



**DATE:** October 18, 2016  
**TO:** Mayor and City Council  
**FROM:** City Manager

**SUBJECT**

Resolution in Support of Efforts to Dissolve Eden Healthcare District

**RECOMMENDATION**

That Council approves the attached Resolution in support of the dissolution of the Eden Healthcare District.

**SUMMARY**

In June, the Council approved a resolution authorizing the City Manager to make an application to the Alameda County Local Agency Formation Commission (LAFCo) asking the Commission to consider the dissolution of Eden Healthcare District (EHD). Formed by vote in 1948, the original purpose of the Eden Healthcare District (then the Eden Township Healthcare District) was to build and operate Eden Hospital in Castro Valley to serve residents of the City of Hayward, the City of San Leandro, and the communities of San Lorenzo, Ashland, Cherryland, Fairview, and Castro Valley. The District built and operated Eden Medical Center until the 1990s, when strict seismic safety requirements proved cost prohibitive and the District partnered with Sutter Health to run the medical center. After the District acquired San Leandro Hospital in 2004 and leased the facility to Sutter Health, a renegotiation of the original agreement gave Sutter the option to buy the hospital. When Sutter attempted to exercise this option to purchase San Leandro Hospital in 2009, the District refused to transfer ownership until compelled to do so in court. As a result, the District owes Sutter a \$19 million settlement and no longer owns or operates a hospital.

The district currently owns and rents two medical office buildings and provides grants to health-related programs and organizations in the community. According to an Alameda County Grand Jury report, EHD spends 88% of its budget on real estate, administration, legal, and consulting fees, while 12% is allocated for grant awards. Two East Bay Assemblymembers introduced bills this past year addressing the relatively small proportion of the District's budget allocated to grants, and the District's continued existence without a hospital. A 2012 survey commissioned by the District revealed that the majority of residents in the District didn't know that it existed. Dissolving the District would have a minimal, if any, impact on residents, and would allow District resources to be more efficiently allocated to agencies and organizations providing effective direct healthcare services to residents.

## **BACKGROUND**

Formed by vote in 1948, the original purpose of the District was to build and operate Eden Hospital in Castro Valley. The boundary of the District includes the majority of the City of Hayward, the City of San Leandro, and parts of unincorporated Alameda County, including the communities of San Lorenzo, Ashland, Cherryland, Fairview, and Castro Valley, and has remained nearly unchanged since its formation. Property taxes funded EHD's operations, including the purchase of Laurel Grove Hospital and subsequent creation and operation of the Eden Medical Center until 1977, when the district ceased levying taxes.

In 1994, the California State Legislature passed SB 1953, creating the Hospital Seismic Upgrade Program and requiring all hospital buildings to meet stricter seismic safety standards within a 15-20 year timeframe. Faced with spending up to \$300 million to bring Eden Medical Center into compliance with the law, in 1998, EHD negotiated a partnership with Sutter Health, transferring substantially all of the hospital's net operating assets and operations to the non-profit, and establishing an 11-member joint board to govern the medical center.

Eden Healthcare District purchased San Leandro Hospital in 2004 and negotiated a lease agreement for the newly acquired hospital with Sutter Health that required Sutter to retrofit the Eden Medical Center buildings in accordance with the state's seismic safety standards, or pay \$260 million to Eden Healthcare District for their replacement. Two years later, Sutter Health found that replacing the medical center would cost more than \$400 million, and was no longer feasible. Sutter and EHD renegotiated their partnership, resulting in an agreement that relinquished EHD's seats on the Board, required Sutter Health to complete the construction of a replacement facility, and granted Sutter the option to purchase San Leandro Hospital.

In 2009, Sutter began construction on the new medical center and shortly thereafter exercised the purchase option for San Leandro Hospital. EHD became concerned that Sutter intended to close the hospital, and refused to transfer ownership of San Leandro Hospital to Sutter. Sutter sued for breach of contract, and was ultimately victorious in acquiring the hospital and winning a \$19.7 million judgement against EHD.

Today, EHD no longer owns or operates any hospitals. Investments and real estate are the District's main revenue sources. The District owns and leases three medical office buildings in the East Bay – the San Leandro Medical Arts Building, Eden Medical Building, and until recently, Dublin Gateway Center (the latter located outside of District boundaries). Revenue from the lease of these properties funds the administration of the District, debt and settlement payments, maintenance of the properties, and a Community Grant Fund that provides funding to health-related organizations and programs serving residents of the District.

In June, the Council approved a resolution authorizing the City Manager to make an application to the Alameda County Local Agency Formation Commission (LAFCo) asking the Commission to consider the dissolution of the Eden Healthcare District (EHD). This resolution

resulted in the LAFCo embarking on a special study of the healthcare district. The LAFCo is in the process of reviewing the services EHD provides, considering its current and future financial position, and creating a fiscal analysis of governance options for the District, including possible dissolution.

Additionally, on September 6, 2016, the San Leandro City Council adopted a similar resolution supporting efforts to dissolve EHD

(<https://sanleandro.legistar.com/LegislationDetail.aspx?ID=2821609&GUID=81D39CB4-C94D-4DB0-BE6A-19AF834DDB88>).

## **DISCUSSION**

Despite the District's stated mission of investing in health and wellness programs to improve the health of the community, a small proportion of EHD's operating budget is allocated to supporting health-related programs. The District is currently required to make settlement payments to Sutter Health of approximately \$2 million annually for the next eight years. Currently, the District provides grants to health-related community programs and organizations totaling \$500,000 annually. According to an Alameda County Grand Jury report, EHD spends 88% of its budget on real estate, administration, legal, and consulting fees, while 12% is allocated for grant awards.

Acting on a citizen complaint that the District "does not adequately provide for the healthcare needs of its residents" and questioning whether or not the district should exist, the 2015-16 Alameda County Civil Grand Jury found that Eden Healthcare District has failed to effectively execute its mission (<https://www.acgov.org/grandjury/final2015-2016.pdf#page=43> and <https://www.acgov.org/grandjury/final2015-2016.pdf#page=57>). The report charged the District with spending a disproportionate amount of its resources on the oversight and management of its real estate holdings despite the minimal impact these activities have on delivering healthcare services. Additionally, the report found that the District lacks information about the needs of its residents and does not take any steps to address those needs, fails to collaborate with the County Health Care Services Agency, and has no concrete action plan, timeline, funding, or rationale for achieving its stated goals. The Grand Jury ultimately recommended that the electorate be provided an opportunity to vote on the continued existence of the District in the next board election.

This year, two bills were introduced into the State legislature by East Bay lawmakers to address the continued existence of the Eden Healthcare District. AB 2737 (Bonta) requires that healthcare districts that no longer provide direct healthcare services or levy taxes and meet several other criteria must spend at least 80% of their annual budgets on community-based grants to organizations providing direct healthcare services, and no more than 20% of their annual budgets on administrative expenses. AB 2471 (Quirk), currently inactive, would specifically require the Alameda County LAFCo to dissolve EHD if the District does not currently receive a property tax allocation, has substantial net assets, and does not provide a direct healthcare service. Both bills are intended to address the continued existence of Eden Healthcare District in the absence of hospital ownership, lack of direct service provision, and

small proportion of its annual budget dedicated to grantmaking.

As of 2010, the population in the Eden Healthcare District was 360,113. Based on the Association of Bay Area Governments' regional growth projections, the District's population is anticipated to reach 437,897 by 2035. The District's website states that in 2015, 500-700 residents were served by the district – or less than a fifth of one percent of the District's population. In May 2010, the District surveyed residents to learn public perceptions of EHD. They found that 55% of respondents had never heard of the District, and only 18% had a positive opinion of the organization. These figures suggest that the District's work has a minimal impact on the community it serves.

### **FISCAL IMPACT**

The dissolution of Eden Healthcare District would have no direct fiscal impacts on the City. There may be some indirect fiscal impacts to the community if the Agency is dissolved and the assets are distributed to the benefit of the communities within the District's boundaries.

### **NEXT STEPS**

Should the Council adopt this resolution, the City Manager will draft a letter of support for dissolution of the Eden Healthcare District to provide to the Local Agency Formation Commission along with a copy of the adopted Council resolution. The Mayor will also work with the City Manager and other partners in Alameda County to ensure that the any efforts towards dissolution occur in a fair and equitable manner to the benefit of the communities within the EHD boundaries. If Council does not adopt this resolution, staff will take no further action.

*Prepared by:*            Laurel James, Management Analyst

Approved by:



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Kelly McAdoo, City Manager