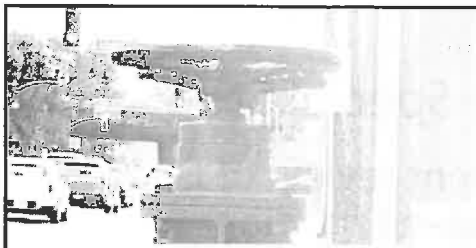

Berkson Associates
Urban Economics
Policy Forensics & Forecasting
Planning & Policy Analysis

SPECIAL STUDY OF GOVERNANCE OPTIONS

EDEN TOWNSHIP HEALTHCARE DISTRICT

Presentation to Alameda LAFCo
January 31, 2017

Introduction

- Richard Berkson, Berkson Associates (BA) hired by Alameda LAFCo to prepare a Special Study of ETHD
- Over 30 years of experience on a range of LAFCo-related projects around the State
- Experience includes special studies, including healthcare districts:
  - Mt.Diablo HCD, WCCHD for Contra Costa LAFCO

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Purpose of the Special Study

- Objective, independent review of ETHD governance, services and funding
- Prepare findings to provide direction to LAFCo, other affected jurisdictions and decision-makers, the public, and ETHD
- The Study describes and compares the status quo, dissolution, and other governance options

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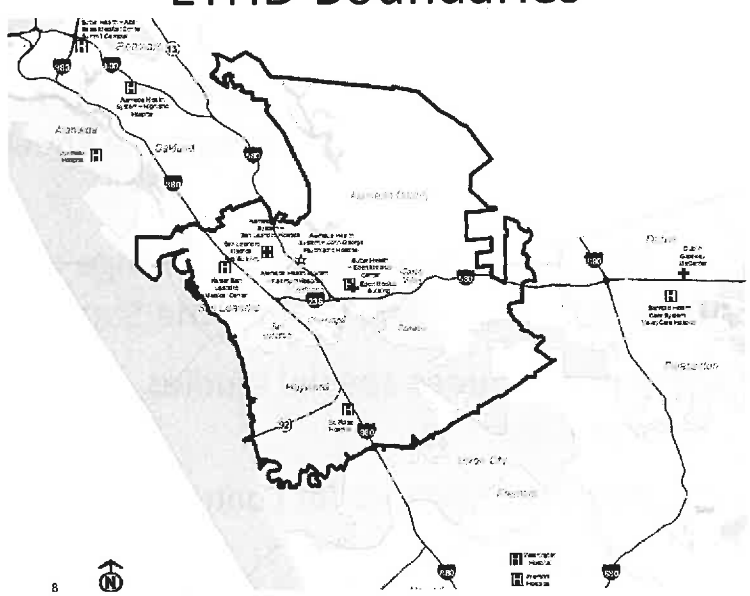
ETHD Boundaries



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Approach to the Special Study

- The Special Study is based on a review of background documents and information
- Interviews with key stakeholders: Cities of Hayward, San Leandro; County of Alameda; ETHD
- Public input at Workshops, LAFCo hearings, comments on draft report

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What the Special Study is NOT

- This is not a formal accounting audit
- Special Study is not an independent assessment of health care needs in the community
- The Study does not evaluate whether ETHD assets should be invested in preventative care or in specific health care facilities.

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About the District

- 400,000 residents: most of San Leandro, Hayward, parts of Dublin, Oakland, & Union City. Unincorporated population about 40%
- Formed in 1948 to build hospital (EMC), sold to Sutter in 1997 for $80 million (inc. Laurel Grove Hospital)
- Revenues largely lease revenues from medical buildings acquired with EMC sale proceeds; ETHD no longer collects property taxes

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Healthcare Districts

- 30 out of 78 healthcare districts no longer operate hospitals
- Increasing healthcare costs, declining reimbursements, seismic upgrade requirements for hospitals, outpatient treatment, and industry consolidation are contributing factors
- Changes in State law allowed Hospital Districts to continue to provide other, non-hospital healthcare services

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Healthcare Districts (cont'd)

- Other HCDs own/lease buildings or operate clinics, but it is uncommon for lease revenues to account for nearly all revenue
- Other HCDs continue to collect property taxes; ETHD receives no property taxes

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Overview of ETHD Operations

- ETHD is a "hybrid" of a commercial real estate enterprise, managed by non-profit healthcare district
- $3.4 mill. in cash operating expenses required to generate $2.8 mill. net operating revenue from real estate
- Without the commercial revenues, potential funding for healthcare by ETHD would be less
- "Services" are largely "indirect", i.e., grants to other agencies that provide services directly to the public

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ETHD Funding

- Medical buildings generate \$2.8 million net cash flow, or \$2.2 million after debt service
- ETHD funds about \$500k-\$600k annually in grants and sponsorships, leaving \$1.6 mill. for other purposes
- No significant increase in grant funding likely over next 8 years due to Sutter obligation
- ETHD required to pay Sutter ~ \$2 mill./yr. for next 8 years for legal judgment

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ETHD Funding

Real Estate Activities	
Revenues	\$5,577,000
Cash Expenditures	(2,627,000)
District Admin/OH	(755,000)
Total	\$2,195,000
Community Services	
Education, Grants	(\$574,000)
Other	(15,000)
District Admin/OH	(90,000)
Total	(\$679,000)
District revenues (interest)	\$133,000
NET CASH FLOW	**\$1,649,000**

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ETHD OVERHEAD

Operating Expenditures (exc. Admin/OH)	
Cash Expenditures	($2,832,000)
Non-cash Expenditures	(2,484,000)
Total Expenditures (exc. Admin/OH, int.)	($5,316,000)
District Admin/OH	(845,000)
as % of Total Expenditures	**16%**

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Summary of Findings

- Dissolution of ETHD without continuing its services is unwarranted
  - District provides significant expenditures for healthcare
  - Ongoing $500k-$600k annual grants & sponsorships (amount may vary over time)
  - Grants/sponsorships generally consistent with health care assessments and needs for preventative services (coordination could be improved)
  - Dissolution/sale of buildings would reduce healthcare funding

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Summary of Findings (cont'd)

- Dissolution of ETHD without continuing its services is unwarranted (cont'd)
  - Expenditures for admin/overhead not excessive (about 16%)
  - The District is accountable for its financial resources and decision process
  - Limited public awareness, but 18% of 21% familiar with ETHD (and having an opinion) were favorable

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Summary of Findings (cont'd)

- The ETHD could improve its efficiency and effectiveness
  - Update Strategic Plan at least annually, quantified where possible w/specific actions and timeline, and integrated with budget priorities
  - Long-term forecast and CIP important, and a descriptive budget with past accomplishments, future goals
  - Real estate risk analysis, esp. w/respect to expansion of facilities (inc. outside of District)
  - Improve public outreach and coordination w/other agencies (inc. County) and healthcare providers

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Summary of Findings (cont'd)

- The ETHD could improve its efficiency and effectiveness (cont'd)
  - Pursue transparency certification
  - Track allocations to real estate vs. community services
  - Augment current budget with cash forecast that includes capital improvements (based on condition assessment) and Sutter payments
  - Depreciation and non-cash expenses complicate budget (keep separate for budgeting purposes)

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Governance Options

- As previously noted, dissolution without continuation of services is not recommended
- Dissolution and naming a successor to continue services could reduce costs, improve decisions
  - Dissolution/transfer assets to non-profit
  - Dissolution/transfer assets to County, city JPA
  - Dissolution/transfer assets to a new CSA

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Status Quo

- No change in organization
- ETHD could improve operations various ways
- LAFCo could revise SOI to encourage more rational boundaries
- No significant increase likely of current $500k-$600k/yr grants over next 8 years
- Possible need to use reserves/investments for Sutter payments, capital improvements
- $1.5 mill. to $2 mill. available for additional health care services after 8 years

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Dissolution/Transfer to Non-Profit

- ETHD has considered creation of a non-profit
- Initial costs for formation/transfer
- Board membership could include ETHD, cities, County, other agency or public members
- No ongoing election costs or other costs required of public agencies
- ETHD anticipates continued ownership and operation of medical office buildings

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Dissolution/Transfer to JPA

- Provides ongoing public agency operation
- Representation could include County and cities
- Overhead and administration, as well as planning, could benefit from existing functions of JPA members
- JPA not likely to operate medical office buildings, investment returns probably less than Status Quo

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Dissolution/Transfer to CSA

- County operation and services to a boundary corresponding to ETHD w/city & voter approval
- Overhead and administration, as well as planning, could benefit from existing County functions including grant management
- Advisory body could include cities, public and other health care agencies
- CSA not likely to operate medical office buildings, investment returns probably less than Status Quo

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Summary of Options

- Dissolution and transfer of assets could reduce OH/admin costs
  – Eliminate election costs (e.g., $200,000/two yrs)
  – Legal and PR costs related to litigation, legislation and negative perceptions likely to be reduced
  – Possible contracting for shared admin services, e.g., accounting, grant management, with County (allowing more focus on revenue-generating activities)

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Summary of Options (cont'd)

- Representation and inter-agency coordination could be improved if successor includes city, County representatives
- Successor could determine priorities for allocating funding to hospitals vs. other purposes
- Amount of funding for healthcare depends on continuation of real estate operations vs. liquidation and investment

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Comparison of Potential Revenues

	Status Quo	Sale of Bldgs. Public Agency	Non-Profit
Building Net Asset Value	$31 mill.	$31 mill.	$31 mill.
(less) Payoff of Sutter Obligation	na	($13.8 mill.)	($13.8 mill.)
Net Value	$31 mill.	$17.2 mill.	$17.2 mill.
Potential Rates of Return		1% to 2%	5%
Potential Annual Funds for Health Care			
Near-Term (Yrs 1-8)	**$500k-$600k**	**$170k-$340k**	**$850k**
Longer Term (>8 yrs)	**>$2 mill.**	*same as above*	*same as above*

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Summary of Findings (cont'd)

- LAFCo may control creation of a new entity (eg, a CSA, subject to city and voter approval), and may control certain terms of other reorganizations:
  - Voter approval (if not otherwise required by law)
  - Transfer or disposition of assets
  - Limits on commercial real estate holdings/operations
  - Dedication of assets, revenues to healthcare purposes
  - Representation on new Board and/or advisory body

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Summary of Findings (cont'd)

- No other viable organizational options identified
  - Consolidation, e.g., with Washington Township Healthcare District not acceptable to that district
  - Subsidiary district would significantly reduce boundaries and residents served, and potential legal issues constrain its viability

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Summary of Findings - SOI

- LAFCo should consider amending ETHD's current SOI (unless a zero SOI is applied, signaling dissolution)
  - Eliminate city areas with minimal or no residents
- SOI revisions would encourage future boundary changes to rationalize boundaries, and potentially facilitate future reorganization changes (i.e., reduce number of required city approvals for a new CSA)

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