EDEN TOWNSHIP HEALTHCARE DISTRICT MUNICIPAL SERVICE REVIEW FINAL

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Prepared for the
Local Agency Formation Commission of Alameda County
by
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1. AGENCY OVERVIEW

The Eden Township Healthcare District (ETHD) provides grant funding to health-related organizations through its Community Health Fund, oversees its endowment fund and owns three office buildings where it leases office space to various healthcare providers.

The last MSR for ETHD was completed in 2004.

FORMATION

ETHD was established in 1948 by a vote of the residents of the Eden Township located in central Alameda County. The District was formed originally to finance construction of Eden Hospital, a facility that opened in 1954.[1]

ETHD was formed as an independent special district under the State's Local Healthcare District Act.[2] The principal act empowers healthcare districts to provide an array of services relating to the protection of residents' health and lives.[3] Districts must apply and obtain LAFCo approval to exercise services authorized by the principal act but not already provided (i.e., latent powers) by the district at the end of 2000.

BOUNDARY

The District was formed pre-LAFCo in 1948. There have been several actions taken by LAFCo including the detachment of a few parcels in the early 1970s.

Eden Township HD boundary area encompasses 130.6 square miles and includes the City of San Leandro, most of the City of Hayward, and the unincorporated areas of Castro Valley and San Lorenzo.

Extra-territorial Services

ETHD owns a medical office building, the Dublin Gateway Center, located outside of its boundaries in the City of Dublin. ETHD leases space to doctors and medical clinics. The District also owns two other medical office buildings within its bounds, San Leandro

[1] District website, www.ethd.org/about/history.htm

[2] Health and Safety Code §32000-32490.9.

[3] Health and Safety Code §32121.

Medical Arts Building and Eden Medical Building, which are rented out to healthcare providers who serve district residents and non-residents alike.

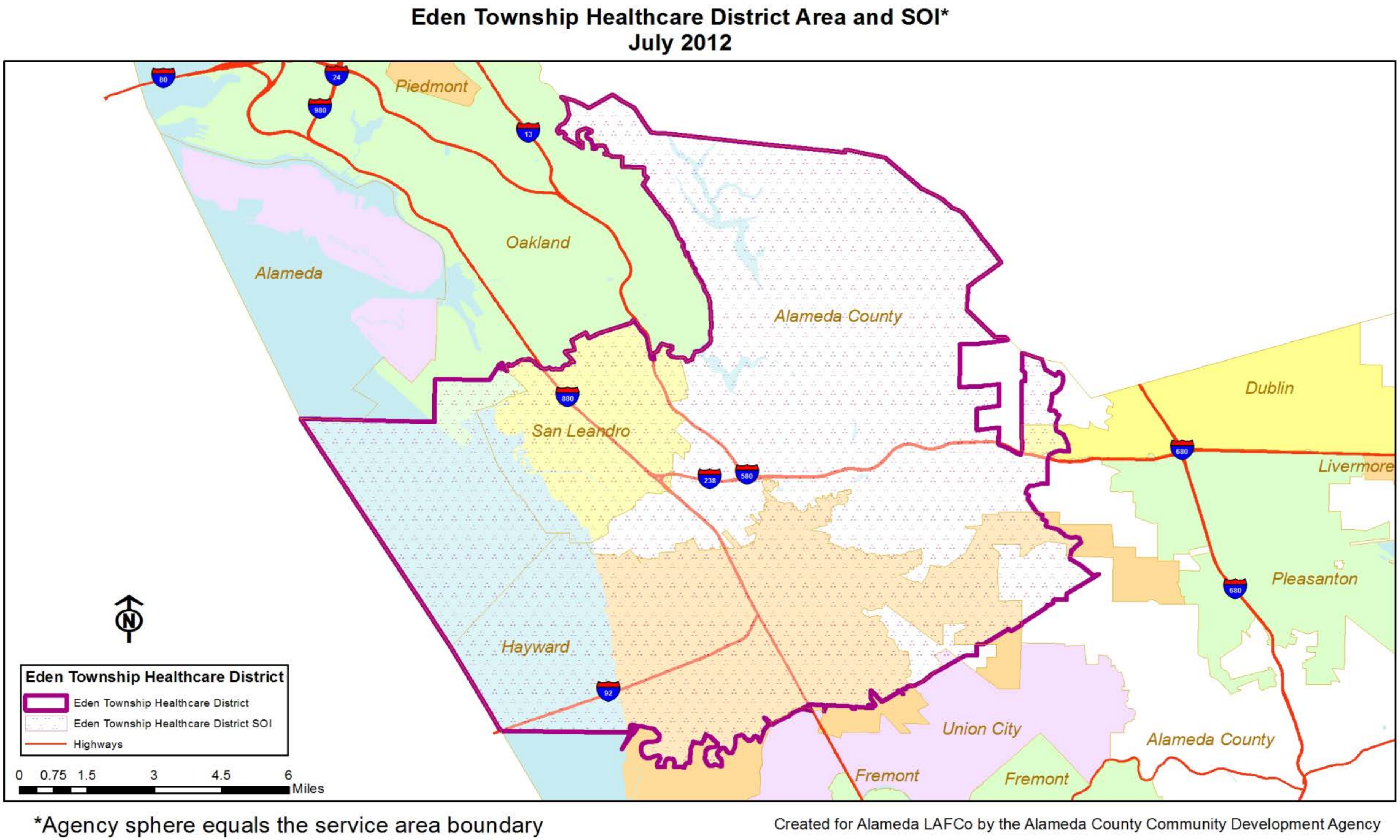
Unserved Areas

There are no areas within ETHD's bounds where grant-funding opportunities provided by ETHD are unavailable. Office space is also available for rent to all healthcare-related organizations in the District.

SPHERE OF INFLUENCE

ETHD's SOI was established in 1984 as coterminous with its boundaries. During the 2004 SOI updates, the Commission reaffirmed the coterminous SOI, since no reorganizations or changes in service area were proposed by the District. ETHD's bounds and SOI are shown in Figure 1-1.

Figure 1-1: Eden Township Healthcare District Boundaries and SOI



ACCOUNTABILITY AND GOVERNANCE

Accountability of a governing body is signified by a combination of several indicators. The indicators chosen here are limited to 1) agency efforts to engage and educate constituents through outreach activities, in addition to legally required activities such as agenda posting and public meetings, 2) a defined complaint process designed to handle all issues to resolution, and 3) transparency of the agency as indicated by cooperation with the MSR process and information disclosure.

The District is governed by a five-member board of directors elected to four-year terms. The board meets monthly on the third Wednesday of each month at 5:30 in the afternoon in the District conference room located at the Eden Medical Building. Current board member names, positions, and term expiration dates are shown in Figure 1-2.

Figure 1-2: Eden Township Healthcare District Governing Body

Eden Township Healthcare District				
District Contact Information				
Contact:	Dev Mahadevan, Chief Executive Officer			
Address:	20400 Lake Chabot Road, Suite 1, Castro Valley, CA 94546			
Telephone:	(510)538-2031			
Fax	(510)582-4670			
Email/website:	www.ethd.org			
Board of Directors				
Member Name	**Position**	**Term Expiration**	**Manner of Selection**	**Length of Term**
Lester Friedman	San Leandro	November 2014	Elected	4 years
Carole Rogers, R.N.	San Leandro	November 2014	Elected	4 years
William F. West, M.D.	San Leandro	November 2014	Elected	4 year
Vinod Sawhney, M.D.	Hayward	November 2016	Elected	4 years
Ronald Hull, DPM	Castro Valley	November 2016	Elected	4 years
Meetings				
Date:	Third Wednesday of every month at 5:30pm			
Location:	Meetings are held in the District conference room.			
Agenda Distribution:	Posted on the website and in newspapers.			
Minutes Distribution:	Available on the ETHD website.			

All meetings are noticed in public places, published in local newspapers and posted on the District website. Minutes are available on the website. To inform constituents about District activities, press releases are used as well as interviews with reporters. In addition, ETHD posts information on its website.

Customer complaints about service can be submitted to ETHD by letter or phone to a District representative. ETHD has property managers at each of the three rental locations and the person on site usually receives and deals with each complaint or issue as they arise. The District reported that it did not receive any complaints in 2012.

ETHD demonstrated accountability in its disclosure of information and cooperation with the LAFCo questionnaires and other requests.

MANAGEMENT AND STAFFING

While public sector management standards vary depending on the size and scope of the organization, there are minimum standards. Well-managed organizations evaluate employees annually, track employee and agency productivity, periodically review agency performance, prepare a budget before the beginning of the fiscal year, conduct periodic financial audits to safeguard the public trust, maintain relatively current financial records, conduct advanced planning for future service needs, and plan and budget for capital needs.

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

The District's day to day operations are managed by the Chief Executive Officer (CEO). One senior accountant and one administrative assistant report to the CEO. Workload is not formally tracked. The District office is open four days a week. In addition, ETHD employs contractors, such as property managers, construction managers and public relations consultants as-needed.

Employees are evaluated by the CEO annually. The CEO is evaluated by the Board of Directors, also on an annual basis.

The District reports that it engages in performance evaluation and productivity monitoring. Although, ETHD does not monitor productivity in the same manner as a district running a hospital, ETHD monitors its performance by evaluating its weekly workload. The District reported that it compared its performance with other healthcare service providers in northern California that provided grantmaking services.[4]

ETHD's financial planning efforts include an annually adopted budget and audited financial statements. ETHD conducts capital improvement planning. The plan has a planning horizon of one to five years and is updated annually. Additionally, ETHD adopted a strategic plan on May 15, 2013, in which the District outlined its planning priorities.

[4] Forty one percent of healthcare districts in California do not operate a hospital, and the vast majority of those are exclusively engaged in grantmaking.

All special districts are required to submit annual audits to the County within 12 months of the completion of the fiscal year, unless the Board of Supervisors has approved a biennial or five-year schedule.[5] In the case of ETHD, the District must submit audits annually. ETHD has submitted its audit to the County for FY 10-11 within the required 12 month period.

GROWTH AND POPULATION PROJECTIONS

This section discusses the factors affecting service demand, such as land uses, and historical and anticipated population growth.

Land Use

ETHD's boundary area is approximately 130.6 square miles. The City of San Leandro and the City of Hayward are land use authorities for their respective cities; Alameda County is the land use authority for the unincorporated areas of Castro Valley and San Lorenzo. ETHD's land uses encompass all land use designations within the cities of San Leandro and Hayward; residential, commercial and light industrial in the San Lorenzo area; and residential and open space in Castro Valley.

Existing Population

As of 2010, the population of the area in ETHD was 360,113. Its population density—2,757 residents per square mile—is significantly higher than the countywide density of 1,840 people per square mile.

Projected Growth and Development

Based on Association of Bay Area Governments (ABAG) growth projections and ETHD's estimated 2010 Census population, the population of the area within the District is anticipated to reach 437,897 by 2035, with an average annual growth rate of 0.5 percent.[6] Per ABAG population projections, the rate of growth in ETHD is expected to be 22 percent, while the entire County is anticipated to grow by 27 percent.

ETHD reported that growth patterns have not been affecting service demand in the last few years. Limited growth is anticipated within the ETHD boundary area in the next several years; however, no formal projections were made by the District.

[5] Government Code §26909.

[6] Association of Bay Area Governments, Projections 2009, August 2009.

Planned and proposed developments within the cities of Hayward and San Leandro that may impact the growth potential of ETHD are discussed in detail in the City of Hayward MSR and the City of Leandro MSR. ETHD's service area is relatively urbanized and substantially built out, though there are opportunities for infill development and redevelopment. The unincorporated Castro Valley area is mostly built out as well, and limited growth is anticipated. 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.[7]

FINANCING

The financial ability of agencies to provide services is affected by available financing sources and financing constraints. This section discusses the major financing constraints faced by ETHD and identifies the revenue sources currently available to the District.

ETHD reported that current financial levels were adequate to deliver grantmaking and medical office rental services. ETHD reported that in FY 10-11, the District had reduced operating costs due to renegotiating property management at its Dublin Gateway Center.

Revenues

In FY 10-11, ETHD's revenues totaled $4.4 million, which consisted of operating (83 percent) and non-operating (17 percent) revenue sources. A majority of the operating revenue came from rental income. Non-operating revenue included interest income and change in fair value of investments.[8] ETHD receives no property taxes, special taxes or benefit assessments.

Revenues for FYs 11-12 and 12-13 were $4.1 million and $5 million respectively. The District's revenues in FY 12-13 increased due to increase in rental income.

During the 2004 MSR process, ETHD's only source of revenue was investment income. Since that time, the District has acquired rental properties. At the end of FY 10-11, three rental properties—San Leandro Medical Arts Building (acquired in July 2004), Lake Chabot Road Building (acquired in October 2004, but subsequently replaced by a newly constructed Eden Medical Building in 2012) and Dublin Gateway Center (acquired in June 2007)—generated $3.2 million. Most of the rental income is derived from the Dublin Gateway Center (73 percent), with 24 percent coming from the San Leandro Medical Arts Building and three percent from the Eden Medical Building. The proportion of rental

[7] Castro Valley Area and Eden Area General Plans and San Lorenzo Specific Plan.

[8] ETHD invests money in treasury bonds, corporate bonds and government securities. Depending on the economy, there is a positive or negative change in value of investments every year.

income from the Eden Medical Building is anticipated to rise substantially due to higher rents and increasing occupancy in the newly constructed building.

Expenditures

Total expenditures in FY 10-11 were $9.6 million, of which over 84 percent were operating expenditures and 16 percent were considered non-operating expenditures. The most significant operating expenses were depreciation of the medical buildings (48 percent of all operating expenses), purchased services (24 percent), and rental property operation and maintenance (15 percent). Other expenses were taxes, grants to service providers and community organizations, and amortization of loan and legal fees associated with the refinancing of the Dublin Gateway loan. Non-operating expenses consisted entirely of interest expense on the loan.

Expenditures for FYs 11-12 and 12-13 amounted to $19.9 million and $8.5 respectively. A single $17 million non-operating expense in FY 11-12 was attributed to the write off of San Leandro Hospital and related recognized loss. The District's FY 11-12 operating expenses were low due to $6 million cancellation in grants. The grants written off were $5,000,000 for the development of Eden Medical Center's Neuroscience Center and $1,000,000 for the Women's Health Services Department, which were not requested. Money was set aside and recorded as grants in anticipation of receiving applications; however, applications had never been received and the grants were canceled due to the expiration of the statute of limitations on government contracts.

For FY 10-11, the Board of Directors voted to temporarily suspend grants to offset legal expenses associated with the dispute with Sutter Health over the closure of San Leandro Hospital.

On August 1, 2011 the District made a $3 million loan to St. Rose Hospital to fund St. Rose's operating expenses. St. Rose Hospital is an independent hospital located in Hayward that has experienced significant operating losses. The promissory note from St. Rose was due, with unpaid accrued interest, within 90 days and had an interest rate of 3.25 percent plus the prime rate. Currently, the loan is partially repaid but is still outstanding. As of October 2012 the balance was $1.150 million plus accrued interest from July 1st, 2012.

In FY 10-11, the District's investment in capital assets totaled $94,774,617.

At the end of FY 10-11 total expenditures exceeded total revenues by over $5 million. The operating loss was $4.4 million. The loss was mostly attributed to money spent in litigation with Sutter Health and rental fees for temporary offices. Expenditures are expected to go down since the litigation has concluded and ETHD no longer rents office space since the construction of the Eden Medical Building has been completed.

At the end of FYs 11-12 and 12-13 total expenditures exceeded total revenues by $15.8 million and $3.5 million respectively. The operating gain for FY 11-12 was $2.8 million and operating loss for FY 12-13 was $2.3 million.

Liabilities and Assets

At the end of FY 10-11, the District had an outstanding balance of $48,202,398 on a bank loan. The original bank loan was obtained during FY 06-07 as partial financing for the purchase of the Dublin Gateway property. Since then the original loan was modified six times to increase the line of credit and change the terms of repayment. The latest 2013 modification reduced the District's debt to $44.9 million.

ETHD makes annual mortgage payments for each its three rental properties. Figure 1-3 depicts the buildings owned by the District, their purchase price, current value, total mortgage, and annual mortgage payments.

Figure 1-3: ETHD Properties

Building	San Leandro Medical Arts Building	Eden Medical Building	Dublin Gateway Building
Purchase date	**July 1, 2004**	**September 1, 2013**	**June 1, 2007**
Purchase/construction price	$3,170,473	$7,163,231	$82,000,000
Current value	**$4,500,000**	**$6,500,000**	**$45,000,000**
Total mortgage	$2,806,000	$6,896,397	$35,214,969
Annual mortgage payment	$109,752.12	$209,944.68	$1,072,814.64

In addition, as a result of the legal dispute between ETHD and Sutter Health, the arbitrator awarded damages to Sutter Health in the amount of $17,179,860. The District's status as a public entity shields it from any attempts from a third party, including a court of law, from seizing assets or otherwise compelling divestiture to satisfy a claim. Based on legal precedent, ETHD will likely have as long as 12 years to pay off the award. The District expects to continue to pursue its strategic goals, while meeting its obligations to Sutter Health.

At the end of FY 12-13, ETHD's total unrestricted net assets amounted to $10 million, which constituted about 18 months of operating expenditures.

Financing Efficiencies

ETHD does not participate in any joint financing mechanisms with other agencies.

2. MUNICIPAL SERVICES

HEALTHCARE SERVICES

Service Overview

ETHD was originally formed to finance, construct and operate Eden Hospital. The District owned and operated the hospital until 1986, when it acquired Laurel Grove Hospital and the two hospitals were integrated to create Eden Medical Center (EMC). In 1994, in response to the damage caused by the Northridge earthquake, the legislature passed SB 1953, a seismic safety law that required hospitals to meet stricter seismic safety standards. An estimated retrofit cost of $200-300 million resulted in ETHD's decision to affiliate with a larger partner to finance the replacement facility.

In 1998, ETHD transferred substantially all of the net operating assets and operations of the hospital to Sutter Health, a California nonprofit corporation. The 11 member board overseeing EMC consisted of the District's five elected board members, five community members appointed by Sutter Health and the Hospital's Chief Executive Officer.

In 2004, ETHD purchased San Leandro Hospital and leased it to Sutter Health. The lease agreement required Sutter Health to replace Eden Medical Center or pay ETHD $260 million to replace it. In 2006, Sutter Health informed ETHD that the cost of the replacement hospital had exceeded $400 million and it was no longer justifiable. ETHD and Sutter Health entered lengthy negotiations. Part of the negotiated agreement was the District's agreement to relinquish its place on the EMC board six months after the replacement hospital construction commenced. The replacement hospital would be constructed entirely at Sutter Health's expense, not to exceed $300 million. Another part of the agreement was that Sutter Health obtained an option to buy San Leandro Hospital.

The construction of the replacement hospital began in July 2009 and the District's board members resigned from the EMC's board in January 2010. In the fall of 2009, Sutter Health exercised its option to purchase San Leandro Hospital. ETHD, fearing that Sutter Health intended to close San Leandro Hospital, did not consent to the transfer of ownership. Sutter Health sued in court, which resulted in trial judgment against ETHD. ETHD appealed and lost in the California Court of Appeals. The District's final attempt to stop the sale of San Leandro Hospital to Sutter Health was its appeal to the Supreme Court of California. The Supreme Court refused to hear the case.

Currently, ETHD does not operate any hospital nor is it affiliated with EMC. The District administers a community grant fund. Grant funds are distributed to nonprofits and government agencies providing healthcare, food, legal service, and other support services to low-income people in the District's service area. Members of the Board carefully evaluate every application and make their grant selections twice annually in open session during their scheduled Board meeting. In addition, ETHD owns three rental properties that are leased out to doctors and clinics.

Demand for Services

The District distributes grant funds to community organizations for activities related to the health and wellbeing of residents within the District's boundaries. ETHD identifies community needs using information and data from Alameda County and local area hospitals including Eden Medical Center.

ETHD has given grants to over 60 organizations over the last 14 years for a total of more than $8.6 million to promote the health of the community. Figure 1-4 provides details about grants given in the last three grant cycles.

Figure 1-4: ETHD Grants Given 2010-2013[9]

1st Half 2010		
Grant Amount	**Name**	**Program/Project Name**
$ 5,000.00	Family Emergency Shelter Coalition	*Physical and Emotional Awareness for Children Who Are Homeless Program*
$ 41,000.00	SOS Meals on Wheels	*Maximizing Meals on Wheels Delivery to Homebound Seniors*
$ 30,000.00	Tri-City Health Center	*Mensajeros (Messengers) Program*
$ 10,000.00	Alzheimer's Services of the East Bay	*Dementia Specific Adult Day Health Care*
$ 40,000.00	Cal State East Bay Foundation	*Community Focused, Strength Based Interventions for Children & Families Conquering Adversities*
$ 5,000.00	Eden Medical Center Foundation	*Women's Breast Health Demonstration Project*
$ 75,000.00	Alameda County WIC Program	*Eden Township Area - Healthy Babies for Life*
$ 30,000.00	Emergency Shelter Program	*Community Health Outreach and Shelter Services for Women & Children*
$ 30,000.00	Cornerstone, dba Bldg. Futures With Women & Children	*Healthcare & Housing for Eden Area Women & Children*
$ 500,000.00	Davis Street Family Resource Center	*Campaign to Purchase the Davis Street Family Resource Center Building*
$ 766,000.00	SUBTOTAL	
2nd Half 2010		
Grant Amount	**Name**	**Program/Project Name**
$ 1,000.00	CVHS PTSA Sober Grad Cruise 2010	*Sober Grad Cruise 2010*
$ 20,000.00	Magnolia Women's Recovery Program, Inc.	*Magnolia Therapeutic Child Care & Clinical Services*
$ 2,500.00	Mammography Screening of Alameda, Inc.	*Take Charge with Bodyworks*
$ 25,000.00	La Familia Counseling Service	*La Familia Family Resource Center, Family Awareness Advocates*
$ 3,000.00	East Bay Innovations	*Oral Health Access Project*
$ 25,000.00	San Leandro Unified School District	*The Toolbox Intervention Project*
$ 15,000.00	Eden I & R, Inc.	*24-Hour Health & Social Service Telephone Line, Alameda County 2-1-1*
$ 13,000.00	Mercy Brown Bag Program, Inc.	*Mercy Brown Bag Program/Hayward Senior Center Site*
$ 10,000.00	East Bay Agency For Children	*Child Assault Prevention Training Center: Eden Area Prevention & Mental Health Project*
$ 15,000.00	CALICO Center	*Family Support Services for Abused Children*
$ 20,000.00	Greater H.A.R.D. Ashland Community Center	*Ashland Community Center*
$ 15,000.00	Girls Incorporated of Alameda County	*Bodies in Motion Program*
$ 20,000.00	La Clinica de La Raza, Inc.	*Promoting Health & Wellness for San Lorenzo Youth*
$ 25,000.00	Spectrum Community Services, Inc.	*Preventing Falls Among Seniors in Eden Area*
$ 25,000.00	Alameda County Deputy Sheriff's' Activities League, Inc.	*Youth Leadership & Urban Farming Project*
$ 234,500.00	SUBTOTAL	
Year 2012		
Grant Amount	**Name**	**Program/Project Name**
$25,000.00	Davis Street Family Resource Center	*Davis Street Family Resource Center Eden Wellness Clinic*
$25,000.00	La Clinica de La Raza, Inc.	*San Lorenzo High Health Center: Promoting Healthy Choices Program*
$25,000.00	Tiburcio Vazquez Health Center, Inc.	*TVHC Promotores Eligibility and Enrollment Specialists*
$5,000.00	Eden I & R, Inc.	*2-1-1 Alameda County Health, Housing and Social Service Phone Line*
$5,000.00	Mercy Brown Bag Program	*Mercy Brown Bag Program at Hayward Senior Center Site*
$5,000.00	Cornerstone, dba Building Future with Women & Children	*Shelter and Health Services for Eden Women and Children*
$5,000.00	Spectrum Community Services	*Increasing Capacity to Prevent Falls in At-Risk Eden Seniors*
$5,000.00	Tri City Health Center	*Mensajeros (Messengers) Program*
$1,500,000.00	County of Alameda Healthcare Services Agency	*St. Rose Hospital in Hayward*
$ 1,600,000.00	SUBTOTAL	
$ 2,600,500.00	**TOTAL GRANTS GIVEN FOR 2010 THROUGH 2013**	
$8,367,688.00	**TOTAL AMOUNT OF GRANTS GIVEN SINCE INCEPTION IN 1998 OF COMMUNITY HEALTH FUND GRANTS PROGRAM**	

[9] The grant program was temporarily suspended in 2011, due to unexpected legal expenses that the District incurred in pursuing the lawsuit to keep San Leandro Hospital open.

As of November 2nd, 2013, occupancy rates in the rental properties were: Dublin Gateway Center—72 percent, San Leandro Medical Arts Center—89 percent, and Eden Medical Building—60 percent. Eden Medical Building's occupancy rate has recently increased as two new leases went into effect on the third floor nearly filling that floor.

Infrastructure and Facilities

The District has three rental properties. The San Leandro Medical Arts Building continues to be occupied by long-term tenants. In FY 09-10 the building was reclassified by Building Owners and Managers Association (BOMA) from a "B" class building to a "C" due to some needed improvements.[10] Rents were reduced accordingly. As of the end of FY 10-11 most of the capital expenditures to improve the building's heating, air conditioning and plumbing systems have been completed. ETHD increased rents as a result.

The temporary building at Lake Chabot Road was recently replaced by the new permanent Eden Medical Building. Eden Medical Building also houses the District's administrative offices.

Much of the Dublin Gateway Center was vacant though ETHD has negotiated a lease for most of the first floor, which will increase the revenue by approximately $700,000 per year, and another new tenant has signed a lease which will add another $100,000 in revenues.

The three properties are managed by professional commercial property managers.

Infrastructure Needs or Deficiencies

Most of the major construction in Eden Medical Building and Dublin Gateway Center was recently completed and, as reported by ETHD, there are no current major capital improvement needs. Some of the minor needs include tenant improvements in Eden Medical Building and Dublin Gateway Center, to be paid for by the District.

[10] According to BOMA, Class A office buildings have the "most prestigious buildings competing for premier office users with rents above average for the area." BOMA states that Class A facilities have "high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence." BOMA describes Class B office buildings as those that compete "for a wide range of users with rents in the average range for the area." BOMA states that Class B buildings have "adequate systems" and finishes that "are fair to good for the area," but that the buildings do not compete with Class A buildings for the same prices. According to BOMA Class C buildings are aimed towards "tenants requiring functional space at rents below the average for the area."

Shared Facilities and Regional Collaboration

ETHD shares its resources through grant funding with many community healthcare organizations and hospitals.

ETHD collaborated with other entities, including Alameda County and Washington Township Healthcare District, to try to keep the St. Rose Hospital from closing.

No opportunities for shared facilities were identified. The District will continue to partner with a number of organizations that address regional needs and issues by providing direct funding to them.

Service Adequacy

This section reviews indicators of service adequacy, including rental properties vacancy rates, percentage of funded projects fully delivered, and effective grant management.[11]

With occupancy rates of 89, 72 and 60 percent, as previously mentioned in the Demand for Services section, the three rental properties appear to have enough capacity to satisfy demand for medical office leases in the area. 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.

ETHD reported that of those projects that the District funded through grants, 100 percent of the projects were completed to the satisfaction of ETHD, based upon the District's assessment of each funded project. This high project completion rate is indicative of adequate grant management practices on the part of ETHD, including:

1) internal control systems,
2) pre-grant review,
3) pre-award process,
4) performance management, and
5) result assessment and utilization.

[11] Refer to Appendix A.

3. GOVERNANCE STRUCTURE OPTIONS

Four government structure options, were identified, and are discussed in this section.

The first option is to maintain status quo, in which case ETHD will continue its independent existence, maintain current boundaries and work on fulfilling its strategic goals outlined in the Strategic Plan.

The option of District dissolution was presented as part of the last MSR. Dissolution would involve LAFCo designating a successor agency to take over and operate or wind up the District's assets—grant endowment fund and rental properties.

The District no longer directly operates a hospital nor does it have any control over EMC through the Board of Directors. However, ETHD still plays indirect roles in healthcare.

- **Grantmaking**: ETHD distributes grant funds to community organizations for health care related activities that benefit District residents, including school nurses, health clinics, mental health services, meals on wheels, and other programs.
- **Rental Properties**: ETHD owns three rental properties—Dublin Gateway Center, Eden Medical Building and San Leandro Medical Arts Building, that are leased to doctors and other healthcare providers.

In addition, there is a potential for ETHD to start providing direct services again by buying a hospital or a clinic. ETHD reported that it stood ready to provide needed services directly, if such a need was not already being served well within the District.

A potential advantage to dissolution may also be reduction in direct operating costs and savings related to board stipends and costs of elections.

Because ETHD still supports the provision of healthcare services to its community members dissolution of the agency may not be warranted. Forty one percent of healthcare districts in California do not operate a hospital.[12] Many of them provide grant funding exclusively. Additionally, ETHD states that it would be available to resume providing direct services if an opportunity presents itself. In light of these factors, it seems premature to initiate District dissolution.

[12] Legislative Analyst's Office, *Overview of Healthcare Districts*, 2012, p. 3.

The consolidation of Washington and Eden Township Healthcare Districts was also brought up in the last MSR. These healthcare districts have contiguous boundaries and share some market area in the City of Hayward. Although this option may be possible in the future, neither of the districts is currently interested in or considering consolidation. In addition, the two districts provide different services and integration may not be advantageous to constituents of either district.

Finally, because ETHD owns the Dublin Gateway Center in Dublin, one additional governance option is to include the City of Dublin in the District's boundary. Healthcare providers in Dublin benefit from the availability of rental clinic space, and Dublin residents benefit from having access to healthcare providers in the Dublin Gateway Center. If the Commission believes that the District should annex the City of Dublin, LAFCo may consider adopting a policy encouraging ETHD to annex the City of Dublin.

4. MSR DETERMINATIONS

Growth and Population Projections

- 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.

- 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.

- 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.

Location and Characteristics of Any Disadvantaged Unincorporated Communities Within or Contiguous to the Sphere of Influence

- Based on Census Designated Places, Alameda LAFCo determines that there are no disadvantaged unincorporated communities that meet the basic state-mandated criteria. 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.

Present and Planned Capacity of Public Facilities and Adequacy of Public Services, Including Infrastructure Needs and Deficiencies

- With occupancy rates of 89, 72 and 60 percent in the three ETHD's 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.

- 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.

- 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.

- Infrastructure needs include minor tenant improvements in Eden Medical Building and Dublin Gateway Center.

Financial Ability of Agency to Provide Services

- 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.

- ETHD does not receive any property tax, special tax, or benefit assessment income. Its main source of revenues is rental income from rental properties.

- 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.

- At the end of FY 12-13, ETHD's total unrestricted net assets amounted to $10 million, which constituted about 18 months of operating expenditures. that included salaries and benefits, purchased services, rental property operation and management, grants, and depreciation.

- Current District's long-term debt amounts to $35 million. In addition, ETHD owes Sutter Health $17 million in damages, which are expected to be paid off over the course of 12 years.

Status and Opportunities for Shared Facilities

- ETHD shares its resources through grant funding with various community and healthcare organizations and hospitals.

- ETHD collaborated with other healthcare providers to try to keep St. Rose Hospital from closing.

- No future opportunities for shared facilities were identified.

Accountability for Community Services, Including Governmental Structure and Operational Efficiencies

- 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.

- 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.

- ETHD demonstrated accountability in its cooperation with LAFCo's information requests.

5. SPHERE OF INFLUENCE UPDATE

Existing Sphere of Influence Boundary

ETHD's existing SOI is coterminous with its boundary and includes the City of San Leandro, most of the City of Hayward, and some of the unincorporated areas of Castro Valley and San Lorenzo.

SOI Options

Three options were identified with respect to ETHD's SOI.

Option #1 – Include City of Dublin into ETHD SOI

ETHD has rental medical properties in the City of Dublin and already provides services there. Should the Commission want to reflect the District's current service area, inclusion of the City of Dublin into the SOI is appropriate.

Option #2 – Maintain coterminous SOI

Should the Commission wish to continue to reflect the existing District boundary, then a coterminous SOI would be appropriate.

Option #3 – Adopt Zero SOI

If the Commission believes that the agency should be dissolved or consolidated because it does not provide direct healthcare services, adopting a zero SOI is appropriate.

Recommended Sphere of Influence Boundary

While the District no longer owns and operates a hospital, ETHD continues to impact the health status of its residents. It provides grant funding to healthcare organizations that serve District residents. Additionally, the District now leases office space to doctors and clinics that service District residents. The ETHD also indicates that it would be willing to provide direct services again in the future; for example, it would consider purchasing and operating a hospital or clinic. Considering these factors, it is premature to dissolve ETHD.

Retaining a coterminous sphere of influence may not be recommended due to changes in the service area since the last MSR. Since ETHD currently provides services in the City of Dublin and benefits city residents, it is recommended that the Commission consider Option 1 to expand the ETHD SOI to include the City of Dublin.

Proposed Sphere of Influence Determinations

Nature, location, extent, functions, and classes of services provided

- Eden Township Healthcare District (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.

Present and planned land uses, 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.

Present and probable need for public facilities and services

- 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.

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.

<u>Existence of any social or economic communities of interest</u>

- 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.

APPENDIX A

BEST MANAGEMENT PRACTICES FOR GRANT GIVERS

Internal Control Systems

1. Prepare department-wide policies and make available on the internet:
   Having regulations and internal operating procedures in place prior to awarding grants enables agencies to set clear expectations. Policies serve as guidelines for ensuring that new grant programs include provisions for holding awarding organizations and grantees accountable for properly using funds and achieving agreed-upon results. Although different programs may need different procedures, general policies should be established that all programs must follow.
   Both large and small agencies and foundations have found that establishing department-wide policies and procedures on an internet site is beneficial.
   The website also provides applicants with one location for finding detailed information about funding opportunities, applications, forms, submission dates, awarded grants, and grant policies.
2. Providing grant management training to staff and grantees:
   Agencies are responsible for ensuring that staff is properly trained to fulfill grant requirements. It is essential that grantees also receive training, particularly small entities not familiar with all of the regulations and policies.
3. Working with grantees to develop performance measures:
   It is imperative that grantors and grantees determine how best to measure performance to meet all parties' needs. If there are no common measures, each grantee may establish its own individual program goals and measures. By working with grantees, the agency can encourage the creation and maintenance of a learning environment.

Pre-Grant Review

1. Assess the managerial competence and fiscal accountability of the prospective grantee:
   - Are the grantee institution and project director(s) capable of carrying out the work described in the proposal?
   - Are systems in place to ensure that grant funds will be managed within the terms and conditions of the grant agreement?
   - Is the organization functioning without the threat of liquidation in the foreseeable future with an established governance structure and good management systems, financial systems and staff? Organizations that are not well established may be seen as too risky. Alternatively, agencies may provide grants to these organizations with the explicit goal of assisting them to become established.
   - Is there evidence of mismanagement or fraud and abuse in the organization's recent history?
   - Is the organization's legal status current?

2. Review the proposal and budget for internal consistency and for compliance with agency's policies:
   - Is the proposed budget appropriate and sufficient for carrying out the project?
   - Does the plan need to be adjusted to reflect effort or materials necessary to carry out tasks?

- ❖ Is sufficient justification provided for the budget line items, and does it support the work plan laid out in the proposal?
- ❖ Are cost assumptions in accordance with the agency's policies?
- ❖ Does the budget include overhead/indirect cost? If so, could the organization find another source for this cost?

3. Encourage outside reviews of the proposed activity:
   - ❖ When appropriate, obtain reviews of the proposed activity by outside experts or other donors in the field. These reviews can evaluate the rationale for the request, the appropriateness of the approach, the soundness of the methodology, the suitability of the budget or of the proposed grant recipient, and project leadership.
   - ❖ Has the grantee organization or project director substantially been in compliance with the requirements and conditions of its previous or currently active grants? Or are there indicators for concern, such as consistently and unreasonably late or inaccurate narrative reports; extremely late, questionable or inaccurate financial reports; or a failure to obtain approvals required by the existing grant agreements?

<u>Pre-award Process</u>

1. Preparing work plans to provide framework for grant accountability:
   The work plan serves as a written record of what the grantee will do with funds. Through the work plan, the awarding agency and grantee ensure a clear understanding of the intended purpose and results for the grant funds. Agencies need to take specific actions to obtain information from applicants and evaluate the information when preparing the grant award.
2. Including clear terms and conditions in grant award documents:
   The terms, conditions, and provisions in the award agreement, if well designed, can render all parties more accountable for the award. When award documents are not well written, they can impact an agency's ability to ensure funds are used as intended.

<u>Managing performance</u>

1. Monitoring the financial status of grants:
   The timely receipt of financial records and reports from grantees is necessary for agencies to effectively monitor the financial status of grants. Ineffective grant monitoring increases the risk of improper payments and untimely grant expenditures. It may also result in the misuse or waste of funds. One way agencies have addressed this issue is by developing systems that make information on the financial status of grants readily available to staff. Also, agencies have addressed the issue through on-site reviews.
2. Ensuring results through performance monitoring:
   Monitoring grantee performance helps ensure that grant goals are reached and required deliverables completed. In addition, monitoring performance can address potential problems early in the grant period and keep grantees on course toward goals. A grants management system and site visits allow agencies to effectively monitor grants by providing timely and accessible information on grant performance and deliverables. Given the limited resources and the number of grants awarded, it is important that agencies identify, prioritize, and manage potential at-risk recipients. Some agencies monitor grants through telephone monitoring or regular status reports and end-of-the-project reports.
3. Using audits to provide valuable information about grantees:

Agencies can use internal and external audits of grantees to identify problems with grantee financial management and program operations. Awareness of problems allows grant officials to implement additional controls to effectively monitor a grantee's use of funds and activities.

4. Monitoring sub-recipients:
Grantees may further distribute funds to other organizations, known as sub-recipients. Sub-recipients, many of which are small organizations, often lack experience and training in grants management. It is important that recipients identify, prioritize, and manage potential at-risk sub-recipients to ensure that grant goals are reached and resources properly used.

Assessing and Using results

1. Providing evidence of program success:
Measuring the results of a program can provide evidence of its successful performance against goals and objectives. Program results information is important for making budgetary and programmatic decisions. Program managers can use program results information to defend their programs against budgetary challenges and make decisions on resource allocation. One challenge in obtaining information on results is that results can take time to develop and cannot be measured during a grant's life. A second challenge is that agencies may not have direct access to information on program results, and will need to obtain that information through grantees that may lack data collection skills.
2. Identifying ways to improve program performance:
Evaluation results can reveal approaches that help to achieve program goals and objectives, as well as illustrate ineffective approaches. Also, evaluations can help clarify which effects are attributable to a program, identify reasons for success or failure, and recommend changes that can help a program achieve its goals and objectives.