the Certificate of Excellence award from the California Hospital Assessment and Reporting Task Force (CHART), an honor recognizing exceptional performance in health care quality in 50 categories. With a new facility opened in December 2012, Eden Medical Center brings together patient-centered care, state-of-the-art technology, and sophisticated design in a LEED-certified sustainable and seismically-safe

⁶⁵ Even though the 2004 tax was not to expire until 2019, county officials put forward Measure AA. The measure renewed the same 0.5% sales tax increase until 2034 with a 75.01% “yes” vote (see [https://ballotpedia.org/Alameda_County_Healthcare_Services_Sales_Tax,_Measure_AA_\(June_2014\)](https://ballotpedia.org/Alameda_County_Healthcare_Services_Sales_Tax,_Measure_AA_(June_2014)))

⁶⁶ Memo from Alameda County HCSA to the Board of Supervisors, Nov. 23, 2015, re: allocation of 25% share of Measure A (\$31.5 million).

⁶⁷ Overview of Measure A Essential Health Care Services Initiative, HCSA.

building.”⁶⁸ Designated as a general acute care hospital, in 2015 it reported that its 130 licensed beds provided services to 38,663 in-patient days.⁶⁹

The ETHD was formed in 1948 to construct the Eden Medical Center (EMC) that opened in 1954. Residents of the District funded bonds to build the hospital, which focused on general medicine and surgery, pediatrics and obstetrics. Over the years, the hospital expanded to include an intensive care unit and emergency department, as well as additions for physical therapy, lab, radiology and radiation therapy, surgery and recovery areas.⁷⁰ In 1986 the adjacent Laurel Grove Hospital was acquired.⁷¹

In response to 1994 State mandates for seismic upgrades of all hospitals, ETHD formed a partnership with Sutter Health to replace EMC and construct a new hospital at an estimated cost of \$300 million, which ETHD could not fund. In 1997, ETHD voters approved the sale of EMC and Laurel Grove Hospital, also owned by ETHD, to Sutter Health for \$80 million.⁷² These proceeds, and interest earnings, enabled the District to acquire several medical office buildings that generate the majority of ETHD revenues.

SAN LEANDRO HOSPITAL

The San Leandro Hospital (SLH) is a 93-bed facility in central Alameda County acquired by Alameda Health System (AHS) in late 2013 from Sutter, which had acquired the facility from ETHD. The facility was at the center of a legal dispute that resulted in ETHD’s 10-year obligation to pay Sutter approximately \$2 million per year.

The hospital is home to 450 employees, 100 physicians, and 40 auxiliary-volunteer workers. The medical services include 24-hour emergency services, critical care, surgery, rehabilitation services, and ancillary services to a population of 265,000 people. San Leandro Hospital’s Level II

⁶⁸ EMC website: <http://www.edenmedicalcenter.org/services/index.html>

⁶⁹ ALIRTS Report, Annual Utilization Report of Hospitals, Eden Medical Center, 2015.

⁷⁰ Eden Medical Center website, 9/25/16, http://www.edenmedicalcenter.org/about/about_history.html

⁷¹ Sutter Health Eden Medical Center blog post March 10, 2010 at:
<http://newsroom.edenmedicalcenter.org/tag/laurel-grove-hospital/>

⁷² 2015-2016 Alameda County Grand Jury Final Report, The Failure of Eden Township Healthcare District’s Mission

Emergency Department has 12 treatment stations and experienced 32,900 visits in 2015.⁷³ The hospital's critical/intensive care unit has nine beds.⁷⁴

On July 1, 2004, the Eden Township Healthcare District purchased San Leandro Hospital from Triad Hospitals Inc., an investor-owned hospital company based in Plano, Texas, for \$35 million including a medical office building, limited partnership in the Surgery Center, and land to be swapped with the City.⁷⁵ Of the total price paid, the District indicates that SLH represents \$25 million.⁷⁶

Upon the purchase, the District leased the hospital to Sutter Health/Eden Medical Center, and SLH and EMC came together under one consolidated license. This hospital purchase was primarily to serve the purpose of replacing needed acute rehabilitation beds that would be displaced by the demolition of Laurel Grove Hospital on the Eden Campus to build a replacement hospital for Eden Medical Center's 1954 facility.⁷⁷

ETHD leased SLH to Sutter with an option to purchase SLH. Sutter planned to expand SLH operations and utilize it during Sutter's rebuilding of the Eden Medical Center to meet State-mandated seismic standards.

When Sutter exercised its purchase option in 2009,⁷⁸ concerns by the community that Sutter might close SLH's acute care facility prompted ETHD to withhold transfer of SLH to Sutter.⁷⁹

This response by the District led to legal action by Sutter, which ultimately was awarded \$17.8 million for SLH operating losses over the period that ETHD withheld transfer.⁸⁰ ETHD petitioned the court to be allowed to pay the obligation over a ten-year period with interest, which was granted. Sutter appealed this payment term and requested payment of a single lump sum; their appeal was denied.⁸¹ ETHD argued that it could not liquidate its investments because then-

⁷³ ALIRTS Annual Utilization Report of Hospitals, 2015.

⁷⁴ SLH website: <http://www.sanleandroahs.org/about-us>

⁷⁵ Correspondence with Dev Mahadevan, CEO, ETHD, September 6, 2016

⁷⁶ Correspondence with Dev Mahadevan, CEO, ETHD, August 3, 2016.

⁷⁷ ETHD Timeline, 9/16/16.

⁷⁸ The 2004 lease agreement between Sutter Health and ETHD was amended and restated in 2008.

⁷⁹ JAMS Arbitration No. 110004646, Final Award, Conclusion of Hearing June 11, 2013.

⁸⁰ Sutter Health sought damages for the period from April 1, 2010 when the property was to be transferred, through April 30, 2012 when title was actually provided to Sutter.

⁸¹ Correspondence from ETHD to R.Berkson, 11/30/16.

current loans required minimum reserves, and the Districts need for operating reserves, did not allow for the use of investments to pay down the judgment. The District also argued that the sale of its buildings would have a significant adverse impact on the District's revenues and ability to carry out its mission, potentially resulting in bankruptcy.⁸²

In 2012, ETHD proposed to help provide funding to SLH while SLH's ultimate disposition was being litigated. The funding would be equal to 50% of ETHD net cash flow available after other expenditures and financial obligations had been met.⁸³ This funding was not provided.⁸⁴

In 2014, city and County officials sought funding from ETHD for SLH operations after its transfer from Sutter to AHS.⁸⁵ Initial year shortfalls were funded by Sutter, which provided \$14 million to AHS as part of the facility transfer,⁸⁶ but continued shortfalls required ongoing subsidies. In 2014, ETHD's board voted to "work collaboratively....." to raise \$20 million needed for SLH's second year of operations.⁸⁷ ETHD's financial consultant advised the District⁸⁸ that it did not have the financial resources, ability to refinance its properties, or record of positive cash flows to raise and commit \$20 million to SLH unless it sold its properties, which ETHD was unwilling to do without voter approval.⁸⁹

For the year ended June 30, 2016, San Leandro Hospital had a net operating shortfall of \$990,000. Financial records also indicate additional allocations were made to the hospital for support services in the amount of \$20.6 million.⁹⁰

⁸² Court of Appeal of the State of California, First Appellate District Division One, A146002, filed 11/29/16.

⁸³ ETHD minutes, Oct. 17, 2012 Board of Directors Open Session, Item VIII.

⁸⁴ R.Berkson conversation with Dev Mahadevan, ETHD, 9/16/16.

⁸⁵ ETHD minutes, June 19, 2013 Board of Directors Open Session, Item VI.

⁸⁶ Letter from Michele Lawrence (President, Alameda Health System Board of Trustees), Wilma Chan (Supervisor, Alameda County Board of Supervisors), and Pauline Russo Cutter (Mayor, City of San Leandro) to Florence Di Benedetto (General Counsel, Sutter Health) and ETHD, July 10, 2015.

⁸⁷ ETHD minutes, June 19, 2013 Board of Directors Open Session, Item VI.

⁸⁸ G.L. Hicks Financial, LLC, letter to Dev Mahadevan, July 15, 2013.

⁸⁹ Letter from Dev Mahadevan, ETHD, to Supe. Chan, San Leandro Mayor Russo Cutter, and Michele Lawrence, AHS Board of Trustees, Aug. 11, 2015.

⁹⁰ Memorandum from David Cox, CFO Alameda Health System, to AHS Finance Committee re: Preliminary June 2016 Financial Report, August 5, 2016.

ST. ROSE HOSPITAL

The St. Rose Hospital in South Hayward is Alameda County's second largest safety net hospital, and is the only disproportionate share hospital (DSH)⁹¹ in southern Alameda County, serving a high number of low-income patients. Although the current operator, Alecto Healthcare Services⁹², has significantly reduced annual operating shortfalls, St. Rose Hospital experienced an annual deficit in FY14-15 of \$11 million and required supplemental funding from the County of Alameda and other sources.⁹³

ETHD loaned St. Rose \$3 million in 2011; however, the loan was not fully repaid. At its meeting in June, 2016, the ETHD Board decided to forgive the balance remaining on its outstanding loan to St. Rose Hospital of \$1,150,000 (plus past due interest of \$140,182)⁹⁴. The Board effectively granted St. Rose Hospital \$1,150,000 (plus interest) and directed that the funds be used to offset the costs of serving under-insured and uninsured patients residing within the District.⁹⁵

At its July 21, 2016 meeting, the Board considered acquisition of St. Rose Hospital, which would enable the District to be a direct service provider; after learning that a report to the District indicated that the hospital ran at a net loss, the Board concluded that "it does not need to own or operate a hospital at this time, but that it would be best to keep the option open in case the District is needed in the future for St. Rose Hospital."⁹⁶

OTHER HEALTH CARE PROVIDERS WITHIN THE DISTRICT BOUNDARY

In addition to the health care providers noted above, there are various other health care providers within the ETHD boundaries, for example, Kaiser Hospital in San Leandro; the Tiburcio Vasquez Health Center; the Davis Street Family Resource Center Clinic (see also discussion in

⁹¹ According to the Health Resources and Services Administration: Disproportionate Share Hospitals serve a significantly disproportionate number of low-income patients and receive payments from the Centers for Medicaid and Medicare Services to cover the costs of providing care to uninsured patients. Disproportionate share hospitals are defined in Section 1886(d)(1)(B) of the Social Security Act. For more information, see the [disproportionate share hospitals fact sheet](#).

⁹² See Alecto website at <http://www.alectohealthcare.com/>

⁹³ Letter from St. Rose Hospital to Richard Valle, Alameda County Board of Supervisors, August 5, 2016 pg.3.

⁹⁴ Letter from Roger Krissman, St. Rose Hospital CFO, to Richard Valle, Alameda County Board of Supervisors, August 5, 2016.

⁹⁵ Eden Township Healthcare District dba Eden Health District, Consolidated Financial Statements, June 30, 2016 and 2015, Armanino LLP

⁹⁶ Special Meeting of the ETHD Board of Directors, July 21, 2016, minutes, see Item VIII.



Chapter 5 about ETHD partnerships with Davis Street); school-based health centers, and other innovative facilities such as a pilot project clinic in a Hayward fire station.

This is not intended to be a comprehensive list of health care providers, but illustrative of the range and diversity of facilities and services. **Appendix A** includes a map and list of facilities in the District and surrounding areas within the County.

5. EDEN TOWNSHIP HEALTHCARE DISTRICT

The Eden Township Healthcare District (the "District") is a public agency organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California.⁹⁷ The District was formed in 1948 for the purpose of building and operating a hospital to benefit the residents of the Eden Township.

GOVERNANCE

A Board of Directors elected from within the District boundaries governs for terms as shown in Table 1. The District’s website provides descriptions of healthcare-related experience of the board members. No real estate experience is listed in the biographies.

Table 1 ETHD Board Members

Position	Name	Date Elected	Term Expires
Chair	Roxann Lewis	July 2014	Dec. 2018
Vice Chair	Thomas Lorentzen	Dec. 2014	Dec. 2018
Secretary/Treasurer	Charles Gilcrest	Dec. 2016	Dec. 2020
Board Member	Lester Friedman	Nov. 2010	Dec. 2018
Board Member	Megan Lynch	Dec. 2016	Dec. 2020

Elections, when required to fill contested positions, incur a cost of approximately \$200,000 every two years. Two vacant seats were filled by appointment, and no election was held in November 2016.

ETHD Board and staff were certified by the Association of California Healthcare Districts for meeting high healthcare district governance standards set for participating members in the association.⁹⁸ The District is investigating certification through a “District Transparency Certificate of Excellence” from the Special District Leadership Foundation, which documents

⁹⁷ Cal. Health and Safety Code 32000 et seq.

⁹⁸ 2015-2016 Alameda County Grand Jury Final Report, pg. 48.

various best practices.⁹⁹ The District appears to meet many of the standards, although there are additional practices that would improve the District's actions and accountability.

The Alameda County Grand Jury criticized the District for failing to implement a plan to increase public awareness of its activities and priorities.¹⁰⁰ The report cited a 2012 poll by the District that indicated, "55% of respondents prior to taking the poll had never heard of Eden Township Healthcare District."¹⁰¹ While the 2012 poll found that 55% of potential voters in the District had not heard of the district, and 24% had heard of the District but had no opinion, of the remaining 21%, the poll indicated that 18% had a favorable opinion and 3% of total poll respondents had an unfavorable opinion.¹⁰²

In the District's response to the Grand Jury, it indicated that since the 2012 poll, the District had "spent resources and time communicating with more than 19,855 individuals in the District directly, and at health fairs" and "reached several hundred more through the District's community health educational programs."¹⁰³

⁹⁹ SDLF website <http://www.sdlf.org/transparency>

¹⁰⁰ Alameda County Grand Jury Final Report 2015-2016 released on June 21, 2016, pg. 50.

¹⁰¹ 2015-2016 Alameda County Grand Jury Final Report, pg. 50.

¹⁰² Tramatola Advisors presentation to ETHD Board, Oct. 17, 2012.

¹⁰³ Eden Health District response to 2015-2016 Civil Grand Jury, ETHD Response to Finding 16-17, August 25, 2016.

ASSESSED VALUE AND POPULATION

Table 2 describes key characteristics of the District, including population and geographic area.

Table 2 Summary of Population and Area within the ETHD Boundaries

Area	Population	ETHD Population (2)(3)		Area (sq.miles)		
	Total City or Community	Residents	% ETHD	Total City or Community	ETHD Area (3) Sq. Miles	% ETHD
<u>INCORPORATED</u>						
San Leandro	87,700 (1)	84,940	22.4%	15.46	13.28	11.2%
Hayward	158,985 (1)	135,532	35.7%	64.33	33.55	28.3%
Dublin	57,349 (1)	1,000	0.3%	15.22	0.59	0.5%
Oakland	422,856 (1)	100	0.0%	77.98	1.85	1.6%
Union City	<u>72,952</u> (1)	<u>0</u>	<u>0.0%</u>	<u>19.39</u>	<u>0.17</u>	<u>0.1%</u>
Total, Incorporated	799,842	221,572	58.4%	192.38	49.44	41.7%
<u>UNINCORPORATED</u>						
Castro Valley	62,363 (2)	62,363	16.4%	10.76	10.76	9.1%
San Lorenzo	24,563 (2)	24,563	6.5%	2.82	2.82	2.4%
Ashland	23,360 (2)	23,360	6.2%	1.77	1.77	1.5%
Cherryland	15,244 (2)	15,244	4.0%	1.23	1.23	1.0%
Fairview	9,852 (2)	9,852	2.6%	2.81	2.81	2.4%
Other Unincorporated	<u>42,800</u> (3)	<u>22,712</u>	<u>6.0%</u>	<u>405.98</u>	<u>49.79</u>	<u>42.0%</u>
Total, Unincorporated	178,182 (1)	158,094	41.6%	425.37	69.18	58.3%
TOTAL	978,024 (1)	379,666	100.0%	617.75	118.62	100.0%

(1) Source: Cal. Dept. of Finance, Report E-1: City/County Population Estimates 1/1/16

(2) Census, American Community Survey, 5-year

(3) County of Alameda GIS, 12/5/16

ETHD no longer collects property taxes from assessed value within its boundaries. However, assessed value can be a factor in determining governance options and disposition of assets.

Table 3 below shows the distribution of value within ETHD boundaries.



Table 3 Summary of Assessed Value within the ETHD Boundaries

Area	Total A.V. Total City or Community (1)	ETHD Assessed Value (1)	
		\$	% ETHD
<u>INCORPORATED</u>			
San Leandro	\$ 10,562,846,587	\$ 10,561,557,238	26.0%
Hayward	\$ 16,167,129,055	\$ 15,071,319,856	37.1%
Dublin	\$ 11,159,798,890	\$ 412,634,722	1.0%
Oakland	\$ 42,947,862,495	\$ 13,043,716	0.0%
Union City	\$ 8,413,236,717	\$ 4,614,713	0.0%
Total, Incorporated	89,250,873,744	\$ 26,063,170,245	64.1%
<u>UNINCORPORATED</u>			
Castro Valley	\$ 8,447,517,869	\$ 8,447,517,869	20.8%
San Lorenzo	\$ 2,187,199,320	\$ 2,187,199,320	5.4%
Ashland	\$ 1,339,951,856	\$ 1,339,951,856	3.3%
Cherryland	\$ 792,066,607	\$ 792,066,607	1.9%
Fairview	\$ 1,353,170,519	\$ 1,353,170,519	3.3%
Other Unincorporated	\$ 2,170,834,374	\$ 454,046,194	1.1%
Total, Unincorporated	\$ 16,290,740,545	\$ 14,573,952,365	35.9%
TOTAL	\$ 105,541,614,289	\$ 40,637,122,610	100.0%

(1) County of Alameda GIS

ETHD GOALS, POLICIES AND PLANS

The District's Strategic Plan¹⁰⁴ states their mission:

It is the mission of Eden Township Healthcare District to improve the health of the people in our community by investing resources in health and wellness programs that meet identified goals.

The Strategic Plan was last amended by the Board in August, 2016. The Plan includes a set of priorities, and actions to implement the priorities. The Plan should be reviewed at least annually to reflect changing conditions. The amended Strategic Plan includes actions to be taken to implement each goal. It will be important for the District to document accomplishments of those actions. The Plan's actions and accomplishments should also be integrated into its budget.

The Strategic Plan includes the following goals:

1. Provide health education programs promoting health and wellness among adults and children; continue to work collaboratively with community organizations and government agencies as "Partners in Health" in providing the above programs;
2. Provide monetary grants through the Community Health Fund to non-profit health care programs specifically focused on services for vulnerable populations of the District;
3. Provide direct health/wellness services as deemed necessary or lacking within the communities we serve, such as urgent care, dental, mental, and senior services;
4. Continue to increase awareness of the District's purpose and value to the communities we serve through effective communication initiatives;
5. Continue to maintain investment properties that serve a medical or health purpose or provide revenue toward that end;
6. Continue to remain financially sound, managing business operations ethically and conservatively minimizing any risk to the viability of the District.

The Strategic Plan includes actions to implement each goal.

District policies are available on their website, and encompass a range of policies and procedures, including date created and amended.¹⁰⁵

¹⁰⁴ The Next Five Years, Eden Township Healthcare District (Formally adopted by Board: August 17, 2016).

¹⁰⁵ <http://ethd.org/governance/policies-procedures/>

The District prepares annual financial reports and budgets in a timely manner and makes them available on their website. The financial audits adhere to generally accepted accounting principles and standards.

The District prepares long-term financial forecasts as needed (for example, for property financings), but should be a routine part of budget preparation and review/update of its Strategic Plan. A long-term capital plan should be regularly maintained and supported by facility condition assessments, and should be consistent with actions in the Strategic Plan related to asset management and development.

ETHD SERVICES

The District no longer owns and operates a hospital, but it does provide grant funding and sponsorships to health-related organizations and programs, oversees its investment fund, and owns three office buildings where it leases office space to various health providers.

ETHD's health-related programs are primarily grants and sponsorships, and do not represent "direct services" to consumers, or ownership of facilities and equipment that provide direct services. However, the grant recipients all appear to be organizations that do provide services, including clinical and/or educational programs, directly to consumers. The District also contracts for educational services, which could be considered "direct services".

Ownership of medical office buildings is consistent with the District's Strategic Plan Goal #5 to "Continue to maintain investment properties that serve a medical or health purpose or provide revenue toward that end" (see Chp. 5 ETHD Goals, Policies and Plans), although some of the property is located outside the District's boundaries and it is unclear to what extent the buildings benefit District residents. According to the property's management company, "medical office buildings play a critical role in providing healthcare services in the communities that they serve. Moreover, in a market like ours where demand (and therefore rents) for general office buildings is exceptionally strong, there is a limited stock of medical buildings remaining to service the community."¹⁰⁶

The District indicated that it strives to maintain rents at the lower end of prevailing market rents, however, no District policies to that effect are apparent nor policies and analysis directed towards identifying target tenant types to meet identified community needs. This Special Study has not conducted an independent market analysis to determine market rents. This Special Study has not conducted an independent market analysis to determine market rents.

¹⁰⁶ W. Trask Leonard, CEO, Bayside Realty Partners, letter to LAFCo, 1/31/17.

DAVIS STREET FAMILY RESOURCE CENTER

ETHD recently entered into an agreement with the Davis Street Family Resource Center (DSFRC), a private non-profit agency in San Leandro, to provide monthly funding for a five-year period.¹⁰⁷ DSFRC provides basic needs, childcare and counseling to underserved individuals throughout San Leandro.¹⁰⁸ Their mission "...is to improve health, address poverty and increase the overall quality of life of residents in the Eden Area."¹⁰⁹ DSFRC is a Federally-qualified Health Clinic.¹¹⁰

DSFRC operates a primary care clinic that reported serving 1,435 patients, over half under the Federal poverty level, and providing 3,870 services and diagnoses in 2015.¹¹¹ DSFRC provides preventative health services including lab screenings and analyses; health education and nutrition counseling; and screening for cancer (breast, colon, prostate, etc.). DSFRC's ambulatory primary care includes: diagnosis and treatment of disease; primary care for acute, episodic illness; management of chronic illnesses such as diabetes, hypertension, heart disease, asthma, allergies, etc.; women's health; and wellness exams. The clinic also provides a full range of dental services. Other services include behavioral health services such as individual, family, and couples therapy; psychological assessments; case management; group therapy (anger management; trauma; domestic violence; etc.); and short- and long-term treatment.¹¹²

The DSFRC programs funded through ETHD's \$250,000 annual grant focus on two service areas: a Diabetic Management Program and the Community Behavioral Health Program. Diabetes is identified in the Alameda County Health Profile as among the top ten leading causes of death in Alameda County. Mental health services are identified as a priority in the areas served by Kaiser Hospital in Hayward¹¹³ and by the Community Health Needs Assessment of the Sutter Medical

¹⁰⁷ Eden Township Healthcare District- Street Family Resource Center Services Agreement, Nov. 5, 2015.

¹⁰⁸ IRS Form 990, 2014, The Davis Street Community Center Incorporated.

¹⁰⁹ Davis Street website, <http://davisstreet.org/index.php/about-us/>

¹¹⁰ A Federally Qualified Health Center (FQHC) is a reimbursement designation from the Bureau of Primary Health Care and the Centers for Medicare and Medicaid Services of the United States Department of Health and Human Services; see https://en.wikipedia.org/wiki/Federally_Qualified_Health_Center

¹¹¹ ALIRTS website, Annual Utilization Report of Primary Care Clinic, 2015, Davis Street Primary Care Clinic, <https://www.alirts.oshpd.ca.gov/default.aspx>

¹¹² Davis Street website, <http://davisstreet.org/index.php/healthclinic/>

¹¹³ 2013 Community Health Needs Assessment, Kaiser Foundation Hospital – Hayward, also referred to as the Kaiser Permanente Northern California Region Community Benefit CHNA Report for KHF-Hayward.

Center Castro Valley (SMCCV) Service Area.¹¹⁴ The outcomes of these expanded services will be documented in conformance with applicable Federal requirements and provided to the District on an ongoing basis, according to the District's agreement with DSFRC.¹¹⁵ The initial agreement is effective through November 30, 2016 and automatically renews for four additional annual periods, and may be terminated by either party to the agreement.

ETHD has provided various levels of support to the DSFRC over the past twenty years. ETHD provided the initial funds (\$12,500) needed to open the free clinic at the Davis Street facility.¹¹⁶ The San Leandro Hospital, owned by ETHD at the time, donated much of the needed equipment, and the hospital later furnished equipment for the x-ray center and the labs.¹¹⁷

GRANTS TO SERVICE PROVIDERS

ETHD budgeted \$250,000 in FY17 towards grants to service providers, the same amount expended in the prior fiscal year. In addition, the District budgeted \$250,000 to its Davis Street partnership. The District reports that it had granted approximately \$11.6 million to various service providers within its service area from 1999 through FY16, which it recently increased when it converted the unpaid balance on its loan to St. Rose Hospital into a grant.¹¹⁸ **Figure 3** illustrates grants awarded annually.¹¹⁹ Grant awards were suspended in FY10-11 due to pending Sutter Health litigation.

¹¹⁴ Community Health Needs Assessment (CHNA) of the Sutter Medical Center Castro Valley (SMCCV) Service Area, conducted on the behalf of Sutter Medical Center Castro Valley, by Valley Vision, Inc., 2013.

¹¹⁵ Eden Township Healthcare District- Street Family Resource Center Services Agreement, Nov. 5, 2015.

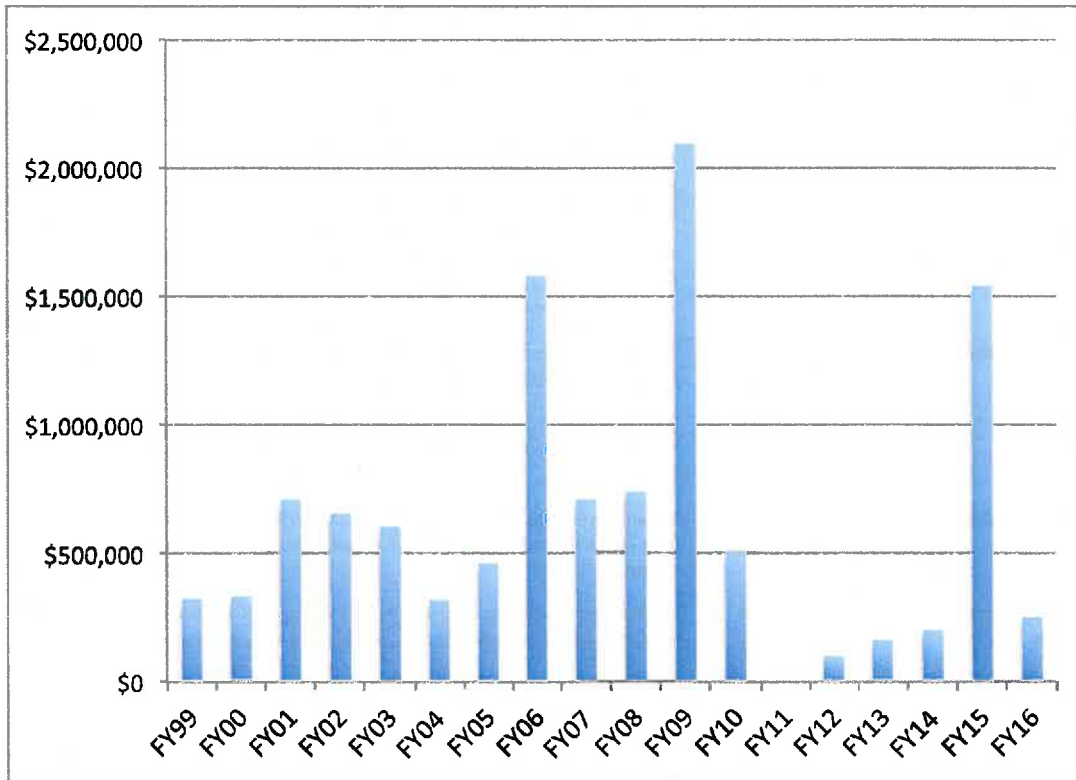
¹¹⁶ See "Proposed Partnership", September 14, 2015, attached to Eden Township Healthcare District- Street Family Resource Center Services Agreement, Nov. 5, 2015.

¹¹⁷ *ibid*

¹¹⁸ ETHD Grants Summary (see **Appendix B**).

¹¹⁹ ETHD Grant Report, as of 12/5/16. Amounts reflect awards during the fiscal year; timing of payments may vary slightly. Includes conversion of St. Rose loan to a grant.

Figure 3 ETHD Grants Awarded Annually



Appendix B provides a list of past ETHD grants and sponsorships. Table 4 describes grants awarded in FY15-16. The District’s website includes a list of grant application review criteria and priorities for funding programs that “closely match the District’s priorities established for the year.”¹²⁰ Grant recipients file Interim Grant Reports, a process started in 1999; current reports are available on the District’s website and past reports are available on request. The reports follow a standard format and provide information that includes services and persons served, goals and priorities, and issues related to grant utilization.¹²¹ District Policy No. 404 addresses the grant process.¹²²

¹²⁰ ETHD website <http://ethd.org/grants/faq/>

¹²¹ ETHD website

¹²² http://ethd.org/wp-content/uploads/2015/04/ETHD404_2013.pdf

**Table 4 Summary of ETHD FY15-16 Grants**

Grant Recipient	Grant Amount	Summary
Eden I & R	\$18,000	2-1-1 Alameda County is a toll-free, 24/7 phone service that provides callers with information and referrals to health, housing, and human services in more than 150 languages.
CV VFW Post 9601	\$5,000	Intended to foster camaraderie among United States veterans of overseas conflicts, and advocate on behalf of veterans.
George Mark Children's House	\$15,000	Pediatric palliative care facility which provides life-enhancing medical care and family support for children with illnesses that modern healthcare cannot yet cure, and for those with complex medical issues.
San Leandro Unified School District	\$10,000	Peer Educators and Navigators who will identify, develop and facilitate health-related presentations/projects for their peers.
CALICO Center	\$25,000	Building Resiliency Project to improve mental-health for toddlers, children and teens, as well as adult victims with developmental disabilities, who have suffered abuse
Mercy Retirement & Care Center	\$12,500	Brown Bag Program which helps low-income seniors in Alameda County maintain their health through the distribution of nutritious groceries, twice a month, free of charge.
Spectrum Community Services	\$25,000	Fall Risk Reduction Program prevents falls among high-risk Eden Area seniors, thus improving health outcomes and preventing expensive hospitalization.
La Familia Counseling Service	\$25,000	Wellness First program will provide on-site early intervention and mental health services to English as a Second Language and transitional age youth.
SOS Meals on Wheels	\$25,000	Prepares and delivers nutritious meals and daily check in visits for at-risk seniors so that they can continue to live independently at home for as long as safely possible.
East Bay Agency for Children	\$25,000	Child Assault Prevention Training Center provides 32 violence prevention workshops at high-risk San Leandro schools, as well as mental health services and Trauma Awareness Groups.
Foundation for Osteoporosis Research Foundation	\$14,000	Resource for osteoporosis information and education and bone health promotion in Northern California and develops models for treatment, intervention and prevention of osteoporosis throughout the cycle of life and among diverse populations.
Cal. Society to Prevent Blindness	\$20,500	Devoted to the preservation of sight for the people of Northern California. Provides direct vision screening services, vision screening training programs, public education, and advocacy.
Building Futures with Women & Children	\$10,000	Emergency Shelter and Domestic Violence Services to Eden Area Women and Children which provides services for homeless and abused women and children, as well as provides domestic violence outreach and education services.
Cherryland Elementary/Cherryland PTA	\$20,000	Intended to advance the health and wellness of the Cherryland community and make health-related services more accessible and affordable, especially to under-served, high-risk/special needs students and their families.

Source: ETHD website, <http://ethd.org/grants/previous-recipients/>

SPONSORSHIPS

Over the past ten years, ETHD provided approximately \$340,000 in sponsorships for various health-related programs and events.¹²³

LEASE OF COMMERCIAL BUILDINGS

The ETHD owns several medical office buildings that generate significant revenues for health care purposes, as further described below under “ETHD Financial Resources”. The characteristics of each building are described below in the section “ETHD Property”. Ownership of the buildings is consistent with the District’s Strategic Plan Goal #5 to “Continue to maintain investment properties that serve a medical or health purpose or provide revenue toward that end” (see also Chp. 5 ETHD Goals, Policies and Plans), although some of the property is located outside the District’s boundaries and it is unclear to what extent the buildings benefit District residents.

The Strategic Plan also includes actions to “...evaluate/substantiate the benefit of providing offices for small (locally-based) physician practices or small medical groups and determine the relevance it has to the community’s health and wellness needs.”

OTHER ACTIVITIES

Baywood Court

Baywood Court is a skilled nursing and independent living facility located in Castro Valley¹²⁴ with a 217-unit senior housing complex and a 56-bed skilled nursing facility. The housing complex includes independent living and assisted living units with a senior focus providing geriatric services.¹²⁵ Currently the facility has a 6-month waiting list.¹²⁶

In 1984, the District established the Eden Hospital Health Services Corporation (“EHHSC”), a nonprofit, California public-benefit corporation, with its own Board of Directors, which the IRS classifies as a 501(c)3 public charity.¹²⁷

¹²³ See Appendix B, ETHD Grants & Sponsorships through FY16.

¹²⁴ Baywood Court is located at 21966 Dolores Street, Castro Valley, CA 94546

¹²⁵ Website of the National Center for Charitable Statistics,
<http://nccsweb.urban.org/communityplatform/nccs/organization/profile/id/942940176/popup/1>

¹²⁶ R.Berkson correspondence with ETHD, 8/3/2016.

¹²⁷ Website of the National Center for Charitable Statistics.

Baywood Court was developed by EHHSC, and opened in 1990. EHHSC owns and operates the retirement and skilled nursing facility. In 2010 the bylaws of EHHSC were amended to rename EHHSC to "Baywood Court" after the only remaining operational entity.¹²⁸

The ETHD Chief Executive Officer (CEO) serves on the board, and ETHD is acting as a conduit for Baywood Court's financing. The District has made grants to Baywood Court.¹²⁹

San Leandro Hospital (SLH)

ETHD purchased SLH in 2004 and leased it to Sutter Health, as described in **Chapter 4**, then transferred the facility to Sutter Health in 2012 following a legal dispute over Sutter Health's exercise of its option to acquire SLH. Due to the dispute, ETHD is now legally obligated to make payments, spread over 10 years, to Sutter Health. Following the transfer of SLH, ETHD considered contributing funds to SLH to help offset SLH operating deficits; the District determined that it did not have the financial ability at that time to make the contributions requested.¹³⁰

St. Rose Hospital

As noted in **Chapter 4**, ETHD loaned \$3 million to St. Rose Hospital in 2011 to help reduce the hospital's significant annual operating shortfalls.

At its meeting in June, 2016, the ETHD Board decided to forgive the balance remaining on its outstanding loan to St. Rose Hospital of \$1,150,000 (plus past due interest of \$140,182).¹³¹ The Board effectively granted St. Rose Hospital \$1.3 million (including interest) and directed that the funds be used to offset the costs of serving under-insured and uninsured patients residing within the District.¹³²

¹²⁸ Baywood Court website, <http://www.baywoodcourt.org/>

¹²⁹ The ETHD grant summary reports grants totaling \$15,900 through 2016 to Baywood Court.

¹³⁰ Letter from Dev Mahadevan, ETHD, to Supe. Chan, San Leandro Mayor Russo Cutter, and Michele Lawrence, AHS Board of Trustees, Aug. 11, 2015.

¹³¹ Letter from Roger Krissman, St. Rose Hospital CFO, to Richard Valle, Alameda County Board of Supervisors, August 5, 2016.

¹³² Eden Township Healthcare District dba Eden Health District, Consolidated Financial Statements, June 30, 2016 and 2015, Armanino LLP

ETHD reports that it had granted St. Rose a total of \$2,942,182 for all years through 2016,¹³³ including the grant noted above and a \$10,000 sponsorship in the fiscal year ending June 30, 2016.

ETHD PROPERTY

ETHD owns three buildings occupied by a range of health care providers, including doctors and medical clinics.

- **Dublin Gateway Center**— The 70,000 square foot Center, acquired by ETHD in 2007,¹³⁴ is located at 4000 Dublin Blvd. at Tassajara Rd. in Dublin, outside of the District’s boundaries. Major tenants include the Sutter Health Palo Alto Medical Foundation (22,800 sq.ft.), Webster Orthopedics (12,200 sq.ft.), and the ValleyCare Health System urgent care center (11,500 sq.ft.).¹³⁵

Currently, the Dublin Gateway Center is 100% occupied, with tenants paying an average of \$2.50 per square foot per month plus \$0.70 for common area maintenance (CAM).¹³⁶ ETHD net operating income (NOI) from the Dublin Gateway Center is \$2.6 million annually (net cash flow before deducting debt service, amortization, depreciation, capital expenditures, and overhead allocations).

The \$2.6 million NOI helps to cover interest-only payments of \$384,000 on the building’s loan, which has an \$11.7 million outstanding balance.¹³⁷ The NOI after debt service is approximately \$2.2 million annually.

- **Eden Medical Building**— The 21,500 square foot building is located in Castro Valley near the Eden Medical Center, an acute care hospital originally built and operated by the ETHD. ETHD built the building in 2010 on property purchased in 2004.¹³⁸ The ETHD 1,710 square foot office is located in this building. Tenants include EBMO/HMA, Inc. (3,800 sq.ft.), Horizon Vision Center (2,400 sq.ft.), Unilab Corp. (1,600 sq.ft.), and Baz Allergy (1,700 sq.ft.).

¹³³ The ETHD grant summary reports grants totaling \$2,942,182 for all years through 2016 to St. Rose Hospital (see Appendix B).

¹³⁴ See ETHD Timeline, **Appendix C**.

¹³⁵ Dublin Gateway Center Rent Roll – Occupancy Summary, ETHD, as of 10/01/2016.

¹³⁶ ETHD rent rolls as of 7/31/16.

¹³⁷ ETHD Financials June 2016.

¹³⁸ See ETHD Timeline, **Appendix C**.

The Eden Medical Building is 60% occupied, with rents ranging from \$2.40 to \$2.69 per square foot per month plus CAM charges.¹³⁹ FY17 gross revenues are projected at \$576,000. After operating expenses of \$248,000, NOI is \$328,000 annually (before amortization, depreciation, capital expenditures, and overhead allocations). There is no outstanding debt on the building.

- **San Leandro Medical Arts**– The 41,800 square foot building is located at 3847 East 14th Street, San Leandro near the San Leandro Hospital. The building was acquired by ETHD as part of its agreement to purchase the San Leandro Hospital in 2004.¹⁴⁰ Tenants include a range of medical services in offices ranging in size from 1,000 sq.ft. to 2,400 sq.ft.

The San Leandro Medical Arts building is about 84% leased, with average rents of about \$2.05 per square foot per month. The rents are a “commercial gross” basis, and include common area charges. The FY17 ETHD budget estimates total revenues of \$974,000. After deducting operating expenses of \$545,000, NOI is \$429,000 annually (before amortization, depreciation, capital expenditures, and overhead allocations). There is no outstanding debt on the building.

The District is investigating additional development on its Dublin Gateway property. It currently has a Development Agreement with the City of Dublin that the District is considering renewing. Expansion would require additional investment by ETHD and would increase ongoing revenues (investments and revenues from that expansion are not determined at this point in time).

ETHD FINANCIAL RESOURCES

The District does not receive any property tax revenues or assessments. Its activities are funded entirely by net revenues from its medical office real estate operations, and interest earnings on investments. The District has the ability to request voter approval of parcel taxes.¹⁴¹

Table 5 summarizes three years of financial data based on the District’s financial reports and FY16-17 budget.¹⁴² Consistent with audited financial reports and accepted accounting

¹³⁹ ETHD rent rolls as of 7/31/16.

¹⁴⁰ See ETHD Timeline, **Appendix C**.

¹⁴¹ Parcel taxes could only be used to fund District-owned facilities, according to ETHD (R.Berkson correspondence with D.Mahadevan, 11/30/16).

¹⁴² ETHD FY16-17 revised budget, per correspondence from ETHD to R. Berkson, 11/19/16

standards, the operating expenses include depreciation, which is a non-cash expense representing a share of the building value that is “consumed.”

The final row of **Table 5** shows the net cash remaining after expenses and grants, but after excluding “non-cash” depreciation. The FY16-17 budget shows \$1.65 million remaining that must be used for Sutter Health payments, in addition to drawing down existing investments. Capital improvements will also need to be paid out of the District’s cash flow and investments.

According to the District’s most recent audited financial reports, its net position, or assets minus liabilities, is \$26.45 million at the end of FY15-16.¹⁴³

The District has significant financial assets in the form of real estate investments and cash investments. These assets originated from the sale of the Eden Medical Center that originally was funded by taxpayers of ETHD. Assets total \$54.67 million; offsetting liabilities are \$28.22 million.¹⁴⁴ The liabilities include an \$11.7 million loan for the Dublin Gateway building, and \$13.8 million settlement payable to Sutter Health, in addition to other smaller current liabilities.

As shown in **Table 5**, the District’s administrative and overhead expenses represented 10.6% of other operating expenses in FY15-16; this ratio increased in the FY16-17 budget to an estimated 15.8% due to declines in other operating expenses.

¹⁴³ ETHD Consolidated Financial Statements, June 30, 2016; see Consolidated Statement of Net Position, pg. 11.

¹⁴⁴ Ibid, ETHD Consolidated Financial Statements, June 30, 2016

**Table 5 Summary of ETHD FY15 and FY16 Financial Reports and FY17 Budget**

	FY15 Audit TOTAL	FY16 Audit TOTAL	Revised FY17 Budget TOTAL
Operating Revenues	\$5,654,904	\$5,105,591	\$5,575,033
Operating Expenses	6,788,800 (1)	7,047,660 (1)	5,317,120 (1)
Allocation of Admin/OH operations	included above	744,882	841,354
Alloc. % of Total Op'ing Expenses (before allocations)		10.6%	15.8%
Total Operating Expenses (inc. allocations)	6,788,800	7,792,542	6,158,474
Net Operating Income or (loss)	(1,133,896)	(2,686,951)	(583,441)
Non-Operating Net Revenues (Expenses)	(20,151,927) (2)	3,849,735 (3)	(249,024) (4)
Net Change	(21,285,823)	1,162,784	(832,465)
Net Change excluding Depreciation, Amort.	(17,308,956) (5)	4,559,916 (5)	1,651,943 (5)

(1) Operating expenses include depreciation and amortization, but exclude interest. 12/15/16

(2) FY15 non-operating expenses includes Sutter Liability (100%)

(3) FY16 includes gain on sale of a portion of the Dublin Gateway property.

(4) FY17 interest cost largely offset by interest income.

(5) Excludes capital expenditures and payments to Sutter (100% Sutter obligation booked as a liability in FY15). Interest payments to Sutter are included in non-operating expenses.

As shown in **Table 6**, the District's budget segregates real estate operations from other general government activities, similar to how enterprise funds are treated by other government entities. Revenues generated by the real estate activities fund real estate operations; the real estate produces a "cash basis gain" of \$2.2 million, which is available to the District; after funding community services, \$1.6 million is available to be applied towards capital improvements and payments to Sutter Health.

As shown below in **Table 6**, grants, partnerships and community education total \$574,270 in the FY16-17 budget, or about 85% of the total Community Services budget of \$676,004.



Table 6 Summary of ETHD FY16-17 Budget

	Real Estate Activities	Community Services	District Office	TOTAL
Revenues				
Rental income	\$3,675,741			\$3,675,741
Tenant Reimbursement	\$1,899,292			1,899,292
Interest income	<u>1,776</u>		<u>133,200</u>	<u>134,976</u>
Total Revenues	\$5,576,809	\$0	\$133,200	\$5,710,009
Expenses				
Consulting	0	15,000		15,000
Legal Fees	13,596			13,596
Audit/Tax Preparation Fees	3,500			3,500
Management Fees	170,493			170,493
Utilities	407,513			407,513
Repairs & Maintenance	806,262			806,262
Parking Services	133,630			133,630
Billback, PAMF Bldg 4050	370,424			370,424
Insurance	39,906			39,906
Purchased Services	42,807			42,807
Other Direct Expense	97,920			97,920
Property Taxes	157,392			157,392
Interest Expense	384,000			384,000
Overhead Allocation	754,619	86,734		841,353
Amortization	158,196			158,196
Depreciation	<u>2,326,212</u>			<u>2,326,212</u>
Subtotal	\$5,866,470	\$101,734	<i>allocated (1)</i>	\$5,968,204
Community Education		51,240		51,240
Sponsorships		23,030		23,030
Davis Street Partnership		250,000		250,000
Grants to service providers		<u>250,000</u>		<u>250,000</u>
Subtotal, Ed., Sponsorships, Grants		\$574,270		\$574,270
Total Expenses	\$5,866,470	\$676,004		\$6,542,474
Net Profit/(Loss)	(\$289,661)	(\$676,004)	\$133,200	(\$832,465)
Cash Basis Gain/(Loss) (2)	\$2,194,747	(\$676,004)	\$133,200	\$1,651,943

(1) District expenses of \$841,353 are allocated to other activities.

12/15/16

(2) "Cash Basis" excludes depreciation and amortization.

Source: ETHD Approved FY16-17 budget, as revised 11/19/16.



REVENUES

As mentioned above, ETHD receives no revenues from property taxes, special taxes or assessments.

Gross operating revenues are estimated in FY17 to total just under \$5.6 million (excluding interest income). ETHD buildings are projected to generate about \$2.2 million in cash in FY17, after deducting operating expenses and overhead allocations but before non-cash expenses such as amortization and depreciation. As further described below, this cash is budgeted for grants, sponsorships, and community education, payments to Sutter, and capital improvements.

The District also earns interest on its investments; the investments total approximately \$9.7 million.¹⁴⁵ Current interest rates earned on ETHD investments, which are limited by state statutes to certain types of secure investments, are just under 1%.¹⁴⁶

CASH AND OTHER CURRENT ASSETS

The District's balance sheet shows approximately \$950,000 in current assets including cash and cash deposits, accounts and interest receivable, and prepaid expenses.¹⁴⁷

FIXED ASSETS

ETHD's fixed assets consist of its real estate holdings, which total \$43 million.¹⁴⁸ This value is net of accumulated depreciation offset by capital improvements. One outstanding loan of \$11.7 million obtained for the construction of the Dublin Gateway building reduces net asset value to \$31.3 million. This value generally corresponds to the net proceeds that might be realized from

¹⁴⁵ Notes to ETHD Consolidated Financial Statements, June 30, 2016; see Note 4, pg. 20.

¹⁴⁶ As noted in the ETHD Consolidated Financial Statements, June 30, 2016, pg. 17, State statutes limit the types of investments that can be made to U.S. Treasury obligations, commercial paper, corporate notes, repurchase agreements, reverse repurchase agreements, banker's acceptances and other instruments including the State Treasurer's Investment Pool.

¹⁴⁷ ETHD Consolidated Financial Statements, June 30, 2016; see Consolidated Statement of Net Position, pg. 11.

¹⁴⁸ ETHD Consolidated Financial Statements, June 30, 2016; see Consolidated Statement of Net Position, pg. 11.

the sale of the property, assuming the property's Net Operating Income (NOI) would provide a 7% return on a buyer's purchase price.¹⁴⁹

OTHER ASSETS

The District reports \$9.7 million in non-real estate investments.¹⁵⁰ As noted in District financial reports, the District invests in corporate bonds, US government agency securities, and US Treasury notes.¹⁵¹ The District's loan agreement related to the Dublin Gateway requires the District to retain a minimum of \$6 million in "unencumbered liquid assets".¹⁵²

ETHD provided St. Rose Hospital a loan of \$3 million in 2011. \$1.15 million plus interest was converted from an asset to a "grant" by the District in FY16, removing it from the asset category shown in prior financial statements.

ETHD EXPENDITURES

ETHD's FY16-17 projected expenses total \$6.5 million (excluding capital and payments to Sutter Health) as shown in **Table 6**, above.

BUILDING OPERATIONS

As shown in **Table 6**, real estate operations represent about \$5.5 million of operating expenses (\$5.9 million operating and non-operating expenses before excluding interest expense of approximately \$400,000), or about 90% of the total \$6.1 million total operating expenditures (\$6.5 million total expenditures excluding interest of \$400,000). These expenditures are tracked separately in the District's budget, and include an allocation of administration and overhead.

¹⁴⁹ Estimate of value is illustrative only; no appraisal has been prepared of the potential sales value. The estimate assumes a 7% cap rate applied to NOI of \$3.16 million (excluding interest, amortization, depreciation, and overhead allocations) less outstanding loan balance.

¹⁵⁰ ETHD Consolidated Financial Statements, June 30, 2016; see Consolidated Statement of Net Position, pg. 11.

¹⁵¹ ETHD Consolidated Financial Statements, June 30, 2016; see Consolidated Statement of Net Position, pg. 20.

¹⁵² Additional Advance and Seventh Modification Agreement (Long Form), U.S. Bank National Association, January 20, 2016, pg. 7.

COMMUNITY SERVICES

The District budgeted \$574,270 in FY16-17 in its Community Services budget for grants, sponsorships and community education. These amounts do not include the loan forgiveness to St. Rose, which the District re-categorized as a grant in the prior fiscal year.

Community Service expenditures include the following:

- **\$250,000 for the Davis Street Partnership**
- **\$250,000 for grants to other service providers**
- **\$23,030 in sponsorships**
- **\$51,240 community education**

With the exception of the \$51,240 for community education, the community service expenditures generally do not meet the definition of “direct health services” defined in recent legislation as “...ownership or direct operation of a hospital, medical clinic, ambulance service, transportation program for seniors or persons with disabilities, a wellness center, health education, or other similar service.”¹⁵³ The District describes its 5-year funding to the Davis Street program as a “partnership”, however, it does not appear to be an operation of the District, nor does the District own facilities as a result. However, the District’s grants appear to be awarded to “organizations that provide direct health services.”¹⁵⁴

The \$574,270 equals about 85% of the \$676,004 total Community Services budget (including the District’s allocation of about \$86,700 for overhead and administration).

As summarized in **Table 7**, the Alameda County Civil Grand Jury compared expenditures for grants, sponsorships and community education to the District’s total budget including real estate activities. The Grand Jury report concluded that the small percentage of resources devoted to health care is an indication that the district’s attention has been diverted away from its primary mission, which is to “improve the health of the people in our community.”¹⁵⁵ The Special Study treats real estate activities as a separate revenue-generating fund and does not compare grants to real estate activities.

¹⁵³ As added by AB2737 (2015-2016), Cal Health and Safety Code 32495(a).

¹⁵⁴ Cal Health and Safety Code 32496(b) requires that “a nonprovider health care district shall spend at least 80 percent of its annual budget on community grants awarded to organizations that provide direct health services.”

¹⁵⁵ Alameda County Grand Jury Final Report 2015-2016, Finding 16-16, pg. 54.

Table 7 Comparison of Grand Jury’s Ratio of Healthcare Expenditures vs. Special Study

	Grants as a % of Budget	
	Grand Jury Report	Special Study
Description	Grants and sponsorships compared to total expenditures for all activities.	Grants and sponsorships compared to total Community Services Fund expenditures.
Example Calculation (FY16-17)	\$574,300 divided by total expenditures for all activities of \$6,158,500 equals 9.3%.	\$574,300 divided by total Community Services Fund expenditures of \$676,000 equals 85%.

After the Sutter Health obligation is repaid, an additional \$1.5 million or more could be spent on community services. Added to current, ongoing grants and sponsorships, this represents about \$2 million annually. The estimated additional \$1.5 million is based on the \$1.65 million of “cash basis” gain shown in **Table 6**, before payments to Sutter Health and capital expenditures.

The actual future amount available for community services depends on District budget priorities, overhead allocations, future expenditures and revenues including capital expenditures, market conditions and rent revenues. Real estate returns could be adversely affected by a recession that could reduce revenues available for community services.

ADMINISTRATION AND OVERHEAD

ETHD separately accounts for its administrative costs in its District Office budget. The FY16-17 budget estimates \$841,400 in overhead and administrative expenditures. Major administrative costs and FY16-17 budget amounts include the following.

- **Salaries and Benefits** – \$370,000 in salaries and benefits for three employees: the CEO at 60% of a Full-Time Equivalent (FTE), accountant, and Executive Assistant to CEO/Board of Directors & District Clerk. Additional property management on-site staff costs are allocated to their respective building budgets. The District maintains written job descriptions for the three positions, and salaries and benefits are published on the website Transparent

California¹⁵⁶ and the California State Controller’s website.¹⁵⁷ The District surveyed three similar districts in the Bay Area to establish, using a midpoint, the CEO salary.¹⁵⁸

- **Consulting** – The District budgeted \$30,000 for consulting fees, \$30,000 for public relations, and \$50,000 for a consulting contingency for FY17. In the prior fiscal year, FY16, no budgeted consulting contingency was spent, and \$19,000 of public relations expenditures were required.
- **Legal Fees** – Legal fees are budgeted in FY16-17 at \$120,000. The District anticipates that these fees will decline to the \$60,000 to \$100,000 range after the current Sutter litigation and appeals are concluded.
- **Audit Fees** – Annual audits cost the District approximately \$30,000.
- **Investment Fees** – Approximately \$28,000 is budgeted for investment fees related to the District’s investment funds, currently totaling about \$9.7 million.
- **Insurance** – The District funds “Directors and Officers Insurance” at an annual cost of \$27,000.
- **Election Costs** – Elections, when required to fill contested positions, incur a cost of approximately \$200,000 every two years. No elections were necessary in FY16-17 due to the lack of contested positions.
- **Other Expenses** – In addition to the items listed above, an additional \$160,000 is budgeted in FY16-17 for ETHD office utilities, repairs and maintenance; purchased services and other direct costs; interest expense and depreciation.

ALLOCATION OF ADMINISTRATION AND OVERHEAD

ETHD allocates \$841,000 of administration and overhead costs, or District Office expenditures, to each building fund and to the Community Services Fund proportionate to expenditures. The allocation to Community Services represents about 15% of other Community Service expenditures. This factor is similar to the allocation of District overhead to real estate activities.

As summarized in **Table 8**, the Alameda County Civil Grand Jury did not calculate an ETHD overhead factor, but did compare total non-grant expenditures to total expenditures including real estate activities. The Grand Jury report concludes that, as a consequence of the real estate

¹⁵⁶ <http://transparentcalifornia.com/agencies/salaries/special-districts/#hospital>

¹⁵⁷ <http://publicpay.ca.gov/>

¹⁵⁸ R.Berkson correspondence with D.Mahadevan, 11/30/16.

expenditures, “the district struggles to deliver (directly or indirectly) adequate healthcare services for all residents.”¹⁵⁹

The Special Study treats the real estate activities as a separate revenue-generating fund that enables the ongoing funding of grants and sponsorships by the District in lieu of any source of property taxes. The net revenues from real estate activity provide a significant source of funding for health care related services in the absence of District property taxes. Allocating overhead and administrative costs between revenue-generating activities and community grants is consistent with language contained in recent legislation.¹⁶⁰

By comparison, a healthcare district in Contra Costa County was determined by a special study to have spent excessive amounts on administration and overhead. A 2012 special study of the Mt. Diablo Health Care District (MDHCD) noted that “from 2000 through 2011, approximately 17 percent of MDHCD expenditures were allocated to its Community Action programs, including grants and direct services (e.g., its CPR program).”¹⁶¹ The remainder of its budget did not include revenue-generating activity, as is the case with ETHE, but was expended on board of director benefits, legal fees, staff costs, and other overhead items. The MDHCD was not dissolved, but was reorganized as a subsidiary district to the City of Concord.

¹⁵⁹ Alameda County Grand Jury Final Report 2015-2016, pg. 53.

¹⁶⁰ AB2737 distinguishes administrative costs and overhead “not directly associated with revenue generating enterprises” in its description of criteria for determining a “non-provider” health care district.

¹⁶¹ Special Study: Mt. Diablo Health Care District Governance Options, accepted by Contra Costa LAFCo 1/11/12, prepared by Economic and Planning Systems, Inc., in association with E Mulberg and Associates.

Table 8 Comparison of Grand Jury’s Ratio of Non-Healthcare Expenditures vs. Special Study

	% of Budget Grand Jury Report	Overhead (OH) as a % of Budget Special Study
Description	Total expenses for all activities (excluding grants and sponsorships) are compared to total expenditures for all activities.	District Office expenses allocated to each fund (i.e., "Buildings" vs. Community Services) are compared to fund totals <u>after</u> OH allocations.
Example Calculation (FY16-17)	(\$6,158,500 minus grants of \$574,300) divided by total operating expenses of \$6,158,500 equals 90.6%.	\$86,700 allocated OH divided by Community Service grants, etc. of \$574,300 equals 15%, or about 12.8% of the total Community Service budget <u>after</u> including allocations.
Notes	The Grand Jury report combines real estate operations with District administration and overhead to calculate "Non-Mission expenditures" of 90% (FY17 calculation).	Note: ETHD calculates and applies OH factor to each fund <u>before</u> OH is added to each separate fund total. In FY15-16 ETHD calculated a 10.6% factor.

CAPITAL EXPENDITURES

ETHD’s FY16-17 budget separately estimates about \$400,000 in requested capital improvements, largely for the San Leandro Medical Arts Building. In addition, \$120,000 is budgeted for tenant improvements for vacant suites at the Eden Medical Building for anticipated lease-up of currently vacant space. The District is in the process of estimating future capital expenditure requirements.

PAYMENTS FOR LEGAL LIABILITIES

As described below under ETHD liabilities, ETHD is responsible for annual payments of approximately \$2 million (including interest on the unpaid balance) to Sutter Health for another eight years. A recent appeal by Sutter Health resulted in an increased liability by ETHD for interest on a portion of the damages, which will be spread over the remaining payments due to Sutter;¹⁶² the resulting payments will be about \$2.1 million annually, declining over time as interest on the remaining balance declines (interest due will depend on then-current interest rates).¹⁶³

After the Sutter obligation is satisfied, District revenues and assets available for other purposes will correspondingly increase. This payment is shown as a long-term liability in the District's financial reports, and as a cash outlay each year. However, the District's annual budget does not show the payment.

ETHD LIABILITIES

CURRENT LIABILITIES

Current liabilities associated with buildings and District office operations in the FY16-17 budget total about \$550,000 including accounts payable and accrued liabilities, taxes, interest and security deposits payable, unearned rent and grants payable.

BENEFIT PLANS

ETHD maintains a "457 defined contribution plan" for all employees, which is administered by CalPERS. Participants receive an employer match contribution of 100% of the employee contribution up to 5% of the employee's annual salary.¹⁶⁴ The District has no unfunded liabilities for its benefit plans.

¹⁶² Sutter Health v. ETHD, Cal. Court of Appeal First Appellate District, filed 11/29/16.

¹⁶³ R.Berkson correspondence with D.Mahadevan, 12/15/16.

¹⁶⁴ Eden Township Healthcare District Consolidated Financial Statements June 30, 2016 and 2015.



LONG-TERM DEBT

ETHD is paying \$384,000 in interest annually on its interest-only loan associated with its Dublin Gateway building. The current balance on the loan is \$11.7 million.¹⁶⁵ The loan originated as a construction loan that the District anticipates it will refinance within the next year. Refinancing is likely to increase its current interest rate, although the refinance process will shift title to the District and eliminate property taxes paid on the property due to the District's tax-exempt status.¹⁶⁶

JUDGMENT OBLIGATIONS

In 2012, ETHD lost a legal action brought by Sutter, incurring a judgment against ETHD for \$17.8 million; additional Sutter legal fees and costs added \$1.6 million to the total owed. The judgment against ETHD was for losses incurred due to ETHD's failure to transfer SLH to Sutter when Sutter exercised its purchase option. ETHD filed a legal request to spread payments over 10 years, including interest on balance owed. The current balance owed is \$13.8 million.¹⁶⁷ As noted above under "Payments for Legal Liabilities", payments of \$2.1 million annually (declining over time, and amounts dependent on interest rates) will be required over the next eight years to eliminate the obligation.

¹⁶⁵ Gateway loan payable balance as of June 30, 2016 per ETHD Consolidated Financial Statements, June 30, 2016 and 2015, Armanino, LLP.

¹⁶⁶ Correspondence from Dev Mahadevan, Chief Executive Officer, ETHD, to R.Berkson, 11/8/16.

¹⁶⁷ Sutter loan balance as of June 30, 2016 per ETHD Consolidated Financial Statements, June 30, 2016 and 2015, Armanino, LLP.

6. GOVERNANCE OPTIONS

There are multiple governance options available to special districts, such as ETHD, ranging from maintaining the status quo, to various jurisdictional changes such as dissolution or consolidation. This report evaluates governance options for the ETHD. Each option presents a different set of legal and policy choices. The following sections describe each option, and the LAFCo process to implement the option. Advantages and disadvantages are summarized for each option including policy, service and financial implications.

It is important to note that proposed changes of organization or reorganization may be initiated by petition of local voters or landowners within the proposal area; a resolution of subject/affected agencies including Alameda County, or the Cities of San Leandro or Hayward; or by LAFCo action. The creation of any alternate entities to continue services following District dissolution, as described below, is largely dependent on agencies other than LAFCo to provide a plan for services; LAFCo would review any plan for continuing services as it processes the dissolution.

If LAFCo approves a proposed reorganization, State law allows for written protest to be filed with the Commission by registered voters or landowners within the proposal area. The procedure for dissolution is complicated and depends upon various factors. The requirements for initiating a dissolution, the threshold for an effective protest, and the need for voter approval vary depending upon the identity of the party or parties initiating dissolution, the circumstances surrounding the application and the exercise of discretion by the Commission.

MAINTAIN THE STATUS QUO

The current District would remain intact in the Status Quo option, and the Board of Directors would continue to be elected and conduct District business.

It is assumed that the District would continue to operate its medical office buildings and maintain its current level of grants and sponsorships at approximately \$500,000 to \$600,000 annually while it funds its obligations to Sutter. After the Sutter judgment is fully paid in about eight years, the District could budget an additional \$1.5 million annually towards grants and sponsorships, or other health related purposes. During the next eight years, the District may need to draw upon its investments in order to fund the Sutter payment and other real estate-related costs; therefore minimal additional funds will be available during this period for other health-related expenditures. Whether a draw-down is required in future years depends on growth in rent income, prevailing interest rates applicable to repayment, capital improvement expenditures, and changes in other District expenses.

Recently enacted legislation may require changes to the District's operations. AB2737 requires that a healthcare district meeting certain criteria shall spend "at least 80 percent of its annual budget on community grants ... to organizations that provide direct health services." The specific application of this law to ETHD requires further legal analysis and interpretation of the bill's provisions. This legislation is discussed further in **Chapter 3**.

ADVANTAGES AND DISADVANTAGES OF MAINTAINING THE STATUS QUO

Advantages

- Net lease revenues received by the District from its buildings can continue to provide an ongoing non-taxpayer source of revenue to help fund health care programs within the District; funding could be increased once debts are repaid.
- Net lease revenues provide an approximate 6 to 8 percent ongoing annual return on the market value of its assets compared to cash investments earning about 1% to 2%.
- No reorganization proceedings or special elections required.
- The District has the ability to request voter approval of a special tax for District purposes.

Disadvantages

- Limited resources are available for increased grants until obligations to Sutter Health are repaid. This limitation applies to other options, assuming the Sutter Health obligation continues to be paid.
- Real estate operations, the primary source of current revenues, are subject to greater economic risks than typical local public agency operations. Revenues could decline or contribute to grant funding reductions in the event of a recession.
- There is a risk that the District Board and services will not meet its constituency's needs in the future, and/or will not strategically plan and leverage its available funds through coordinated actions with health care providers and agencies.
- AB2737, depending on its implementation, may require disposition of some portion of District assets in order to comply with limits on administrative costs and non-grant expenditures. This could reduce net revenues available for health care grants.

LAFCO PROCESS – STATUS QUO

No LAFCo action is necessary. However, LAFCo could impose conditions on the District via an SOI amendment, such as requesting periodic updates and status reports to alert LAFCo as to any significant changes in ETHD's financial condition and/or services and operations. LAFCo may also use the SOI to point out that the District should consider cleaning up its boundary to remove the small portions of Dublin, Oakland, and Union City that are within the boundary, and add the portion of San Leandro currently outside the District's boundary.

DISSOLUTION WITH APPOINTMENT OF SUCCESSOR AGENCY FOR WINDING-UP AFFAIRS AND NO CONTINUATION OF SERVICES

Dissolution would eliminate the ETHD and its assets would be liquidated and distributed to other public agencies, after obligations of the ETHD have been paid. LAFCo would appoint a successor agency to wind up the affairs of the ETHD and manage the liquidation and distribution of assets. The continued operation of the medical office buildings by another agency (e.g., the County GSA) and use of assets and investments for grants could be continued by another agency, however, those possibilities are discussed under other options for continued service.

SUCCESSOR AGENCY

Government Code (GC) §57451 addresses the determination of a successor for the purpose of winding up the affairs of a dissolved district. Subsection (c) indicates that the City of Hayward qualifies as the successor because the ETHD boundaries overlap multiple cities and unincorporated areas, and the City of Hayward contains the greater assessed value relative to other cities and the included unincorporated territory as shown in Table 3. In this scenario, the successor agency would not be responsible for continuation of ETHD's services and those services would cease.

There are other possible options regarding designation of the successor agency. The disposition of assets to one or more agencies, according to LAFCo terms and conditions, can determine the successor agency, if that disposition differs from the assessed value formula noted in the preceding paragraph.¹⁶⁸

SUCCESSOR AGENCY RESPONSIBILITIES AND OBLIGATIONS

The successor agency will have a number of obligations, including the following:

- **Disposition of Property** – The successor agency has the ability to dispose of District property in order to satisfy financial obligations. State law indicates that, so far as may be practical, "...the funds, money, or property shall be used for the benefit of the lands, inhabitants, and taxpayers within the territory of the dissolved district".¹⁶⁹ The law also

¹⁶⁸ GC §57451(d),(e), §56886(m).

¹⁶⁹ GC §57463.

indicates a method for distributing all funds, not otherwise required to pay obligations, proportionate to assessed value of cities and unincorporated area in the district.¹⁷⁰

- **Debt and Long-Term Financial Obligations** – Short- and long-term obligations would be repaid through the use of available assets, including disposition of real property.
- **Litigation and Claims** – The remaining obligation to Sutter would be paid, as well as any other outstanding claims that may exist.
- **Pension Plan** – The District has no unfunded pension liability.

These obligations and responsibilities will be funded by ETHD revenues; the successor agency can retain funds to help pay for its administrative costs and to pay for any other costs (e.g., election, if required).¹⁷¹

ADVANTAGES AND DISADVANTAGES OF DISSOLUTION/WIND-UP OF AFFAIRS/DISCONTINUE SERVICES

Advantages

- Elimination of administrative expenses, including staff, legal, and election costs. Some staff costs may be necessary to wind up the affairs of the ETHD.
- One-time distribution of assets to other health care service providers meeting health needs within the district, including potential distributions to hospitals.
- Reduces duplication of administrative services that can be provided by other public and private agencies, including the HCSA, which funds many of the same organizations.

Disadvantages

- Loss of ETHD allocation of net lease revenues from its buildings to help address community health needs, which could include future allocations to hospitals, on an on-going basis. Depending on how ETHD assets are distributed, and the revenues they continue to generate if invested, this loss could be partially offset.

LAFCO PROCESS – DISSOLUTION

The process will follow the basic steps described below.¹⁷² In addition, it will be necessary for LAFCo to identify a successor for the purpose of winding up the affairs of the ETHD.

¹⁷⁰ GC §57457(c)(2).

¹⁷¹ GC §57463.

¹⁷² Identified in GC §57077.

At a noticed public hearing, the Commission accepts the special study, considers adopting a zero SOI to signal proposed dissolution and, for consistency with the SOI (GC §56375.5), considers making findings in accordance with the conclusions and recommendations of the special study, and considers adopting a resolution initiating dissolution. Alternatively, the dissolution could be initiated by an affected agency, the subject agency, or individual petitioners.

- LAFCo notifies State agencies per GC §56131.5 and allows a 60-day comment period.
- At a noticed public hearing, LAFCo considers approving the dissolution.
- Following a 30-day reconsideration period (GC §56895), LAFCo staff holds a protest hearing in the affected territory (GC §57008). The protest hearing is a ministerial action. While the Commission is the conducting authority, it often designates the Executive Officer to conduct the protest hearing.
- Absent the requisite protest, the Commission orders dissolution.
- Following approval by LAFCo, LAFCo staff records dissolution paperwork and files the information with the State Board of Equalization making dissolution effective.
- Alternatively, if LAFCo does not initiate a dissolution, the process may be initiated by application by the District or by an affected agency. This process would require a protest proceeding, and subsequent filing with the State as noted above.

The steps described above may also apply to other options in this chapter that include dissolution of the current district.

DISSOLUTION AND NAMING A SUCCESSOR TO CONTINUE SERVICES

A number of options exist whereby the ETHD would be dissolved and its services would be continued by the successor agency (who may contract with another entity). These options would depend on the willingness and ability of an agency to serve as a successor. LAFCo would review and approve a Plan to Provide Services prepared by the potential successor before approving dissolution and transfer of assets and services to the successor. Potential options include:

- **Dissolution and Transfer of Assets to a Non-Profit** – this option has been raised as a possibility by the District¹⁷³ and by speakers at LAFCo hearings. According to the District, the non-profit corporation could be governed by a board initially consisting of 7 to 9

¹⁷³ Letter from Dev Mahadevan, ETHD CEO, to The Board of Directors, Eden Township Healthcare District, October 21, 2016, Attachment D to agenda for ETHD meeting October 19, 2016.

board members including the five current District Board Members, and the remaining members appointed by the Board of Supervisors and/or Hayward or San Leandro City Councils. The non-profit could consider contracting with HCSA to provide grant-related services to improve coordination with existing County grant activities and needs analysis, and enable the non-profit to focus on commercial real estate operations.

- **Dissolution and Transfer of Assets to the County and/or cities** – The County and/or cities of San Leandro and Hayward through a Joint Powers Agreement (JPA), for example, would manage the real estate, or liquidate assets, and continue distribution of grants and sponsorships from asset earnings. This analysis assumes the assets would be liquidated, unless the entities demonstrate the ability, willingness and interest to manage commercial real estate.

The Alameda County HCSA currently manages the distribution of Measure A funds, including distribution of a portion of the funds through grants. The Alameda County HCSA has not proposed a specific option, but indicated that if LAFCo moves to dissolve or reorganize ETHD, the HCSA “stands willing to provide assistance.”¹⁷⁴ The LAFCo process would follow the steps described in the prior option for dissolution, dependent on review and approval of a Plan to Provide Services by LAFCo. A Plan to Provide Services, at a minimum, would include the following items as described in State law:

- (1) An enumeration and description of the services to be extended to the affected territory.
- (2) The level and range of those services.
- (3) An indication of when those services can feasibly be extended to the affected territory.
- (4) An indication of any improvement or upgrading of structures, roads, sewer or water facilities, or other conditions the local agency would impose or require within the affected territory if the change of organization or reorganization is completed.
- (5) Information with respect to how those services will be financed.

The Plan to Provide Services also would include any additional information required by LAFCo or its executive officer.¹⁷⁵ LAFCo may also impose other terms and conditions related to the transfer and continuation of services, for example: representation on a board of directors

¹⁷⁴ Letter from Rebecca Gebhart, Interim Director, Alameda County Health Care Services Agency (HCSA), Nov. 9, 2016, to Alameda LAFCo commissioners.

¹⁷⁵ Government Code Section 56653.

and/or advisory board; geographic limitations on use of funds; liquidation (or limits on expansion) of existing assets.

LAFCo has no authority to create a non-profit or JPA to be a successor entity.

ADVANTAGES AND DISADVANTAGES OF DISSOLUTION AND NAMING A SUCCESSOR AGENCY TO CONTINUE SERVICE PROVISION

Advantages

- Reduction in certain overhead costs including elimination of election costs (\$200,000), reporting requirements and other activities required of a public agency. The savings depend on the ability of the successor agency (or agencies) to manage the assets and continue services with existing staff. Elimination of the ETHD management staff will result in savings, however, these would be offset to the extent that the successor agency (and/or contracting entities) incurs increased costs for additional oversight and management, depending on the services continued.
- Under the non-profit organization or JPA option, a LAFCo condition could require expanded board representation, which could include representatives of cities within the ETHD (e.g., Hayward and San Leandro), public members, and the County. Expanded representation could help to assure that budget priorities, for example allocations of funds between community agencies and hospitals, are reflective of community needs.
- Potential benefits are possible from utilizing (or contracting with) an existing health services/granting agency to coordinate funding efforts (e.g., the County HCSA), take advantage of leveraging of State and Federal funds, and provide expanded input and oversight of the grants process and outcomes. The County's General Services Agency (GSA) has indicated an ability to manage the commercial real estate, thereby maintaining current cash flows.
- These options can provide an ongoing source of revenue for health care purposes, although revenues will depend on whether existing assets are liquidated and invested, and limitations on investment risks and return, particularly for a JPA. A non-profit would not be subject to the same investment limitations imposed by State law on public agencies and could generate greater investment returns, particularly if it continued to operate ETHD's commercial real estate. A LAFCo condition could require continued use of revenues to the benefit of residents living within the former ETHD boundary.

Disadvantages

- Elimination of board election by voters within the ETHD reduces public participation; however, recent elections have not been contested, and the District does not control taxes currently paid by residents of ETHD, and many residents do not have a direct interest in or receive services from the District.
- Potentially results in less public accountability if successor agency is a non-profit agency or JPA because Board members would be appointed rather than elected (notwithstanding any elected officials appointed to the non-profit or JPA).

- Costs will be incurred to implement a transition from the District to the options. Costs will be required for any required elections, disposition or transfer of property and assets, repayment or transfer of liabilities, formation of a new entity, etc.

DISSOLUTION AND CREATION OF A COUNTY SERVICE AREA (CSA) TO CONTINUE SERVICES

LAFCo has the ability to create a CSA to continue service provision. The District's assets could be liquidated and the funds transferred to the CSA for investment; alternatively, the County GSA has indicated its ability to operate the commercial real estate. LAFCo could require Terms and Conditions that would include 1) creation of an advisory board comprised of city, county and public representatives; 2) limitation on expenditure of funds to within the boundaries of the ETHD; 3) disposition of assets, which may include an allocation to hospitals.

County service areas (CSAs) are formed by counties to fund "miscellaneous extended services" that a county is authorized by law to perform and does not perform to the same extent countywide.¹⁷⁶ The County Board of Supervisors serves as the governing body. LAFCo could consider creating a new CSA, dependent upon the County, with the approval of the cities within the ETHD service area.

Following (or concurrent with) dissolution of ETHD, formation of a CSA may be initiated by LAFCo if supported by a Special Study, by resolution of the County Board of Supervisors,¹⁷⁷ or by a petition signed by no less than 25% of registered voters living within the proposed district boundaries.¹⁷⁸ Voter approval is required for the CSA formation, as is approval by all cities included within the CSA. The Board of Supervisors, as the board of the CSA, may appoint one or more advisory committees to give advice to the Board of Supervisors regarding a CSA's services and facilities.¹⁷⁹

¹⁷⁶ Gov. Code, § 25213

¹⁷⁷ Gov. Code Sec. 25211.3.

¹⁷⁸ Gov. Code Sec. 25211.1.

¹⁷⁹ Gov. Code Sec. 25212.4.

ADVANTAGES AND DISADVANTAGES OF DISSOLUTION AND CREATION OF A CSA TO CONTINUE SERVICE PROVISION

Advantages

- Reduction in overhead costs including elimination of election costs (\$200,000), reporting requirements and other activities required of a public agency (reporting consolidated with existing County functions) assuming that existing staff can take on the new responsibilities. Elimination of the ETHD management staff will result in savings, however, these would be offset to the extent that the County (and/or contracting entities) incurs increased costs for additional oversight and management, depending on the services continued.
- A LAFCo condition requiring an advisory body comprised of city, County and public members could expand existing representation to help assure that budget priorities, for example allocations of funds between community agencies and hospitals, are reflective of community needs.
- A CSA establishes discrete boundaries that would dictate where funds could be expended, without depending on LAFCo terms and conditions.
- This option can provide an ongoing source of revenue for health care purposes, although revenues may be reduced in the event of the liquidation of commercial real estate; however, the County GSA has indicated its ability to operate the District's buildings, which could continue the lease revenues.

Disadvantages

- Elimination of board election by voters within the ETHD reduces public participation; however, recent elections have not been contested, and the District does not control taxes currently paid by residents of ETHD, and many residents do not have a direct interest in or receive services from the District.
- Potentially results in less public accountability because the Board of Supervisors, the governing body of the new CSA, covers the entire county so the focus on the ETHD area may be diluted despite the appointment of an advisory body.
- There are costs associated with processing the formation of a new CSA, and it requires approval of voters and all cities within the CSA boundaries.

REORGANIZE ETHD AS SUBSIDIARY DISTRICT

In the case of a subsidiary district, the district is not extinguished, but rather is reorganized with a city council sitting as the governing body. State law requires that a healthcare district have its own Board of Directors. Therefore, a city subsidiary district would not be feasible.

Notwithstanding the restrictions on healthcare district boards, creating a subsidiary district would also require that the ETHD boundaries be reduced by more than half in order to meet the

requirement that 70% of land area and registered voters of the subsidiary district fall within the boundaries of the city.¹⁸⁰

For the reasons noted above, this option was not considered further.

CONSOLIDATION WITH WASHINGTON TOWNSHIP HEALTHCARE DISTRICT (WTHD)

This option would consolidate the ETHD with the WTHD, which are “like” districts formed under the same statutes. The boundaries of the consolidated entity would correspond to the combined boundaries of the two existing districts. LAFCo could establish terms and conditions related to the initial and ultimate composition of the consolidated Board.

The WTHD has indicated to LAFCo that it does not have the interest or ability to expand its boundaries and responsibilities to include the Eden Township Healthcare District, indicating that its attention “must remain on existing District residents”.¹⁸¹

¹⁸⁰ Subsidiary district size reduction assumes subsidiary district to Hayward, the largest city, with ETHD about 45 square miles of the City, or 70% of 64 square miles; 64 square miles is 44% of ETHD current 147 square miles.

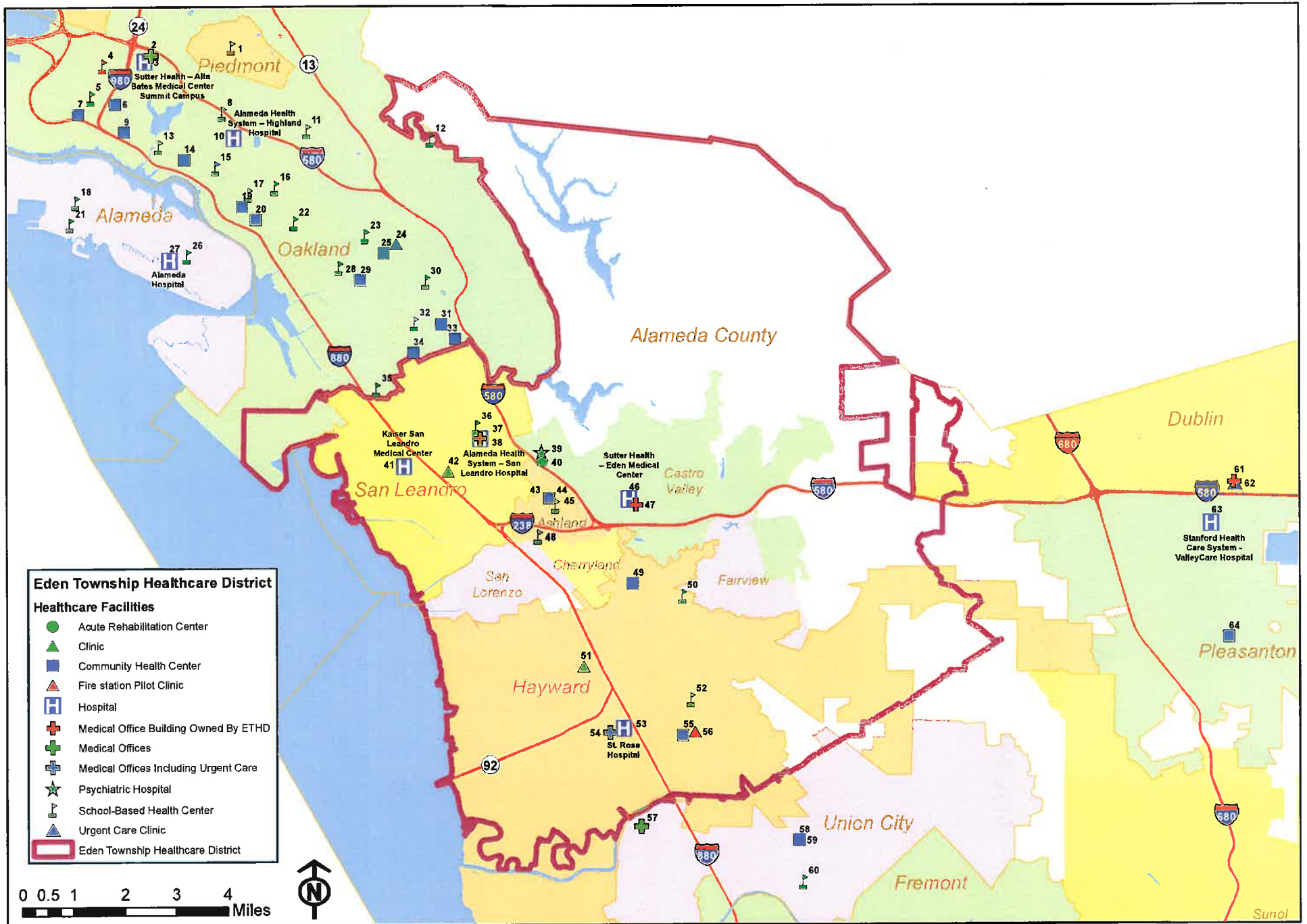
¹⁸¹ Letter from Nancy Farber, CEO, Washington Hospital Healthcare System, October 26, 2016, to Mona Palacios, Alameda LAFCo.



APPENDIX A

MAP AND LIST OF MAJOR HEALTHCARE FACILITIES IN ALAMEDA COUNTY

Figure A-1 Major Healthcare Facilities in Alameda County



*Agency sphere equals the service area boundary

Created for Alameda LAFCo by the Alameda County Community Development Agency

ID	Facility Name
1	Piedmont Wellness Center
2	Hill Physicians Medical Group
3	Sutter Health-Alta Bates Medical Center Summit Campus
4	Chappell Hayes Health Center (McClymonds High School)
5	West Oakland Middle School Health Center
6	Lifelong Downtown Oakland
7	West Oakland Health Council-West Oakland site
8	Shop 55 Wellness Center (Oakland High School)
9	Asian Health Services
10	Alameda Health System-Highland Hospital
11	Rising Harte Wellness Center
12	Seven Generations School-Based Health Center (Skyline High School)
13	Youth Heart Health Center (La Escuelita Education Complex)
14	San Antonio Neighborhood Health Center
15	Roosevelt Health Center
16	Seven Generations School-Based Health Center (United for Success/Life Academy)
17	Hawthorne Health Center
18	ACL/NEA School-Based Health Center and Family Support Center
19	Native American Health Center
20	La Clinica
21	Encinal High School-Based Health Center
22	Fremont Tiger Clinic (Fremont High School)
23	Frick Middle School-Based Health Center
24	Alameda Health System-Eastmont Wellness Clinic
25	LifeLong Eastmont Health Center
26	Alameda High School-Based Health Center
27	Alameda Hospital
28	Havenscourt Health Center
29	West Oakland Health Council-East Oakland site
30	Youth Uprising / Castlemont Health Center
31	LifeLong Howard Daniel Clinic
32	Elmhurst/Alliance Wellness Center
33	LifeLong East Oakland Foothill Square
34	West Oakland Health Council-Albert J. Thomas Medical Clinic
35	Madison Health Center
36	Barbara Lee Center for Health and Wellness (San Leandro High School)
37	Alameda Health System-San Leandro Hospital
38	San Leandro Medical Arts Building

ID	Facility Name
39	Alameda Health System-John George Psychiatric Hospital
40	Alameda Health System-Fairmont Hospital
41	Kaiser San Leandro Medical Center
42	Davis Street Family Resource Center Clinic
43	Tiburcio Vasquez Health Center
44	Tiburcio Vasquez-San Leandro
45	Fuente Wellness Center (REACH Ashland Youth Center)
46	Sutter Health-Eden Medical Center
47	Eden Medical Building
48	San Lorenzo High School Health Center
49	Tiburcio Vasquez Health Center
50	Hayward High School Mobile Health Van
51	Alameda Health System-Hayward Wellness Clinic
52	Tennyson Health Center
53	St. Rose Hospital
54	Hayward-Sleepy Hollow Medical Offices
55	Tiburcio Vasquez Silva Clinic
56	Hayward Firehouse Clinic
57	Kaiser Union City Medical Offices
58	Tiburcio Vasquez Union City
59	Tiburcio Vasquez-Union City Health Center
60	James Logan High School Health Center
61	Dublin Gateway MeCenter
62	Stanford Health Care System-ValleyCare Dublin
63	Stanford Health Care System-ValleyCare Hospital
64	Axis Community Health



Draft Final Report – ETHD Special Study
March 13, 2017

APPENDIX B

ETHD GRANTS & SPONSORSHIPS THROUGH FY16

EDEN TOWNSHIP HEALTHCARE DISTRICT GRANTS GIVEN THROUGH JUNE 30, 2016**TOTAL GIVEN**

Alameda County Deputy Sheriff's Activities League, Inc.	\$25,000.00
Alameda County Public Health Department	\$30,000.00
Alameda County WIC Program	\$280,985.00
Alzheimer's Services of the East Bay	\$170,000.00
Ashland Free Medical Clinic	\$52,500.00
Associated Community Action Program	\$30,000.00
Baywood Court Retirement Center	\$15,900.00
Be A Mentor, Inc.	\$5,000.00
Better Health Foundation	\$5,000.00
Boys and Girls Club of San Leandro	\$280,000.00
Building Futures with Women & Children	\$295,000.00
CALICO Center	\$145,000.00
California State University, East Bay Foundation	\$97,500.00
Castro Valley High & Creekside Middle School	\$195,580.00
Castro Valley Veterans of Foreign Wars Post 9601	\$5,000.00
Cherryland Elementary/Hayward Unified School District	\$20,000.00
Christmas in April - Castro Valley Area	\$25,000.00
CommPre/Horizon Services	\$90,000.00
CV Youth Soccer League - TOPSoccer League	\$5,000.00
Davis Street Family Resource Center	\$1,190,000.00
Deaf Women Against Violence	\$133,760.00
East Bay Agency For Children	\$352,500.00
East Bay Cancer Support Group, Inc.	\$73,150.00
East Bay Innovations	\$3,000.00
Eden Area YMCA	\$5,000.00
Eden Counseling Services	\$20,000.00
Eden I&R	\$108,000.00
Eden Medical Center Foundation	\$5,000.00
Eden Medical Center Women's Health Services	\$1,000,000.00
Eden Youth and Family Center	\$246,890.00
Emergency Shelter Program, Inc./Ruby's Place	\$85,000.00
Family Services of San Leandro (dba) Family Services	\$90,000.00
FESCO	\$87,110.00
Foundation for Osteoporosis Research and Education	\$91,276.00
George Mark Children's House	\$22,500.00
Girl Scouts of San Francisco Bay Area	\$500.00
Girls Inc.	\$155,000.00
Grandparents and Relatives as Seconds Parents	\$7,369.00

EDEN TOWNSHIP HEALTHCARE DISTRICT GRANTS GIVEN THROUGH JUNE 30, 2016**TOTAL GIVEN**

Hayward Area Recreation & Park (Ashland Community Center)	\$178,876.00
Joseph Matteucci Foundation	\$5,000.00
Kids Breakfast Club	\$86,500.00
LaClinica de La Raza, Inc.	\$312,400.00
LaFamilia Counseling Service	\$219,100.00
Legal Assistance for Seniors	\$217,500.00
Lincoln Child Center	\$41,813.00
Mercy Retirement Center - Brown Bag Program	\$190,500.00
Northern California Society to Prevent Blindness	\$20,500.00
Ombudsman, Inc.	\$45,000.00
Reach Out and Read	\$4,500.00
Row Chabot, Inc.	\$15,000.00
San Leandro Shelter for Women & Children	\$45,000.00
San Leandro Unified School District	\$20,000.00
San Lorenzo Unified School District	\$175,000.00
Seventh Step Foundation, Inc.	\$15,000.00
Shelter Against Violent Environments (SAVE)	\$55,000.00
So. Alameda County Sponsoring Committee	\$50,000.00
SOS/Meals on Wheels	\$240,337.00
Spectrum Community Services, Inc.	\$585,000.00
Sports4Kids - Now Playworks	\$10,000.00
St. Rose Hospital	\$2,942,182.00
Stepping Stones Growth Center	\$25,000.00
Students in Business	\$10,000.00
Teens in Crisis	\$68,040.00
Tiburcio Vazquez Health Center, Inc.	\$236,591.00
Tri-City Health Center	\$256,701.00
United Seniors of Oakland and Alameda County	\$5,000.00
Valley Community Health Center	\$17,817.00
Youth and Family Services	\$5,000.00
YWCA Mid County Counseling Service	<u>\$5,000.00</u>

Grand Total Grants Given:**\$11,551,877.00**

EDEN TOWNSHIP HEALTHCARE DISTRICT GRANTS GIVEN THROUGH JUNE 30, 2016**TOTAL GIVEN****Sponsorships from July, 2006 to April 30, 2016:**

Eden Medical Center - Now Sutter Health	\$213,750.00
St. Rose Hospital Foundation	\$51,400.00
Davis Street Family Resource Center	\$33,000.00
Horizon Services	\$10,500.00
George Mark Children's House	\$10,000.00
American Cancer Society - Relay for Life	\$10,000.00
Center for Elders Independence	\$3,000.00
San Leandro Rotary	\$2,435.00
Hayward Historical Society	\$2,100.00
Building Futures with Women & Children	\$2,000.00
CV VFW Post 9601	\$2,000.00
Foundation for Osteoporosis Research & Education	\$1,780.00
Alameda County Healthy Community/Ashland Cherryland FamFest	\$1,000.00
Castro Valley Chamber of Commerce	\$475.00

Grand Total Sponsorships Given:\$343,440.00

TOTAL Grants and Sponsorships

\$11,895,317.00

Source: ETHD 2016/11/9



APPENDIX C

TIMELINE OF KEY ETHD EVENTS

Timeline of Key ETHD Events

2016	<p>Sutter appeal of payment of damages over 10 years is denied.</p> <p>Alameda LAFCo initiates Special Study of ETHD</p>
2015	<p>District is granted judgment to pay damages resulting from the lawsuit (losses at San Leandro Hospital during the pendency of the lawsuit) over 10 years (from June 2015).</p>
2013	<p>The dispute over legal costs and damages in the Sutter Health-ETHD conflict are resolved in July, 2013. \$17 million in damages awarded to Sutter Health.</p>
2012	<p>In September 2012 San Leandro Hospital's ownership and title are transferred to Sutter Health.</p> <p>California Supreme Court refuses to hear ETHD's appeal</p> <p>ETHD holds one grant cycle, awarding an approximate total of \$100,000 to two community clinics. The Community Advisory subcommittee assists in the review of the applications.</p>
2011	<p>The District forms a Community Advisory Subcommittee made up of two ETHD Board members and community volunteers. Over several meetings, in addition to learning about the District's communities, the group addresses some areas of focus for the community health work, e.g. chronic disease prevention education, primary care clinics in areas with poor access to care, and reports their findings and recommendations to the ETHD Board.</p> <p>Eden appeals Superior Court decision in Superior Appeals Court; Sutter position's is upheld.</p>
2010	<p>In December, Sutter's position is upheld by Alameda County Superior Court.</p> <p>In March, ETHD files a countersuit against Sutter Health, challenging the validity of the 2008 agreement because three Sutter Health board members had conflicts of interest at that time.</p> <p>Separate from the grant cycles, ETHD makes two focused grant awards to Davis Street Family Resource Center (\$500,000 toward its building purchase) and St. Rose Hospital (\$1.5 million toward operating expenses.) ETHD also loans St. Rose Hospital \$3 million dollars toward operations (of which \$1.85 million has been repaid by 2013).</p> <p>As of January 10, 2010, Eden Medical Center is governed solely by Sutter Health, and ETHD and its elected board are no longer involved.</p> <p>On the property purchased in 2004, ETHD builds and leases the Eden Medical Building on Lake Chabot Road.</p>

Timeline of Key ETHD Events

2009	<p>The ETHD Board approves combining the “Building” and “Community” fund into one fund for investment purposes. 60% of earnings are allocated for community health work.</p> <p>Sutter sues the District in Alameda County Superior Court to enforce the right to purchase San Leandro Hospital from ETHD, plus \$5 million in damages.</p> <p>The ETHD Board approves combining the “Building” and “Community” fund into one fund for investment purposes. 60% of earnings are allocated for community health work.</p>
2008	<p>ETHD enters into an agreement with Sutter Health in which Sutter Health builds a replacement hospital for \$300 million. Major components of this agreement are (1) ETHD will give up its governance and board seats on the community board, effective in January 2010 and (2) Sutter Health has the option to purchase San Leandro Hospital.</p>
2007	<p>ETHD purchases Dublin Gateway property and begins building out and renting the property as a Medical Office complex.</p>
2004	<p>ETHC purchases the DeLucchi property on Lake Chabot Road.</p> <p>As part of the agreement to purchase San Leandro Hospital, ETHD acquires a medical office building in San Leandro.</p> <p>ETHD acquires San Leandro Hospital from Triad Partners and leases the hospital to Sutter Health in exchange for Sutter's agreement to replace Eden Medical Center with a new hospital.</p>
2001	<p>The ETHD Board annually engages in interactive presentations regarding the community benefit work of EMC and the aligned work of the District.) Special agenda items, meetings or retreats related to community health (and fund) are held in 2002, 2005, 2007, 2009, and 2011.</p>
2000	<p>Two cycles of funding occur each year until 2010. The award amount available depends on the earnings of the endowed Community Fund. Grants are due March 31 and September 30, and awards are made on July 1 and January 1, respectively.</p>
1999	<p>The first grant cycle of the Community Health Fund is implemented.</p>

Timeline of Key ETHD Events

Eden Medical Center is governed by a unique Board of Directors—the five publicly elected board members, five community members appointed by Sutter Health, and the CEO of Eden Medical Center. By-laws are structured to require majorities of both “halves” on key strategic and financial issues.

ETHD board members, key administrative staff, and representatives from the medical staff, Foundation, and Medical Center board engage in joint planning for the new Community Health Fund of the District and the community benefit work of the Medical Center.

In the initial agreement with Sutter Health, approximately \$56 million is paid for ETHD. This money is divided into two “pots”—the General Fund and the Community Fund—and invested to preserve and increase principal. By ETHD policy and by-laws, the Community Fund is established as a permanent endowment fund, the earnings directed toward the benefit the health and wellness needs of District residents.

In January Eden Medical Center becomes a private, not-for-profit medical center affiliated with part of the agreement, Sutter Health establishes an endowment fund to address health needs specific to the District's communities.

1998

ETHD engages in a search for a partner in healthcare, a partner which will share Eden's mission and retain its community focus. The ETHD Board of Directors and administrative staff study potential affiliation with Catholic Healthcare West, Columbia Healthcare, and Sutter Health. Sutter Health is the choice, and by passing “Measure A” in 1997, the public affirms this decision.

1996

Baywood Court is opened as a District sponsored organization, with three levels of residents (independent living, assisted living, and skilled nursing). Baywood Skilled Nursing Facility, part of Baywood Court, is operated and accredited as part of Eden Medical Center until 2005. To reflect this broadening of services, ETHD changes its name from Eden Township Hospital District to Eden Township Healthcare District. ETHC changes the name Eden Hospital first to Eden Hospital Medical Center and later to Eden Medical Center.

1990

ETHD acquires Laurel Grove Hospital, which is remodeled and is converted from an acute care to an acute rehabilitation hospital, operated and accredited as part of Eden Hospital.

1986

ETHD forms two subsidiary corporations, to allow expansion for non-hospital services to the community: 1) Eden Hospital Healthcare Services Corporation (EHHSC), a non-profit organization, operates Eden Home Care Services for several years, and builds (1990) and operates Baywood Court Retirement Community. As the only entity of the corporation in the 2000s, EHHSC changes its name to Baywood Court; 2) Eden Hospital Development Corporation, a for-profit organization, operates Eden Medical Supply, a durable medical equipment business, into the 1990s. Eden Hospital Development Corporation also operates the retirement community Landmark Villa in public-private partnership into the 1990s.

1980's

The District Board votes to discontinue the collection of property taxes to fund the hospital expansion project.

1976

Timeline of Key ETHD Events

Eden Hospital is owned and operated by the ETHD through 1998 and is governed by the five-member elected Board of Directors.

Eden Hospital opens on November 15.

1954

California State legislation (Local Hospital District law) allows the establishment of local districts. Eden Township Hospital District (Castro Valley, Hayward, San Leandro, San Lorenzo and Fairview) is established to build what is now known as Eden Medical Center.

1948

Source: ETHD website; Berkson Associates



APPENDIX D

WRITTEN COMMENTS POST-STUDY DISTRIBUTION

Eden Township Healthcare District Special Study Log of Comments Received

	Date	Name & Organization	Comments	Responses to comments
1.	1/10/17	Tony Santos, former LAFCo member & former San Leandro Mayor	See attached email.	Response: Comment acknowledged.
2.	1/19/2017	Dev Mahadevan, CEO, ETHD	See attached email.	Response: Comment acknowledged. The Special Study has been revised to correct the inconsistency (on page 45 of the revised Study).
3.	1/21/2017	Robert & Brenda Clark, community member	See attached email.	Response: Comment acknowledged.
4.	1/23/2017	Dev Mahadevan, CEO, ETHD	See attached letter.	<p>Comment: The Report is a well-researched study of the District and the potential options for its future for LAFCo to consider in determining its future. It is a balanced perspective which provides detail and shows the pros and cons of each option.</p> <p>Response: Comment acknowledged.</p> <p>Comment: The District sees the status quo as the least cost option providing the greatest public oversight. We would point out that while the report treats the medical offices as an investment, the District has made the case that providing medical offices is a community service.</p> <p>Response: Comment acknowledged. The Special Study, Chapter 5, has been revised to clarify that ownership of the buildings is consistent with the District’s Strategic Plan Goal #5 to “Continue to maintain investment properties that serve a medical or health purpose or provide revenue toward that end” (see “Goals, Policies and Plans” and “Lease of Commercial Buildings”). Comments submitted by W. Leonard Trask stated that “..medical office buildings play a critical role in providing healthcare services in the communities that they serve. Moreover, in a market like ours where demand (and therefore rents) for general office buildings is exceptionally strong, there is a limited stock of medical buildings remaining to service the community” (See Comment #12).</p> <p>The Special Study also notes that one of the District’s medical office buildings is outside the District boundaries; no information was available to determine services provided by the offices outside the boundaries to District residents. The Special Study has been revised to note that the District’s Strategic Plan includes actions to “...evaluate/substantiate the benefit of providing offices for small (locally-based) physician practices or small medical groups and determine the relevance it has to the community’s health and wellness needs.”</p> <p>Comment: The District sees the status quo as the least cost option providing the</p>

	Date	Name & Organization	Comments	Responses to comments
				<p>greatest public oversight. The private non-profit successor option is a good one but requires a substantial initial investment and the board that may be influenced politically because of appointments by the cities and Board of Supervisors. Converting to a nonprofit would eliminate a taxing authority which could help a local provider, like St. Rose Hospital, raise new capital.</p> <p>Response: Comment acknowledged.</p>
5.	1/25/2017	Jody Holdsworth, community member	See attached email.	Response: Comment acknowledged.
6.	1/25/2017	Bruce Udelf, Executive Director Baywood Court & community member	See attached email.	Response: Comment acknowledged.
7.	1/27/2017	Wilma Chan, County Supervisor	See attached letter.	<p>Comment: The Special Study should lay out a clear rationale for its decision to assume that the definition of “Administrative Expense” as defined in AB 2737 excludes real estate operations, other than District costs allocated to real estate operations.</p> <p>Response: As explained in the Special Study’s “Definitions” (pg. i), AB 2737 defines Administrative Expense as expenses related to the <u>general management</u> (emphasis added) of a health care district (Health and Safety Code 32495(a)). As noted in Item A-2 on page 7 of the Special Study and its footnote #18, AB-2737 distinguishes administrative costs and overhead “not directly associated with revenue generating enterprises” in its description of criteria for determining a “non-provider” health care district.</p> <p>Health and Safety Code Sec. 32495(c)(5) reads:</p> <p style="padding-left: 40px;"><i>(5) In two or more consecutive years, the amount the district has dedicated to community grants has amounted to less than twice the total administrative costs and overhead not directly associated with revenue generating enterprises.</i></p> <p>Comment: The Special Study should clearly spell out the implications of this decision in the analysis of the various governance options presented.</p> <p>Response: The decision to assume that the definition of “Administrative Expenses” excludes real estate operations has no implication for the analysis of the various governance options. As noted where appropriate in the analysis of options, possible efficiencies in operations may be gained by taking advantage of the existing operations of other agencies.</p>

	Date	Name & Organization	Comments	Responses to comments
				<p>Comment: It would be worthwhile to expand the Little Hoover Commission section to include some discussion of how various conversations at the state level regarding the role and future of healthcare districts is relevant to our examination of ETHD.</p> <p>Response: Comment acknowledged. However, the Little Hoover Commission had not yet released its report as of the preparation of the draft Special Study.</p> <p>Comment: It is <i>critical</i> that the District, if not dissolved, be required to commit significant, ongoing financial support to the St. Rose and San Leandro hospitals.</p> <p>Response: As noted in presentations to LAFCo, the Special Study does <u>not</u> evaluate whether ETHD assets should be invested in preventative care or in specific health care facilities. Further legal analysis would be required to determine whether LAFCo can require ETHD to commit certain amounts of expenditures for specific purposes.</p> <p>Comment: The Special Study fails to incorporate the significant public input from numerous community members and hospital workers at the three LAFCo public hearings on ETHD.</p> <p>Response: LAFCo maintained a record of the opinions expressed by speakers at LAFCo public hearings. The purpose of the Special Study is to provide an objective, independent review of ETHD governance, services and funding, and governance options to provide direction to LAFCo, other affected jurisdictions and decision-makers, the public, and ETHD. The Special Study does not dispute or contradict the critical importance of hospitals and the services they provide.</p> <p>Comment: The Special Study fails to highlight the current funding gaps the two hospitals face or compare the District's spending on these hospitals to the funding support they receive from the County of Alameda and the cities of San Leandro and Hayward.</p> <p>Response: As noted in presentations to LAFCo, the Special Study does <u>not</u> evaluate whether ETHD assets should be invested in preventative care or in specific health care facilities.</p> <p>Comment: The study states that while appointing a successor agency may reduce duplication, the report notes that "there exist many unmet needs in Alameda County, not being addressed by existing agencies, toward which the District currently is directing resources, therefore eliminating duplication is not a likely advantage" to this governance option (p.58). The Special Study should include evidence and analysis in the report to support this conclusion.</p> <p>Response: The statements in the Special Study (pg. 58) will be clarified to indicate</p>

	Date	Name & Organization	Comments	Responses to comments
				<p>that “discontinue services” refers to discontinuation of the ongoing funding provided by ETHD for grant, sponsorship and education services under the “Dissolution/Discontinue Services” option. Current ongoing funding by ETHD provides funding, or augments existing funding, and therefore is not a duplication of other sources of funding.</p> <p>Comment: There is no communication or collaboration between ETHD board/staff and the County of Alameda’s Health Care Services Agency, Alameda Health System, and St. Rose Hospital. In fact, the Special Study admits that while the “District has indicated that it coordinates with the County and utilizes County data regarding health care needs...there is no documentation available demonstrating this data analysis and its relationship to District planning and grant funding, nor ongoing, regular coordination with the County or participation in County Board of Supervisor Health Committee meetings” (p. 8).</p> <p>Response: Comment acknowledged. As noted in the comment, the Special Study recognizes the need for improved coordination.</p> <p>Comment: There are many practices that the County can (and would happily) share with the District in terms of how to assess whether its funds are adequately addressing its District’s healthcare needs and ensuring its funds are being used effectively and efficiently.</p> <p>Response: Comment acknowledged. The Special Study will be revised to include the comment’s recommendation that the ETHD should consider utilizing the County’s Human Impact Budget and Results Based Accountability Practices. For example, the recommendation will be added to Finding B.</p> <p>Comment: The Special Study does not lay out any clear mechanisms, guidance, or directives for ensuring that ETHD is fulfilling its core mission and obligation to provide <i>adequate</i> healthcare services to residents of the District.</p> <p>Response: The Special Study does include recommendations to improve measurement of outcomes, public outreach and accountability. The Special Study will be revised to include the specific mechanism recommended, (see prior comment re: County’s Human Impact Budget and Results Based Accountability Practices), to improve measurement of outcomes.</p> <p>Comment: The Special Study should consider the advantages and disadvantages of having the District reinstate a parcel tax on its residents as a way of creating public</p>

	Date	Name & Organization	Comments	Responses to comments
				<p>buy in for the District's healthcare work, the significant risk involved in a real estate enterprise, and in light of the ongoing financial needs of the two public safety net hospitals in its boundaries.</p> <p>Response: Comment acknowledged. The Special Study will be revised to indicate that the imposition of a parcel tax by the District, under the "Status Quo" option, could serve both to raise funds and engage more District residents in the activities of the District.</p>
8.	1/30/2017	Dale Silva, Community member	See attached email.	Comment acknowledged.
9.	1/30/2017	Pauline Russo Cutter, Mayor San Leandro	See attached letter.	<p>Comment: The draft study does not assess the link between ETHD's real estate holdings with its voter-approved mission.</p> <p>Response: As stated in the Special Study, ETHD's real estate holdings provide the primary source of funding for the District's grant and other community healthcare programs (e.g., see the Public Review Draft, Chp. 5, Lease of Commercial Buildings, pg. 39).</p> <p>Ownership of the buildings is consistent with the District's Strategic Plan Goal #5 to "Continue to maintain investment properties that serve a medical or health purpose or provide revenue toward that end" (see Chp. 5 as revised, ETHD Goals, Policies and Plans), although some of the property is located outside the District's boundaries.</p> <p>While the District was originally formed by the voters to build a hospital, State law has allowed hospital districts to become "healthcare districts" and provide a range of additional, non-hospital services as described in Chapter 3, Overview of Healthcare Districts.</p> <p>Comment: The report doesn't illuminate the identified goals of the District, which are not outlined in its strategic plan.</p> <p>Response: The District's strategic plan does include a list of its goals. These goals have been added to the revised Special Study (see Chp. 5 as revised, ETHD Goals, Policies and Plans).</p> <p>Comment: The Special Study should acknowledge the District's decision-making process regarding the District's publicly adopted June 13, 2013 commitment of financial assistance for San Leandro Hospital.</p> <p>Response: The Special Study does address the issue regarding the District's commitment, for example, see Chapter 4 of the Public Review Draft Report, "Services, Facilities and Providers", San Leandro Hospital. As described in the Special Study and</p>

	Date	Name & Organization	Comments	Responses to comments
				<p>documented in the District’s resolution and minutes, the District committed to “work collaboratively...” to raise \$20 million for San Leandro Hospital; the District did not commit to provide the funds. The District was advised by its financial consultants that it did not have the capacity or ability to provide the funds.</p> <p>Comment: The Special Study fails to include any discussion of performance measures by which ETHD may be able to determine whether it has improved the health of the people living in the District.</p> <p>Response: The Special Study notes in Finding A-7 that “ETHD adopted a process in 1999...” for grant application guidelines “...and performance management and result assessment including reporting requirements”. Chapter 5 further describes reports required of grant recipients documenting services provided and persons served. The Special Study has been revised to include a recommendation that the District coordinate with the County regarding the County’s system for evaluating the outcomes and benefits of grants (see revised Finding B-1).</p> <p>Comment: The Special Study contains a flawed discussion and analysis of AB 2737.</p> <p>Response: Please see the responses to comment letter #81 from Rob Bonta.</p> <p>Comment: While it’s true that ETHD no longer imposes direct taxes on residents of the District, the existing real estate investments were acquired using funds that historically originated from local taxpayers and should be subject to public scrutiny.</p> <p>Response: Comment acknowledged. The Special Study describes that the source of the funds to be purchase real estate came from the sale of the District’s hospital, which was funded by taxpayer dollars (see Public Review Draft, Chp. 4, Eden Medical Center, pg.25-26).</p> <p>Comment: The determination of a successor agency and plan for the future of the District were it to be preserved will need to be discussed by stakeholders and decision-makers rather than in the consultant’s report.</p> <p>Response: Comment acknowledged. The purpose of the Special Study is to provide a basis for those discussions.</p>
10.	1/30/2017	Colette A. Lee, Community member	See attached email.	Response: Comment acknowledged.
11.	1/31/2017	Katherine Shea, Community member	See attached email.	Response: Comment acknowledged.
12.	1/31/2017	W. Trask Leonard, CEO, Bayside Realty Partners	See attached letter.	Comment: medical office buildings play a critical role in providing healthcare services in the communities that they serve. Moreover, in a market like ours where demand

	Date	Name & Organization	Comments	Responses to comments
				<p>(and therefore rents) for general office buildings is exceptionally strong, there is a limited stock of medical buildings remaining to service the community. Response: Comment acknowledged.</p> <p>Comment: Medical office buildings are considered an institutional asset class, owned by a wide variety entities, such as large public real estate investment trusts, pension funds, insurance companies, healthcare systems, along with private investors.</p> <p>Priced comparably to many other types of real estate, they offer less risk and are therefore more attractive to many investors. We have found that medical office rents increase fairly consistently at a rate of 3-5% per year, regardless of the economic climate. Moreover, in our involvement with medical office buildings over the last 15 years, we have not had one medical tenant default on their rent; in general office buildings during the last recession, somewhere near 15% of office tenants had defaulted at least once. Response: Comments acknowledged.</p>
13.	1/31/2017	Aaron Ortiz, Executive Director, La Familia	See attached letter.	<p>Comment: We support the EHD. Most recently within the last three years we have been partially and fully funded to provide programming for the Hayward Adult School (HAS) ESL (English as a Second Language) and TAY (transitional age youths) student population. We are beginning our third year of funding, and thus far with both previous years we have outreached to 914 students within the HAS campus. Response: Comment Acknowledged.</p>
14.	1/31/2017	Mike Brannan, Labor Rep; Puneet Maharaj, Labor Rep CA Nurses Assn	See attached letter.	<p>Comment: The findings of the study were thorough and descriptive but lacked insight regarding ETHD's ongoing benefit as a healthcare district without a hospital. Response: The Special Study does provide extensive information about the nature and magnitude of grants provided by the District to healthcare entities. The revised Special Study will indicate that dissolution can provide one-time funds to St. Rose Hospital and San Leandro Hospital.</p> <p>Comment: ETHD has strayed from its core mission of assisting community hospitals. Response: As noted in responses to other comments and in the Special Study, many hospital districts no longer own or operate hospitals; however, State law allows them to pursue a range of other healthcare related activities as their mission, other than or in addition to the operation of hospitals.</p> <p>Comment: It is more important than ever that adequate financial support be provided to safety net hospitals. Response: Comment acknowledged.</p>

	Date	Name & Organization	Comments	Responses to comments
15.	2/1/2017	Delvecchio Finley, CEO; Michele Lawrence, Board Chair Alameda Health System	See attached letter.	<p>Comment: The Eden Township District focuses overwhelmingly most of its resources on its real estate operations not on delivering core healthcare services.</p> <p>Response: As described in the Special Study, the District's budget does include significant expenditures for property operations which more than offset the expenditures and generate substantial net revenues available for healthcare purposes.</p> <p>As also noted in the response to Comment #4, the Special Study, Chapter 5, has been revised to clarify that ownership of the buildings is consistent with the District's Strategic Plan Goal #5 to "Continue to maintain investment properties that serve a medical or health purpose or provide revenue toward that end" (see "Goals, Policies and Plans" and "Lease of Commercial Buildings"). Comments submitted by W. Leonard Trask stated that "...medical office buildings play a critical role in providing healthcare services in the communities that they serve. Moreover, in a market like ours where demand (and therefore rents) for general office buildings is exceptionally strong, there is a limited stock of medical buildings remaining to service the community" (See Comment #12).</p> <p>Comment: We agree with the report that Eden should partner with other organizations to determine the most effective ways to improve the health and wellness of vulnerable populations. We also encourage LAFCo to direct Eden to:</p> <ul style="list-style-type: none"> - Dedicate some of its real estate space for providers whose central purpose is to serve the underserved. - Establish a minimum amount of funds for direct services grant support. - Support implementation of integrated electronic health records for safety net providers. <p>Response: Comment acknowledged.</p>
16.	2/1/2017	Rob Bonta, Assembly Member District 18	See attached letter.	<p>Comment: The Special Study, by separating its revenue-generating activities from its grant, sponsorship, and education services, hides the fact that Eden dedicates an absolutely small proportion of its budget towards health related grants.</p> <p>Response: Comment acknowledged, the Special Study does separate real estate from community health functions in the budget, however, these functions are also added together to show the total budget (see Table 6) which clearly enables the reader to compare the amount spent on grants to the total budget. This separation is done for a number of reasons explained in the Special Study; one reason is to enable the determination of compliance with AB 2737 that requires a separation of administrative costs and overhead between community grants and "revenue-generating activities" (see Health and Safety Code 32495(c)(5)).</p>

	Date	Name & Organization	Comments	Responses to comments
				<p>Comment: The District is not meeting the requirement of AB 2737 that requires that a “nonprovider health care district shall spend at least 80 percent of its annual budget on community grants”.</p> <p>Response: The Special Study notes that it appears that the ETHD meets the criteria and qualifies as a “nonprovider health care district” with the possible exception that it provides some “direct health care services”, as the District does contract for health education programs, which is included in the bill’s definition of “direct services to consumers (Public Review Draft, pg. 18). The Special Study has been edited to state that “if a legal determination is made that the District does not provide direct health care services, or the law is clarified, one of the District’s options would be to sell a portion of its real estate holdings and thereby reduce real estate expenditures. This would also reduce revenues available for healthcare purposes” (see Chapter 3, Recent Relevant Healthcare District Legislation, AB 2737).</p> <p>As also noted in the response to Comment #4 and #15, the Special Study, Chapter 5, has been revised to clarify that ownership of the buildings is consistent with the District’s Strategic Plan Goal #5 to “Continue to maintain investment properties that serve a medical or health purpose or provide revenue toward that end” (see “Goals, Policies and Plans” and “Lease of Commercial Buildings”). Comments submitted by W. Leonard Trask stated that “..medical office buildings play a critical role in providing healthcare services in the communities that they serve. Moreover, in a market like ours where demand (and therefore rents) for general office buildings is exceptionally strong, there is a limited stock of medical buildings remaining to service the community” (See Comment #12).</p> <p>Comment: The precarious financial position of St. Rose Hospital and San Leandro and the significant number of proponents in favor of strengthening funding and services at the two safety net hospitals should be mentioned by a firm that specializes in policy forecasting, planning, and analysis.</p> <p>Response: The Special Study is intended to provide an objective review of the District; the volume of public comment at the LAFCo hearings is important information for LAFCo commissioners, however, the consultant does not believe that a count of speakers in favor of, or against, the District or use of funds for hospitals is a statistically valid indicator of community preference.</p> <p>Comment: The District should increase its financial coordination and commitment to the safety net system.</p>

	Date	Name & Organization	Comments	Responses to comments
				<p>Response: Comment acknowledged. The Special Study recommends increased coordination with existing healthcare providers and improved use of existing health needs assessments (e.g., see revised Finding B-1).</p> <p>Comment: The District should increase its public visibility. The Special Study should indicate whether the District is transparent and accountable in fulfilling its mission to the community.</p> <p>Response: Comment acknowledged. The Special Study recommends that the District's Strategic Plan should explicitly provide for specific, measurable actions to increase public outreach and communication (e.g., see Finding B-1). The Grand Jury's recognition of the District's transparency is noted in Finding B-2 and supporting sections of the Special Study. Finding A-7 in the Special Study specifically addresses District accountability for its financial resources and decision process.</p>
17.	2/2/2017	Barbara Halliday, Mayor Hayward	See attached letter.	<p>Comment: The Special Study does not illuminate the goals of the District, and those goals are not outlined in its Strategic Plan.</p> <p>Response: The Special Study does quote the District's mission (pg. 34), and references the District's Strategic Plan that <u>does</u> describe goals, and actions for each goal. The Special Study does include recommendations that the District can improve the specificity of its actions, measures of accomplishment, and link the actions to its budget.</p> <p>Comment: The author failed to reach out directly to relevant stakeholders including local Mayors.</p> <p>Response: The author participated in meetings organized by LAFCo that included representatives of the City of Hayward and the City of San Leandro. Subsequently, LAFCo staff and the Consultant met with the mayors of San Leandro and Hayward and their staff to receive additional input.</p> <p>The author also participated in four LAFCo public hearings to hear comments from stakeholders and members of the public, including special meetings in Castro Valley, San Leandro and Hayward.</p> <p>Comment: The Special Study does not delve into the decision-making process regarding the San Leandro Hospital (SLH) and lacks acknowledgement of the District's "broken commitment" June 13, 2013 regarding helping to work collaboratively to raise financial assistance to SLH.</p> <p>Response: The Special Study does describe the issues regarding the SLH, and reviewed the public process, including the resolution, vote and technical support for the position and actions of the District. The vote occurred in a public hearing and was</p>

	Date	Name & Organization	Comments	Responses to comments
				<p>documented in the minutes. On pg. 28 of the Special Study the following is included: In 2014, ETHD's board voted to "work collaboratively....." to raise \$20 million needed for SLH's second year of operations. ETHD's financial consultant advised the District that it did not have the financial resources, ability to refinance its properties, or record of positive cash flows to raise and commit \$20 million to SLH unless it sold its properties, which ETHD was unwilling to do without voter approval.</p> <p>Comment: The Study fails to include any discussion of performance measures to determine whether the District has improved the health of District residents. Response: The Special Study does note the District's process for reporting grant outcomes, including posting these reports on its website. The Special Study indicates that this process could be improved through increased access to past reports, and coordination with other granting entities such as the County. In response to other comments received, the Final Report will be revised to indicate that the District should coordinate with the County and the County's mechanisms for evaluating health care outcomes.</p> <p>Comment: The Study does not substantiate its assumption that AB 2737 references to "total budget" should exclude real estate activities. Response: It is apparent that the legislation was directed to ETHD, however, the lack of specificity and apparent inconsistencies, on their face, raised questions about the bill that are best addressed by a legal analysis, as noted in the Special Study. The Study notes that the District may qualify as a "non-provider" district, <u>with the exception of certain activities of the District</u>, for example educational activities provided by the District fall under the category of "direct services" as defined in 32495(b). As noted in Item A-2 on page 7 of the Special Study and its footnote #18, AB-2737 distinguishes administrative costs and overhead "not directly associated with revenue generating enterprises" in its description of criteria for determining a "non-provider" health care district. Health and Safety Code Sec. 32495(c)(5) reads: <i>(5) In two or more consecutive years, the amount the district has dedicated to community grants has amounted to less than twice the total administrative costs and overhead not directly associated with revenue generating enterprises.</i> AB-2737 does not define "total budget", and the section noted above suggests a distinction between revenue generating enterprise activities and other activities of</p>

	Date	Name & Organization	Comments	Responses to comments
				<p>the District.</p> <p>Comment: The Study implies on page 3 that the District’s real estate revenues are not derived from direct taxes on residents.</p> <p>Response: The purpose of the Study’s statement on pg. 3 is to raise the question about the appropriateness of real estate activities as a source of funding for a healthcare district, and is not intended to imply that the activities should not be subject to public scrutiny. In fact the Study recommends increased scrutiny and clarity of real estate activities.</p> <p>The Study does describe that the sale of the District’s hospital provided the funding for the real estate activities. The Final Report will add text to clarify that the District’s hospital was originally funded in 1954 by direct taxes on residents.</p> <p>Comment: The method of determining a successor agency should be discussed and developed by stakeholders and decision-makers rather than in the consultant’s report.</p> <p>Response: Comment acknowledged. The Special Study describes options to provide the basis for discussions by stakeholders. The Special Study recognizes that it is not within LAFCo’s authority to create the successor governance structures described in the Study (with the exception of a CSA) that determine and depend upon the successor agency.</p>
18.	2/3/2017	Kim Carter Martinez SEIU 1021	See attached letter.	<p>Comment: ETHD has strayed from its core mission of assisting community hospitals.</p> <p>Response: Many healthcare districts no longer operate hospitals that they were originally formed to construct and operate. However, legislation has since broadened the scope of services that healthcare districts are allowed to provide, and these services include many functions in addition to hospital support.</p> <p>Comment: The preventative health programs supported by ETHD can be supported through other means within the Alameda County Health Services System.</p> <p>Response: The Special Study acknowledges that the County has an existing grant function that could provide functions currently provided by ETHD; however, dissolution of ETHD is likely to also require the sale of its medical buildings, significantly reducing current and ongoing revenues available for healthcare purposes. The County indicated that it would investigate the possibility of taking over management of the medical buildings, in addition to providing the grant services it currently provides.</p> <p>Comment: Considering the impending threat of likely reductions of federal assistance,</p>

	Date	Name & Organization	Comments	Responses to comments
				<p>steps should be taken to provide adequate support to safety net hospitals in the county.</p> <p>Response: Comment acknowledged. As noted in the prior response, dissolution and sale of ETHD buildings likely will reduce an ongoing, annual source of funding for healthcare. Increased allocations to hospitals could occur at the direction of ETHD's elected board members.</p>
19.	2/3/2017	Kathleen Clanon, MD, Medical Director, Alameda County Health Care Services Agency (HCSA)	See attached letter.	<p>Comment: As noted in the Report, the lack of collaboration between HCSA and the District has led to unnecessary and inefficient administrative spending due to the duplication of funding provided to the same organizations (26 of 84 organizations listed, or 31%).</p> <p>Response: Comment acknowledged. The Special Study has been revised to clarify that dissolution can eliminate these inefficiencies and duplications. Governance options, including the Status Quo, also note that collaboration with HCSA's grant administration could also reduce or eliminate duplication and costs.</p> <p>Comment: Although the Report notes data sources that are available to the District in planning its grant making, there is no clear connection between the data and the choices the District has made for funding.</p> <p>Response: Comment acknowledged. The Special Study notes this lack of connection, (e.g., see Finding A-4), and recommends improvements in creating specific objectives and funding priorities linked to the data and activities of other agencies (e.g., see Finding B-1).</p> <p>Comment: If the District or a successor organization chose to uncouple its grant making from the revenue side of the District's affairs, HCSA could host a planning and disbursement process focused on the District's region of responsibility, without significantly increasing HCSA costs.</p> <p>Response: Comment acknowledged. As noted in the response to the first HCSA comment, the Special Study indicates that coordination/utilization of current HCSA grant administration functions could provide a benefit and reduce costs in the case of the governance options that continue services. The Special Study will be revised to clarify HCSA's potential role.</p>
20.	2/3/2017	Lenore McDonald, Dir. Of Fund Dev. & Govt Relations, Center for Elders' Independence	See attached email.	Response: Comment acknowledged.
21.	2/3/2017	Bill Quirk, Assembly Member	See attached letter.	Comment: The draft study fails to adequately address the option of dissolving the

	Date	Name & Organization	Comments	Responses to comments
		District 20		district and transferring the funds to the local hospitals. Response: Sections of the report have been expanded to further describe the dissolution options without continuing services and the distribution of assets to hospitals (for example, see Chapter 2, new Finding A-9). The Special Study has also been revised to include specific recommendations that the District, in its strategic documents, explicitly consider the allocation of funds to hospitals (e.g., see revised Finding B-1). In Chapter 6, the advantages of dissolution without continuing service have been revised to explicitly indicate that assets could be distributed to hospitals.
22.	2/10/2017	Tony Santos, former LAFCO member & former San Leandro Mayor	See attached email.	Comment acknowledged.
23.	March 6, 2017	Willie A. Hopkins, Jr., Director Alameda County General Services Agency	See attached letter.	Comment: Alameda County GSA has the technical background and experience in managing both real property lease management and compliant maintenance operations of standard office and medical office properties. With some budget augmentation in our operating cost, GSA could assist in taking on the management of the ETHD facility portfolio. Response: Comment acknowledged. The Special Study will be revised to indicate that the GSA has stated that it has the ability to manage the ETHD properties in the event of a dissolution; this arrangement would allow real estate revenues to continue to be generated. The potential for cost savings is not known.

Palacios, Mona, CAO

From: Anthony Santos <tonysantos33@att.net>
Sent: Tuesday, January 10, 2017 1:30 PM
To: Palacios, Mona, CAO
Cc: Dev Mahadevan; Steven Tavares; cwgilcrest@gmail.com; Gordon Galvan; Rajendra Ratnesar; Matier and Ross Column
Subject: subject: "eden township health care district"

Mona, please accept his email as "written" comment on the report of Berkson Associates which was recently released. While I have not formally read the report, I did read the summary in the recent Daily Review, dated December 30, 2016. It is noted the report apparently states that: "provides a value of service of value, including significant expenditure of funds for community health purposes consistent with its mission as a health care district." It would appear to me there isn't any reason to dissolve the district. I believe the district is doing exactly what it can do after losing San Leandro Hospital as a result of litigation that it lost.

Just a note, in 2009, I participated in discussions with the District's Counsel Chris Cannizzo, regarding ways to continue operations at San Leandro hospital. Mr. Cannizzo however was fired and the district filed its ill conceived law suit against Sutter Health. Counsel was to issue a "term sheet" by 12/24/2009, but was unable to do so as he was dismissed. I had conversations with Carole Rogers, the then Chair of the district's Board of Directors. I suggested to her that the law suit was ill advised and that the district could very well lose, which it did; along with the loss, the district lost of control over San Leandro hospital; eventually, Sutter Health turned the hospital over to the County of Alameda. The County did not pay one cent for the facility. I am sorry our negotiations went no where.

Further, there was a report in the San Leandro Times on January 9, 2017 which noted the District's \$250,000 grants to a variety of Community organizations. I believe the district should operate independently of the County.

Tony Santos, former LAFCO member and Mayor of the City of San Leandro, Calif.

Palacios, Mona, CAO

From: Dev Mahadevan <dmahadevan@ethd.org>
Sent: Thursday, January 19, 2017 1:54 PM
To: Richard Berkson
Cc: Palacios, Mona, CAO; Barbara Adranly; Michelle Robles
Subject: Public Review Draft Report on Eden Township Healthcare District

Hi Richard, I hope you had a good Holiday Season. I want to speak to your report and start by saying that it is a comprehensive study and a balanced report based on the facts you studied. I want to thank you for giving us the opportunity to provide you with documentation to help tell our story more completely than it has been done to date. That said, there is one contradiction in figures that should be reconciled. ON Page40- under "St. Rose Hospital", you say, "ETHD reports that it ahd granted St. Rose Hospital a total of \$1,650,000 through 2016, which includes prior grants of \$500,000 to St. Rose in addition to the \$1,150,000 grant described above". This seems to contradict the figure on the second page of Appendix B "ETHD Grants and Sponsorships through 2016", which is \$2,942,182. The number in the Appendix is the correct number and the statements on page 40 seemed to be in conflict. Rewording it might be sufficient if it is clear that the District gave St. Rose a grant for \$1,150,000 plus interest of \$ 143,356 and sponsorship of \$10,000 in the fiscal year ending June 30, 2016.

Please let me know if you have any questions.

Dev

Palacios, Mona, CAO

From: Brenda Clark <bdclark12@gmail.com>
Sent: Saturday, January 21, 2017 11:34 AM
To: Palacios, Mona, CAO
Subject: To: LAFCo, in support of keeping the ETHD as it is

TO WHOM IT MAY CONCERN:

I am writing in support of keeping our Eden Township Health District in tact, as it is! Doing so will *continue* to provide much-needed support for programs that serve our poorest and in-need citizens for the foreseeable future, without taxation on area residents. To dissolve the District and MISAPPROPRIATE our funds to support two local hospitals will **deplete** the funds in less than two years, and Alameda County would spend the resources quickly. There is no need for an additional CSA or any of the other various governance options, including dissolution. I consider any option other than "as is" as *misappropriation of the ETHD funds* that would serve the Eden area for generations to come.

Keeping ETHD in tact will enable continuance of its long-standing efficacy in ensuring that the endowment (created with the sale of Eden Hospital to Sutter Health) serves the area for years to come. If a special need is identified or a critical issue arises within the area, ETHD can act quickly. The the slow-moving, molasses structure of government agency involvement will most certainly be detrimental to the very purpose and charter of our health district.

Please respect the need of our District. Leave the Eden Township Health District in tact!

Sincerely,

Robert and Brenda Clark
3713 Star Ridge Road
Hayward, CA 94542



January 23, 2017

Mona Palacios
Executive Officer
Alameda County Local Agency Formation Commission (LAFCo)
1221 Oak Street, Suite 555
Oakland, CA 94612

Dear Mona,

I am writing to comment on the report and to provide LAFCo Commissioners with the Eden Health District's perspective on the draft report of Berkson Associates on the District.

Overall, the Report is a well-researched study of the District and the potential options for its future for LAFCo to consider in determining its future. It is a balanced perspective which provides detail and shows the pros and cons of each option.

We would like to state, again, for the record, that this is a repeat of a study done in some detail less than two years ago. An action which was caused by the political pressure put on by some of our elected officials.

The District sees the status quo as the least cost option providing the greatest public oversight. The District's overhead is reasonable and it provides meaningful community services, as the report shows. We would point out that while the report treats the medical offices as an investment, the District has made the case that providing medical offices IS a community service, a point made to justify keeping the District and paying Sutter Health over time. Four Superior and Appeals Court judges agreed in the published opinion. This is part of the District's mandate. George Bischaney, former CEO of Eden Medical Center provided information to this effect during the previous comment period, that the Hospital needed physician offices that they could not afford to build, while also building a new replacement hospital for the old one. The District supported the Hospital by building this medical office building in Castro Valley.

The private non-profit successor option is a good one which requires a substantial initial investment to obtain future savings but creates a self-perpetuating board, at least partially and one that still is influenced politically because of appointments by the cities and Board of Supervisors. While subject to the Brown Act, it still is less transparent than the current structure. The initial cost of an election is anywhere from \$300,000 to \$1,500,000 if we use the Registrar of Voters website guidelines for the cost of an election based on the registered voters (182,000 in the District in October 2016). Consolidated general elections are less expensive than special elections. If you add the cost of creating a non-profit and getting the Internal Revenue Service for approval of non-profit - 501(c)(3) - status, the legal fees and costs could run from \$150,000 to \$300,000. Since the District costs, on average about \$70,000 per year, including average cost per year of biennial elections and board compensation and expenses at the District, it could take 5 to 10 years for the conversion to pay off.

The point has been made by several people that the District's dissolution and liquidation of its assets to support two local hospitals for a very short time frame makes no economic sense without a long-term plan for each hospital.

We would like to also point out that San Leandro Hospital is now a part of Alameda Health System, a \$1-billion-a-year revenue stream, which includes more than \$100 million in sales taxes. Eliminating the District and liquidating its assets would only provide cash of about 2% of one year's expense of this system. In June 2015, the Alameda County Grand Jury raised issues about San Leandro Hospital's acquisition and AHS' collection deficiencies. We don't believe this organization needs to eliminate a special district to support one year's operation.

Lastly, dissolving the District or converting it to a non-profit charitable organization would eliminate a taxing authority (although voter approval is required for actual taxation) which would involve creating such an authority when a local provider, like St. Rose Hospital, considers a way to raise new capital. When this was previously considered, the District was seen as the most logical entity to do this. This is an option which will no longer be available and would have to be created again, at considerable expense.

For all these reasons, we believe keeping the District in its current existence is the logical decision for the Commissioners to reach in looking out for the best interests of the tax payers of the District.

Sincerely,


Dev Mahadevan
Chief Executive Officer

Copy to: Board of Directors, Eden Health District

Palacios, Mona, CAO

From: Jody Holdsworth <vjhmiko@comcast.net>
Sent: Wednesday, January 25, 2017 2:49 PM
To: Palacios, Mona, CAO
Subject: Eden Health District

Dear Ms. Palacios-

As a resident of Castro Valley, I perused a copy of the Consulting Report about the Eden Health District. I have some knowledge over the years about the work of the District, and believe that the work has been worthwhile to people and institutions in our area. The Report seems to concur with this. A periodic study of the District's operation is certainly a good idea, and it appears that the operation may need some "adjustments," but otherwise it seems like the District is doing the job it's supposed to do. So I say, let it be.

Sincerely,

Jody Holdsworth

Palacios, Mona, CAO

From: Bruce Udelf <budelf@baywoodcourt.org>
Sent: Wednesday, January 25, 2017 11:29 AM
To: Palacios, Mona, CAO
Subject: Eden Health District

Mona-

It was with great interest that I read the LAFCO report prepared by Berkson Associates. To finally have some facts presented, instead of the various allegations being bandied about, was very helpful. Some Key Points:

- *It appears that a substantial number of Districts throughout the State no longer run a hospital. So the Eden Health District is not unique in this respect.
- *The Administrative costs of the District are in the teens (percentage-wise), not the 88% that had been mentioned in various settings. The actual figure is quite reasonable.
- *The District grants seem to be spread out to a variety of health-related, worthwhile entities.
- *The District could use improved recognition by its various publics.
- *Since the District Board is elected by the voters, there would appear to be some accountability to the People. A potential successor organization might not possess such accountability.

My conclusion is that the District is operating more or less as it should, and that it could use some "polishing." Dissolution or some similar option does not seem to be a worthwhile or necessary option. However, should LAFCO opt for a recommendation of dissolution, this should absolutely be done via a vote of the citizens of the area.

Note-In addition to my professional job, I am also a resident of Hayward.

Bruce Udelf
Executive Director
Baywood Court
21966 Dolores Street
Castro Valley, California 94546
510-733-2401
510-733-2480 (f)
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Comment # 6

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Wilma Chan, SUPERVISOR, THIRD DISTRICT

ALAMEDA COUNTY BOARD OF SUPERVISORS

COMMITTEES:
Health, Chair
Personnel & Legislative
Unincorporated Services

January 27, 2017

Ms. Mona Palacios
Alameda County LAFCo Executive Officer
1221 Oak Street, Suite 555
Oakland, CA 94612

SUBJECT: Comments Regarding LAFCo Special Study of the Eden Township Healthcare District

Dear Ms. Palacios,

I would like to thank Alameda County's LAFCo for the opportunity to share comments on the draft Special Study on Eden Township Healthcare District (ETHD). While the draft provides a thorough overview and description of the District's history, current operations, finances, and grantmaking, it lacks a sufficiently rigorous discussion of the assumptions it makes, how these assumptions affect its analysis and findings, and how these findings should be used in weighing the various governance options under consideration and in deciding the best course of action. In particular, there is not sufficient discussion of whether the District has in the past or whether it currently provide adequate public services; how the District avoids duplication of efforts with other healthcare agencies within its boundaries, including the County of Alameda; and how it ensures proper transparency and accountability in its use of publically raised funds.

Definition of Administrative Expense

The decision to separate out the District's real estate enterprise budget and expenses from the budget and expenses of its Community Health Fund and sponsorships underpins the Study's entire analysis of the District's finances, operations, and the adequacy of its Community Health Fund. As such, the Special Study should lay out a clear rationale for its decision to assume that the definition of "Administrative Expense" as defined in AB 2737 excludes real estate operations, other than District costs allocated to real estate operations.

Moreover, the Special Study should clearly spell out the implications of this decision in the analysis of the various governance options presented and whether this is a common practice used in other LAFCo special studies or Municipal Service Reviews, especially since the District is "unique in that it relies almost entirely on lease revenues from ownership and operation of medical office buildings, and receives no property taxes or parcel taxes" like other healthcare districts do to raise funds.

It would also be worthwhile to expand the Little Hoover Commission section to include some discussion of how various conversations at the state level regarding the role and future of healthcare districts is relevant to our examination of ETHD. For example, the Special Study might explore what criteria LAFCo should use to distinguish between a "hybrid model" healthcare district like ETHD and the small grantmaking or social corporate responsibility arm of a private real estate developer that has chosen to focus on healthcare. These are



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fundamental questions about what separates a public agency from a private foundation in terms of fulfillment of mission, accountability, transparency, and community engagement.

Adequacy of Public Service

As I mentioned in my remarks at the November 7, 2016 LAFCo Special Hearing on ETHD, the largest number of the District's residents' healthcare needs are served by two safety net hospitals, St. Rose in Hayward and San Leandro Hospital (SLH) in San Leandro. These two facilities provide preventative, primary, and acute care services to thousands of underserved patients every month. Most of these patients are elderly, low income or uninsured. In light of historically low state funding and the uncertainty of future federal funding to hospitals operating in underserved communities, it is *critical* that the District, if not dissolved, be required to commit significant, ongoing financial support to these hospitals.

Interestingly, the Special Study goes to great lengths to repeatedly highlight the District's recent \$1.15 M (plus interest) loan forgiveness to St. Rose Hospital, but completely fails to incorporate the significant public input from numerous community members and hospital workers at the three LAFCo public hearings on ETHD. These individuals took time out of their day to voice their concern about the District's lack of needed, ongoing financial support for these two hospitals. Moreover, their voices, experiences, and input are not used at all in the Special Study's analysis of the District's fulfillment of its mission and obligations. In addition, the Special Study fails to highlight the current funding gaps the two hospitals face or compare the District's spending on these hospitals to the funding support they receive from the County of Alameda and the cities of San Leandro and Hayward.

All three of these jurisdictions have put forward significant amounts of ongoing funds to keep these two public safety hospitals' doors open for the District's residents. These are public funds that could be used for other preventative and coordinated care efforts led by Alameda County's Health Care Services Agency, which has significant expertise and capacity for this type of work in its various departments, including the Department of Public Health and the Department of Environmental Health. All that the County of Alameda, City of San Leandro, and City of Hayward are asking for is that the District provide ongoing financial support to its two safety net hospitals given how central this kind of support is to the very purpose and existence of healthcare districts and the amount of community feedback and concern we have received regarding the financial sustainability of the hospitals.

Cooperation and Coordination with Alameda County

Based on a cursory review of Appendix B: ETHD Grants & Sponsorships Through FY16, many of the agencies, non-profits, clinics, and CBOs listed receive funding from Alameda County. In the Special Study's analysis of various governance options, the study states that while appointing a successor agency may reduce duplication, the report notes that "there exist many unmet needs in Alameda County, not being addressed by existing agencies, toward which the District currently is directing resources, therefore eliminating duplication is not a likely advantage" to this governance option (p.58). The Special Study, however, fails to provide the evidence and analysis to support this conclusion. For example, it does not show how the gaps identified in the Alameda County Health Profile and various Community Health Needs Assessments mentioned in Chapter 4 are being



Wilma Chan, SUPERVISOR, THIRD DISTRICT

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filled by the District's grants and sponsorships in a way that does *not* duplicate the efforts of the County or other healthcare agencies serving the District's residents. If the Special Study intends to use this conclusion to support its analysis of the various governance options under consideration, it should include this evidence and analysis in the report to support its conclusion. My sense is that there may be a good amount of duplication occurring.

Furthermore, it is my understanding that there is **no communication or collaboration between ETHD board/staff and the County of Alameda's Health Care Services Agency, Alameda Health System, and St. Rose Hospital**. In fact, the Special Study admits that while the "District has indicated that it coordinates with the County and utilizes County data regarding health care needs...there is no documentation available demonstrating this data analysis and its relationship to District planning and grant funding, nor ongoing, regular coordination with the County or participation in County Board of Supervisor Health Committee meetings" (p. 8). Without clear channels of communication and a willingness to collaborate on the District's part, it is difficult to imagine that the District is using its precious public resources effectively and efficiently to fill critical service gaps and support vital health care programs.

Finally, beyond a basic level of coordination and communication, there are many practices that the County can (and would happily) share with the District in terms of how to assess whether its funds are adequately addressing its District's healthcare needs and ensuring its funds are being used effectively and efficiently, including our Human Impact Budget and our Results Based Accountability practices, which helps the County ensure we are measuring success the success of our grants based on outcomes and not just outputs.

Accountability

As the Special Study shares, the November 16, 2016 Little Hoover Commission meeting on special districts indicated that the State and the Association of California Health Districts are interested in increased oversight and accountability of special districts from LAFCos. The Special Study, however, does not lay out any clear mechanisms, guidance, or directives for ensuring that ETHD is fulfilling its core mission and obligation to provide *adequate* healthcare services to residents of the District.

If the District is not dissolved, it is my belief that LAFCo needs to create some kind of public accountability mechanism to ensure proper use of the District's public funds. As the Special Study points out, ETHD has not collected taxes from the District since 1993. While the Special Study seems to interpret this as a benefit to members of the District, the fact that the public has no financial stake in the District's operations, management, function, or disbursement of funds, allows the District to operate without any public input, engagement, or oversight. The District needs to engage the community in ongoing discussion on what community needs and priorities are, and work collaboratively with them in the development of the Districts Community Health Funds priorities and goals.

The Special Study should consider the advantages and disadvantages of having the District reinstate a parcel tax on its residents as a way of creating public buy in for the District's healthcare work, the significant risk involved in a real estate enterprise, and in light of the ongoing financial needs of the two public safety net hospitals in its boundaries. The Special Study should also expand on suggestions included in Section B of its findings to



Wilma Chan, SUPERVISOR, THIRD DISTRICT

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enhance the District's accountability and transparency mechanisms. For example, the District could be required to produce an annual report of community benefit grants, dedicate real estate holdings to providers serving the underserved, develop a clear application process for sponsorship and grants, and set a minimum dollar amount for its Community Health Fund grants.

If you have any questions about the feedback or comments I have submitted, please do not hesitate to reach out to me or my staff.

Respectfully,

A handwritten signature in blue ink, appearing to read "Wilma Chan", is written over a horizontal line.

Wilma Chan

Palacios, Mona, CAO

From: Caabco <caabco@aol.com>
Sent: Monday, January 30, 2017 9:33 AM
To: Palacios, Mona, CAO
Subject: An email in support of the ETHD

Dear Ms. Palacios,

I'm writing to express support for maintaining the Eden Township Healthcare District in its current form and not dissolving it. I have been following this issue for some time, and the more I read the more it is obvious that the ETHD provides a huge service providing grants, sponsorships, and education that greatly enhance the commonweal. These efforts do much to support a number of different health care channels that need that help and use it to great advantage in helping others.

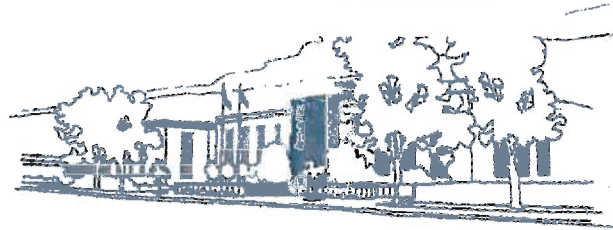
I was gratified to read in the Draft Study that of those who have an opinion about ETHD, favorable opinions hugely out weigh those less enthusiastic. I've noticed this too, that the more people know about the ETHC, the more supportive they are, certainly true in my case.

LAFCo has done a service to the community by focusing light on the ETHD, and I hope that service will continue by assuring it's operation in its current form.

Thank you.

Dale Silva
Fairview

City of San Leandro
 Civic Center, 835 E. 14th Street
 San Leandro, California 94577
 www.sanleandro.org



January 30, 2016

Commissioner John Marchand, Chair
Attn: Mona Palacios, Executive Officer
 Local Agency Formation Commission of Alameda County (LAFCo)
 1221 Oak Street, Room 555
 Oakland, CA 94612

**Re: Special Study of Governance Options for Eden Township Healthcare District (ETHD) –
 Comments from City of San Leandro**

Dear Chair Marchand:

On behalf of the City of San Leandro, I want to thank the Local Agency Formation Commission of Alameda County (LAFCo) and Executive Director Palacios for your efforts in moving forward with the above-referenced Municipal Services Review (MSR) study. The City of San Leandro has a number of substantive concerns with regard to the contents of this study, as further outlined below.

First and foremost, the draft study fails to provide a substantive analysis assessing the link between ETHD’s real estate holdings (including those outside of the district) with its voter-approved mission. The District’s ability to meet this mission is also insufficiently analyzed, and the report doesn’t illuminate the identified goals of the District, which are not outlined in its strategic plan. It is also disappointing that the study’s author failed to reach out directly to relevant stakeholders who have been actively involved in this process, including local Mayors such as myself, so that our communities’ perspectives could be incorporated into the draft report.

While the draft report provides a technical overview of the operations of Eden Health District, it fails to substantively address many of the underlying policy questions surrounding the district, many of which were requested to be included when the study was initiated. For example, while the report summarizes ETHD’s history regarding San Leandro Hospital, it does not delve into the decision-making process behind that history, nor does it evaluate the consistency of the District’s actions with its responsibility to all of its constituents. Providing a review and analysis of the decision-making process surrounding its actions would provide information to stakeholders and the public regarding the relationship between its process and the District’s mission. Along these lines, the report also lacks acknowledgement of the District’s failure to fulfill its publicly adopted June 13, 2013 commitment of financial assistance for San Leandro hospital. This broken commitment has generated significant public controversy in the San Leandro community and warrants further evaluation and explanation as part of the study.

Additionally, the draft study fails to include any discussion of performance measures by which ETHD may be able to determine whether it has improved the health of the people living in the district. It is also not clear from the study whether the District’s major activities and priorities are well-aligned with achieving its stated mission now and into the future. The District’s current funding and grant making activities also are not analyzed in relation to similar work and unmet needs in the County.

Pauline Russo Cutter, Mayor

City Council:	Pete Ballew	Deborah Cox	Ed Hernandez
	Benny Lee	Corina N. López	Lee Thomas



Of critical importance, the draft report also contains a flawed discussion and analysis of AB 2737, Assembly Member Bonta's legislation that was signed into law by the Governor in order to to change ETHD's current financial practices. In particular, the report fails to address the fact that ETHD is clearly now out of compliance with the law's requirements that the District dedicate at least 80% of its *total* budget to grant making. For example, the report makes reference to questions about the definition of the term "annual budget" and outlines an unsubstantiated assumption that the agency's real estate activities should be excluded from that definition, which is contrary to the legislative intent that is well documented throughout the administrative record, including the Assembly Committee on Local Government's analysis of the legislation. Indeed, page 5 of that analysis specifically states that: "*the 20% cap on administrative costs must include all other expenditures of the District because 80% of the budget must be expended on community grants.*"

It is also important to highlight the author's statement from Assembly Member Bonta that was included in the legislative record prior to adoption of AB 2737, which states: "*In 2013 and 2014, Eden spent almost twice as much on salaries and benefits for its three employees compared to what it gave out in community grants for healthcare services. The basic foundation for a healthcare district's existence is to provide healthcare services to the community it serves. When that basic premise [is not] being followed, rules need to be set in place for the benefit of the community.*"

Similar concerns were echoed by the Alameda County Civil Grand Jury, whose recent investigation of ETHD concluded that it "*has failed in its core mission effectiveness...The district does not engage in advanced strategic planning practices, but rather, has chosen to muddle through governance and managerial responsibilities. Its poor management and absence of innovation results in very little impact on the health of Alameda County residents*". These comments come on the heels of the State's Milton Marks "Little Hoover" Commission report that was issued in 2000, which recommended that when public hospital districts sell their hospitals, that a process should be initiated to determine if they should continue to exist.

Based upon the above factors, it is clear that AB 2737 is directly applicable to ETHD and that the State Legislature's intent in adopting this legislation was to force ETHD to substantively modify its operational and budgetary practices because those practices are not being carried out in a manner that sufficiently advances public interests. By virtue of its incorrect analysis, the draft report fails to address the fact that ETHD is now clearly in violation of state law, and the report fails to offer an appropriate remedy that would bring the agency back into compliance with the law.

Other misleading statements and assumptions can be found throughout other sections of the report, including an introductory passage on page 3, which implies that the District's revenues do not "*derive from, taxes on residents.*" While it's true that ETHD no longer imposes direct taxes on residents of the District, it is fundamentally important to recognize that all of its existing real estate investments were acquired using funds that historically originated from local tax payers. Therefore, any ongoing revenues that are currently being derived from those investments, are, by definition, legally considered public taxpayer funds that should be subject to public scrutiny.

Lastly, while the final two elements of the report provide an analysis of several alternative governance options for ETHD, some aspects of these elements – i.e., a method of determination for the successor agency and a financial and programmatic plan for the future of the District were it to be preserved – will need to be discussed and developed by stakeholders and decision-makers rather than in the consultant's report.

In summary, the basic foundation for a healthcare district's existence is to provide healthcare services. Unfortunately, Eden Township Healthcare District's current foundation appears to be primarily dedicated to serving as a real estate holding company that provides a relatively low level of healthcare-related grants



in comparison to its total budget. It is for these very reasons that the State Legislature adopted into law new requirements designed to fundamentally change its budgetary practices, which the District is now violating.

The City of San Leandro welcomes a community conversation around the District's mission and purpose in the modern health care landscape. While the draft study addresses issues related to the Municipal Service Review process, it does not provide adequate new information to form a foundation for substantive conversations about the future of the District and the best use of public resources to provide healthcare to our most vulnerable populations. In light of recent efforts at the federal level that could lead to significant changes in the healthcare sector, it is now more important than ever to ensure that local healthcare organizations are effectively managed.

For these reasons, we respectfully urge LAFCo to thoroughly examine Eden Township Healthcare District in the context of healthcare in the County, its historic mission, and the long-term needs of the district as originally requested. Additional details of the City of San Leandro's position on this matter can be found in the attached resolution that was unanimously adopted by our City Council last year.

Given ETHD's past history of unfulfilled commitments, lack of focus on its core mission, and insufficient public accountability, we believe the appropriate solution is either an entirely new governance structure, or dissolution of the District. To the extent the former option is to be explored further, we believe it is imperative that elected officials from City and County agencies within the district be provided direct representation on ETHD or its successor entity's governing board.

Thank you for your leadership on this important matter and for your consideration of our concerns.

Sincerely,



Pauline Russo Cutter
Mayor, City of San Leandro

Encl.: Resolution from San Leandro City Council

cc: The Honorable Senator Nancy Skinner
The Honorable Senator Bob Wieckowski
The Honorable Assembly Member Rob Bonta
The Honorable Assembly Member Bill Quirk
The Honorable Alameda County Supervisor Wilma Chan
Alameda Health System Board of Trustees
San Leandro City Council and City Manager
The Honorable Barbara Halliday, Mayor of Hayward
East Bay Times, attn.: Darin Moriki
San Leandro Times



IN THE CITY COUNCIL OF THE CITY OF SAN LEANDRO

RESOLUTION NO. 2016-169

**RESOLUTION SUPPORTING EFFORTS TO DISSOLVE EDEN HEALTH DISTRICT
(PROPOSAL FROM THE MAYOR AND THE CITY COUNCIL URGING SAN
LEANDRO'S STATE LEGISLATIVE DELEGATION AND THE ALAMEDA COUNTY
LOCAL AGENCY FORMATION COMMISSION TO SUPPORT EFFORTS THAT
WILL LEAD TO THE DISSOLUTION OF THE EDEN HEALTH DISTRICT)**

WHEREAS, San Leandro Hospital, a 93-bed facility with approximately 467 employees and 300 physicians and allied medical professionals, is the hometown public healthcare provider for San Leandro and central Alameda County; and

WHEREAS, the Hospital provides the San Leandro community with a wide range of important medical services including 24-hour emergency room access, critical care, and highly-skilled surgery and rehabilitation services; and

WHEREAS, in 2012 San Leandro Hospital experienced financial difficulties, so the City of San Leandro and Alameda County partnered together to take the unprecedented step of contributing \$3 million from each of their respective general funds in order to support the sustained operations of the Hospital; and

WHEREAS, this financial commitment was made in tandem with a June 13, 2013 public commitment of financial assistance for San Leandro Hospital by the Eden Township Healthcare District (now known as Eden Health District, or EHD), a regional public agency that was formed by the voters in 1948 to provide direct healthcare services for the residents of San Leandro, Hayward, and unincorporated Alameda County; and

WHEREAS, since that time, the District divested itself of its ownership of any public hospitals and later became embroiled in costly litigation with Sutter Health regarding the transfer of San Leandro Hospital, resulting in a \$20 million judgement against the District; and

WHEREAS, since that time, the District has failed to honor its June 13, 2013 public commitment to the community to raise funding for San Leandro Hospital; and

WHEREAS, the District now no longer operates any hospital or other direct-service facility and spends significantly more money on its own administration, including but not limited to salaries for its executives, than it does on community grants; and

WHEREAS, by the District's own admission, 80% of the population who lives within its geographic boundaries are not even aware of its existence; and

WHEREAS, the Milton Marks "Little Hoover" Commission on California State Government Organization and Economy, an independent state oversight agency that was created in 1962 to investigate government operations, issued a 2000 report recommending that when

public hospital districts sell their hospitals, that a process should be initiated to determine if the district should continue to exist; and

WHEREAS, in June, 2016, following a thorough independent investigation, the Alameda County Civil Grand Jury issued a report stating that Eden Health District fails in its core mission effectiveness, that it does not engage in advanced strategic planning practices, and that its poor management and absence of innovation results in very little impact on the health of Alameda County residents, leading to the conclusion that it is valid to question whether the District should continue to exist; and

WHEREAS, the San Leandro City Council is proud to sponsor AB 2737 - Assembly Member Rob Bonta's 2016 legislation that would limit the amount of money Eden Health District may spend on administrative costs to ensure it allocates a sufficient portion of its budget towards supporting the healthcare needs of the community; and

WHEREAS the City Council is also proud to support Assembly Member Bill Quirk in his efforts to pursue State legislation that would direct the Alameda County Local Agency Formation Commission (LAFCo) to dissolve Eden Health District if the District fails to meet certain basic service standards; and

WHEREAS, based on the above factors, the San Leandro City Council asserts that Eden Health District is no longer fulfilling its established goals or commitments to the communities it was created to serve, and therefore should be dissolved; and

WHEREAS, the City Council urges LAFCo to carry out any and all proceedings that would be necessary to dissolve Eden Health District; and

WHEREAS, the City of San Leandro and its City Council is committed to its ongoing partnership with the City of Hayward and its City Council to achieve the above-outlined goals, including equitably sharing the administrative or electoral costs that might be associated with effectuating the dissolution of the District; and

WHEREAS, the City Council supports efforts to ensure that the Cities of San Leandro and Hayward are provided with representation on any committees or boards charged with the distribution of any financial proceeds or assets that could be derived from dissolution of the District after payment of outstanding debts, and that such proceeds be equally shared between San Leandro Hospital and Saint Rose Hospital, both of which are located within the geographic boundaries of Eden Health District.

NOW THEREFORE BE IT RESOLVED, that the San Leandro City Council authorizes the Mayor, the City Manager or his designees, and the City's legislative advocates to work with the City's partners at the City of Hayward, throughout Alameda County and at the State level to pursue all legislative, administrative, or procedural avenues that may be necessary to achieve the goals outlined above.

BE IT FURTHER RESOLVED, that the City Council hereby authorizes the Mayor, City Manager, and the City's legislative advocates, at their discretion, to communicate this message to other elected and/or appointed officials throughout the State as appropriate.

Introduced by Councilmember Cox and passed and adopted this 6th day of September, 2016, by the following vote:

Members of the Council:

AYES: Councilmembers Cox, Lee, Lopez, Prola, Reed, Thomas; Mayor Cutter (7)

NOES: None (0)

ABSENT: None (0)

ATTEST:  For
Tamika Greenwood, City Clerk

Palacios, Mona, CAO

From: Colette Lee <colettelee401@sbcglobal.net>
Sent: Monday, January 30, 2017 5:57 PM
To: Palacios, Mona, CAO
Subject: Eden Health District

Dear Ms. Palacios:

Thank you sending me the results of the special study that was done in regards to the Eden Township Healthcare District. As a resident and voter, I'm pleased that this independent study validates the validity of the District's mission and its ability to use its assets to serve the residents of the communities it serves.

In particular, I appreciate that the independent study brings to light that:

- The Grand Jury Report misled residents in believing that only 9.3% of total expenditures were allocated towards grants and sponsorships when in fact 85% were for grants and sponsorships.
- The Grant Jury Report misled residents is believing that 90% of the District budget was for non-healthcare expenditures when in fact it was 10.6%.
- The Grand Jury Report methodology in correctly calculating these figures was due to their failure in identifying that the District real estate holdings and activities provide "a significant source of funding of health care related services in the absence of District property taxes." This failure significantly skewed the numbers, something that politicians who were pushing for the dissolution of the District through legislation were quick to point out even though they were false.
- The study validates that the dissolution of the District is unwarranted and that "significant expenditures of funds for community health care purposes are consistent with its mission as a healthcare district and the State of California's Health and Safety Code." I applaud them for their support of San Leandro Hospital and St. Rose Hospital in their times of need and for their support of the many organizations who benefited from their grants and sponsorships throughout the years.

While I understand that the District is not without challenges, the District fulfills a need in the community. Dissolving the District and its assets will only provide a short-term fix to a long-term problem and organizations, many who are small and not able to receive State/County funding, will struggle in trying to meet the needs of their local residents.

Let's not forget that it was the voters of this community that formed the District many years ago for the purpose of establishing and building Eden Medical Center, a top-rated acute care hospital and trauma center. While the District no longer owns or operates a hospital, it continues to fulfill its mission, "to improve the health of the people in our community by investing resources in health and wellness programs."

Sincerely,

Colette A. Lee
Castro Valley, CA

Palacios, Mona, CAO

From: kmckshea54@comcast.net
Sent: Tuesday, January 31, 2017 12:06 PM
To: Hou, Sandy, CAO
Subject: Eden District January 31 agenda

E-mail submitted from following website: [commissioners_page](#)

Name: katherine Shea

EmailAddress: kmckshea54@comcast.net

Comments: This District must be dissolved. Waste of public money on Salaries and non hospital buildings. Support reintroducing bill by Assembly member Quirk! I am 53 year resident of District.



January 30, 2017

Ms. Mona Palacios
Executive Officer
Local Agency Formation Commission of Alameda County
1221 Oak Street, Room 555 Oakland, CA 94612

Re: Eden Township Healthcare District Special Study

Dear Ms. Palacios:

As you consider the special study regarding Eden, I ask that you consider two significant points regarding the unique benefits of medical office buildings: their importance to the delivery of healthcare in the local community, and their inherent stability and attractiveness as an investment vehicle.

By way of background, Bayside Realty Partners is the largest private firm in Northern California specializing in the management, leasing and sales of medical office buildings. We handle over 2 million sf of medical office buildings for clients such as Stanford University, Dignity Health, Sutter Health, Palo Alto Medical Foundation, Prudential, American Healthcare Investors, Equity One, Washington Capital Management, Harrison Street, and many other investors. We also provide property management and leasing services for the District's medical office building portfolio. We typically complete over 100 medical office lease transactions annually, and have the most robust data on the Bay Area medical office marketplace of any firm.

Importance of Healthcare Delivery in the Local Community

As healthcare systems actively seek to remove as many ambulatory procedures/visits from hospitals due to increasing costs, they are aggressively "pushing" these services into outpatient, community-based medical office buildings where physicians and their staff meet these needs.

Additionally, with the advent of the Affordable Care Act, many more underserved patients are now going treatment that previously did not; most of this treatment is being done in physicians' office in medical buildings. Seeing these patients in a clinic setting close to where they live ultimately saves lives and saves substantial drain on the healthcare delivery system with the more regular preventative care that occurs here.

For these, and various other reasons, medical office buildings play a critical role in providing healthcare services in the communities that they serve. Moreover, in a market like ours where demand (and therefore rents) for general office buildings is exceptionally strong, there is a limited stock of medical buildings remaining to service the community.



Medical Office Buildings as an Asset Class

Medical office buildings are considered an institutional asset class, owned by a wide variety of entities, such as large public real estate investment trusts, pension funds, insurance companies, healthcare systems, along with private investors.

Priced comparably to many other types of real estate, they offer less risk and are therefore more attractive to many investors. Their low risk is a result of:

- Long term leases signed by tenants
- Financially strong and stable tenants
- Large amounts of capital invested by landlord and tenant to complete build-out that tenants do not want to walk away from at the end of their leases
- "Recession-resistant", as patients see their physicians through all economic cycles

We have found that medical office rents increase fairly consistently at a rate of 3-5% per year, regardless of the economic climate. Moreover, in our involvement with medical office buildings over the last 15 years, we have not had one medical tenant default on their rent; in general office buildings during the last recession, somewhere near 15% of office tenants had defaulted at least once.

Sincerely,
BAYSIDE REALTY PARTNERS

A handwritten signature in black ink, appearing to read "W. Trask Leonard, Jr.", written in a cursive style.

W. Trask Leonard, Jr.
PRESIDENT/CEO



January 30, 2017

To Whom This May Concern,

My name is Aaron Ortiz, and I am the Executive Director for La Familia. La Familia has honored the self determination of individuals to live healthy and productive lives. Established by a group of grassroots organizers, advocates, and professionals our philosophy remains the same – to mobilize resources around the individual, engage a support system around them with the ultimate goal of strengthening and preserving families. We place high value on the formation of positive relationships and delivering professional quality of care, but most importantly meeting individuals where they are. After 40 years, one of La Familia’s core values remains strong – providing culturally, linguistically, appropriate, and responsive services within the safety net population. La Familia is committed to serving the regions underserved and honoring its ethnic diversity.

It is with my sincerest pleasure in writing this letter of support to Eden Health District (EHD). We have had a long-standing relationship with EHD throughout our existence and most recently within the last three years we have been partially and fully funded to provide programming for the Hayward Adult School (HAS) ESL (English as a Second Language) and TAY (transitional age youths) student population.

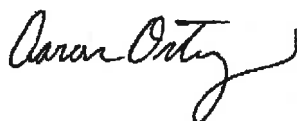
We are providing culturally competent prevention and early intervention services to the ESL and TAY student population at HAS. We integrate culturally relevant wellness strategies into our services. We have been able to increase access to mental health services for historically underserved Latinos, which account for a majority of their student enrollment, alongside other cultures, and transitional age youths, when treatment has been warranted and desired. Our efforts through our program, “Wellness First” have increased accessibility for these services and linkages to other appropriate services, which may not be easily accessible.

We are beginning our third year of funding, and thus far with both previous years we have outreached to 914 students within the HAS campus. The services we have been offering with the financial support/funding EHD has given us, gave us the opportunity to service a segment of our population (multi-cultural) we wouldn’t have been able to. It’s because of their continual support and faith in what La Familia has done, that we are able to make a difference in the 914 lives we have come across. We are hoping that 2017 will continue to bring forth new students

at the HAS campus through our program and recognize that we would not be able to provide these particular services to a multitude of people who may not fall under a “funded” category.

We are pleased, humbled, and honored to support Eden Health District (EHD)-an agency who allows us to support our mission by “being an inclusive, Latino, community-based, multicultural organization committed to strengthening the emotional wellness of individuals and the preservation of families”.

Respectfully,

A handwritten signature in black ink, appearing to read "Aaron Ortiz". The signature is fluid and cursive, with a long horizontal stroke at the end.

Aaron Ortiz, Executive Director
La Familia



A Voice for Nurses. A Vision for Healthcare.



OAKLAND
155 Grand Avenue
Oakland CA 94612
phone: 800-504-7859
fax: 510-663-1625

January 31, 2017

Ms. Mona Palacios
Alameda County LAFCO Executive Officer
1221 Oak Street, Suite 555
Oakland, CA 94612

Dear Ms. Palacios:

Thank you for providing the opportunity to comment on LAFCO's study regarding the Eden Township Healthcare District (ETHD). The findings of the study were thorough and descriptive but lacked insight regarding ETHD's ongoing benefit as a health-care district without a hospital and how dissolution or a better structure would serve the two safety net hospitals represented by the California Nurses Association/National Nurses United whose locations are consistent with the Health Care District's geography, St. Rose Hospital in Hayward, CA and San Leandro Hospital in San Leandro, CA.

At the November 7th LAFCO Special Hearing on ETHD Registered Nurses from San Leandro Hospital, Eden Medical, and St. Rose Hospital spoke about their concerns and the need for supporting safety net hospitals. RNs from Eden hospital recounted the establishment of the ETHD and the great benefit the community received due to financial support provided when the ETHD actually had a hospital to support. RNs from St. Rose addressed the struggles they have on a daily basis to retain staff and meet the needs of the mostly uninsured patient base they serve. Nurses from San Leandro Hospital spoke about the difficulty they had serving their patients in the years where Sutter Health was actively trying to close their facility. We are requesting that the report include the comments made by RNs at the November 7th meeting.

One thing is clear in your report; ETHD has strayed from its core mission of assisting community hospitals. The preventative health programs supported by the ETHD are of value and can be supported through other means within Alameda County Health Services system. However, the safety net hospitals in the immediate area of the Health Care District such as St. Rose and San Leandro struggle every year to continue to serve the vulnerable patient population that comes through their doors. Our safety net hospitals are now under more danger due to the impending threat of reduction or

Page 2

elimination of the Affordable Care Act and cuts in other federal assistance. In these critical times, it is more important than ever that adequate financial support be provided to safety net hospitals. It is neither reasonable nor beneficial to sustain a Health Care District whose mission does not include an actual hospital and who provides very limited service to our community.

CNA believes the dissolution of the ETHD with no continuation of services is in the best interests of the patients served, and will benefit the health of the community, with all recovered funds used to directly support safety net hospitals St. Rose and San Leandro.

Sincerely,

Handwritten signature of Mike Brannan in blue ink.

Mike Brannan, Labor Representative, CNA

Handwritten signature of Puneet Maharaj in black ink.

Puneet Maharaj, Labor Representative, CNA

cc: Khadijah Kabba, Lead Labor Representative, CNA



1411 East 31 st Street
Oakland, CA 94602

Local Agency Formation Commission of Alameda County
1221 Oak Street, Room 555
Oakland, CA 94612

To Whom It May Concern:

The Board of Trustees of the Alameda Health System, which represents more than 4,500 employees and providing more than 320,000 health care visits per year to residents of Alameda County, appreciates the opportunity to comment on the Local Agency Formation Commission's draft Special Study of Governance Options for Eden Township Healthcare District.

Providing quality direct health care services, particularly for vulnerable and underserved populations has always been a key concern for our health system. In light of the current climate of health care reform, there is substantial uncertainty for Medi-Cal patients. Hence, we are ever more mindful that we must protect the public safety net of care and the key source of funds to support it.

We believe that the report does not explore other options which would improve the availability of health care services within the district boundaries. The finding that "dissolution of the district without continuing its services is unwarranted" is of no value, as the recommendations for dissolution were all predicated on the premise that services to the community should continue and could be better addressed with a more focused commitment of the District's assets.

The Eden Township District focuses overwhelmingly most of its resources on its real estate operations not on delivering core healthcare services and as such we believe it does not maximize its ability to meet the healthcare needs of underserved communities. The LAFCo should consider the totality of Eden's operations in determining if it is adequately meeting the core mandate of a healthcare district and the needs of our diverse community.

We agree with the report that Eden should partner and coordinate with other organizations to determine the most effective ways to improve the health and wellness of vulnerable populations. We would encourage the commissioners to direct Eden to also:

- Dedicate some of its real estate space for providers whose central focus is to serve the underserved to more closely align their core business model with the organizing purpose of being a special health district. These spaces could be used for non-acute purposes for competent providers (i.e. Ambulatory clinics, ancillary services, social support office space, etc.)
- Establish a minimum amount of funds for direct services grant support
- Support implementation of integrated electronic health records for safety net providers serving the district's residents

Handwritten signature of Delvecchio Finley in black ink.

Delvecchio Finley, CEO

Handwritten signature of Michele Lawrence in black ink.

Michele Lawrence, Chair- AHS Board of Trustees

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Assembly California Legislature



ROB BONTA

ASSEMBLYMEMBER, EIGHTEENTH DISTRICT

COMMITTEES
APPROPRIATIONS
COMMUNICATIONS AND
CONVEYANCE
GOVERNMENTAL ORGANIZATION
HEALTH

February 1, 2017

Ms. Mona Palacios
Executive Officer
Alameda County's Local Agency Formation Commission (LAFCo)
1221 Oak Street, Suite 555
Oakland, CA 94612

Re: Public Review Draft Report: Special Study of Governance Options Eden Township Healthcare District

Dear Ms. Palacios:

I write to thank LAFCo for the opportunity to provide feedback on the draft Special Study on Eden Township Healthcare District (Eden). As a member, and former chair, of the Assembly Health Committee and elected state representative of Oakland, Alameda, and San Leandro, I believe that the accounting assumptions that provide for the foundation of the report are inaccurate, and that the analysis of how to proceed given Eden's institutional history is incomplete.

Definition of Administrative Expense and Bifurcated Budgets

The Special Study defines "services" as grant, sponsorship, and education services, and Eden's commercial real estate activities as separate revenue-generating activities that are important toward its mission. This accounting method hides the fact that Eden dedicates an absolutely small proportion of its budget towards health related grants under the Community Health Fund.

According to Eden's own 2017 budget, the approximately \$500,000 dedicated towards general health-related grants and its Davis Street Partnership are wholly inadequate, given its \$5.4 million budget. Even with the acknowledgement that Eden is still paying down an obligation to Sutter Health, it falls short of new statutory requirements that went into effect this month. Section 32496 of California's Health and Safety Code requires:

- (a) A nonprovider health care district shall not spend more than 20 percent of its annual budget on administrative expenses.
- (b) A nonprovider health care district shall spend at least 80 percent of its annual budget on community grants awarded to organization that provide direct health services.

In Section 32495, the Health and Safety Code defines administrative expenses as "relating to the general management of a health care district, such as accounting, budgeting, personnel, procurement, legal fees, legislative advocacy services, public relations, salaries, benefits, rent, office supplies, or other miscellaneous overhead costs."

Thus, Eden's revenue generating activities should not be removed from its global budgeting, especially since the Special Study admits that its real estate activities are necessary to the endowment for the Community Health Fund. It is also clear that the Special Study defines its community grant making in a way that is incongruent with state statute, which requires that grants be awarded for the provision of "direct health services," a narrower definition than what is used in the draft Special Study.

I strongly recommend that a parallel budgetary analysis of Eden, that does not separate its health related grant making from its revenue generating activities, is reflected in the final report.

Absence of the Area's Safety Net Hospitals

I agree with the Special Study that a "dissolution of [Eden] without continuing its services is unwarranted," especially when considering grant commitments to healthcare providers like Davis Street in San Leandro. At the same time, when I gave public comment at LAFCo's special hearing on Eden on November 7, 2016, I heard and saw a significant number of proponents in favor of strengthening funding and services at two safety net hospitals, St. Rose in Hayward and San Leandro Hospital in San Leandro.

These two safety net hospitals, who are the primary providers of residents' healthcare in Eden's catchment area, are on even more precarious grounds now given the uncertainty all healthcare providers face under the current presidential administration. That, combined with the robust community participation throughout this process, warrants mention by a firm that specializes in policy forecasting, planning, and analysis.

Eden can also easily find mission driven returns on investment through increased financial coordination and commitment with the safety net system, and be in compliance with state law, without having to reinvent wheels outlined in its current strategic plan (adopted August 17, 2016). For instance, instead of having to dedicate funds towards outreach efforts to identify community health needs under "Goal #1", Eden should coordinate with Kaiser Permanente, which has already undergone robust health assessment efforts in partnership with residents, community organizations, and other institutional stakeholders through its Community Health Needs Assessment, as required by the Affordable Care Act.

Lack of Coordination with Alameda County, and Inadequate Plans for the Future

As noted in the Special Study, the Little Hoover Commission (LHC) has been investigating special districts for almost two decades now at the state level, including a focus on healthcare districts. Given that Eden is "unique in that it relies almost entirely on lease revenues from ownership and operation of medical office buildings, and receives no property taxes or parcel taxes" and provides no direct healthcare services, there should be a more robust analysis of and presentation of facts regarding Eden's strategic plans to comply with state law, and its own mission.

LHC recommended, in its 2000 report that "special districts need to be more visible to the public they serve and to community and business leaders who can influence decisions." Given the original reason why Eden was formed in 1948, the Special Study should acknowledge this context in terms of how the special district has evolved from its original charge, and whether Eden is transparent and accountable in fulfilling its mission to the community.

Eden has not demonstrated any public, good faith effort to improve coordination with LAFCo or the Alameda County Board of Supervisors to better meet the healthcare needs of its constituents, therefore sections of the Special Study regarding dissolution and naming a successor agency, or reorganization options, must be strengthened so all parties can consider future implications from these major actions in a transparent manner.

Please connect with Justin Rausa, my Principal Field Representative, at 510 286-1670 or justin.rausa@asm.ca.gov should you have any follow up questions regarding my letter.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Rob Bonta". The signature is written in a cursive, slightly slanted style.

Rob Bonta
Assemblymember, 18th District



February 2, 2016

Commissioner John Marchand, Chair
Attn: Mona Palacios, Executive Officer
Local Agency Formation Commission of Alameda County
1221 Oak Street, Room 555
Oakland, CA 94612

RE: Eden Township Healthcare District Special Study

Chair Marchand:

I am writing regarding the Special Study of Governance Options for the Eden Township Healthcare District. In the City of Hayward's request for the LAFCo to conduct a study or audit of the Eden Township Healthcare District, former City Manager Fran David expressed our concern with the lack of a thorough and in-depth study of the District's finances and decision-making abilities, whether or not District resources are being and have been used appropriately to facilitate delivery of health care services within the voter-approved mission of the District, and the lack of an inclusive, informed, and transparent community conversation. Additionally, the letter outlined several elements to be included in the study:

1. A review and analysis of the District's past decision-making related to the contract with Sutter Health and whether or not decisions made during that event were consistent with the District's responsibilities to all of its constituents;
2. A review and analysis of the District's real estate holdings and their relationship to the voter-approved mission of the District;
3. A review and analysis of the District's ability and intent to meet their overall core mission now and into the future;
4. An analysis of the flow and advisability of the District's current funding and/or grant program in relation to various entities around the County;
5. An in-depth audit of the District's overall short- and long-term financial health in relationship its original mission;
6. If dissolution is recommended, a clear description of the dissolution process and how the successor agency is determined; and
7. If continuation of the District is recommended, a financial and programmatic plan that shows clearly how the District will go forward to meet its original voter-approved mission.

These elements were also listed in the LAFCo staff report regarding the City of Hayward's request. The draft special study addresses issues related to the Municipal Service Review (MSR) process, including: adequacy of public services, financial ability of the agency to provide services, accountability for community services needs including governmental structure and operational efficiencies, and any other matter related to effective or

OFFICE OF MAYOR BARBARA HALLIDAY

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efficient service delivery. Unfortunately, the scope of the study defined by the MSR process does not address all the elements the City of Hayward requested to be included in the study.

- While the report summarizes the ETHD's history regarding Sutter Health, it does not evaluate the consistency of the District's actions with its responsibility to all of its constituents. The report mentions that concerns from the community drove ETHD's decision to withhold transfer of San Leandro Hospital to Sutter, but does not further analyze the District's decision or decision-making process. Providing a review and analysis of the decision-making process in the District surrounding this action would provide information to stakeholders and the public regarding the relationship between this process and the District's mission.
- The report does include a review of the District's real estate holdings. Additionally, the study details the revenue generated by the District's real estate and its return on investment compared with cash investment options, as well as the relatively high risk of real estate investment. However, the report lacks an analysis of the relationship between these holdings and the District's voter-approved mission.
- The District's mission is stated in the report as follows:

It is the mission of Eden Township Healthcare District to improve the health of the people in our community by investing resources in health and wellness programs that meet identified goals.

The report does not evaluate the District's ability to meet this mission, nor does it illuminate the identified goals of the District, which are not outlined in its strategic plan. Additionally, there is no discussion of performance measures by which the District may be able to determine whether it has improved the health of the people in its community. It is not clear from the report whether the District's major activities, including commercial real estate management, and priorities are well-aligned with achieving its stated mission now and into the future.

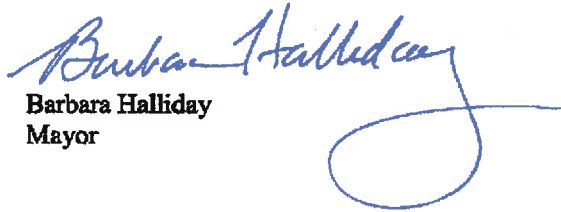
- A review of several other entities providing health care within the District's service area is included in the report. The District's current funding and grantmaking activities are not analyzed in relation to similar work and unmet needs in the County. In the report, there is no analysis of the District's decision-making process in the allocation of grant funding, of whether it is advisable that the District pursue grantmaking and sponsorship as its primary service to the community, or whether the District's grantmaking fills a niche or strategic need in the County. Given the statements that the real estate holdings support the ability of the District to provide grants to healthcare programs, overhead related to administration of those assets cannot be counted separately from the grantmaking budget.
- The report does provide an adequate analysis of the District's financial viability in the short- and long-term, and acknowledges both the advantages and risks of its revenue sources as well as its liabilities' impact on the current ability to provide services, but does not address the District's operational deficit.
- Regarding the final two elements, the report does provide a thorough analysis of the governance options for the ETHD, and details where possible the process to initiate each of these transitions. Some aspects of these elements – i.e., a method of determination for the successor agency and a financial and programmatic plan for the future of the District were it to be preserved – will need to be discussed and developed by stakeholders and decision-makers rather than in a consultant's report. The City of

Commissioner John Marchand, Chair
Attn: Mona Palacios, Executive Officer
Eden Township Healthcare District Special Study
February 2, 2017
Page 3 of 3

Hayward urges the LAFCo to hold an inclusive, collaborative conversation around these topics as they move to take action on the special study.

The City of Hayward continues to have concerns about this study, and the Eden Township Healthcare District. The District's function and mission has changed since its creation by voters in 1948, as have the health care needs of our community and the landscape of health care provision in general. These changes warrant a community conversation around the District's mission and purpose in the modern health care landscape. While the draft special study addresses issues related to the Municipal Service Review process, it does not provide adequate new information to form a foundation for substantive conversation about the future of the District and the best use of public resources to provide healthcare to our most vulnerable community members. We urge the LAFCo to thoroughly examine the Eden Township Healthcare District in the context of health care in the County, its historic mission, and the long-term needs of our community members.

Sincerely,


Barbara Halliday
Mayor

ALAMEDA COUNTY
HEALTH CARE SERVICES
AGENCY
REBECCA GEBHART, Interim Director



ADMINISTRATION & INDIGENT HEALTH
1000 San Leandro Blvd., Suite 300
San Leandro, CA 94577
TEL (510) 618-3452
FAX (510) 351-1367

January 31, 2017

Ms. Mona Palacios
Executive Director
Local Agency Formation Commission of Alameda County
1221 Oak Street, Room 555
Oakland, CA 94612

SUBJECT: Comments Regarding LAFCo's Special Study of the Eden Township Healthcare District (ETHD)

Dear Ms. Palacios:

Thank you for the opportunity to comment on the draft of the Special Study. Alameda County's Health Care Services Agency (HCSA) has a mission overlapping with that of the District, and our leadership has watched with interest the process of the special study and the weighing of options. We agree with other commenters that the draft report makes a puzzling and under-justified choice in removing the real estate related expenses from the cost analysis. In addition, we would like to expand on the report's sections on coordination and adequacy of public service. These sections are incomplete in their exploration of the missed opportunities for collaboration, the need to link grant making to more robust outcome evaluation, and possibilities for increased efficiency.

Cooperation and Coordination with Alameda County: The draft report concludes (pg.58) "there exist many unmet needs in Alameda County, not being addressed by existing agencies, toward which the District currently is directing resources, therefore eliminating duplication is not a likely advantage" to a change in the District governance. Although it is certainly true that there are unmet needs in the county, it is not true that this makes coordination with funding partners unnecessary. As noted in the report, there has been no collaboration between HCSA and the District in determining funding priorities or even high level goals and strategy. This has led to duplication -- the list of 84 organizations funded by the District includes 26 (31%) also funded by HCSA, either through General Fund or Measure AA dollars. In addition, having HCSA and the District independently funding the same organizations results in unnecessary and inefficient administrative spending on contract mechanics for HCSA, for the District, and for the agencies funded.

Adequacy of Public Service: The draft report does not include much detail on the predicted or realized outcomes of the District's funding. Although the report notes data sources that the District refers to in planning its grant making, there is no clear connection between the data and the choices the District has made for funding. In particular, it is difficult to draw a through line from data-supported identification of a need, to intervention, to measured outcome. Acknowledging that it can be difficult to measure the impact of education or prevention-focused projects such as those undertaken by the District's funded partners, the report pays inadequate attention to the question of whether the District's work is moving the dial toward its overall mission. The increased uncertainty of healthcare funding as a result of the change in Administrations in Washington has only emphasized the need for careful stewardship of every dollar, and the District includes two safety net hospitals that are especially vulnerable.

Health Care Services Agency's mission is to ensure that Alameda County residents, particularly those who are vulnerable and underserved, have access to health care services. HCSA receives general fund dollars to provide care for un- and under-insured and also supports the sales tax-funded Measure AA process, including planning, funding disbursement, and outcome evaluation via an appointed Commission. We agree with the report that the District or a successor agency should partner and coordinate with other organizations to determine the most effective ways to improve the health and wellness of vulnerable populations. If the District or a successor organization chose to uncouple its grant making from the revenue side of the



Roxanne Sanchez
President

Sunny Santiago
VP Region A (North Central)

Tom Popenuck
VP Region B (North Coast)

Gary Jimenez
VP Region C (East Bay)

Joseph Bryant
VP Region D (San Francisco)

Marcus Williams
VP Region E
(Amador/Calaveras/San Joaquin)

Jan Schardt
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Amos Eaton
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Executive Board & Budget & Finance Committee

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- Rhea Davis
- Tina Diep
- Mary Duncan
- Peggy LaRossa
- Juille Meyers
- Cristin Perez



February 2, 2017

Ms. Mona Palacios
Alameda County LAFCO Executive Officer
1221 Oak Street, Suite 555
Oakland, CA 94612

Dear Ms. Palacios,

I am contacting you on behalf of SEIU 1021 to comment on LAFCO's study regarding the Eden Township Healthcare District (ETHD). SEIU 1021 represents healthcare workers in the Alameda County Health Services System.

We wish to communicate that ETHD has strayed from its core mission of assisting community hospitals. The preventative health programs supported by ETHD can be supported through other means within the Alameda County Health Services System.

However the safety net hospitals in the surrounding area struggle to serve the vulnerable patient population. Given the impending threat of the likely reduction of federal assistance through the Affordable Care Act that we take steps to provide adequate support to those safety net hospitals.

SEIU 1021 believes that the dissolution of the ETHD with the transfer of its assets to a successor agency like Alameda County is in the best interests of the patients served, and will benefit the health of the community

Sincerely,

Kim Carter Martinez
SEIU 1021

KCM:krb

District's affairs, HCSA could host a planning and disbursement process focused entirely on the District's region of responsibility, without significantly increasing our costs.

Thanks again for the opportunity to comment on the report and for the work that the Commission does to increase the impact and quality of our local agencies. I can be reached if there are any questions at Kathleen.Clanon@acgov.org.

Yours,



Kathleen A. Clanon, MD
Agency Medical Director

Palacios, Mona, CAO

From: lmcdonald@cei.elders.org
Sent: Friday, February 03, 2017 2:57 PM
To: Palacios, Mona, CAO
Subject: Eden Township Healthcare District

E-mail submitted from following website: [lafco_contact_us_page](#)

Name: Lenore McDonald, Director of Fund Development and Government Relations

EmailAddress: lmcdonald@cei.elders.org

Comments: Center for Elders' Independence has benefitted as a grantee of the ETHS, most recently as the District has made a generous investment in the completion of CEI's new PACE Center in San Leandro opening in early 2017 - which will offer Program of All-Inclusive Care for the Elderly healthcare and long-term support services to frail seniors living in San Leandro, Hayward, Castro Valley, Cherryland, Fairview, San Lorenzo, Ashland and Hayward - the communities served by Eden Healthcare District. On behalf of CEI, we wish to express our support for all the options that maintain the District and against those that recommend dissolution or consolidation. Services delivered and supported by the district are not likely to be readily provided by the local hospitals nor will seniors be likely to go to the hospital to seek services like the district offers independently. In addition, the money spent to maintain and operate the district would not go very far to cover hospital expenses in their place.

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Assembly
California Legislature



BILL QUIRK
ASSEMBLYMEMBER, TWENTIETH DISTRICT

STANDING COMMITTEES:
CHAIR: Environmental Safety &
Toxic Materials
Agriculture
Public Safety
Revenue and Taxation
Utilities and Energy

January 27, 2017

Ms. Mona Palacios
LAFCo Executive Officer
1221 Oak Street, Room 555
Oakland, CA 94612

SENT VIA EMAIL

Re: Comments on Alameda LAFCo Draft Study of the Eden Township Healthcare District (ETHD)

Dear Ms. Palacios,

I want to thank LAFCo for releasing the draft special study of the ETHD and for including dissolution in the study.

The current draft study provides an analysis of various governance options, including dissolution, but fails to adequately address the option of dissolving the district and transferring the funds to the local hospitals. This issue was brought up at public meetings and warrants a review. I urge LAFCo to address this issue in its final draft.

Last year I authored Assembly Bill 2471 in response to concerns that ETHD was not providing direct healthcare services to residents in Alameda County. I worked closely with various stakeholders to address this issue. Ultimately, I decided to hold my bill because I felt LAFCo would conduct a study to take a thorough look at all the options. This draft seems to assume that the current mission of the ETHD must continue without careful consideration of the hospital support alternative.

Thank you for your consideration. Should you have any questions, please do not hesitate to contact me through my District Office at 510-583-8818.

Sincerely,

Bill Quirk

Bill Quirk
Assemblymember, 20th District

cc: Barbara Halliday, Hayward Mayor
Kelly McAdoo, Hayward City Manager
Wilma Chan, Alameda County Board of Supervisors
Pauline Cutter, San Leandro Mayor
Chris Zapata, San Leandro City Manager

BQ: csh, td

Palacios, Mona, CAO

From: Anthony Santos <tonysantos33@att.net>
Sent: Thursday, February 09, 2017 4:00 PM
To: Palacios, Mona, CAO
Cc: Dev Mahadevan; cwgilcrest@gmail.com; Steven Tavares; Rajendra Ratnesar; Gordon Galvan; Pauline Cutter; Jim Prola
Subject: subject: ETHD

Mona, I would like to make these additional comments on the proposal of dissolving the district. I have now re-read the Grand Juries report and I do not find it onerous. The Grand Jury and LAFCO's expert did not suggest dissolving the district, but both made suggestions about changing the method in which the District operates. It would be up to the District's board to make any recommended changes to its operations.

The Grand jury suggested the district develop a "strategic" plan and spend more of its resources on improving the health of people in its district. the Grand jury also notes that people in the district are unaware of its existence. This should be improved . Finding 16-21 notes that "there is little or no evidence of collaboration between ETHD and the Alameda County Health Care Services Agency. this causes wasteful and is detrimental to the community."

If ETHD has not implemented these suggestions, it should. How much of the recommendations of the Grand Jury and your expert have been implanted, I would not know until looking deeper into the district's operations, but bottom line is neither the Grand Jury nor your expert recommends the district be dissolved. I too do not believe the district should be dissolved unless done so by a vote of the residents within the districts boundaries; after all , it was a vote of the people in 1948 that created the district and the voters should make the decision on dissolving the district .

From 2007 to 2010, the issue was "keeping" the facility open . It was falsely stated that Sutter wanted to close SL hospital; while I am not here to make comment about Sutter's decision about the hospital, at no time was closure was considered; Sutter did want to take the facility into another direction but closure was not an option. All ended up in court to the detriment of the district; it lost a hospital and faced a verdict in excess of \$20 million dollars. Sutter did the County a big favor when it gave the San Leandro hospital to the County. The County got a hospital valued in excess of \$50 million at no cost. A very valuable gift.

For critics to now come out and criticize the district is unfair. It was three members of the district's board that should be criticized not the present board. Finally, I do not believe LAFCO should move further on this matter and I do not believe dissolving the district is the way to go; have the board implement the suggestions of both the Grand Jury and your expert and have the grand jury monitor the improvements is the way to go.

Tony Santos, former LAFCO member and Mayor of San Leandro



WILLIE A. HOPKINS, JR., Director

1401 LAKESIDE DRIVE, OAKLAND, CALIFORNIA 94612

510 208 9700

FAX 510 208 9711

WWW.ACGOV.ORG/GSA/

March 6, 2017

**Alameda County LAFCO
1221 Oak Street, Suite 555
Oakland, CA. 94612**

Dear LAFCO Commissioners:

As the result of recent conversations with my office and General Services Agency's (GSA) internal study regarding the operations of the Eden Township Healthcare District (ETHD) and the assets managed by the ETHD, GSA is willing to provide assistance as required if necessary.

Alameda County GSA has the technical background and experience in managing both real property lease management and compliant maintenance operations of standard office and medical office properties. With some budget augmentation in our operating cost, GSA could assist in taking on the management of the ETHD facility portfolio.

Should further questions arise regarding this issue, please do not hesitate to contact me.

Sincerely

**Willie A. Hopkins, Jr.
Director, Alameda County General Services Agency**

WAH:JK:dla/L:/Agency Administration/Eden Township Healthcare District_03-06-17.doc

cc: Wilma Chan, President, Alameda County Board of Supervisors



State of California

GOVERNMENT CODE

Section 56301

56301. Among the purposes of a commission are discouraging urban sprawl, preserving open-space and prime agricultural lands, encouraging the efficient provision of government services, and encouraging the orderly formation and development of local agencies based upon local conditions and circumstances. One of the objects of the commission is to make studies and to obtain and furnish information which will contribute to the logical and reasonable development of local agencies in each county and to shape the development of local agencies so as to advantageously provide for the present and future needs of each county and its communities. When the formation of a new government entity is proposed, a commission shall make a determination as to whether existing agencies can feasibly provide the needed service or services in a more efficient and accountable manner. If a new single-purpose agency is deemed necessary, the commission shall consider reorganization with other single-purpose agencies that provide related services.

(Amended by Stats. 2016, Ch. 165, Sec. 2. (AB 2910) Effective January 1, 2017.)



State of California

GOVERNMENT CODE

Section 56076

56076. "Sphere of influence" means a plan for the probable physical boundaries and service area of a local agency, as determined by the commission.

(Amended by Stats. 1993, Ch. 1307, Sec. 1. Effective January 1, 1994.)



State of California

GOVERNMENT CODE

Section 56425

56425. (a) In order to carry out its purposes and responsibilities for planning and shaping the logical and orderly development and coordination of local governmental agencies subject to the jurisdiction of the commission to advantageously provide for the present and future needs of the county and its communities, the commission shall develop and determine the sphere of influence of each city and each special district, as defined by Section 56036, within the county and enact policies designed to promote the logical and orderly development of areas within the sphere.

(b) Prior to a city submitting an application to the commission to update its sphere of influence, representatives from the city and representatives from the county shall meet to discuss the proposed new boundaries of the sphere and explore methods to reach agreement on development standards and planning and zoning requirements within the sphere to ensure that development within the sphere occurs in a manner that reflects the concerns of the affected city and is accomplished in a manner that promotes the logical and orderly development of areas within the sphere. If an agreement is reached between the city and county, the city shall forward the agreement in writing to the commission, along with the application to update the sphere of influence. The commission shall consider and adopt a sphere of influence for the city consistent with the policies adopted by the commission pursuant to this section, and the commission shall give great weight to the agreement to the extent that it is consistent with commission policies in its final determination of the city sphere.

(c) If the commission's final determination is consistent with the agreement reached between the city and county pursuant to subdivision (b), the agreement shall be adopted by both the city and county after a noticed public hearing. Once the agreement has been adopted by the affected local agencies and their respective general plans reflect that agreement, then any development approved by the county within the sphere shall be consistent with the terms of that agreement.

(d) If no agreement is reached pursuant to subdivision (b), the application may be submitted to the commission and the commission shall consider a sphere of influence for the city consistent with the policies adopted by the commission pursuant to this section.

(e) In determining the sphere of influence of each local agency, the commission shall consider and prepare a written statement of its determinations with respect to each of the following:

- (1) The present and planned land uses in the area, including agricultural and open-space lands.
- (2) The present and probable need for public facilities and services in the area.

(3) The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.

(4) The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.

(5) For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, that occurs pursuant to subdivision (g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

(f) Upon determination of a sphere of influence, the commission shall adopt that sphere.

(g) On or before January 1, 2008, and every five years thereafter, the commission shall, as necessary, review and update each sphere of influence.

(h) In determining a sphere of influence, the commission may assess the feasibility of governmental reorganization of particular agencies and recommend reorganization of those agencies when reorganization is found to be feasible and if reorganization will further the goals of orderly development and efficient and affordable service delivery. The commission shall make all reasonable efforts to ensure wide public dissemination of the recommendations.

(i) When adopting, amending, or updating a sphere of influence for a special district, the commission shall establish the nature, location, and extent of any functions or classes of services provided by existing districts.

(j) When adopting, amending, or updating a sphere of influence for a special district, the commission may require existing districts to file written statements with the commission specifying the functions or classes of services provided by those districts.

(Amended by Stats. 2012, Ch. 62, Sec. 2. (AB 2698) Effective January 1, 2013.)



State of California

GOVERNMENT CODE

Section 56375

56375. The commission shall have all of the following powers and duties subject to any limitations upon its jurisdiction set forth in this part:

(a) (1) To review and approve with or without amendment, wholly, partially, or conditionally, or disapprove proposals for changes of organization or reorganization, consistent with written policies, procedures, and guidelines adopted by the commission.

(2) The commission may initiate proposals by resolution of application for any of the following:

(A) The consolidation of a district, as defined in Section 56036.

(B) The dissolution of a district.

(C) A merger.

(D) The establishment of a subsidiary district.

(E) The formation of a new district or districts.

(F) A reorganization that includes any of the changes specified in subparagraph (A), (B), (C), (D), or (E).

(3) A commission may initiate a proposal described in paragraph (2) only if that change of organization or reorganization is consistent with a recommendation or conclusion of a study prepared pursuant to Section 56378, 56425, or 56430, and the commission makes the determinations specified in subdivision (b) of Section 56881.

(4) A commission shall not disapprove an annexation to a city, initiated by resolution, of contiguous territory that the commission finds is any of the following:

(A) Surrounded or substantially surrounded by the city to which the annexation is proposed or by that city and a county boundary or the Pacific Ocean if the territory to be annexed is substantially developed or developing, is not prime agricultural land as defined in Section 56064, is designated for urban growth by the general plan of the annexing city, and is not within the sphere of influence of another city.

(B) Located within an urban service area that has been delineated and adopted by a commission, which is not prime agricultural land, as defined by Section 56064, and is designated for urban growth by the general plan of the annexing city.

(C) An annexation or reorganization of unincorporated islands meeting the requirements of Section 56375.3.

(5) As a condition to the annexation of an area that is surrounded, or substantially surrounded, by the city to which the annexation is proposed, the commission may require, where consistent with the purposes of this division, that the annexation include the entire island of surrounded, or substantially surrounded, territory.

(6) A commission shall not impose any conditions that would directly regulate land use density or intensity, property development, or subdivision requirements.

(7) The decision of the commission with regard to a proposal to annex territory to a city shall be based upon the general plan and rezoning of the city. When the development purposes are not made known to the annexing city, the annexation shall be reviewed on the basis of the adopted plans and policies of the annexing city or county. A commission shall require, as a condition to annexation, that a city rezone the territory to be annexed or present evidence satisfactory to the commission that the existing development entitlements on the territory are vested or are already at build-out, and are consistent with the city's general plan. However, the commission shall not specify how, or in what manner, the territory shall be rezoned.

(8) (A) Except for those changes of organization or reorganization authorized under Section 56375.3, and except as provided by subparagraph (B), a commission shall not approve an annexation to a city of any territory greater than 10 acres, or as determined by commission policy, where there exists a disadvantaged unincorporated community that is contiguous to the area of proposed annexation, unless an application to annex the disadvantaged unincorporated community to the subject city has been filed with the executive officer.

(B) An application to annex a contiguous disadvantaged community shall not be required if either of the following apply:

(i) A prior application for annexation of the same disadvantaged community has been made in the preceding five years.

(ii) The commission finds, based upon written evidence, that a majority of the registered voters within the affected territory are opposed to annexation.

(b) With regard to a proposal for annexation or detachment of territory to, or from, a city or district or with regard to a proposal for reorganization that includes annexation or detachment, to determine whether territory proposed for annexation or detachment, as described in its resolution approving the annexation, detachment, or reorganization, is inhabited or uninhabited.

(c) With regard to a proposal for consolidation of two or more cities or districts, to determine which city or district shall be the consolidated successor city or district.

(d) To approve the annexation of unincorporated, noncontiguous territory, subject to the limitations of Section 56742, located in the same county as that in which the city is located, and that is owned by a city and used for municipal purposes and to authorize the annexation of the territory without notice and hearing.

(e) To approve the annexation of unincorporated territory consistent with the planned and probable use of the property based upon the review of general plan and rezoning designations. No subsequent change may be made to the general plan for the annexed territory or zoning that is not in conformance to the rezoning designations for a period of two years after the completion of the annexation, unless the legislative body for the city makes a finding at a public hearing that a substantial change has occurred in circumstances that necessitate a departure from the rezoning in the application to the commission.

(f) With respect to the incorporation of a new city or the formation of a new special district, to determine the number of registered voters residing within the proposed city or special district or, for a landowner-voter special district, the number of owners

of land and the assessed value of their land within the territory proposed to be included in the new special district. The number of registered voters shall be calculated as of the time of the last report of voter registration by the county elections official to the Secretary of State prior to the date the first signature was affixed to the petition. The executive officer shall notify the petitioners of the number of registered voters resulting from this calculation. The assessed value of the land within the territory proposed to be included in a new landowner-voter special district shall be calculated as shown on the last equalized assessment roll.

(g) To adopt written procedures for the evaluation of proposals, including written definitions consistent with existing state law. The commission may adopt standards for any of the factors enumerated in Section 56668. Any standards adopted by the commission shall be written.

(h) To adopt standards and procedures for the evaluation of service plans submitted pursuant to Section 56653 and the initiation of a change of organization or reorganization pursuant to subdivision (a).

(i) To make and enforce regulations for the orderly and fair conduct of hearings by the commission.

(j) To incur usual and necessary expenses for the accomplishment of its functions.

(k) To appoint and assign staff personnel and to employ or contract for professional or consulting services to carry out and effect the functions of the commission.

(l) To review the boundaries of the territory involved in any proposal with respect to the definiteness and certainty of those boundaries, the nonconformance of proposed boundaries with lines of assessment or ownership, and other similar matters affecting the proposed boundaries.

(m) To waive the restrictions of Section 56744 if it finds that the application of the restrictions would be detrimental to the orderly development of the community and that the area that would be enclosed by the annexation or incorporation is so located that it cannot reasonably be annexed to another city or incorporated as a new city.

(n) To waive the application of Section 22613 of the Streets and Highways Code if it finds the application would deprive an area of a service needed to ensure the health, safety, or welfare of the residents of the area and if it finds that the waiver would not affect the ability of a city to provide any service. However, within 60 days of the inclusion of the territory within the city, the legislative body may adopt a resolution nullifying the waiver.

(o) If the proposal includes the incorporation of a city, as defined in Section 56043, or the formation of a district, as defined in Section 2215 of the Revenue and Taxation Code, the commission shall determine the property tax revenue to be exchanged by the affected local agencies pursuant to Section 56810.

(p) To authorize a city or district to provide new or extended services outside its jurisdictional boundaries pursuant to Section 56133.

(q) To enter into an agreement with the commission for an adjoining county for the purpose of determining procedures for the consideration of proposals that may

affect the adjoining county or where the jurisdiction of an affected agency crosses the boundary of the adjoining county.

(r) To approve with or without amendment, wholly, partially, or conditionally, or disapprove pursuant to this section the annexation of territory served by a mutual water company formed pursuant to Part 7 (commencing with Section 14300) of Division 3 of Title 1 of the Corporations Code that operates a public water system to a city or special district. Any annexation approved in accordance with this subdivision shall be subject to the state and federal constitutional prohibitions against the taking of private property without the payment of just compensation. This subdivision shall not impair the authority of a public agency or public utility to exercise eminent domain authority.

(Amended by Stats. 2012, Ch. 62, Sec. 1. (AB 2698) Effective January 1, 2013.)



State of California

GOVERNMENT CODE

Section 56881

56881. The resolution making determinations shall also do all of the following:

(a) Make any of the findings or determinations authorized or required pursuant to Section 56375.

(b) For any proposal initiated by the commission pursuant to subdivision (a) of Section 56375, make both of the following determinations:

(1) Public service costs of a proposal that the commission is authorizing are likely to be less than or substantially similar to the costs of alternative means of providing the service.

(2) A change of organization or reorganization that is authorized by the commission promotes public access and accountability for community services needs and financial resources.

(c) If applicable, assign a distinctive short-term designation to the affected territory and a description of the territory.

(d) Initiate protest proceedings pursuant to Part 4 (commencing with Section 57000) in compliance with the resolution.

(Amended by Stats. 2016, Ch. 165, Sec. 6. (AB 2910) Effective January 1, 2017.)



State of California

HEALTH AND SAFETY CODE

Section 32121

32121. Each local district shall have and may exercise the following powers:

(a) To have and use a corporate seal and alter it at its pleasure.

(b) To sue and be sued in all courts and places and in all actions and proceedings whatever.

(c) To purchase, receive, have, take, hold, lease, use, and enjoy property of every kind and description within and without the limits of the district, and to control, dispose of, convey, and encumber the same and create a leasehold interest in the same for the benefit of the district.

(d) To exercise the right of eminent domain for the purpose of acquiring real or personal property of every kind necessary to the exercise of any of the powers of the district.

(e) To establish one or more trusts for the benefit of the district, to administer any trust declared or created for the benefit of the district, to designate one or more trustees for trusts created by the district, to receive by gift, devise, or bequest, and hold in trust or otherwise, property, including corporate securities of all kinds, situated in this state or elsewhere, and where not otherwise provided, dispose of the same for the benefit of the district.

(f) To employ legal counsel to advise the board of directors in all matters pertaining to the business of the district, to perform the functions in respect to the legal affairs of the district as the board may direct, and to call upon the district attorney of the county in which the greater part of the land in the district is situated for legal advice and assistance in all matters concerning the district, except that if that county has a county counsel, the directors may call upon the county counsel for legal advice and assistance.

(g) To employ any officers and employees, including architects and consultants, the board of directors deems necessary to carry on properly the business of the district.

(h) To prescribe the duties and powers of the health care facility administrator, secretary, and other officers and employees of any health care facilities of the district, to establish offices as may be appropriate and to appoint board members or employees to those offices, and to determine the number of, and appoint, all officers and employees and to fix their compensation. The officers and employees shall hold their offices or positions at the pleasure of the boards of directors.

(i) To do any and all things that an individual might do that are necessary for, and to the advantage of, a health care facility and a nurses' training school, or a child care facility for the benefit of employees of the health care facility or residents of the district.

(j) To establish, maintain, and operate, or provide assistance in the operation of, one or more health facilities or health services, including, but not limited to, outpatient programs, services, and facilities; retirement programs, services, and facilities; chemical dependency programs, services, and facilities; or other health care programs, services, and facilities and activities at any location within or without the district for the benefit of the district and the people served by the district.

“Health care facilities,” as used in this subdivision, means those facilities defined in subdivision (b) of Section 32000.1 and specifically includes freestanding chemical dependency recovery units. “Health facilities,” as used in this subdivision, may also include those facilities defined in subdivision (d) of Section 15432 of the Government Code.

(k) To do any and all other acts and things necessary to carry out this division.

(l) To acquire, maintain, and operate ambulances or ambulance services within and without the district.

(m) To establish, maintain, and operate, or provide assistance in the operation of, free clinics, diagnostic and testing centers, health education programs, wellness and prevention programs, rehabilitation, aftercare, and any other health care services provider, groups, and organizations that are necessary for the maintenance of good physical and mental health in the communities served by the district.

(n) To establish and operate in cooperation with its medical staff a coinsurance plan between the hospital district and the members of its attending medical staff.

(o) To establish, maintain, and carry on its activities through one or more corporations, joint ventures, or partnerships for the benefit of the health care district.

(p) (1) To transfer, at fair market value, any part of its assets to one or more corporations to operate and maintain the assets. A transfer pursuant to this paragraph shall be deemed to be at fair market value if an independent consultant, with expertise in methods of appraisal and valuation and in accordance with applicable governmental and industry standards for appraisal and valuation, determines that fair and reasonable consideration is to be received by the district for the transferred district assets. Before the district transfers, pursuant to this paragraph, 50 percent or more of the district's assets to one or more corporations, in sum or by increment, the elected board shall, by resolution, submit to the voters of the district a measure proposing the transfer. The measure shall be placed on the ballot of a special election held upon the request of the district or the ballot of the next regularly scheduled election occurring at least 88 days after the resolution of the board. If a majority of the voters voting on the measure vote in its favor, the transfer shall be approved. The campaign disclosure requirements applicable to local measures provided under Chapter 4 (commencing with Section 84100) of Title 9 of the Government Code shall apply to this election.

(2) To transfer, for the benefit of the communities served by the district, in the absence of adequate consideration, any part of the assets of the district, including, without limitation, real property, equipment, and other fixed assets, current assets, and cash, relating to the operation of the district's health care facilities to one or more nonprofit corporations to operate and maintain the assets.

(A) A transfer of 50 percent or more of the district's assets, in sum or by increment, pursuant to this paragraph shall be deemed to be for the benefit of the communities served by the district only if all of the following occur:

(i) The transfer agreement and all arrangements necessary thereto are fully discussed in advance of the district board decision to transfer the assets of the district in at least five properly noticed open and public meetings in compliance with Section 32106 and the Ralph M. Brown Act (Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5 of the Government Code).

(ii) The transfer agreement provides that the hospital district shall approve all initial board members of the nonprofit corporation and any subsequent board members as may be specified in the transfer agreement.

(iii) The transfer agreement provides that all assets transferred to the nonprofit corporation, and all assets accumulated by the corporation during the term of the transfer agreement arising out of, or from, the operation of the transferred assets, are to be transferred back to the district upon termination of the transfer agreement, including any extension of the transfer agreement.

(iv) The transfer agreement commits the nonprofit corporation to operate and maintain the district's health care facilities and its assets for the benefit of the communities served by the district.

(v) The transfer agreement requires that any funds received from the district at the outset of the agreement or any time thereafter during the term of the agreement be used only to reduce district indebtedness, to acquire needed equipment for the district health care facilities, to operate, maintain, and make needed capital improvements to the district's health care facilities, to provide supplemental health care services or facilities for the communities served by the district, or to conduct other activities that would further a valid public purpose if undertaken directly by the district.

(vi) The transfer agreement includes the appraised fair market value, from an independent consultant with expertise in methods of appraisal and valuation and in accordance with applicable governmental and industry standards for appraisal and valuation, of any asset transferred pursuant to this paragraph.

(vii) The appraisal that is used to determine the fair market value that is included within the transfer agreement is performed within the six months preceding the date on which the district approves the transfer agreement.

(B) A transfer of 10 percent or more but less than 50 percent of the district's assets, in sum or by increment, pursuant to this paragraph shall be deemed to be for the benefit of the communities served by the district only if both of the following occur:

(i) The transfer agreement and all arrangements necessary thereto are fully discussed in advance of the district board decision to transfer the assets of the district in at least two properly noticed open and public meetings in compliance with Section 32106 and the Ralph M. Brown Act (Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5 of the Government Code).

(ii) The transfer agreement meets all of the requirements of clauses (iii) to (v), inclusive, of subparagraph (A).

(C) Before the district transfers, pursuant to this paragraph, 50 percent or more of the district's assets to one or more nonprofit corporations, in sum or by increment, the elected board shall, by resolution, submit to the voters of the district a measure proposing the transfer. The resolution shall identify the asset proposed to be transferred, its appraised fair market value, and the full consideration that the district is to receive in exchange for the transfer. The appraisal shall be performed by an independent consultant with expertise in methods of appraisal and valuation and in accordance with applicable governmental and industry standards for appraisal and valuation within the six months preceding the date on which the district approves the resolution. The measure shall be placed on the ballot of a special election held upon the request of the district or the ballot of the next regularly scheduled election occurring at least 88 days after the resolution of the board. If a majority of the voters voting on the measure vote in its favor, the transfer shall be approved. The campaign disclosure requirements applicable to local measures provided under Chapter 4 (commencing with Section 84100) of Title 9 of the Government Code shall apply to this election.

(D) Notwithstanding the other provisions of this paragraph, a hospital district shall not transfer any portion of its assets to a private nonprofit organization that is owned or controlled by a religious creed, church, or sectarian denomination in the absence of adequate consideration.

(3) If the district board has previously transferred less than 50 percent of the district's assets pursuant to this subdivision, before any additional assets are transferred, the board shall hold a public hearing and shall make a public determination that the additional assets to be transferred will not, in combination with any assets previously transferred, equal 50 percent or more of the total assets of the district.

(4) The amendments to this subdivision made during the 1991–92 Regular Session, the amendments made to this subdivision and to Section 32126 made during the 1993–94 Regular Session, and the amendments made to this subdivision during the 2011–12 Regular Session, shall only apply to transfers made on or after the effective dates of the acts amending this subdivision. The amendments to this subdivision made during those sessions shall not apply to either of the following:

(A) A district that has discussed and adopted a board resolution prior to September 1, 1992, that authorizes the development of a business plan for an integrated delivery system.

(B) A lease agreement, transfer agreement, or both between a district and a nonprofit corporation that were in full force and effect as of September 1, 1992, for as long as that lease agreement, transfer agreement, or both remain in full force and effect.

(5) Notwithstanding paragraph (4), if substantial amendments are proposed to be made to a transfer agreement described in subparagraph (A) or (B) of paragraph (4), the amendments shall be fully discussed in advance of the district board's decision to adopt the amendments in at least two properly noticed open and public meetings in compliance with Section 32106 and the Ralph M. Brown Act (Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5 of the Government Code).

(6) Notwithstanding paragraphs (4) and (5), a transfer agreement described in subparagraph (A) or (B) of paragraph (4) that provided for the transfer of less than 50 percent of a district's assets shall be subject to the requirements of this subdivision when subsequent amendments to that transfer agreement would result in the transfer, in sum or by increment, of 50 percent or more of a district's assets to the nonprofit corporation.

(7) For purposes of this subdivision, a "transfer" means the transfer of ownership of the assets of a district. A lease of the real property or the tangible personal property of a district shall not be subject to this subdivision except as specified in Section 32121.4 and as required under Section 32126.

(8) Districts that request a special election pursuant to paragraph (1) or (2) shall reimburse counties for the costs of that special election as prescribed pursuant to Section 10520 of the Elections Code.

(9) (A) Nothing in this section, including subdivision (j), shall be construed to permit a local district to obtain or be issued a single consolidated license to operate a separate physical plant as a skilled nursing facility or an intermediate care facility that is not located within the boundaries of the district.

(B) Notwithstanding subparagraph (A), Eastern Plumas Health Care District may obtain and be issued a single consolidated license to operate a separate physical plant as a skilled nursing facility or an intermediate care facility that is located on the campus of the Sierra Valley District Hospital. This subparagraph shall have no application to any other district and is intended only to address the urgent need to preserve skilled nursing or intermediate care services within the rural County of Sierra.

(C) Subparagraph (B) shall only remain operative until the Sierra Valley District Hospital is annexed by the Eastern Plumas Health Care District. In no event shall the Eastern Plumas Health Care District increase the number of licensed beds at the Sierra Valley District Hospital during the operative period of subparagraph (B).

(10) A transfer of any of the assets of a district to one or more nonprofit corporations to operate and maintain the assets shall not be required to meet paragraphs (1) to (9), inclusive, of this subdivision if all of the following conditions apply at the time of the transfer:

(A) The district has entered into a loan that is insured by the State of California under Chapter 1 (commencing with Section 129000) of Part 6 of Division 107.

(B) The district is in default of its loan obligations, as determined by the Office of Statewide Health Planning and Development.

(C) The Office of Statewide Health Planning and Development and the district, in their best judgment, agree that the transfer of some or all of the assets of the district to a nonprofit corporation or corporations is necessary to cure the default, and will obviate the need for foreclosure. This cure of default provision shall be applicable prior to the office foreclosing on district hospital assets. After the office has foreclosed on district hospital assets, or otherwise taken possession in accordance with law, the office may exercise all of its powers to deal with and dispose of hospital property.

(D) The transfer and all arrangements necessary thereto are discussed in advance of the transfer in at least one properly noticed open and public meeting in compliance

with Section 32106 and the Ralph M. Brown Act (Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5 of the Government Code). The meeting referred to in this paragraph shall be noticed and held within 90 days of notice in writing to the district by the office of an event of default. If the meeting is not held within this 90-day period, the district shall be deemed to have waived this requirement to have a meeting.

(11) If a transfer under paragraph (10) is a lease, the lease shall provide that the assets shall revert to the district at the conclusion of the leasehold interest. If the transfer is a sale, the proceeds shall be used first to retire the obligation insured by the office, then to retire any other debts of the district. After providing for debts, any remaining funds shall revert to the district.

(12) A health care district shall report to the Attorney General, within 30 days of any transfer of district assets to one or more nonprofit or for-profit corporations, the type of transaction and the entity to whom the assets were transferred or leased.

(q) To contract for bond insurance, letters of credit, remarketing services, and other forms of credit enhancement and liquidity support for its bonds, notes, and other indebtedness and to enter into reimbursement agreements, monitoring agreements, remarketing agreements, and similar ancillary contracts in connection therewith.

(r) To establish, maintain, operate, participate in, or manage capitated health care service plans, health maintenance organizations, preferred provider organizations, and other managed health care systems and programs properly licensed by the Department of Insurance or the Department of Managed Care, at any location within or without the district for the benefit of residents of communities served by the district. However, that activity shall not be deemed to result in, or constitute, the giving or lending of the district's credit, assets, surpluses, cash, or tangible goods to, or in aid of, any person, association, or corporation in violation of Section 6 of Article XVI of the California Constitution.

Nothing in this section shall be construed to authorize activities that corporations and other artificial legal entities are prohibited from conducting by Section 2400 of the Business and Professions Code.

Any agreement to provide health care coverage that is a health care service plan, as defined in subdivision (f) of Section 1345, shall be subject to Chapter 2.2 (commencing with Section 1340) of Division 2, unless exempted pursuant to Section 1343 or 1349.2.

A district shall not provide health care coverage for any employee of an employer operating within the communities served by the district, unless the Legislature specifically authorizes, or has authorized in this section or elsewhere, the coverage.

Nothing in this section shall be construed to authorize any district to contribute its facilities to any joint venture that could result in transfer of the facilities from district ownership.

(s) To provide health care coverage to members of the district's medical staff, employees of the medical staff members, and the dependents of both groups, on a self-pay basis.

(Amended by Stats. 2012, Ch. 684, Sec. 1. (SB 804) Effective January 1, 2013.)



State of California

HEALTH AND SAFETY CODE

Section 32126.5

32126.5. (a) The board of directors of a hospital district or any affiliated nonprofit corporation may do any of the following when it determines that the action is necessary for the provision of adequate health services to communities served by the district:

(1) Enter into contracts with health provider groups, community service groups, independent physicians and surgeons, and independent podiatrists, for the provision of health services.

(2) Provide assistance or make grants to nonprofit provider groups and clinics already functioning in the community.

(3) Finance experiments with new methods of providing adequate health care.

(b) Nothing in this section shall authorize activities which corporations and other artificial legal entities are prohibited from conducting by Section 2400 of the Business and Professions Code.

(Amended by Stats. 1992, Ch. 981, Sec. 4. Effective January 1, 1993.)

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**CECILIA M. AGUIAR-CURRY
CHAIR**

OVERSIGHT HEARING: THE EVOLUTION OF HEALTHCARE DISTRICTS

WEDNESDAY, MARCH 8, 1:30 PM, ROOM 447

AGENDA

1) Welcome and Opening Remarks

Assemblymember Cecilia M. Aguiar-Curry, Chair, Assembly Local Government Committee

2) Overview of Healthcare Districts

a) Carolyn Chu, Senior Fiscal and Policy Analyst, Legislative Analyst's Office

b) Michael Colantuono, Shareholder, Colantuono, Highsmith & Whatley, PC

3) Case Studies

a) Ted Owens, Executive Director Governance & Business Development, Tahoe Forest Hospital District, Placer and Nevada County

b) Barry Jantz, Chief Executive Officer, Grossmont Healthcare District, San Diego County

c) Karin Hennings, Administrative Director, Del Puerto Healthcare District, Stanislaus County

d) Don Tatzin, Commissioner, Contra Costa Local Agency Formation Commission

e) Mark Bramfitt, Executive Officer, Sonoma Local Agency Formation Commission

4) Public Testimony

5) Closing Remarks and Adjournment



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Oversight Hearing: The Evolution of Healthcare Districts
March 8, 2017, 1:30 p.m., State Capitol, Room 447

Hearing Goal

The goal of the hearing is to provide oversight of healthcare districts in California and to educate the Committee about the history and evolution of healthcare districts since their creation. The hearing will also examine the relationship between healthcare districts and local agency formation commissions (LAFCOs).

Background on Healthcare Districts

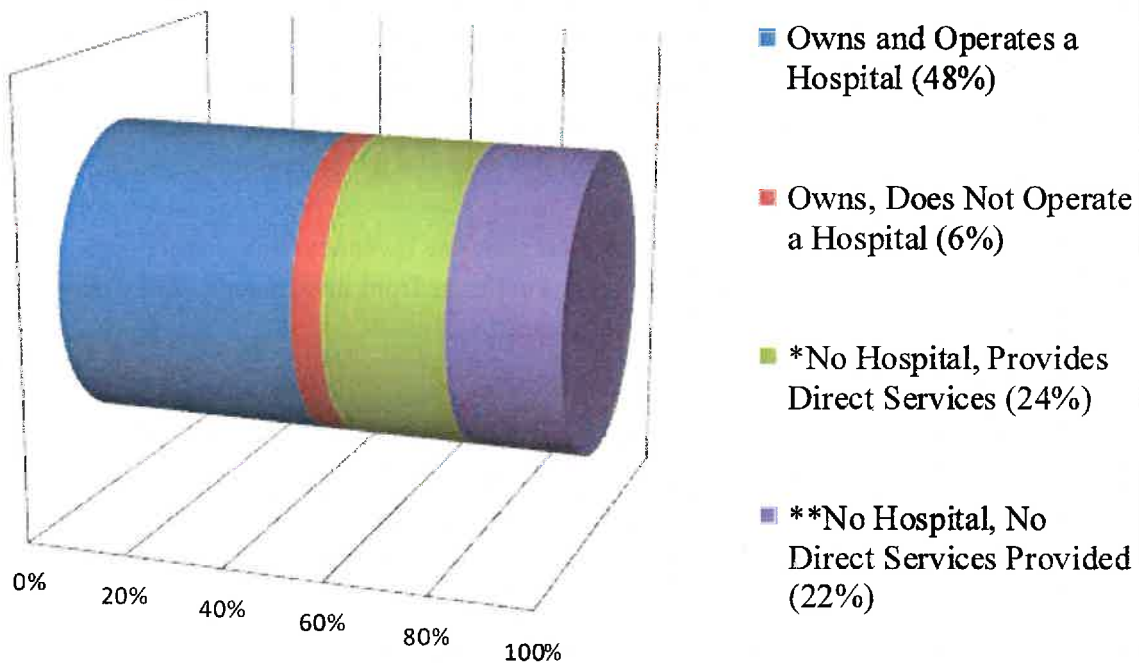
History. Near the end of World War II, California faced a severe shortage of hospital beds. To respond to the inadequacy of acute care services in the non-urban areas of the state, the Legislature enacted the Local Hospital District Law, with the intent to give rural, low-income areas without ready access to hospital facilities a source of tax dollars that could be used to construct and operate community hospitals and health care institutions in medically underserved areas, to recruit physicians and support their practices.

The Local Hospital District Law allowed communities to create a new governmental entity – independent of local and county jurisdictions – that had the power to impose property taxes, enter into contracts, purchase property, issue debt, and hire staff. In general, the process of creating a hospital district started with citizens in a community identifying the need for improved access to medical care. The hospital district's boundaries were usually based on the distance between communities and the closest available acute care hospital services. A petition for formation was then filed by the community to the county board of supervisors, and then residents of the proposed district voted in favor of the measure to create the hospital district. In 1963, the Knox Nisbet Act was passed, which created LAFCOs and clarified and formalized the process for establishing a hospital district.

SB 1169 (Maddy), Chapter 696, Statutes of 1994, changed the name of the principal act from 'The Local Hospital District Law' to 'The Local Healthcare District Law.' Senate Local Government and Assembly Health Committee's analyses of SB 1169 noted that "renaming hospital districts to healthcare districts better reflected the focus of healthcare provision outside of hospital settings." The powers and duties granted to healthcare districts have remained largely unchanged while the demographics of areas being served by the districts, access and provision of healthcare services, and the districts themselves have vastly changed. For example, over one-third of the healthcare districts in California have either closed or sold their hospital thus moving away from the original intent of 'hospital districts.'

Healthcare Districts in California. There are currently 79 healthcare districts in California. According to the Association of Healthcare Districts, 54 healthcare districts are in rural areas of the state. Of the total 79 healthcare districts, 38 healthcare districts own and operate a hospital, five districts own, but do not operate the hospital, and 36 healthcare districts do not own or operate a hospital. Of the 36 districts that do not own or operate a hospital: 19 districts provide direct services, seven provide ambulance services, three have clinics, one provides ambulance services and has a clinic, four have skilled nursing facilities, and four provide community based services. Seventeen districts do not provide direct services and instead administer grant funding as their sole purpose.

Breakdown of Services Provided by Healthcare Districts



*Direct Services includes ambulance services, clinics, skilled nursing facilities, and other community-based services.

**Districts that provide no direct services administer grant-funding as their sole purpose.

Funding. The issue of funding for healthcare districts has come under fire in recent years. The funding for healthcare districts varies, but can include the following:

- *Property Taxes* – Most districts receive a share of local property taxes. The share of local property tax going to districts varies among districts.
- *Special Taxes* – Some healthcare districts have received two-thirds voter approval to levy parcel taxes.
- *Service Charges* – Healthcare districts may run hospitals, clinics, skilled nursing facilities, and ambulance services. These activities earn revenue and are entirely or predominately self-supporting through service charges. These are sometimes referred to as "enterprise activities."
- *Debt Financing* – Healthcare districts can issue debt to borrow money needed for capital projects such as hospital construction. General obligation bonds require two-thirds voter approval to raise property tax rates for district residents to serve as the mechanism to repay the bonds. Revenue bonds are backed by user fees. Districts may also issue promissory notes and receive loans from the state and the federal government.
- *Other Revenue* – Some healthcare districts generate revenues from district resources, such as property lease income and interest earnings from investments. They may also receive grants from public and private sources.

Recent Controversy. Recent controversies have brought greater statewide attention to healthcare districts in the following areas: overall fiscal management, compliance with the Ralph M. Brown Act and conflict of interest laws, executive compensation policies, lack of provision of direct healthcare services, and overall accountability and transparency issues for healthcare districts.

The Assembly Committee on Accountability and Administrative Review conducted several hearings in 2012 regarding healthcare districts, and focused specifically on healthcare districts that do not operate hospitals, but were maintaining reserve balances in the tens of millions of dollars. Additionally, the Legislative Analyst's Office (LAO) produced a report entitled, "Overview of Health Care Districts" in April 2012 in response to several healthcare districts that have declared bankruptcy since 2000.

The Committee is aware of 14 healthcare districts that have filed for bankruptcy:

- Los Medanos Hospital District, Contra Costa County (1994)
- Heffernan Memorial Hospital District, Imperial County (1996)
- Corcoran Hospital District, Kings County (1996)
- Kingsburg Hospital District, Fresno County (1997)
- Southern Humboldt Community Healthcare District, Humboldt County (1999)
- Chowchilla Memorial Hospital District, Madera County (2000)
- Sierra Valley District Hospital, Sierra County (2000)
- Alta Healthcare District, Tulare County (2001)
- Coalinga Regional Medical Center, Fresno County (2003)
- Indian Valley Healthcare District, Plumas County (2003)
- Valley Health System, Riverside County (2008)
- Sierra Kings Healthcare District, Fresno County (2009)
- Mendocino Coast Healthcare District, Mendocino County (2012)
- Palm Drive Hospital District, Sonoma County (2007 and 2014)
- West Contra Costa Healthcare District, Contra Costa County (2006 and 2016)

Additionally, according to the LAO report, several LAFCOs have considered dissolving districts. Five districts have been dissolved or otherwise reorganized since 2000. Since that time, the Contra Costa County LAFCO consolidated Mount Diablo Healthcare District into the City of Concord. The Mount Diablo Healthcare District did not operate a hospital and concerns were expressed about the amount of revenue spent on administrative costs, instead of on grant funding for community health needs.

A 2012 Bureau of State Audits' (BSA) report on Salinas Valley Memorial Health Care System found that the District's Board violated open meeting laws to grant overly generous compensation, retirement, and benefits to the chief executive officer. This Committee heard several bills addressing the employment contract between a healthcare district and hospital administrator.

Most recently the discussion in the Legislature has focused on healthcare districts that no longer operate hospitals, and no longer provide any direct healthcare services to the community.

Healthcare District Legislation

SB 134 (Corbett) of 2011 would have required healthcare districts to appraise the fair market value of assets that they transfer to other corporations for less than fair market value. This bill failed passage on the Assembly Floor.

SB 644 (Hancock), Chapter 742, Statutes of 2011, required all certificates of participation executed and delivered by the West Contra Costa Healthcare District, between June 8, 2014, and December 31, 2012, to be secured by a statutory lien on all the revenues generated from a parcel tax passed by District voters in 2004.

AB 2115 (Alejo) of 2012 would have required a local health care district, if the district employs or contracts for a hospital administrator or chief executive officer, to enter into a written employment contract, not to exceed four years. This bill was vetoed.

AB 2180 (Alejo), Chapter 322, Statutes of 2012, requires, if a health care district and hospital administrator enter into a written employment agreement, that the written agreement include specified information regarding compensation, severance, and other benefits.

AB 2407 (Chesbro) of 2012 would have authorized various district hospitals and private, nonprofit hospitals in the County of Mendocino to enter into a joint powers agreement with the Northern California Health Care Authority. This bill failed passage in the Assembly Health Committee.

AB 2418 (Gordon and Dickinson) of 2012 would have required health care districts to expend 95% of any property tax revenue on current community health care benefits. This bill was held in the Assembly Appropriations Committee.

SB 804 (Corbett), Chapter 684, Statutes of 2012, requires health care districts to include, in an agreement transferring more than 50% of the health care district's assets, the appraised fair market value of any asset transferred to a nonprofit corporation.

AB 1303 (Wieckowski) of 2012 would have authorized St. Rose Hospital, a private, nonprofit hospital in the County of Alameda, to enter into a joint powers agreement with the Washington Township Healthcare District. This bill failed passage in the Senate Governance and Finance Committee.

AB 130 (Alejo), Chapter 92, Statutes of 2013, prohibits an employment contract between a healthcare district and a hospital administrator, on or after January 1, 2014, from authorizing retirement plan benefits to be paid prior to his or her retirement.

AB 678 (Gordon) of 2013 would have required a healthcare district that leases or transfers its assets to a corporation to conduct a community health needs assessment, and places new requirements on LAFCOs to consider these community health needs assessments in their municipal service reviews. This bill was held in the Senate Appropriations Committee.

AB 582 (Levine), Chapter 23, Statutes of 2014, enacts a statutory lien to secure certificates of participation issued by the Palm Drive Healthcare District.

SB 883 (Hancock), Chapter 691, Statutes of 2014, provides \$3 million of special funds from the Major Medical Risk Insurance Fund to West Contra Costa County Healthcare District for the Doctor's Medical Center in San Pablo, California.

AB 2737 (Bonta), Chapter 421, Statutes of 2016, requires specified healthcare districts to spend at least 80% of their annual budget on community grants awarded to organizations that provide direct health services, and prohibits more than 20% of their annual budget from being spent on administrative expenses. The parameters of AB 2737 were established to address the Eden Township Healthcare District.

AB 2471 (Quirk) of 2016 would have required Alameda County LAFCO to order the dissolution of the Eden Township Healthcare District, if the District met specified criteria. This bill passed out of this Committee, but was placed on the inactive file in the Senate.

SB 957 (Hueso), Chapter 212, Statutes of 2016, allows healthcare districts that own or operate hospitals or clinics to use design-build contracting for the construction of those facilities.

SB 994 (Hill and Allen) of 2016 would have authorized, until January 1, 2022, the Beach Cities Healthcare District and the Peninsula Healthcare District to use the design-build process for the construction of facilities or other buildings in those districts. This bill passed the Senate and was never heard in the Assembly.

LAFCo & Health Care Districts

Assembly Local Government Committee
March 8, 2017

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1

Extra-Territorial Service

- ▶ **Express power to act outside District (HSC 32121):**
 - Operate a health plan (r)
 - Provide health care facilities & services (j)
 - Own or lease property (c)
 - Ambulance service (l)
- Other powers impliedly limited to District territory, but how significant are these?
- This is a contested issue.

2

District Territory

- ▶ Need not be contiguous (HSC 32001)
- ▶ Must exclude territory not benefited (*i.e.*, uninhabited)
- ▶ Annexing territory excluded during formation process due to lack of benefit requires findings (GC 58106)
- ▶ May be multi-county (HSC 32001)
- ▶ No overlapping districts without consent of the first district unless principal act says otherwise (GC 56119)

3

Relationship to Other Gov'ts

- ▶ Subject to zoning power of city or county
 - 55 Ops. CA AG 375 (1972)
- ▶ Medical operations subject to regulation by a variety of state health care agencies, such as OSHPOD, Department of Insurance, etc.

4

Power to Change their Name

- ▶ HSC 32137 allows a Health Care District to change its name by a resolution filed with the County Clerk
- ▶ Other laws require all government agencies to register with the Secretary of State

6

Financial Powers

- ▶ Property taxes (HSC 32200 ff.)
- ▶ Special taxes: 2/3-voter approval (HSC 32240; GC 53730.5 ff)
- ▶ Bonded debt
 - Capital facilities & co-insurance plans (HSC 32300)
 - Revenue bonds (HSC 32315)
 - State bonds (HSC 32350)
- ▶ Appear to lack assessment authority
- ▶ Substantial revenues from fees for service, health plans, third-party payments, etc.

6

Formation, Reorganization

- ▶ Governed by principal act (HSC 32200)
 - *In re Valley Health System*, 429 B.R. 692 (Bkcy CD Cal. 2010)
- ▶ But CKH can fill gaps in the principal act (*id.*)
- ▶ If LAFCo receives application to form or reorganize a HCD, it must give notice to state health agencies (GC 56131.5)
- ▶ Dissolution requires voter approval (GC 57103) as does transfer of $> \frac{1}{2}$ an HCD's assets (HSC 32121(p))

7

More on Formation, Reorganization

- ▶ Principal Act refers to the District Organization Law
 - HSC 32002 & GC 58030 ff.
- ▶ Formation process
 - Petition (GC 58030)
 - Board of Supervisors of largest county (by district territory) serves as "supervising authority" (GC 58004(d))
 - Election (GC 58130 ff.)
 - Uniform District Election Law applies (HSC 32002)
 - LAFCo provides impartial analysis (HSC 32002.31)

8

Contested Questions

- ▶ Is a HCD subject to LAFCo's power to approve out-of-district service under GC 56133?
 - Conflict in San Diego County several years ago was resolved without litigation.
 - So. Mono and No. Inyo Districts litigating now.
- ▶ This is a hotly contested issue. Clearly HCDs were intended to compete with private actors, but with each other?

9

How Much Power Does LAFCo Have?

- ▶ Certainly has power and duty to approve MSR, SOI & reorganizations.
- ▶ Does not control formation, but may be able to do so in reorganization context.
- ▶ Dissolution or sale of most assets requires voter approval.
- ▶ Difficult role in refereeing disputes between HCDs as to extra-territorial activity

10

LAFCo Power Continued

- ▶ LAFCo has a bully pulpit via MSR & SOIs
- ▶ Some HCDs are attracting attention due to competition for scarce property tax dollars and are therefore vulnerable to criticism if LAFCo, grand jury or others conclude they are not serving the public interest.
- ▶ Like all CA governments, HCDs have a need to engage the public they serve and LAFCo can help them do so.

11

HCDs can be Square Pegs for Round Holes

- ▶ Most of their money comes from service sources and they compete vigorously to survive in a complex, dynamic marketplace
- ▶ As public-private hybrids with a talent pool that comes largely from outside government, they sometimes have lapses in "thinking like government" (i.e., Brown Act, Public Records, etc.)

12

Legislative Challenges re HCDs

- ▶ Like special districts generally, it is hard to generalize about HCDs
 - Some are vital local governments well connected to their communities
 - Some have few resources and barely show up on radar
 - Some no longer operate hospitals and have not found a new role for themselves
- ▶ LAFCOs may be better positioned than statutes to sort them out
- ▶ Legislative exceptions to the LAFCO process should be careful

13

Questions?

14

The Roles of Local Agency Formation Commissions in Health Care District Evolution

**Don Tatzin
Contra Costa LAFCO City Member**

Critical LAFCO Features

Assess through municipal service reviews and special studies

- Identify strengths and weaknesses of organization
- Identify governance structure options
- Influence Sphere of Influence decisions
- Provide recommendations for Commission

Can act

- Can initiate dissolutions
- Can make decisions on reorganizations and change of boundary applications
- Can impose conditions on actions

Possess local knowledge

- Staff and Commissioners are familiar with situations in their county
- Can tailor assessments and actions to the needs of each district

CALIFORNIA LEGISLATURE—2017–18 REGULAR SESSION

ASSEMBLY BILL**No. 1728**

Introduced by Committee on Local Government (Assembly Members Aguiar-Curry (Chair), Waldron (Vice Chair), Bloom, Caballero, Gonzalez Fletcher, Grayson, Lackey, and Voepel)

March 22, 2017

An act to add Section 32139 to the Health and Safety Code, relating to health care districts.

LEGISLATIVE COUNSEL'S DIGEST

AB 1728, as introduced, Committee on Local Government. Health care districts: board of directors.

The Local Health Care District Law provides for local health care districts that govern certain health care facilities. Each health care district has a board of directors with specific duties and powers respecting the creation, administration, and maintenance of the district, including purchasing, receiving, having, taking, holding, leasing, using, and enjoying property.

This bill would require the board of directors to adopt an annual budget in a public meeting, on or before September 1 of each year, that conforms to generally accepted accounting and budgeting procedures for special districts, establish and maintain an Internet Web site that lists contact information for the district, and adopt annual policies for providing assistance or grant funding, if the district provides assistance or grants. By increasing the duties of the board of directors, relating to disclosure of public records and other duties, this bill would impose a state-mandated local program.

The California Constitution requires local agencies, for the purpose of ensuring public access to the meetings of public bodies and the

writings of public officials and agencies, to comply with a statutory enactment that amends or enacts laws relating to public records or open meetings and contains findings demonstrating that the enactment furthers the constitutional requirements relating to this purpose.

This bill would make legislative findings to that effect.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that with regard to certain mandates no reimbursement is required by this act for a specified reason.

With regard to any other mandates, this bill would provide that, if the Commission on State Mandates determines that the bill contains costs so mandated by the state, reimbursement for those costs shall be made pursuant to the statutory provisions noted above.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: yes.

The people of the State of California do enact as follows:

- 1 SECTION 1. Section 32139 is added to the Health and Safety
- 2 Code, in Article 2 of Chapter 2 of Division 3, to read:
- 3 32139. The board of directors shall do all of the following:
- 4 (a) Adopt an annual budget in a public meeting, on or before
- 5 September 1 of each year, that conforms to generally accepted
- 6 accounting and budgeting procedures for special districts.
- 7 (b) Establish and maintain an Internet Web site that lists contact
- 8 information for the district. The Internet Web site may also list
- 9 any of the following:
- 10 (1) The adopted budget.
- 11 (2) A list of current board members.
- 12 (3) Information regarding public meetings required pursuant to
- 13 Section 32106 or the Ralph M. Brown Act (Chapter 9 (commencing
- 14 with Section 54950) of Part 1 of Division 2 of Title 5 of the
- 15 Government Code).
- 16 (4) A municipal service review or special study conducted by
- 17 a local agency formation commission pursuant to the
- 18 Cortese-Knox-Hertzberg Local Government Reorganization Act
- 19 of 2000 (Division 3 (commencing with Section 56000) of Title 5
- 20 of the Government Code), if any.

1 (5) Recipients of grant funding or assistance provided by the
2 district, if any.

3 (6) Audits of the district's accounts and records pursuant to
4 Section 26909 of the Government Code or Section 32133 of this
5 code.

6 (7) Annual financial reports to the Controller, submitted pursuant
7 to Section 53890 of the Government Code.

8 (8) Any other information the board deems relevant.

9 (c) Adopt annual policies for providing assistance or grant
10 funding, if the district provides assistance or grants pursuant to
11 Section 32126.5 or any other law. This policy shall include all of
12 the following:

13 (1) A nexus between the allocation of assistance and grant
14 funding with health care and the mission of the district.

15 (2) A process for the district to ensure allocated grant funding
16 is spent consistently with the grant application and the mission
17 and purpose of the district.

18 SEC. 2. The Legislature finds and declares that Section 1 of
19 this act, which adds Section 32139 of the Health and Safety Code,
20 furthers, within the meaning of paragraph (7) of subdivision (b)
21 of Section 3 of Article I of the California Constitution, the purposes
22 of that constitutional section as it relates to the right of public
23 access to the meetings of local public bodies or the writings of
24 local public officials and local agencies. Pursuant to paragraph (7)
25 of subdivision (b) of Section 3 of Article I of the California
26 Constitution, the Legislature makes the following findings:

27 By requiring health care districts to post specified information
28 on their Internet Web site, this act increases public access to public
29 records, and thereby furthers the purposes of paragraph (7) of
30 subdivision (b) of Section 3 of Article I of the California
31 Constitution.

32 SEC. 3. No reimbursement is required by this act pursuant to
33 Section 6 of Article XIII B of the California Constitution because
34 the only costs that may be incurred by a local agency or school
35 district under this act would result from a legislative mandate that
36 is within the scope of paragraph (7) of subdivision (b) of Section
37 3 of Article I of the California Constitution.

38 However, if the Commission on State Mandates determines that
39 this act contains other costs mandated by the state, reimbursement
40 to local agencies and school districts for those costs shall be made

- 1 pursuant to Part 7 (commencing with Section 17500) of Division
- 2 4 of Title 2 of the Government Code.

O



Assembly Bill 1728 (Committee on Local Government): Ensuring Transparency and Accountability for Healthcare Districts

SUMMARY

AB 1728 (Committee on Local Government) will help to ensure greater transparency and accountability for healthcare districts. This committee bill seeks to modernize the principal act for healthcare districts to better reflect changes in technology, but also to recognize the changing dynamics of healthcare districts and the types of services they provide.

The majority of healthcare districts receive property tax dollars. This bill will ensure that taxpayers have access to basic information and can see how funds are being spent.

BACKGROUND AND CHALLENGES:

Near the end of World War II, California faced a severe shortage of hospital beds. To respond to the inadequacy of acute care services in rural areas, the Legislature enacted the Local Hospital District Law, to provide medically underserved areas without access to hospital facilities a source of tax dollars that could be used to construct and operate community hospitals. SB 1169 (Maddy) of 1994, changed the name of the principal act to 'The Local Healthcare District Law' to better reflect the shift in the provision of healthcare services outside hospital settings.

The powers and duties granted to healthcare districts under existing law have remained largely unchanged while the demographics of areas being served by the districts, access and provision of healthcare services, and the districts themselves have vastly changed. For example, following the change in law in 1994, 14 healthcare districts have filed for bankruptcy, and over one-third of the healthcare districts in California have either closed or sold their hospital, thus moving away from the original legislative intent of 'hospital districts.'

There are currently 79 healthcare districts in California. Of the total, 38 healthcare districts own and operate a hospital, five districts own, but do not operate a hospital, and 36 healthcare districts do not own or operate a hospital. Of the 36 districts that do not own or operate a hospital, 19 districts provide direct services (like ambulance or clinic services), and 17 districts do

not provide direct services and instead administer grant funding as their sole purpose.

Recent controversies have brought greater statewide attention to healthcare districts in the following areas: overall fiscal management, compliance with the Brown Act and conflict of interest laws, executive compensation policies, lack of provision of direct healthcare services, and overall accountability and transparency issues for healthcare districts.

The Local Government Committee held an oversight hearing on healthcare districts on March 8, 2017. This committee bill provides a solution to several issues identified during the oversight hearing.

THIS COMMITTEE BILL:

AB 1728 will require healthcare districts to do the following:

- Establish and maintain an internet website, which must include contact information for the district.
- Adopt an annual budget.
- Adopt annual policies for providing assistance or grant funding to ensure funding is spent on healthcare services consistent with the mission and purpose of the district.

Not all healthcare districts face the same challenges and many already comply with these requirements. This bill is a modest approach to establish a minimum level of transparency and accountability, yet retain local control.

SUPPORT

Unknown

OPPOSITION

Unknown

CONTACT:

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(916) 319-3958, misa.lennox@asm.ca.gov

ALAMEDA LOCAL AGENCY FORMATION COMMISSION
RESOLUTION NO. 2013-14

**Adopting Municipal Service Review Determinations, Sphere of Influence Determinations, and
Updating the Sphere of Influence for the Eden Township Healthcare District**

WHEREAS, Government Code Section 56425 et seq. requires the Local Agency Formation Commission (LAFCo) to develop and determine the sphere of influence (SOI) of each local governmental agency under LAFCo jurisdiction within the County; and

WHEREAS, Government Code Section 56425(g) requires that LAFCo review and update adopted SOI boundaries, as necessary, not less than once every five years; and

WHEREAS, Government Code Section 56430 requires that a municipal services review (MSR) be conducted prior to or in conjunction with a SOI update; and

WHEREAS, LAFCo conducted a municipal services review of the services provided by the Eden Township Healthcare District; and

WHEREAS, the Eden Township Healthcare District has a SOI that is coterminous to the District's jurisdictional boundary; and

WHEREAS, no change in regulation, land use or development will occur as a result of updating the District's SOI; and

WHEREAS, in the form and manner prescribed by law, the Executive Officer has given notice of a public hearing by this Commission regarding the SOI update action; and

WHEREAS, the MSR determinations, the SOI determinations and the SOI update was duly considered at a public hearing held on November 14, 2013; and

WHEREAS, the Alameda LAFCo heard and received all oral and written protests, objections and evidence that were made, presented or filed, and all persons present were given an opportunity to appear and be heard with respect to any matter pertaining to said action.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED that the Alameda LAFCo hereby:

1. Adopt the following MSR determinations:
 - a. Growth and Population Projections
 - i. As of 2010, the population within Eden Township Healthcare District (ETHD) was 360,113. Based on ABAG growth projections the population of ETHD is anticipated to be 437,897 by 2035.
 - ii. ETHD reported that growth patterns had not been affecting service demand in the last few years. Limited growth is anticipated by the District within the ETHD boundary area in the next several years; however, no formal projections were made.
 - iii. Castro Valley and Eden areas are mostly built out, and limited growth is anticipated from potential infill development. Future moderate growth is expected in the San Lorenzo area due to an increase in retail at San Lorenzo Village Center and a rise in student population. Increase in retail at a shopping plaza may cause additional population move into the area for work and/or pleasure.

- b. Location and Characteristics of Any Disadvantaged Unincorporated Communities Within or Contiguous to the Sphere of Influence
- i. Using Census Designated Places, Alameda LAFCo determines that there are no disadvantaged unincorporated communities that meet the basic state-mandated criteria within the County. Alameda LAFCo recognizes, however, that there are communities in the County that experience disparities related to socio-economic, health, and crime issues, but the subject of this review is municipal services such as water, sewer, and fire protection services to which these communities, for the most part, have access.
- c. Present and Planned Capacity of Public Facilities and Adequacy of Public Services, Including Infrastructure Needs and Deficiencies
- i. With occupancy rates of 89, 67 and 60 percent in the three ETHD rental properties, the District appears to have enough capacity to serve the medical office rental demand. Although the regional supply of office space is unknown, because there is still office space available for rent in ETHD's buildings it can be inferred that additional capacity exists to satisfy possible demand for medical space.
 - ii. Due to legal fees, ETHD suspended grant giving in FY 10-11. It did not have enough financial capacity to provide grants to community organizations. Grantmaking resumed in FY 11-12.
 - iii. The ETHD's grant giving services appear to be adequate as it employs effective grant management measures, such as internal control systems, pre-grant review, pre-award process, managing performance, and assessing and using results.
 - iv. Infrastructure needs include minor tenant improvements in Eden Medical Building and Dublin Gateway Center.
- d. Financial Ability of Agency to Provide Services
- i. ETHD reported that its financing levels were adequate to deliver services. Although because of the high legal fees the District suffered a large operating loss in FY 10-11, all legal fees are now paid off and ETHD is expecting its expenditures to decrease and revenues to increase due to increase in rents and higher occupancy rates in its rental properties.
 - ii. ETHD does not receive any property tax, special tax, or benefit assessment income. Its main source of revenues is rental income from rental properties.
 - iii. In FY 10-11, ETHD's expenses exceeded revenues by over \$5 million. The operating loss was \$4.4 million. In FY 12-13, the operating loss was \$2.3 million, while overall expenses exceeded revenues by \$3.5 million.
 - iv. At the end of FY 10-11, ETHD had an unrestricted cash balance of \$16 million, which constitutes about 24 months of operating expenditures that included salaries and benefits, purchased services, rental property operation and management, grants, and depreciation.
 - v. Current District's long-term debt amounts to \$44.9 million. In addition, ETHD owes Sutter Health \$17 million in damages, which are expected to be paid off over the course of 12 years.
- e. Status and Opportunities for Shared Facilities
- i. ETHD shares its resources through grant funding with various community and healthcare organizations and hospitals.
 - ii. ETHD collaborated with other healthcare providers to try to keep St. Rose Hospital from closing.
 - iii. No further opportunities for shared facilities were identified.
- f. Accountability for Community Services, Including Governmental Structure and Operational Efficiencies
- i. ETHD is governed by a five-member Board of Directors. The Board updates constituents, solicits constituent input, discloses its finances, and posts some of its public documents on its website.

- ii. In addition to maintaining status quo, three governance structure options with regards to ETHD were identified: 1) Annexation of City of Dublin by ETHD; 2) Dissolution; and 3) Consolidation with Washington Township HD.
 - iii. ETHD demonstrated accountability in its cooperation with LAFCo's information requests.
2. Adopt a provisional coterminous SOI, as generally depicted in Exhibit A attached hereto, with the following condition:
- a. The District report back to LAFCo by June 30, 2014 on progress made on implementing the District's strategic plan priorities and related action plan as adopted by the District Board of Directors on May 15, 2013.
3. Consider the criteria set forth in Government Code Section 56425(e) and determine as follows:
- a. *The present and planned land uses in the area, including agricultural and open-space lands* – The District has no land use authority. City and County policies support the provision of adequate healthcare for City and County residents. City and County plans include land uses and population growth needing supportive healthcare services.

There is substantial agricultural and open space land within the District. Hospital and healthcare services are needed in all areas, and do not, by themselves induce or encourage growth on agricultural or open space lands.

Services are already being provided so growth inducement is not a factor. No Williamson Act contracts will be affected.

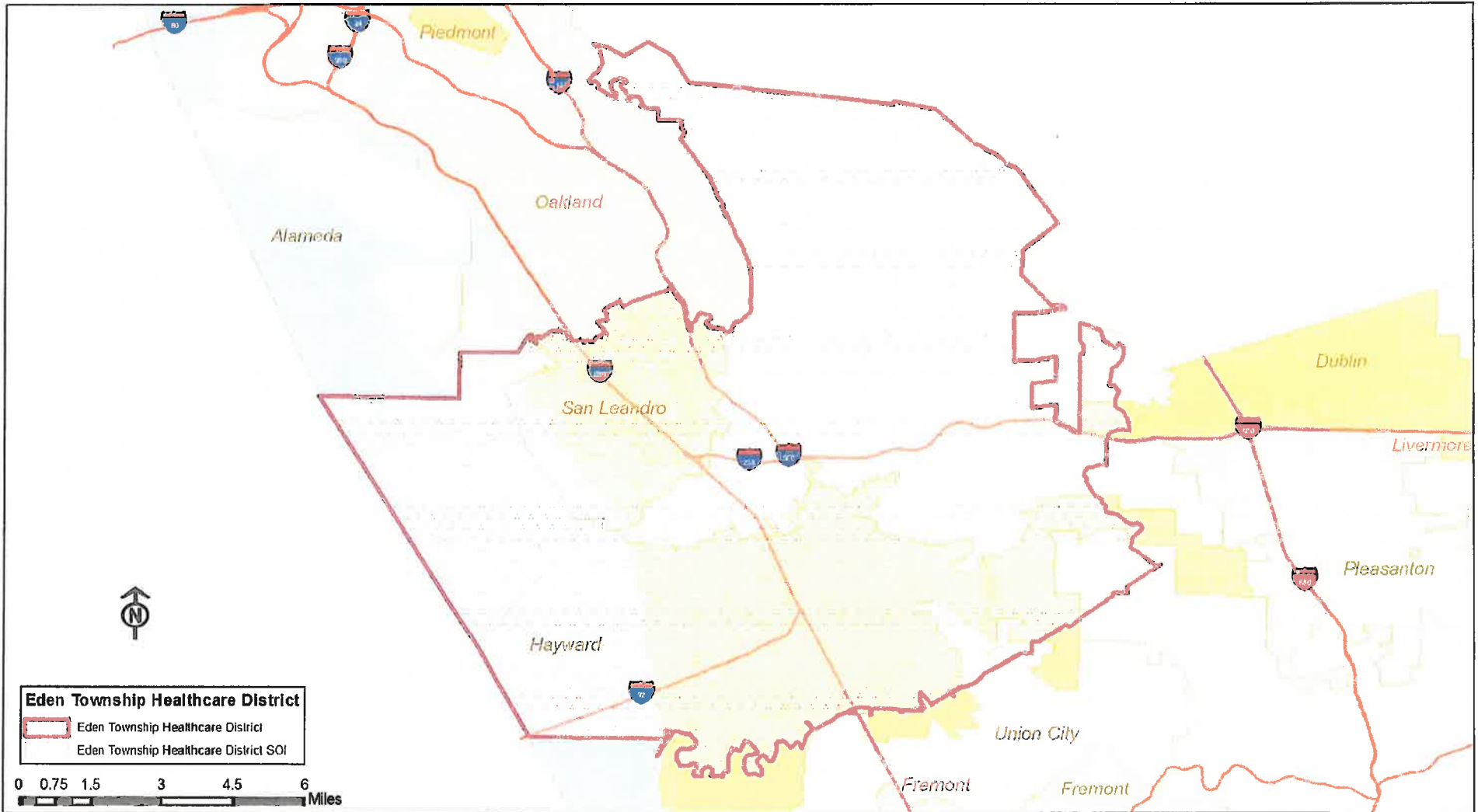
- b. *The present and probable need for public facilities and services in the area* –As indicated by demand for ETHD's grant funding services and rental properties, there is a present and anticipated continued need for the services offered by ETHD.
- c. *The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide* – ETHD is not a direct provider of health care services. The District funds healthcare services through grants and provides office space to healthcare providers and clinics through rental agreements.

Rental properties appear to have sufficient capacity to satisfy community need. Although the regional supply of office space is unknown, because there is still office space available for rent in ETHD's buildings it can be inferred that additional capacity exists to satisfy possible additional demand for medical space.

ETHD engages in effective grant management based on its use of adequate grant management practices, such as internal control systems, pre-grant review, pre-award process, performance management and result assessment. Of those projects that the District funded through grants, 100 percent of the projects were completed to the satisfaction of ETHD.

- d. *The existence of any social or economic communities of interest in the area* – ETHD primarily serves constituents in central Alameda County. Communities of interest include healthcare agencies that receive grants, healthcare providers who rent medical offices, and patients and clients who are served in these medical offices and through grantmaking.
- e. *Nature, location, extent, functions & classes of services to be provided* – ETHD provides grant funding to local healthcare organizations that benefit constituents within the District boundaries. ETHD also owns medical rental properties in San Leandro, Dublin and Castro Valley which it leases to doctors and other healthcare providers.

Eden Township Healthcare District and Provisional SOI November 2013



*Agency sphere equals the service area boundary

Created for Alameda LAFCo by the Alameda County Community Development Agency

**ALAMEDA LOCAL AGENCY FORMATION COMMISSION
RESOLUTION NO. 2014-07**

Updating the Sphere of Influence for the Eden Township Healthcare District

WHEREAS, Government Code Section 56425 et seq. requires the Local Agency Formation Commission (LAFCo) to develop and determine the sphere of influence (SOI) of each local governmental agency under LAFCo jurisdiction within the County; and

WHEREAS, Alameda LAFCo conducted a municipal service review (MSR) of the services provided by the Eden Township Healthcare District (ETHD) and adopted Resolution No. 2013-14 making MSR and SOI determinations and approving a provisional coterminous SOI with a condition that the District report back to LAFCo on the progress made on implementing the District's adopted strategic plan priorities and related action plan; and

WHEREAS, at LAFCo's November 13, 2014 meeting, ETHD reported back to the Commission on the status of implementation the District's strategic plan and, based on that report, the Commission determined that removing the provisional status of the District's sphere of influence was warranted.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED that the Alameda LAFCo hereby:

1. Adopt a coterminous SOI, as generally depicted in Exhibit A attached hereto, with the following condition:
 - a. The District report back to LAFCo within six to twelve months regarding the status of its plans with the City of Dublin and provide an update on the District's strategic plan.
2. Consider the criteria set forth in Government Code Section 56425(e) and determine as follows:
 - a. *The present and planned land uses in the area, including agricultural and open-space lands* – The District has no land use authority. City and County policies support the provision of adequate healthcare for City and County residents. City and County plans include land uses and population growth needing supportive healthcare services.

There is substantial agricultural and open space land within the District. Hospital and healthcare services are needed in all areas, and do not, by themselves induce or encourage growth on agricultural or open space lands.

Services are already being provided so growth inducement is not a factor. No Williamson Act contracts will be affected.

- b. *The present and probable need for public facilities and services in the area* –As indicated by demand for ETHD's grant funding services and rental properties, there is a present and anticipated continued need for the services offered by ETHD.
 - c. *The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide* – ETHD is not a direct provider of health care services. The District funds healthcare services through grants and provides office space to healthcare providers and clinics through rental agreements.

Rental properties appear to have sufficient capacity to satisfy community need. Although the regional supply of office space is unknown, because there is still office space available for rent

in ETHD's buildings it can be inferred that additional capacity exists to satisfy possible additional demand for medical space.

ETHD engages in effective grant management based on its use of adequate grant management practices, such as internal control systems, pre-grant review, pre-award process, performance management and result assessment. Of those projects that the District funded through grants, 100 percent of the projects were completed to the satisfaction of ETHD.

- d. *The existence of any social or economic communities of interest in the area* – ETHD primarily serves constituents in central Alameda County. Communities of interest include healthcare agencies that receive grants, healthcare providers who rent medical offices, and patients and clients who are served in these medical offices and through grantmaking.
- e. *Nature, location, extent, functions & classes of services to be provided* – ETHD provides grant funding to local healthcare organizations that benefit constituents within the District boundaries. ETHD also owns medical rental properties in San Leandro, Dublin and Castro Valley which it leases to doctors and other healthcare providers.

ETHD provides services outside of its boundaries in the City of Dublin through the Dublin Gateway Center.

- 3. Determine, as lead agency for the purposes of the California Environmental Quality Act (CEQA), that update of the agency's SOI is categorically exempt under Section 15061(b)(3) of the CEQA Guidelines.

* * * * *

This Resolution was approved and adopted by the Alameda Local Agency Formation Commission at the public hearing held on November 13, 2014, at 7051 Dublin Blvd., Dublin, California on the motion made by Commissioner Sbranti, seconded by Commissioner Wieskamp, and duly carried.

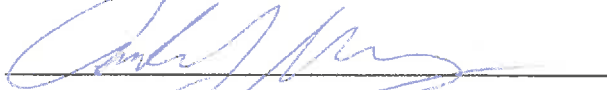
AYES: 7 (Miley, Wieskamp, Haggerty, Johnson, Marchand, Sbranti, Sblendorio)
 NOES: 0
 ABSENT: 0
 ABSTAIN: 0

/Sblend Sblendorio/

Sblend Sblendorio, Chair, Alameda LAFCo

Approved as to Form:

By:


 Andrew Massey, LAFCo Legal Counsel

CERTIFICATION: I hereby certify that the foregoing is a correct copy of a resolution adopted by the Alameda Local Agency Formation Commission, Oakland, California.

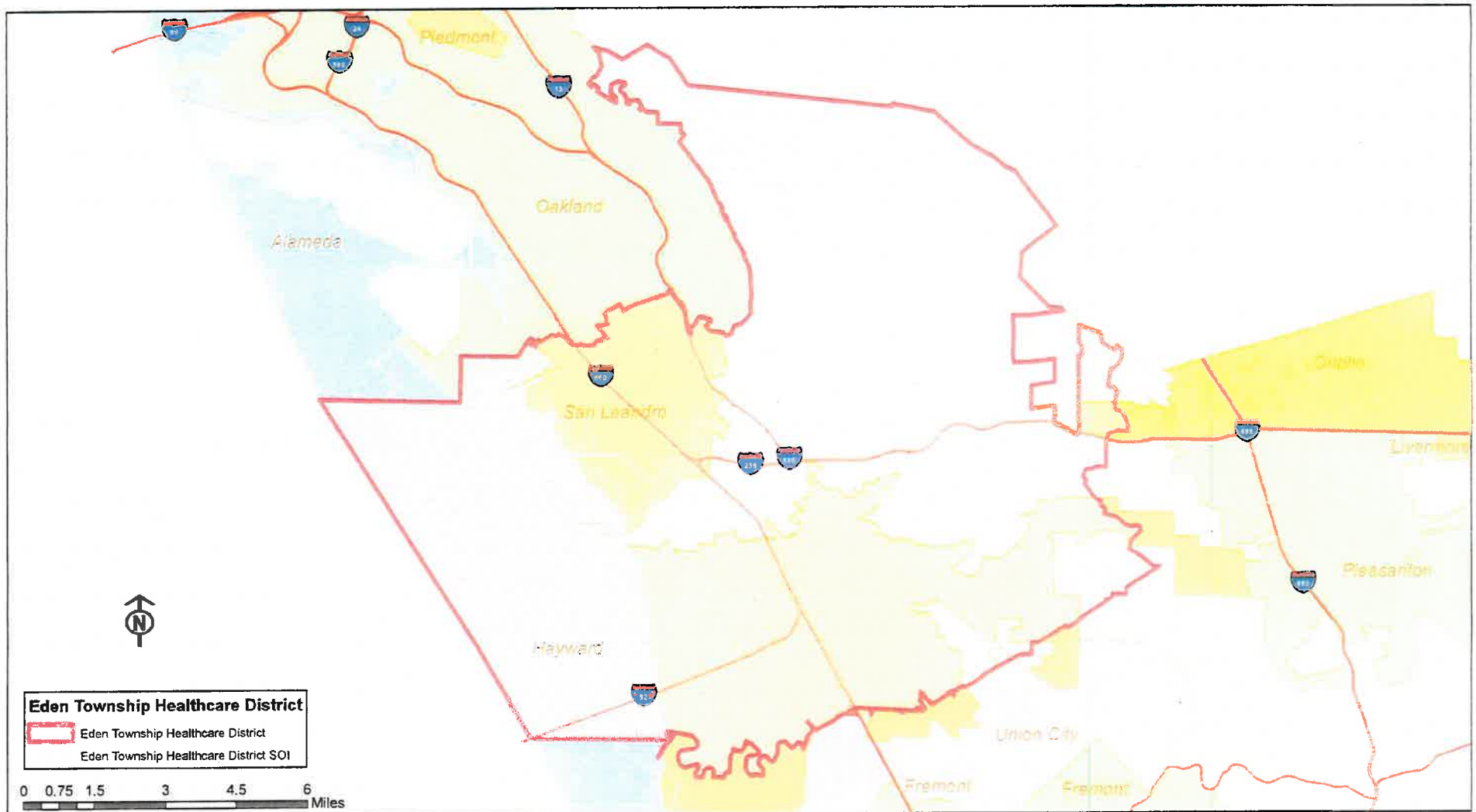
Attest:


 Mona Palacios, LAFCo Executive Officer

Date:

11/21/2014

Eden Township Healthcare District and SOI November 2014



*Agency sphere equals the service area boundary

Created for Alameda LAFCo by the Alameda County Community Development Agency