Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

Finance and Management Committee
Meeting Notice & Agenda

Wednesday, June 1, 2011
RESCHEDULED FROM MAY 25, 2011
7:30 a.m. – 9:00 a.m.
Dal Cielo Conference Room

Office of the Clerk: (510) 814-4001

Members of the public who wish to comment on agenda items will be given an opportunity before or during the consideration of each agenda item. Those wishing to comment must complete a speaker card indicating the agenda item that they wish to address.

I.	Call To Order	Michael McCormick
II.	Action Items	
A.	Acceptance of April 27, 2011 Minutes [enclosure]	Michael McCormick
B.	Recommendation to Accept April 2011 Financial Statements [enclosure]	David Neapolitan
C.	Recommendation to Accept the FY 2012 Operating Budget [enclosure]	Deborah Stebbins
D.	Recommendation to Accept the FY 2012 Capital Budget [enclosure]	David Neapolitan Kerry Easthope
E.	Recommendation to Enter into a Lease Agreement with Legacy Marina Village for Building Lease Located at 815 Atlantic Avenue, Alameda, California for Wound Care Program [enclosure]	Kerry Easthope
III.	Chief Financial Officer's Report	David Neapolitan
A.	Discussion of Inpatient Medi-Cal Contract	
IV.	Administrative Pension Plan Oversight Committee Update	Michael McCormick Deborah Stebbins
V.	Chief Executive Officers Report	Deborah Stebbins
A.	Pension Committee Update [enclosure]	

This is being noticed as a Board Meeting as a quorum of Directors may be present. Ex-officio members and non-committee members cannot vote on any item, whether or not a quorum of the Board is present.

VI. Board / Committee / Staff Comments

VII. Adjournment

Next Meeting Scheduled for: Wednesday, June 29, 2011

This is being noticed as a Board Meeting as a quorum of Directors may be present. Ex-officio members and non-committee members cannot vote on any item, whether or not a quorum of the Board is present.

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

Finance and Management Committee Minutes
April 27, 2011

Members Present:	Mike McCormick, Chair	Ann Evans	Jim Yeh, DO
(Voting)	Robert Deutsch, MD	James Oddie	William Sellman, MD
Management Present:	Deborah E. Stebbins	Kerry J. Easthope	Tony Corica
	David A. Neapolitan	Mary Bond, RN	
Ex Officio/Guests:			
Absent:	Ed Kofman	Jordan Battani	
Submitted by:	Kristen Thorson		

Topic	Discussion	Action / Follow-Up
I. Call to Order	Mike McCormick called the meeting to order at 7:37 a.m. noting that a quorum of voting members was present.	
II. Action Items	A. March 30, 2011	Dr. Deutsch made a motion to accept the minutes as presented. Mr. Oddie seconded the motion. The motion carried.
	B. Recommendation to Accept March 2011 Financial Statements Mr. Neapolitan presented the March 2011 Financial Statements noting the following key points: The average daily census (ADC) was 88.6 versus a budgeted 87.4. Acute ADC 35.0 versus a budgeted 30.9. Sub-Acute ADC was 33.3 versus a budgeted 33.5. South Shore ADC was 20.3 versus a budgeted 23.0. Total gross patient revenue was greater than budget by $890.000 with inpatient programs greater than budget by $1,434,000 or 9.7% and outpatient programs less than budget by $543,000 or 7.0%. Net patient revenue was $298,000 or 5.5% less than budget. Expenses were $148,000 unfavorable to the fixed budget. There was discussion on salary expenses. Management informed the committee that they are taking a hard look at how we staff all departments with an emphasis on the nursing department. On a year-to-date basis we have a profit of $762,000, which included the elimination of the 3rd party liability in the amount of $1,451,000, versus a budgeted profit of $646,000 or a favorable variance of $116,000. However, without the inclusion of this item we would have had a YTD loss of $689,000 or an unfavorable variance of $1.3 million. Cash collections in March were $5.5M versus $5.4M in February. Day's cash on hand improved to 14.1 days cash on hand with $2.6M in cash at month end.	Dr. Deutsch made a recommendation to accept the March Financial Statements as presented. Mr. Kofman seconded the motion. The motion carried.

	C. Recommendation to Accept the FY2012 Volume Assumptions Management presented the FY 2012 volume Assumptions memorandum that was presented at the meeting. The memo will be included in the committee packet posted on the website. Key areas discussed and outlined in the memo included the following: Acute Average Daily Census (ADC) is projected to increase by 4% over census levels in FY 2011. Inpatient surgical volumes have been projected to decline by 4.4% as continued medical management of patient care is anticipated to cause a decline in the number of surgical procedures required through an inpatient stay. The South Shore Skilled Nursing Unit is projected to have an ADC of 22.0, consistent with FY 2011. The Sub-Acute unit is projected to have an ADC of 33.0 consistent with FY 2011. Total outpatient registrations are expected to increase by 2.1% over fiscal year 2011 levels, with increases in radiology and rehabilitation services as well as wound care outpatient volume. Emergency visits are projected flat with an average of 46.0 visits per day, consistent with FY 2011. The Alameda Medical Offices is budgeted to increase visit activity 25% from fiscal year 2011 levels as a result of the addition of a new neurologist and continued efforts to market and promote referrals to the physicians providing services at this location.	The Committee and Management decided that no formal action needed to be taken to accept the FY2012 volume assumptions.
	D. Recommendation to Approve Bank of Alameda Modification of Loan Terms for Wound Care Program The committee discussed the recommendation to approve the Bank of Alameda modification of loan terms for the Wound Care Program. There was some discussion and concern about using the parcel tax as security for the loan, noting that it would be important to be prepared for public comment and that messaging to the community would be important. Other committee members noted that this loan was critical to support a program that would help to sustain the viability of the hospital.	Dr. Deutsch made a motion to recommend approval of the Bank of Alameda Modification of Loan Terms for the Wound Care Program. Mr. Oddie seconded the motion. The motion carried.
	E. Recommendation to Approve Audit Engagement Letter Mr. Neapolitan recommended continuing with TCA Partner's for the FY 2011 Annual Audit. TCA Partners has extensive experience with District hospitals and costs are significantly lower that other bigger audit firms.	Dr. Deutsch made a motion to recommend approval of the audit engagement letter and TCA Partners. Mr. Kofman seconded the motion. The motion carried.
	F. Recommendation to Approve Outsourcing Long-Term Rehabilitation Services through Select Therapies	Discussion and recommendation was deferred by management.
III. Chief Financial Officer's Report	A. AB5 / AB1183 Potential Financial Impact Mr. Neapolitan discussed the financial impact of AB5 and AB 1183 as it relates to the hospital. As a result of the governor signing these two bills, the hospital has received a repayment	No action taken.

	notice for $623,000. The Hospital is working with the state on a repayment plan. This liability has not been reported in the financials as if yet, but will in the April Financial Statements.	
IV. Chief Executive Officer's Report	A. State and Federal Budget and Funding Changes Ms. Stebbins reported that the recent budget changes will profoundly affect the hospital due to SNF / Subacute cuts. Rates will be cut to 2008-2009 levels minus 10%. This will mean an approximate $2 million hit to net revenue to the hospital beginning in fiscal year 2012.	No action taken.
V. Board Committee Staff Comments	No Board / Committee / Staff comments.	
VI. Adjourn-ment	Being no further business, the meeting was adjourned at 9:10 a.m.	

THE CITY OF ALAMEDA HEALTH CARE DISTRICT

ALAMEDA HOSPITAL

UNAUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDING APRIL 30, 2011

CITY OF ALAMEDA HEALTH CARE DISTRICT
ALAMEDA HOSPITAL
APRIL 30, 2011

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ALAMEDA HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
APRIL, 2011

The management of the Alameda Hospital (the "Hospital") has prepared this discussion and analysis in order to provide an overview of the Hospital's performance for the period ending April 30, 2011 in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financials Statements; Management's Discussion and Analysis for State and Local Governments.* The intent of this document is to provide additional information on the Hospital's financial performance as a whole.

Financial Overview as of April, 2011

- For the month of April 2011, combined expense over revenues (loss) is $1,389,000. This loss was driven by a significant decline in April's inpatient case mix index, indication of lower acuity level patients, lower than expected outpatient volumes, an adjustment to the reduce the amount of accrued intergovernmental transfer receivable (discussed further on page 11) and the inclusion of $642,000 of additional contractual allowances related to the settlement of the Medi-Cal fiscal year 2009 cost report (discussed further on page 11).

- For the ten months ended April 30, 2011, combined expense over revenues (loss) is $2,087,000 before the inclusion of $1,451,000 of other non-operating income. This additional other non-operating income, which was recorded in March 2011, was the result of the elimination of a liability that was established in fiscal year 2006. The liability was the result of a dispute over contractual language related to the amounts due under the terms of an insurance contract. After inclusion of the elimination of this liability the year to date expense over revenue (loss) is $636,000 versus budgeted revenue over expenses (profit) of $567,000.

- Gross patient revenue for the month of April was less than budget by $2,155,000 or 10.2%. This unfavorable variance was the result of unfavorable variances of $1,021,000 and $1,134,000 in inpatient and outpatient programs, respectively. On adjusted patient day basis gross patient revenue was 2.4% less than budgeted at $5,180 compared to a budgeted amount of $5,310 for the month of April.

- Total patient days for the month were 2,425 compared to the prior month's total patient days of 2,747 and the prior year's 2,544 total patient days. The average daily acute care census was 27.5 compared to a budget of 28.8 and an actual average daily census of 35.0 in the prior month; the average daily Sub-Acute census was 32.4 versus a budget of 33.5 and 33.3 in the prior month and the Skilled Nursing program had an average daily census of 21.0 versus a budget of 23.0 and prior month census of 20.3, respectively.

- Emergency Care Center (ECC) visits were 1,382 or 6.0% less than the budgeted 1,470 visits and were only 30 visits or 1.4% less than the prior year's visits of 1,402.

- Total surgery cases were greater than budgeted expectations for the month at 202 cases versus the budgeted 182 cases. The current month's surgical volume was 5.2% greater than the same month prior year's 192 cases.

- Outpatient registrations were 12.8% below budgeted targets at 1,996 and at 66.5 visits per day were 6.2% less than the prior month's 70.9 visits per day.

- Combined excess expense over revenues (loss) for April was $1,398,000 versus a budgeted excess of expense over revenues (loss) of $79,000.

Total assets decreased by $1,860,000 from the prior month as a result of a decrease in current assets of $2,086,000, offset by increases in net fixed assets of $215,000 and restricted contributions of $11,000. The following items make up the decrease in current assets:

- Total unrestricted cash and cash equivalents for April increased by $667,000 and days cash on hand including restricted use funds increased to 17.7 days on hand in April from 14.1 days on hand in March.

- Net patient accounts receivable decreased in April by $436,000 compared to a decrease of $429,000 in March. Day's in outstanding receivables increased slightly to 58.6 at April 30, 2011 from 58.5 at March 31, 2011. Collections in April totaled $4.4 million compared to $5.5 million in March. This decrease in collections was the result of the State's processing of the normal weekly payment on Thursday, March 31, 2011 rather than the normal Monday processing that would have occurred on Monday, April, 1, 2011. This was done by the State to take advantage of the higher Federal Matching percentage that expired on March 31, 2011 and resulted in the inclusion of $332,000 in our March collections.

- Other receivables decreased by $2,242,000 as a result of the receipt of the April installment of parcel tax revenues that were collected by the county as of April 10, 2011 and remitted to the hospital on April 15th.

Total liabilities decreased by $473,000 compared to a decrease of $662,000 in the prior month. This decrease in the current month was the result of the following:

- Payroll related accruals decreased by $850,000 from the prior month primarily as a result of twelve fewer days of accrued payroll being required at the end of April.

- Deferred revenues decreased by $478,000 as a result of the amortization of one-twelfth of the annual parcel tax revenues for the 2011 fiscal year.

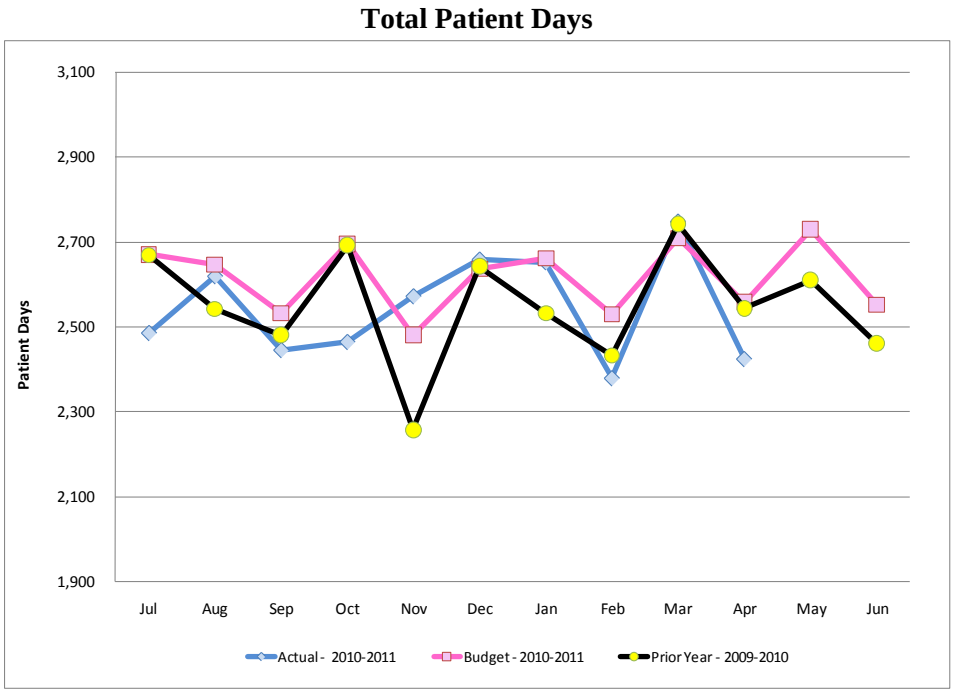
- Estimated third party payables increased by $642,000 in April as a result of the fiscal year 2009 Medi-Cal cost report settlement. This increased liability was caused by the State of California's application of AB 5 and AB 1183 to non-contracted hospitals. These bills were passed as measures to help with the States budgetary shortfalls and arbitrarily reduced allowable hospital costs.

- Long term debt decreased by $37,000 as a result of the monthly payment of the principle portion of the note payable to the Bank of Alameda.

Volumes

The combined actual daily census was 80.8 versus a budget of 85.3 or an unfavorable variance of 5.2%. The current month's overall unfavorable variance from the budgeted census was the result of average daily census that were unfavorable to budget in the acute care areas by 1.3 patients per day or 4.4%. The Sub-Acute and Skilled Nursing programs were also unfavorable to budgeted expectations with average daily census of 32.4 versus the budgeted 33.5 and 21.0 versus the budgeted average daily census of 23.0, respectively.

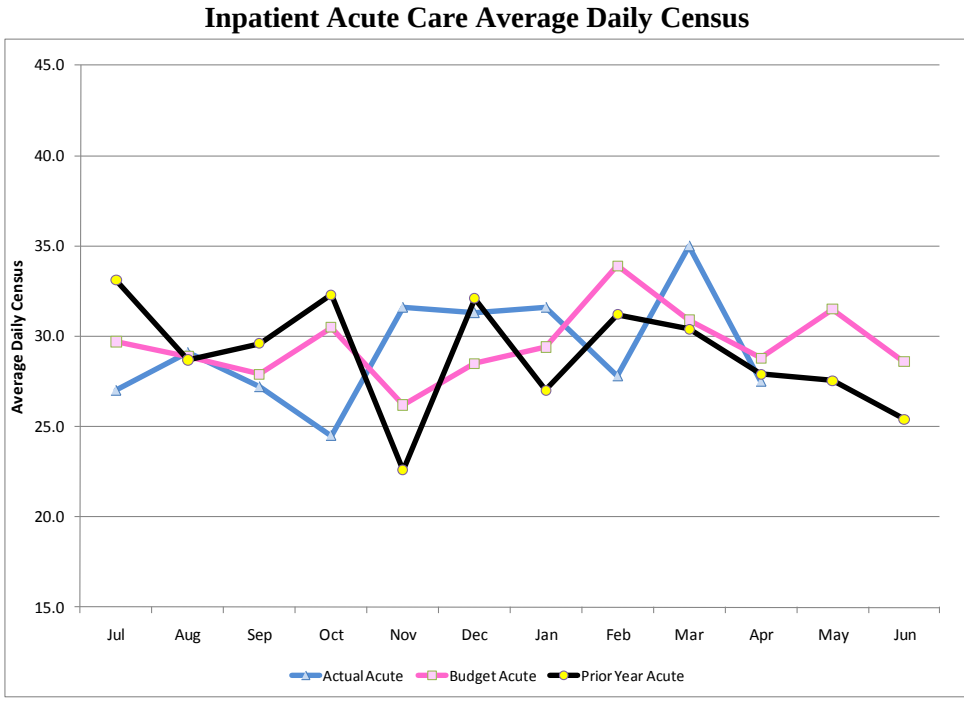
The graph on the following page shows the total patient days by month for fiscal year 2011 compared to the operating budget and fiscal year 2010 actual.



The various components of our inpatient volumes for the month of April are discussed in the following sections.

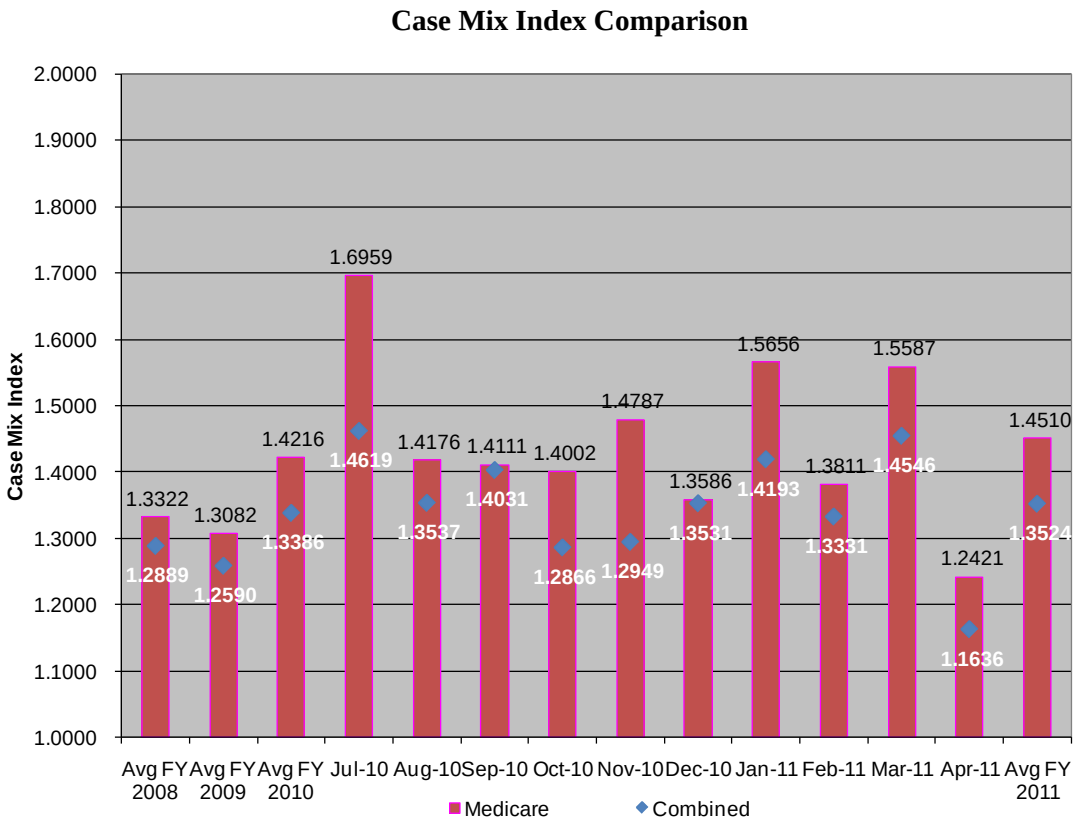
Acute Care

The acute care patient days were 4.4% (38 days) less than budgeted and were 1.3% less than the prior year's average daily census of 27.9 for March. The acute care program is comprised of the Critical Care Unit (3.9 ADC, 25.6% favorable to budget), Definitive Observation Unit (9.2 ADC, 22.0% unfavorable to budget) and Med/Surg Units (14.3 ADC, 3.8% favorable to budget). The graph below shows the inpatient acute care census by month for the current fiscal year, the operating budget and prior fiscal year actual.



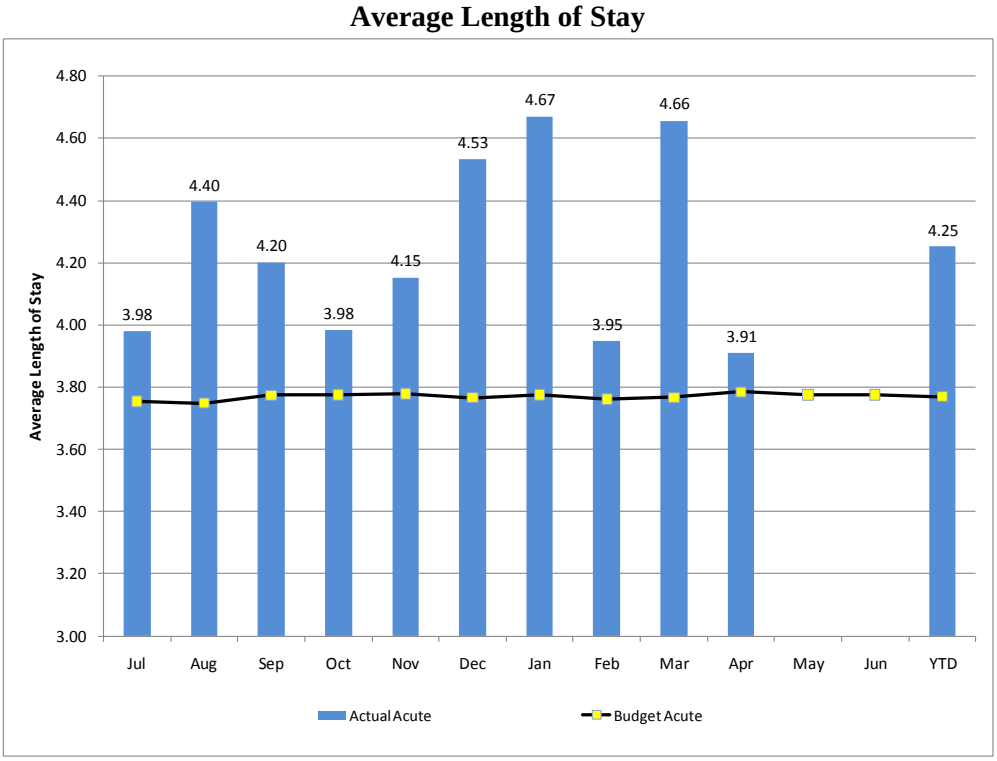
Case Mix Index

The hospitals overall Case Mix Index (CMI) decreased to 1.1636 from 1.4546 in the prior month and the Medicare CMI decreased over the prior month from 1.5587 in March to 1.2421 in April. In April there was one (1) outlier case. The graph below shows the CMI for the hospital during the current fiscal year as compared to the prior three fiscal years.



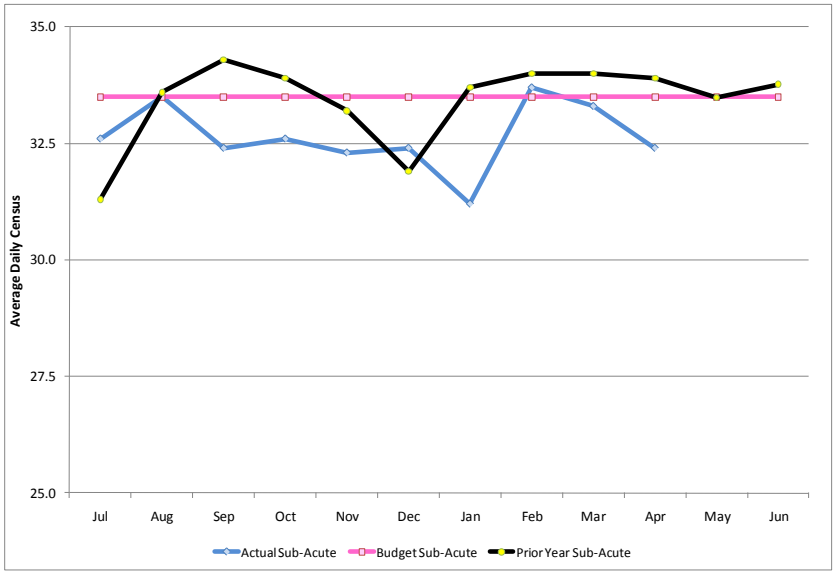
Average Length of Stay

The average length of stay (ALOS) decreased from that of the prior month to 3.91 days for the month of April bringing the year-to-date average to 4.25 versus the budgeted FY 2011 average of 3.77. The graph on the following page shows the ALOS by month and the budgeted ALOS for fiscal year 2011.



Sub-Acute Care

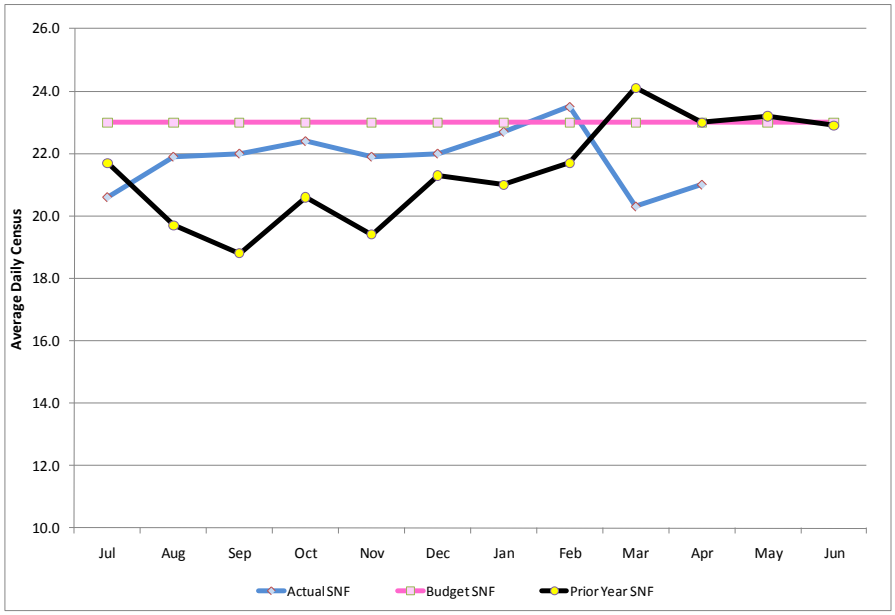
The Sub-Acute program patient days were less than budgeted projections with an average daily census of 32.4 for the month of April which was budgeted for an average daily census of 33.5. The graph below shows the Sub-Acute programs average daily census for the current fiscal year as compared to budget and the prior year.



Skilled Nursing Care

The Skilled Nursing Unit (South Shore) patient days were 8.8% or 61 patient days less than budgeted for the month of April. Comparing performance to the prior year this programs volume remains slightly greater than the prior year's performance for the ten months of fiscal year 2011 that has had an average daily census of 21.8 versus 21.1 in fiscal year 2010. The following graph shows the Skilled Nursing Unit monthly average daily census as compared to budget and the prior year.

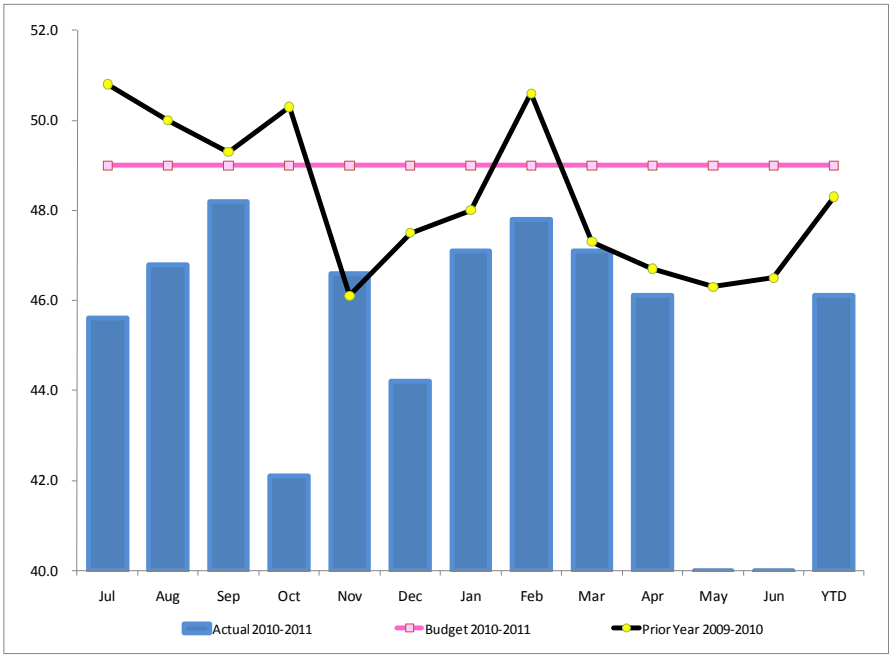
Skilled Nursing Unit Average Daily Census



Emergency Care Center (ECC)

Emergency Care Center visits in April totaled 1,382 and were 6.0% or only 88 visits less than budgeted for the month with 15.0% of these visits resulting in inpatient admissions versus 16.2% in March. In April there were 256 ambulance arrivals versus 318 in the prior month, on a per day basis this represents a decrease of 19.5% over the prior month daily average. Of the 256 ambulance arrivals in the current month 152 or 59.4% were from Alameda Fire Department (AFD) ambulances. The graph on the following page shows the Emergency Care Centers average visits per day for fiscal year 2011 as compared to budget and the prior year performance.

Emergency Care Center Visits per Day

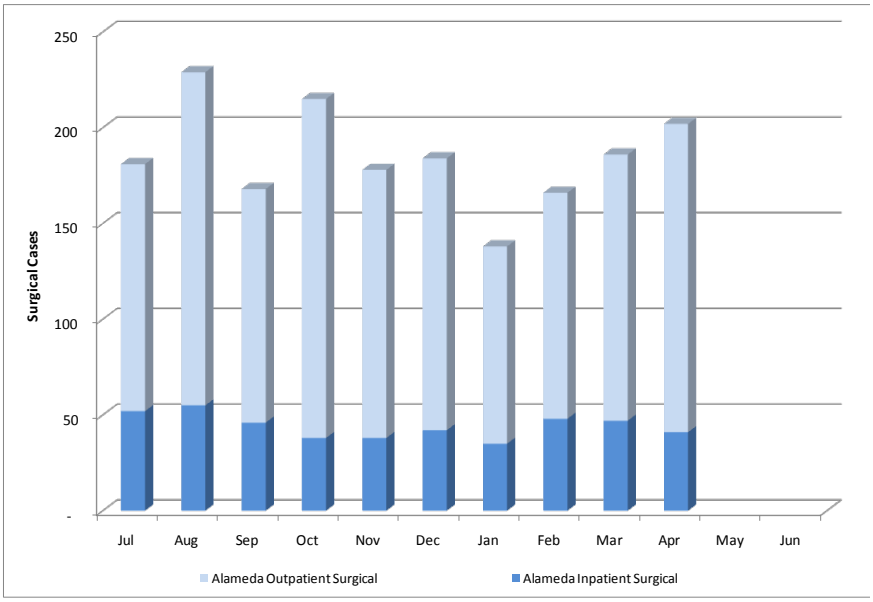


Surgery

Surgery cases were 202 versus the 182 budgeted cases and 192 cases in the prior year. In April, surgery cases increased over the prior month by 8.6%. The increase of 16 cases over the prior month was the result of an increase of 20 outpatient cases. Inpatient and outpatient cases totaled 41 and 161 versus 47 and 139 in April and March, respectively. The increase in cases from the prior month was driven by increases in Gastrointestinal (26), Ophthalmology (7) and Podiatry (6) cases offset by *decreases* in Orthopedic (9), General (7) Gynecology (6) and Cardiology (4) cases.

The graph below shows the number of inpatient and outpatient surgical cases by month for fiscal year 2011.

Surgical Cases

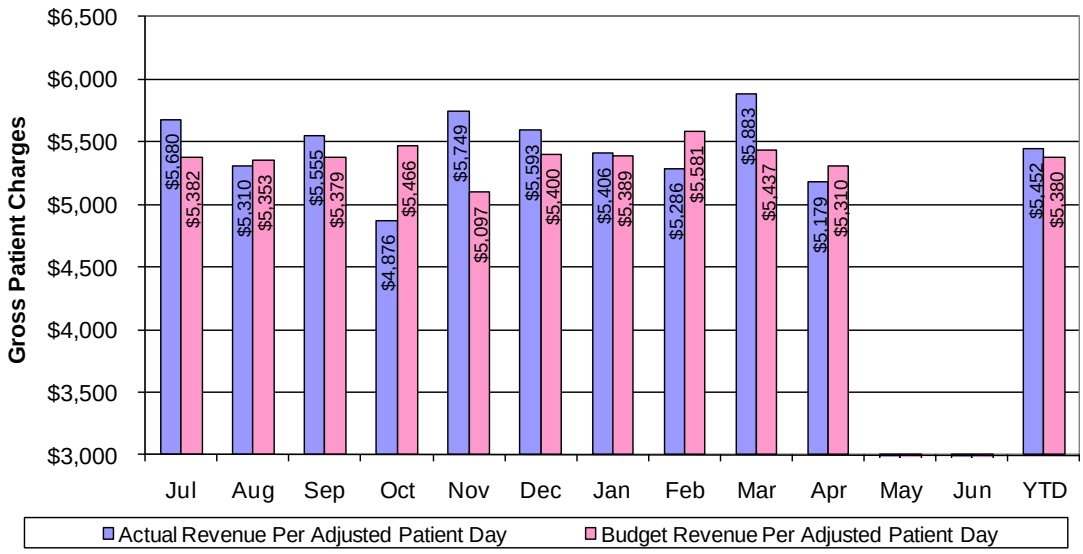


Income Statement

Gross Patient Charges

Gross patient charges in April were less than budgeted by $2,155,000. This unfavorable variance was comprised of unfavorable variances of $1,021,000 and $1,134,000 in inpatient and outpatient revenues, respectively. The decrease in inpatient gross revenues was primarily driven by lower patient census in all inpatient programs coupled with a significant decline in acute inpatient acuity levels. Outpatient revenues were lower than budgeted as a result of the delayed opening of the Wound Care program ($480,000), which now has a planned January 2012 opening, lower than expected emergency room visits ($216,000), surgical volumes that while greater than budget resulted in lower than budgeted revenues ($229,000) due to the mix of surgical cases and lower than budgeted laboratory activity ($137,000). On an adjusted patient day basis total patient revenue was $5,180 versus the budgeted $5,310 for the month of April. The following table shows the hospitals monthly gross revenue per adjusted patient day by month and year-to-date for fiscal year 2011 compared to budget.

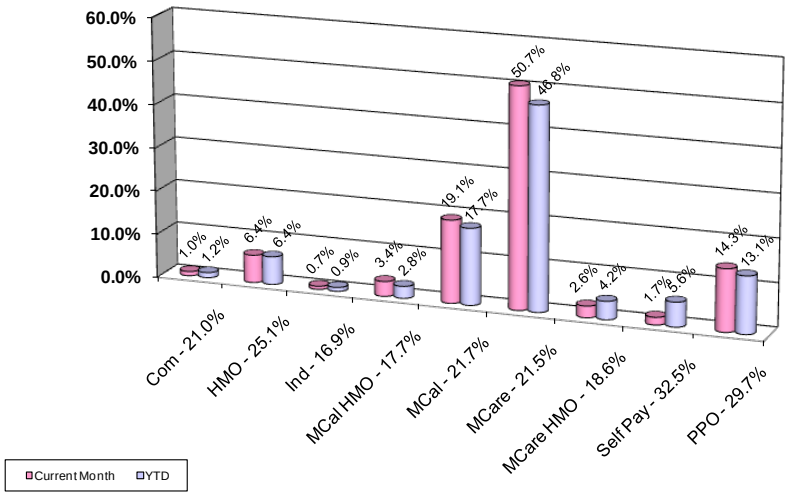
Gross Charges per Adjusted Patient Day



Payor Mix

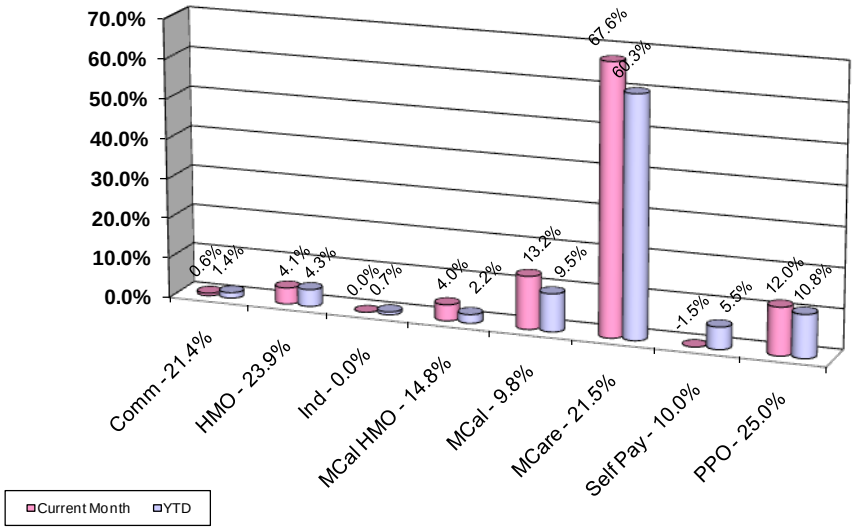
Combined acute care services, inpatient and outpatient, Medicare and Medicare Advantage total gross revenue in April made up 53.3% of the months total gross patient revenue. Combined Medicare revenue was followed by Medi-Cal Traditional and Medi-Cal HMO utilization at 22.5%, HMO/PPO utilization at 20.7 and self pay at 1.7%. The graph on the following page shows the percentage of gross revenues generated by each of the major payors for the current month and fiscal year to date as well as the current months estimated reimbursement for each payor for the combined inpatient and outpatient acute care services.

Combined Acute Care Services Payor Mix



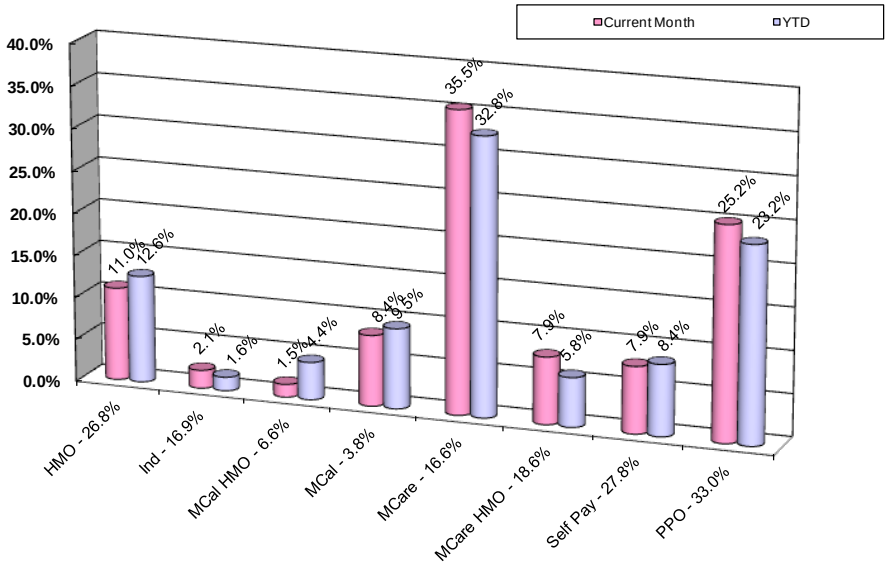
The inpatient acute care current month gross Medicare and Medicare Advantage charges made up 67.6% of our total inpatient acute care gross revenues followed by Medi-Cal and Medi-Cal HMO at 17.2, HMO/PPO at 16.1%, and Self Pay at 1.5% of the inpatient acute care revenue. As a result of the decline in acuity levels and the current month's payor mix the overall net inpatient revenue percentage decreased from the prior month to 20.3% in April versus 21.7% in March. Similarly, as a result of the decline in Medicare case mix index, the estimated Medicare reimbursement decreased to 21.5% in April versus 23.6% in March. The graph on the following page shows inpatient acute care current month and year to date payor mix and current month estimated net revenue percentages for fiscal year 2011.

Inpatient Acute Care Payor Mix



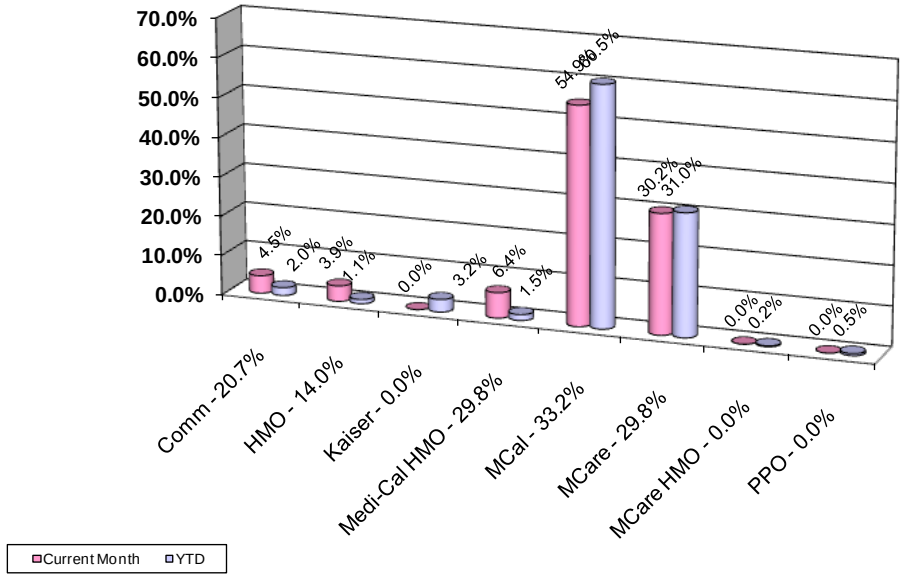
The outpatient gross revenue payor mix for April was comprised of 43.2% Medicare and Medicare Advantage, 36.2% HMO/PPO, 9.9% Medi-Cal and Medi-Cal HMO, and 7.9% self pay. The graph on the following page shows the current month and fiscal year to date outpatient payor mix and the current months estimated level of reimbursement for each payor.

Outpatient Services Payor Mix



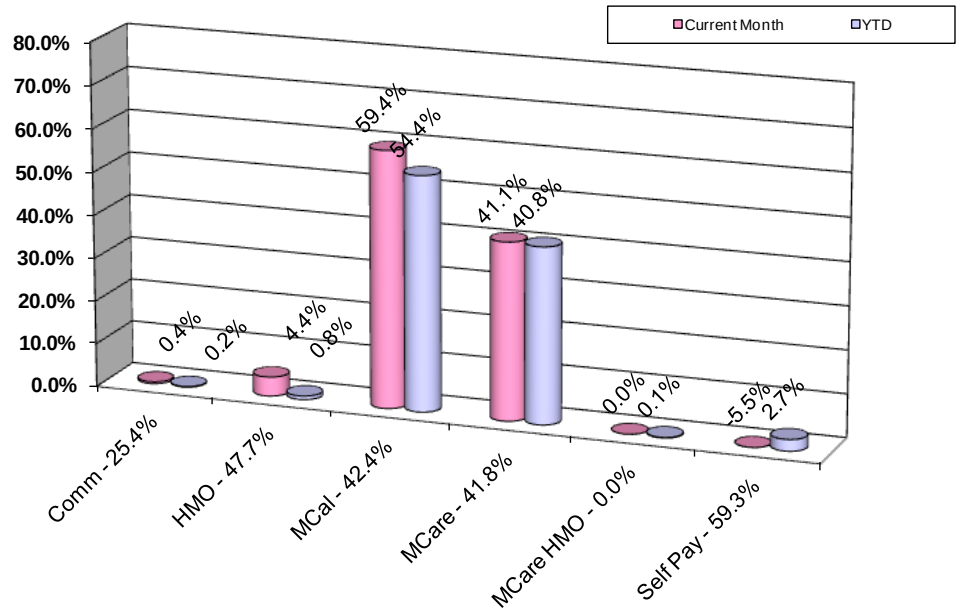
In April, the Sub-Acute care program again was dominated by Medi-Cal utilization of 54.9% versus 58.4% in March. The graph on the following page shows the payor mix for the current month and fiscal year to date and the current months estimated reimbursement rate for each payor.

Inpatient Sub-Acute Care Payor Mix



In April, the Skilled Nursing program was again comprised primarily of Medi-Cal at 59.4% and Medicare at 41.1%. The graph below shows the current month and fiscal year to date skilled nursing payor mix and the current months estimated level of reimbursement for each payor.

Inpatient Skilled Nursing Payor Mix



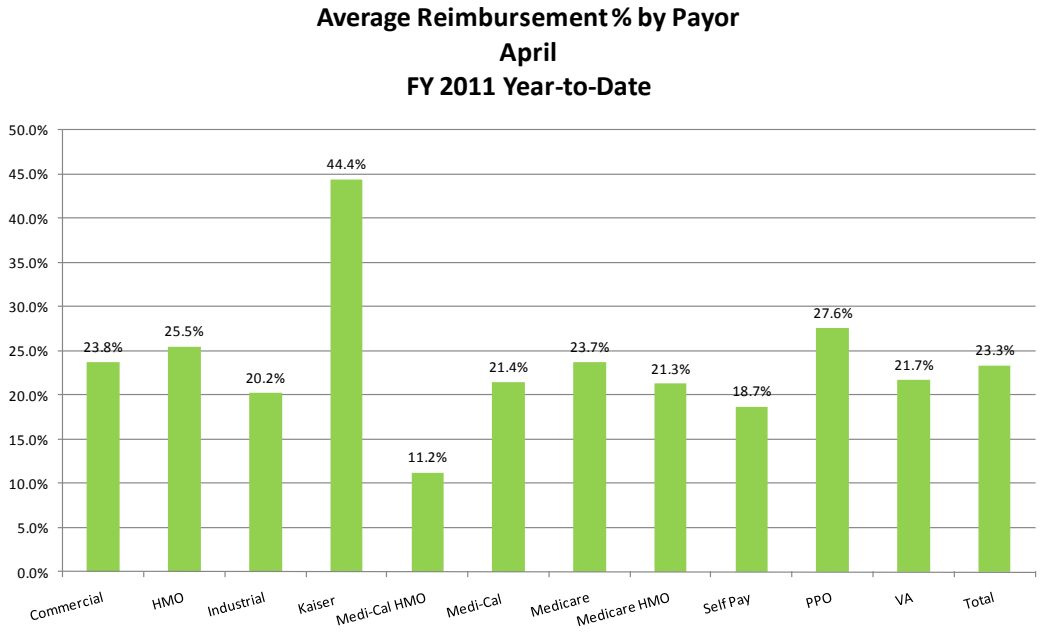
Deductions from Revenue

Contractual allowances are computed as deductions from gross patient revenues based on the difference between gross patient charges and the contractually agreed upon rates of reimbursement with third party government-based programs such as Medicare, Medi-Cal and other third party payors such as Blue Cross. In the month of April contractual allowances, bad debt and charity adjustments (as a percentage of gross patient charges) were 80.3% versus the budgeted 75.8%. A major factor causing the increase in this percentage was the inclusion of a cost report settlement for FY 2009 in the amount of $642,000. This settlement was the result of the State of California's inclusion of reductions to allowable costs resulting from the implementation of AB 5 and AB 1183.

Net Patient Service Revenue

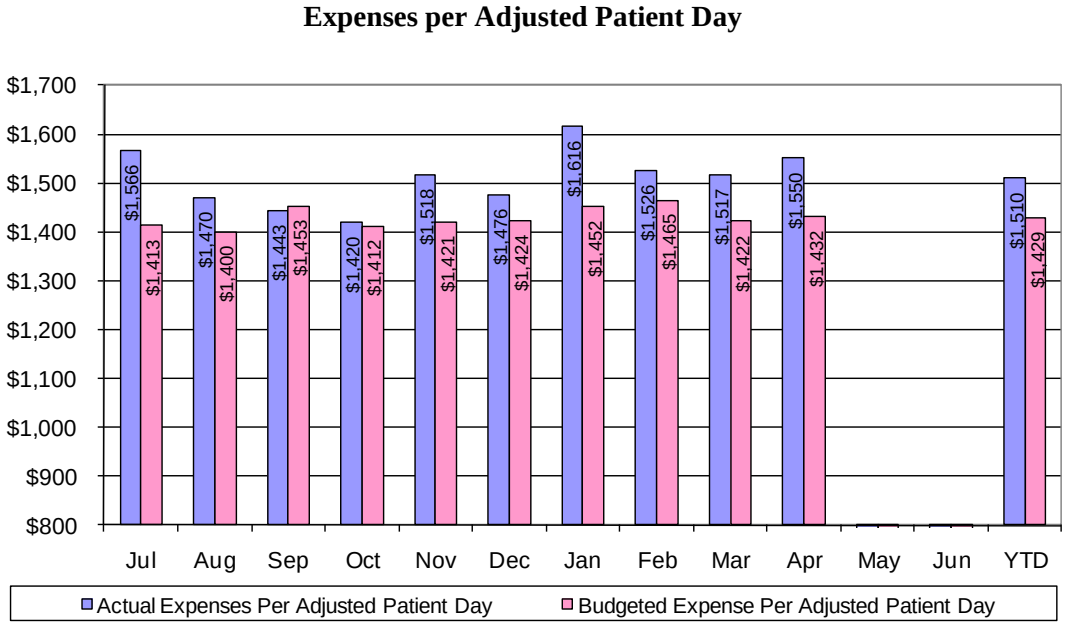
Net patient service revenues are the resulting difference between gross patient charges and the deductions from revenue. This difference reflects what the anticipated cash payments the Hospital is expecting to receive for the services provided. In addition, included in the year to date net patient service revenue are the estimated amounts to be received from participation in the State of California's FY 2011 Intergovernmental Transfer (IGT) Program, $180,000 per month and $1,083,000 for the six month ended December 31, 2010. As a result of the inclusion of all forty-six (46) California district hospitals in the fiscal year 2011 IGT program and finalization of amounts that will be received by each of these Hospitals an additional reduction of $102,000 will be included each month over the remainder of fiscal year 2011. This reduction will result in an adjusted amount to be received of $776,000 for fiscal year 2011. It is anticipated that this amount will be received before June 30, 2011.

The graph below on the following page shows the level of reimbursement that the Hospital has estimated for fiscal year 2011 by major payor category.



Total Operating Expenses

Total operating expenses were less than the fixed budget by $20,000 or 0.4%. On an adjusted patient day basis, our cost per adjusted patient day was $1,551 which was $118 per adjusted patient day unfavorable to budget. This variance in expenses per adjusted patient day was primarily the result of an unfavorable variance in salaries and temporary agency costs of $104 per adjusted patient day. The graph below shows the actual hospital operating expenses on an adjusted patient day basis for the 2011 fiscal year by month as compared to budget and is followed by explanations of the significant areas of variance that were experienced in the current month.

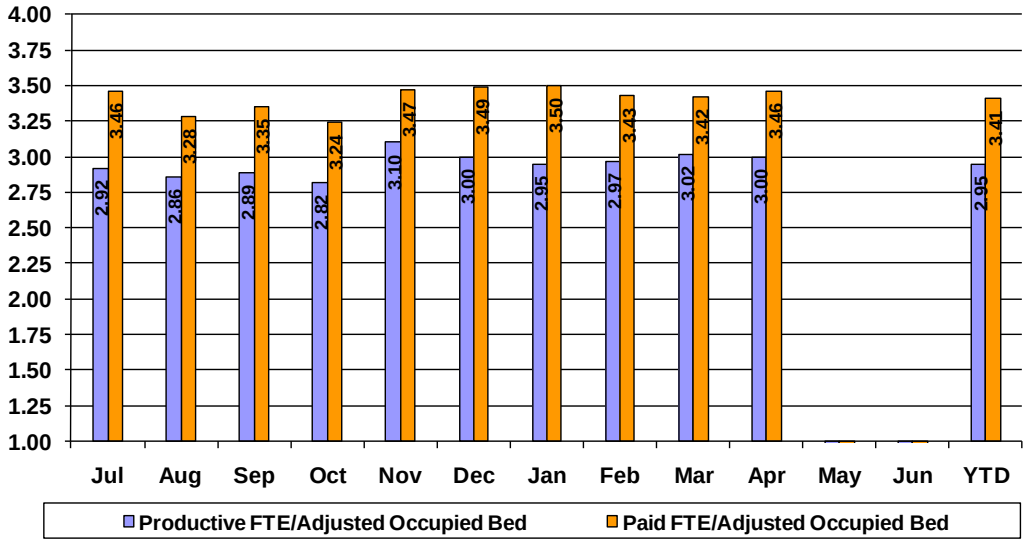


Salary and Temporary Agency Expenses

Salary and temporary agency costs combined were unfavorable to the fixed budget by $143,000 and were unfavorable to budgeted levels on a per adjusted patient day basis by $104 or 20.7%. This unfavorable variance

was the result of unfavorable variances in salary costs of $98,000 and greater than budgeted temporary agency utilization in several hospital departments of $45,000. On an adjusted occupied bed basis, productive FTE's were unfavorable to budget by 7.5% at 3.04 FTE's versus the budgeted 2.83 FTE's. The graph below shows the productive and paid FTE's per adjusted occupied bed for FY 2011 by month.

FTE's per Adjusted Occupied Bed



Benefits

Benefits were favorable to the fixed budget by $24,000 or 2.6%. This favorable variance was primarily the result of lower than budget workers compensation insurance costs of $25,000.

Supplies

Supplies were favorable to budget by $64,000 or $3 per adjusted patient day in April. This favorable variance was the result of lower than budgeted medical supplies expense of $50,000 and non-medical supplies expense of $13,000. The favorable medical supplies expense was primarily the result of lower than budgeted expenses for infusion therapy medications.

Purchased Services

Purchased services were favorable to budget by $65,000 or $10 per adjusted patient day for the month. This favorable variance was primarily the result of lower than budgeted purchased medical services related to adjustments to our contract for MRI services which will lower our monthly expense by $3,000 per month and was retroactive back to February 2011 ($13,000) and other purchased services ($45,000) and was the result of the adjustment of accrued liabilities for unemployment insurance costs that had been over accrued during the course of the fiscal year.

Rents and Leases

Rents and leases were $25,000 favorable to the fixed budget and $4 per adjusted patient day favorable to budget for the month of April. This favorable variance was primarily the result of lower than budgeted rental expense related to the PACS and Digital Radiology upgrade project ($21,000). This project will not be completed until the end of the third quarter of calendar 2011 due to Office of Statewide Health Planning delays.

Other Operating Expenses

Other operating expenses were greater than budgeted by $35,000. This unfavorable variance was the result of several factors including the following:

- Recruitment expenses exceeded budget by $14,000 as a result of a recruitment of a staff member into the Information Technology department that will support various Meditech applications.
- The other expense category exceeded budget by $20,000 as a result of a correction to materials inventory that was incorrectly increased in March. The correction recorded in April, adjusted this inventory account to its proper value.

Action Items

The management team has implemented several initiatives to respond to the unfavorable financial performance. In addition, there are many initiatives that are in process and will be implemented over the next months. Most of these initiatives are also part of the Fiscal Year 2012 budget that will be presented separately.

Initiatives that have been implemented include:

- We have implemented mandatory closure of most support departments on eight major holidays as well as two "non-holiday" closure days during the next fiscal year (beginning Memorial Day 2011). Essential support departments will staff at core staffing levels on these days. Productive salary cost savings are estimated to be $59,000 per year for the two days.

- Mandatory furlough days for the months of June, July and August will be implemented. All non nursing employees will be required to take one PTO or non paid day off per pay period during this period when patient activity is typically slower. Savings are estimated to be $59,000 per month in productive salary expense during these three months.

- Elimination of outside consulting services from Robert Half and Jacobus who provided support for the EMR implementation and IT department ($68,000 - $80,000 per month). While this will not have an impact on the monthly Statement of Revenues and Expenses this will help with our cash flow.

- Reduction in the use of approximately 8.4 Certified Nursing Assistants (CNA's) on nursing units resulting in savings of $30,000 per month, while still complying with state staffing guidelines.

- Negotiation of a new service agreement with Alliance Imaging who provides mobile MRI service, resulting in a reduction in fees of $4,000 per month.

- Reduction in scope of service and coverage limits for GE Biomedical Service support, resulting in an expense reduction of about $4,100 per month.

- Reduced stacked parking service to 11:00 am to 4:00 pm. Monthly savings are $3,000 (60 day notice given).

- Reduced security guard coverage to night shift only, seven days a week resulting in savings of $6,250 per month.

- Memberships deemed to not be of a benefit to the ongoing operations of the organization will be cancelled or not renewed. These include memberships with: Aging Services of California, Association of California Hospital Districts, Advisory Board and the Governance Institute for monthly savings of $6,250. Some of the annual fees for these memberships have been prepaid and as such savings will be realized over the next fiscal year.

The annual impact of the above cost reduction initiatives that will affect the Statement of Revenues and Expenses is about $879,000 per year or an average of $73,266 per month, plus $445,000 cash flow savings associated with the discontinuation of the IT consulting firms.

Initiatives that are in process:

- Expansion of the number of sub acute beds by twelve beds. A letter has been sent to representatives at the California Department of Health Services expressing our interest and the need to expand sub acute capacity at Alameda Hospital. In addition, a meeting is scheduled for May 31st with medical staff and clinical staff leadership to discuss this potential opportunity.

- Management, together with representatives from the California Hospital Association, have spoken with regional representatives from CMS, and will be meeting with CMS in Baltimore MD on June 2nd, to provide information and data to support the rejection of the State's request under AB 97 (Medi-Cal D/P SNF & Sub Acute reimbursement reductions).

- Proposal to terminate our inpatient Medi-Cal contract.

- Progressive steps to expand our operational presence in skilled nursing within the District.

- Many other operational and staffing changes that are part of the FY 2012 Operating.

The following pages include the detailed financial statements for the ten (10) months ended April 30, 2011, of fiscal year 2011.

ALAMEDA HOSPITAL
KEY STATISTICS
APRIL 2011

	ACTUAL APRIL 2011	CURRENT FIXED BUDGET	VARIANCE (UNDER) OVER	%	APRIL 2010	YTD APRIL 2011	YTD FIXED BUDGET	VARIANCE	%	YTD APRIL 2010
Discharges:										
Total Acute	211	228	(17)	-7.5%	217	2,093	2,374	(281)	-11.8%	2,386
Total Sub-Acute	1	1	-	0.0%	1	19	15	4	26.7%	12
Total Skilled Nursing	14	12	2	16.7%	6	93	122	(29)	-23.8%	102
	226	241	(15)	-6.2%	224	2,205	2,511	(306)	-12.2%	2,500
Patient Days:										
Total Acute	825	863	(38)	-4.4%	836	8,899	8,947	(48)	-0.5%	8,963
Total Sub-Acute	971	1,005	(34)	-3.4%	1,018	9,917	10,184	(267)	-2.6%	10,145
Total Skilled Nursing	629	690	(61)	-8.8%	690	6,634	6,992	(358)	-5.1%	6,428
	2,425	2,558	(133)	-5.2%	2,544	25,450	26,123	(673)	-2.6%	25,536
Average Length of Stay										
Total Acute	3.91	3.79	0.12	3.3%	3.85	4.25	3.77	0.48	12.8%	3.76
Average Daily Census										
Total Acute	27.50	28.77	(1.27)	-4.4%	27.87	29.27	29.43	(0.16)	-0.5%	29.48
Total Sub-Acute	32.37	33.50	(1.13)	-3.4%	33.93	32.62	33.50	(0.88)	-2.6%	33.37
Total Skilled Nursing	20.97	23.00	(2.03)	-8.8%	23.00	21.82	23.00	(1.18)	-5.1%	21.14
	80.83	85.27	(4.43)	-5.2%	84.80	83.72	85.93	(1.04)	-1.2%	84.00
Emergency Room Visits	1,382	1,470	(88)	-6.0%	1,402	14,022	14,899	(877)	-5.9%	14,792
Outpatient Registrations	1,996	2,289	(293)	-12.8%	1,954	19,877	22,271	(2,394)	-10.7%	25,032
Surgery Cases:										
Inpatient	41	43	(2)	-4.7%	44	442	493	(51)	-10.3%	585
Outpatient	161	139	22	15.8%	148	1,405	1,409	(4)	-0.3%	3,986
	202	182	20	11.0%	192	1,847	1,902	(55)	-2.9%	4,571
Kaiser Inpatient Cases	-	-	-	-	-	-	-	-	-	91
Kaiser Eye Cases	-	-	-	-	-	-	-	-	-	1,461
Kaiser Outpatient Cases	-	-	-	-	-	-	-	-	-	1,417
Total Kaiser Cases	-	-	-	-	-	-	-	-	-	2,969
% Kaiser Cases	0.0%	0.0%			0.0%	0.0%	0.0%			65.0%
Adjusted Occupied Bed	120.18	130.29	10.11	7.8%	124.98	124.24	120.64	3.60	3.0%	144.70
Productive FTE	365.20	368.40	3.20	0.9%	369.56	368.33	367.65	(0.68)	-0.2%	391.46
Total FTE	421.72	419.35	(2.37)	-0.6%	426.03	425.11	418.35	(6.76)	-1.6%	447.28
Productive FTE/Adj. Occ. Bed	3.04	2.83	(0.21)	-7.5%	2.96	2.96	3.05	0.08	2.7%	2.71
Total FTE/ Adj. Occ. Bed	3.51	3.22	(0.29)	-9.0%	3.41	3.42	3.47	0.05	1.3%	3.09

City of Alameda Health Care District
Statements of Financial Position
April 30, 2011

	Current Month	Prior Month	Prior Year End
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 2,423,796	$ 1,756,993	$ 3,480,668
Patient Accounts Receivable, net	9,656,474	10,092,275	9,558,147
Other Receivables	2,164,043	4,406,065	6,654,035
Third-Party Payer Settlement Receivables	604,885	581,670	374,557
Inventories	1,157,875	1,158,531	1,149,706
Prepaids and Other	295,478	393,075	453,872
Total Current Assets	16,302,551	18,388,609	21,670,985
Assets Limited as to Use, net	579,225	567,899	476,630
Property, Plant and Equipment, net	8,027,889	7,813,368	6,993,735
Total Assets	**$ 24,909,665**	**$ 26,769,876**	**$ 29,141,350**
Liabilities and Net Assets			
Current Liabilities:			
Current Portion of Long Term Debt	$ 416,000	$ 416,000	$ 450,831
Accounts Payable and Accrued Expenses	7,198,801	6,948,676	6,112,296
Payroll Related Accruals	4,259,003	5,109,484	4,351,133
Deferred Revenue	956,656	1,434,503	5,736,951
Employee Health Related Accruals	554,371	554,371	645,750
Third-Party Payer Settlement Payable	999,297	357,474	500,000
Total Current Liabilities	14,384,128	14,820,508	17,796,961
Long Term Debt, net	894,001	931,024	1,236,831
Total Liabilities	15,278,129	15,751,532	19,033,792
Net Assets:			
Unrestricted	8,924,735	10,322,869	9,560,928
Temporarily Restricted	706,801	695,475	546,630
Total Net Assets	9,631,536	11,018,344	10,107,558
Total Liabilities and Net Assets	**$ 24,909,665**	**$ 26,769,876**	**$ 29,141,350**

City of Alameda Health Care District

Statements of Operations

April 30, 2011

$'s in thousands

	Current Month					Year-to-Date				
	Actual	Budget	$ Variance	% Variance	Prior Year	Actual	Budget	$ Variance	% Variance	Prior Year
Patient Days	2,425	2,558	(133)	-5.2%	2,544	25,450	26,123	(673)	-2.6%	25,536
Discharges	226	242	(16)	-6.6%	224	2,205	2,510	(305)	-12.2%	2,499
ALOS (Average Length of Stay)	10.73	10.57	0.16	1.5%	11.36	11.54	10.41	1.13	10.9%	10.22
ADC (Average Daily Census)	80.8	85.3	(4.43)	-5.2%	84.8	84	85.9	(2.21)	-2.6%	84.0
CMI (Case Mix Index)	1.1636				1.3926	1.3524				1.3266
Revenues										
Gross Inpatient Revenues	$ 12,561	$ 13,582	$ (1,021)	-7.5%	$ 13,509	$ 138,884	$ 140,554	$ (1,671)	-1.2%	$ 139,323
Gross Outpatient Revenues	6,379	7,486	(1,106)	-14.8%	6,384	67,462	72,030	(4,567)	-6.3%	100,604
Total Gross Revenues	18,940	21,067	(2,127)	-10.1%	19,894	206,346	212,584	(6,238)	-2.9%	239,926
Contractual Deductions	14,463	15,220	757	5.0%	14,327	148,620	152,942	4,322	2.8%	178,277
Bad Debts	707	617	(90)	-14.6%	437	6,551	6,333	(218)	-3.4%	5,256
Charity and Other Adjustments	35	154	120	77.6%	112	1,481	1,584	103	6.5%	639
Net Patient Revenues	3,737	5,077	(1,340)	-26.4%	5,018	49,693	51,726	(2,032)	-3.9%	55,753
Net Patient Revenue %	19.7%	24.1%			25.2%	24.1%	24.3%			23.2%
Net Clinic Revenue	36	28	8	28.4%	17	339	279	60	21.4%	111
Other Operating Revenue	11	14	(3)	-19.5%	(3)	102	138	(36)	-26.1%	417
Net Assets Released	-	-	-	0.0%	-	-	-	-	0.0%	-
Total Revenues	**3,784**	**5,118**	**(1,335)**	-26.1%	**5,031**	**50,134**	**52,143**	**(2,009)**	-3.9%	**56,282**
Expenses										
Salaries	2,891	2,792	(98)	-3.5%	2,903	29,647	28,216	(1,431)	-5.1%	31,408
Temporary Agency	211	167	(45)	-26.7%	168	2,087	1,714	(373)	-21.8%	1,719
Benefits	897	921	24	2.6%	927	8,152	8,906	754	8.5%	9,453
Professional Fees	354	371	17	4.6%	248	3,069	3,317	248	7.5%	2,935
Supplies	616	679	64	9.4%	768	7,205	6,973	(232)	-3.3%	8,455
Purchased Services	326	391	65	16.7%	383	3,657	3,883	227	5.8%	3,866
Rents and Leases	85	110	25	22.6%	96	702	853	151	17.7%	714
Utilities and Telephone	64	71	7	9.2%	73	630	717	87	12.1%	709
Insurance	33	36	3	7.0%	45	318	358	40	11.1%	444
Depreciation and amortization	79	73	(6)	-8.2%	78	798	730	(67)	-9.2%	974
Other Opertaing Expenses	115	80	(35)	-43.1%	78	878	817	(61)	-7.5%	808
Total Expenses	**5,670**	**5,691**	**20**	0.4%	**5,767**	**57,142**	**56,484**	**(658)**	-1.2%	**61,486**
Operating gain (loss)	**(1,887)**	**(572)**	**(1,314)**	-229.6%	**(736)**	**(7,008)**	**(4,341)**	**(2,667)**	61.4%	**(5,204)**
Non-Operating Income / (Expense)										
Parcel Taxes	482	479	3	0.6%	478	4,789	4,795	(7)	-0.1%	4,792
Investment Income	1	-	1	0.0%	2	10	-	10	0.0%	22
Interest Expense	(16)	(8)	(8)	-99.3%	(8)	(96)	(109)	12	-11.3%	(84)
Other Income / (Expense)	22	22	(1)	-2.9%	23	1,670	222	1,448	652.7%	228
Net Non-Operating Income / (Expense)	**488**	**493**	**(5)**	**-1.0%**	**496**	**6,372**	**4,908**	**1,464**	**29.8%**	**4,959**
Excess of Revenues Over Expenses	**$ (1,398)**	**$ (79)**	**$ (1,319)**	**1666.8%**	**$ (240)**	**$ (636)**	**$ 567**	**$ (1,203)**	**-212.2%**	**$ (245)**

City of Alameda Health Care District

Statements of Operations - Per Adjusted Patient Day

April 30, 2011

	Current Month					Year-to-Date				
	Actual	Budget	$ Variance	% Variance	Prior Year	Actual	Budget	$ Variance	% Variance	Prior Year
Revenues										
Gross Inpatient Revenues	$ 3,435	$ 3,423	$ 12	0.4%	$ 3,606	$ 3,673	$ 3,557	$ 116	3.2%	$ 3,168
Gross Outpatient Revenues	1,745	1,887	(142)	-7.5%	1,704	1,784	1,823	(39)	-2.1%	2,288
Total Gross Revenues	5,180	5,310	(130)	-2.4%	5,310	5,457	5,380	77	1.4%	5,456
Contractual Deductions	3,955	3,836	(119)	-3.1%	3,824	3,930	3,871	(60)	-1.5%	4,054
Bad Debts	193	155	(38)	-24.3%	117	173	160	(13)	-8.1%	120
Charity and Other Adjustments	9	39	29	75.7%	30	39	40	1	2.3%	15
Net Patient Revenues	1,022	1,279	(258)	-20.1%	1,339	1,314	1,309	5	0.4%	1,268
Net Patient Revenue %	19.7%	24.1%			25.2%	24.1%	24.3%			23.2%
Net Clinic Revenue	10	7	3	39.3%	4	9	7	2	26.8%	3
Other Operating Revenue	3	3	(0)	-12.7%	(1)	3	4	(1)	-22.8%	9
Total Revenues	**1,035**	**1,290**	**(255)**	-19.8%	**1,343**	**1,326**	**1,320**	**6**	0.5%	**1,280**
Expenses										
Salaries	791	704	(87)	-12.3%	775	784	714	(70)	-9.8%	714
Temporary Agency	58	42	(16)	-37.5%	45	55	43	(12)	-27.2%	39
Benefits	245	232	(13)	-5.7%	248	216	225	10	4.4%	215
Professional Fees	97	93	(3)	-3.6%	66	81	84	3	3.3%	67
Supplies	168	171	3	1.7%	205	191	176	(14)	-8.0%	192
Purchased Services	89	99	10	9.6%	102	97	98	2	1.6%	88
Rents and Leases	23	28	4	16.0%	26	19	22	3	14.0%	16
Utilities and Telephone	18	18	0	1.5%	19	17	18	1	8.2%	16
Insurance	9	9	(0)	-0.9%	12	8	9	1	7.1%	10
Depreciation and Amortization	22	18	(3)	-17.4%	21	21	18	(3)	-14.1%	22
Other Operating Expenses	31	20	(11)	-55.3%	21	23	21	(3)	-12.3%	18
Total Expenses	**1,551**	**1,434**	**(116)**	-8.1%	**1,540**	**1,511**	**1,430**	**(82)**	-5.7%	**1,398**
Operating Gain / (Loss)	**(516)**	**(144)**	**(372)**	-257.7%	**(197)**	**(185)**	**(110)**	**(75)**	68.8%	**(118)**
Non-Operating Income / (Expense)										
Parcel Taxes	132	121	11	9.2%	128	127	121	5	4.3%	109
Investment Income	0	-	0	0.0%	1	0	-	0	0.0%	1
Interest Expense	(4)	(2)	(2)	-116.3%	(2)	(3)	(3)	0	-7.3%	(2)
Other Income / (Expense)	6	6	0	5.4%	6	44	6	39	686.5%	5
Net Non-Operating Income / (Expense)	**134**	**124**	**9**	**7.5%**	**132**	**169**	**124**	**44**	**35.6%**	**113**
Excess of Revenues Over Expenses	**$ (382)**	**$ (20)**	**$ (362)**	1817.2%	**$ (64)**	**$ (17)**	**$ 15**	**$ (31)**	-213.6%	**$ (5)**

City of Alameda Health Care District
Statement of Cash Flows
For the Ten Months Ended April 30, 2011

	Current Month	Year-to-Date
Cash flows from operating activities		
Net Income / (Loss)	$ (1,398,134)	$ (636,192)
Items not requiring the use of cash:		
Depreciation and amortization	78,661	$ 797,810
Write-off of Kaiser liability	-	$ (1,451,597)
Changes in certain assets and liabilities:		
Patient accounts receivable, net	435,801	(98,327)
Other Receivables	2,242,022	4,489,992
Third-Party Payer Settlements Receivable	618,608	268,969
Inventories	656	(8,169)
Prepaids and Other	97,597	158,394
Accounts payable and accrued liabilities	250,125	2,538,102
Payroll Related Accruals	(850,481)	(92,130)
Employee Health Plan Accruals	-	(91,379)
Deferred Revenues	(477,847)	(4,780,295)
Cash provided by (used in) operating activities	997,008	1,095,178
Cash flows from investing activities		
(Increase) Decrease in Assets Limited As to Use	(11,326)	(102,595)
Additions to Property, Plant and Equipment	(293,182)	(1,831,964)
Other	(0)	(1)
Cash provided by (used in) investing activities	(304,508)	(1,934,560)
Cash flows from financing activities		
Net Change in Long-Term Debt	(37,023)	(377,661)
Net Change in Restricted Funds	11,326	160,171
Cash provided by (used in) financing and fundraising activities	(25,697)	(217,490)
Net increase (decrease) in cash and cash equivalents	666,803	(1,056,872)
Cash and cash equivalents at beginning of period	1,756,993	3,480,668
Cash and cash equivalents at end of period	$ 2,423,796	$ 2,423,796

ALAMEDA HOSPITAL
FISCAL YEAR 2012
PROPOSED OPERATING BUDGET NARRATIVE

Prelude:

Attached is the Fiscal Year 2012 Alameda Hospital Operating Budget as prepared by hospital management. Upon approval by the City of Alameda Health Care District Board of Directors, this budget will constitute the spending authority for management for fiscal year 2012. Even though the City of Alameda Health Care District is a governmental agency, this budget should be considered a business plan and projection of what is anticipated for fiscal year 2012 rather than a fixed authority to spend.

The FY 2012 budget was particularly challenging to develop this year because, in addition to recent census and case mix aberrations, we have had to absorb a worst case projected Medi-Cal reimbursement reduction of approximately $2.1 million in long term care reimbursement as a result of AB 97. In addition, following the finalization of acute budget cuts between CHA and Governor Brown's staff, certain injunctions on rate reductions were lifted creating a liability of over $600,000 in State overpayments. While we have been able to negotiate a 24 month re-payment plan for that liability with the State the hospitals cash flow will be significantly impacted during FY 2012.

There are several strategic impact issues and initiatives that have not been built into the base FY 2012 operating budget. These issues and initiatives include:

- **Potential CMS rejection of the reimbursement reductions for distinct part skilled nursing (SNF) and Subacute services that were part of AB 97.** AB 97 was one of the enabling pieces of legislation passed to help balance the State of California budget in exchange for the extension of seismic deadlines and the decision to limit other reductions in acute reimbursement levels. Presently the proposed budget assumes that the reimbursement reductions outlined in AB 97 will be implemented. This amounts to a baseline reduction in net revenue for Alameda Hospital of approximately **$2.1 million**.

  Prior to implementation of the reduced rates, they must be approved by CMS based on a demonstration that they will not impact access to care for SNF and Subacute patients. In collaboration with CHA staff and four other hospitals CEO's, Deborah Stebbins has presented the impact of the reduction on our facility to the Regional CMS Administrator and his staff in early May. In addition, she will participate as a part of a delegation meeting with the federal CMS staff on June 2 in Baltimore. A strong case has been made that such a decision will be devastating to the availability of an adequate supply of Subacute and SNF beds. As a result of the former shortage we anticipate patients will

back up into longer stays in critical units resulting in higher health care costs to an already strained system. A serious crisis in finding placement for patients where units will close will occur. In the case of two of the hospitals meeting with CMS, including ourselves, we anticipate the longer term impact will threaten the continued operation of the entire hospital. In the case of a third hospital in the northeast region of the State, it will result in a closure of the only OB unit within a 1200 square mile area.

While we believe we are making a compelling case for serious negative consequences for access to care for a vulnerable population, the decision by CMS may not take place for several months. In the meantime, management feels the only prudent course of action is to anticipate that reimbursement for these programs will be at the reduced levels.

- **Acquisition of one or more large community based skilled nursing facilities within the District.**

We have had two recent promising meetings with local nursing home operators outlining our proposal to sublease their operation and assume their licenses as additions to our distinct part skilled nursing bed complement. We have submitted a term sheet to one of the facilities, outlining a proposal which is subject to Board approval. This acquisition could have as much as a $2.0-2.5 million impact on our bottom line as a result of allowing us to recoup more of our overall infrastructure expenses. Worst case, this impact would mitigate the reimbursement cuts outlined above. In the best case, if the rate reduction is not approved, this impact could mark the most significant improvement in our operating performance that we have on the strategic horizon.

We are awaiting an indication, expected within a couple of weeks, of whether the second facility with whom we are talking has a serious interest in similar discussions. Again, the positive financial impact on the Hospital is estimated to be in the $2-2.5 million range.

We are heartened for the first time in a couple of years about the level of receptivity we are experiencing and attribute it to the fact that our proposal would relieve these operators of assuming their own risk of declining operating margins under AB 97. While not built into our base budget for FY 2012, this strategic initiative would have a major favorable impact on our operating margin.

- **Application to expand our Subacute bed licensure by 12 beds**.
We have made an application to the California department of Public Health to increase our Subacute licensure by 12 beds and reduce our medical-surgical licensure by a like number. This would be accomplished by relocating the medical-surgical beds from 3 West to 3 South and relocating Telemetry to the old 12 bed telemetry unit which currently houses the 12 bed Subacute unit. This has the added advantage of having all three acute units (CCU, Telemetry, and Medical-Surgical) in contiguous spaces in the South building, which is already compliant with 2030 seismic standards.

We propose to move the 12 Subacute beds currently on 3 South to 3 West, creating a total unit of 24 beds on 3 West. Coupled with the existing 23 bed Subacute unit on 2 West, we would have a total of 47 Subacute beds. We also would be seeking a waiver from the requirement to bring all rooms into compliance with current Title 24 building standards due to the crisis level shortage of Subacute bed capacity in the State. We not only currently maintain a waiting list for Subacute but have had very promising discussions with Sutter, Kaiser and West Bay hospitals that could generate a potential flow of 60-70 more Subacute patients annually.

We have not yet completed an estimate of the financial impact of this action since it would be influenced by the impact on our cost report. Nevertheless, we believe it will be favorable. We are scheduled to discuss this plan with State representatives, as well as members of our medical and clinical staffs' early next week.

Fiscal Year 2012 Narrative:

The following sections discuss the key budget assumptions that have been incorporated into the FY 2012 Operating Budget

Utilization

Inpatient Acute Care Services

The hospitals acute average daily census (ADC) is projected to increase by 4% over the census levels experienced in FY 2011 (29.5) as a result of two key factors:

1. The implementation of the physician advisory program. This new program through consultation with a firm specializing in assisting clinicians appropriately identify patients that should be admitted to inpatient status rather than being classified as an observation status is anticipated to convert approximately 35% of our current observation level patients to inpatient status increasing our average daily census by 1.6.
2. The addition of the Wound Care Center, expected opening January 2012, will also provide some marginal increase in inpatient admissions and have been projected to increase our average daily census by 0.1 patients per day.

Inpatient Long Term Care Services

The South Shore Skilled Nursing Unit is projected to have an ADC of 22.0 which approximates the levels experienced in fiscal year 2011. The 35 bed Sub-Acute unit is projected to have an ADC of 33.0 which is also consistent with the current fiscal year's performance. Both programs are limited by the number of available beds in each of these units.

Outpatient Services

Total outpatient registrations are expected to increase by 2.1% over fiscal year 2011 levels. These change in outpatient registrations are driven by the following:

1. Volume in radiology and rehabilitation services is projected to increase by 2% as a result of the new digital radiology equipment coming on line in the second quarter of the fiscal

year and enhanced services in outpatient therapies. Outpatient therapy patient visits are down about 10% from prior years; with more focused management of the staff's time and scheduling, combined with increased promotion of these services, volumes will increase in the 2012 fiscal year.

2. Beginning in January 2012, an additional 125 registrations from the Wound Care Center will be added to the outpatient volume for the last six months of the fiscal year. In addition to the registrations at the Wound Care Clinic, an additional 223 registrations have been added for patients that will require other diagnostic services such as laboratory, radiology and rehab services.
3. Outpatient surgeries generated by Alameda surgeons have been projected to remain consistent with fiscal year 2011 levels, which already reflected a 20% increase over the fiscal year 2010 non-Kaiser volume. Of course our efforts to recruit additional surgeons will continue.
4. Observation visits is projected to decrease by 29% as a result of the physician advisory program as described above in the Inpatient Acute Care Services section.

Emergency Care Services

Emergency visits have been projected to remain consistent with the same levels as experienced during fiscal year 2011 which have averaged 46.0 visits per day.

Alameda Medical Offices

The Alameda Medical Offices volume is budgeted to decrease its visit activity in fiscal year 2012 by over 659 visits or 30% from fiscal year 2011. Visits will increase as a result of the addition of a new neurologist and continued efforts to market and promote referrals to the physicians providing services at this location. However, further analysis of the OB/GYN practice at the clinic shows this aspect of the clinic does not cover its direct expense. As a result, this contract will be terminated effective July 1, 2011. The physician has expressed an interest to remain at the clinic and in the community as an independent practitioner on a part-time basis.

Gross Charges

A charge specific price increase will be implemented effective July 1, 2011 which will result in an approximate overall increase of 6%. This increase is expected to generate an additional $15.3 million in annual gross charges which has been factored into the fiscal year 2012 operating budget. Also increasing gross revenues is the addition of the new Wound Care program that is budgeted to generate $2.3 million in gross charges during the first six months of operations based on current projections of service needs in the immediate service area.

Net Revenue

Our overall estimated net patient revenue percentage is projected to decline to 22.4% in FY 2012 versus the current year's 23.9%. Some of the factors contributing to the decrease in our projected net revenue percentage:

- Sub-Acute and Skilled Nursing rates for Medi-Cal beneficiaries have been estimated to be decline from current levels by 23%. This reduction is based upon a 10% reduction from fiscal year 2008-09 rates as indicated by AB 97.
- Included in the net revenue assumptions is the cancellation of the Medi-Cal inpatient contract. As part of the recent legislative changes, non-designated public hospitals no longer need to have a California Medical Assistance Commission (CMAC) contract in order to participate in the Intergovernmental Transfer (IGT) program. In addition, the inpatient rate freeze previously imposed by the State has been removed. We plan to cancel our inpatient Medi-Cal contract and return to cost based reimbursement and, based upon existing Medi-Cal days and our associated costs, the budget includes an increase of approximately $1 million in additional Medi-Cal net revenues.
- While we have implemented an annual price increase to all charges, the projected increased reimbursement is estimated at only $1,250,000 since the majority of hospital payments are based upon fixed per diem rates or rates established by federal and state governments for Medicare and Medi-Cal programs. However, this price increase allows the hospital to maximize reimbursements allowed under contractual arrangements with the various managed care payors.
- Based upon changes to the Medicare Inpatient Prospective Payment System Hospital reimbursement for Medicare beneficiaries is projected to decrease by 0.5% or $110,000 in FY 2012.
- Net patient revenue from the Wound Care program is projected to be $624,000.
- Additional net patient revenue from the Alameda Medical Offices is expected to be approximately $317,000 from physician clinic services.

In summary the increase in net revenue from fiscal year 2011 projected to fiscal year 2012 budget is approximately $2.1.

Labor and Benefits Expense

Overall labor costs are projected to decrease by approximately $2.4 million over the projected fiscal year 2011. The FY 2012 budget proposal includes negotiated salary increases for the one bargaining unit, SEIU, whose contract was negotiated prior to receiving notice from Kaiser that they would not be extending the Outpatient Surgery Services Contract. All other bargaining units have been budgeted at current levels with no estimated increases in salary either as agreed to in newly negotiated contracts, CNA, Local 29 and Local 6, or management's projections as to the final outcome of negotiations still to be had with Local 39. The unrepresented Exempt and Non-Exempt labor pool have been budgeted at the current wage rates which include the 5% reduction that was implemented effective January 31, 2010.

Total full time equivalents for fiscal 2012 are budgeted at 408.1, a decrease of 22.7 FTE's from the fiscal year 2011 forecasted total of 430.8 FTE's. This decrease in FTE's will be accomplished by decreased utilization of certified nursing assistants, consolidation and better utilization of operating room scheduling, mandatory closure of specified support departments on eight holidays and two non-holiday closures, furlough days during June through August, the closure of the lab draw station at Alameda Town Center and lay-offs and reductions in hours of

selective personnel and departments. We anticipate that approximately 16 FTE's will be laid off and the remaining FTE reduction will be achieved through changes in scheduled hours.

Staffing for nursing departments has been based upon the budgeted average daily census of the units and the California mandated nurse staffing hour ratios for inpatient acute services. In addition, adjustments to ensure appropriate levels of coverage for break and lunch relief have been factored into the determination of the calculated required hours of nursing care. The fiscal year 2012 budget builds in more realistic estimates for break / lunch relief staffing and inefficiency caused by census not always being at natural staffing guideline break points. These were causes of unfavorable staffing variances in fiscal year 2011.

Non-Labor Expenses

The following are the assumptions for the various categories of the operating budget non-labor expense categories:

Benefits

While salary costs are budgeted to decrease by $2.4 million, benefit costs have only been projected to decrease by $119,000 as a result of budgeting increased employee health benefit costs. The primary reason for this assumption was that fiscal year 2011 costs have been significantly lower than previous years' experience. Therefore, we estimate that health benefits in fiscal year 2012 will increase by approximately $319,000 to better reflect historical performance.

Professional Fees

Professional fees increased by approximately $89,000 overall as a result of the following;

- The new wound care program resulted in additional management fees to Accelcare for the management of the program in the amount of $292,000,
- a reduction in the amount of legal fees of $64,000, and
- a reduction of consulting fees in the information technology services of $148,000.

Supplies

Medical supply costs are projected to increase over current year projections as a result of the budgeted 4% increase in inpatient volumes. Also, blood utilization in fiscal year 2011 was inordinately low compared to prior years utilization, as such an additional $95,000 has been included in the fiscal year 2012 operating budget to better reflect anticipated utilization. In addition, supply costs for pharmaceuticals have been increased by 5% as costs in this area are anticipated to increase due to inflation. The Wound Care program will add approximately $31,000 of additional supply costs.

Purchased Services

Purchased services expenses increased by approximately slightly overall but were comprised of the following changes:

- the addition of NightHawk Pharmacy after hours coverage ($160,000), providing the legally-required 24/7 review of drug orders by a pharmacist,
- the addition of MD Office Solutions ($60,000) who provide cardiac imaging services in nuclear medicine,
- a reduction in security coverage ($70,000),
- savings from changes to service levels for the GE BioMedical contract ($50,000)
- a reduction in assisted parking services ($36,000), and
- a reduction in off-site medical records storage ($35,000).

Rents and Leases

This category will increase by approximately $343,000 over current year projected rent expenses. This increase is primarily the result of rental expenses for the Diagnostic Radiology and PACS System, ultrasound equipment, telemetry equipment and equipment related to the Electronic Health Record (EHR) implementation as well as the rental of facilities at the Marina Village complex that will be the site of the new Wound Care Program.

Insurance

As a result of our continued favorable performance and the overall performance of BETA, a one-time reduction in premiums to all members of BETA will be received in August 2011. This will lower our annual premium by $158,000 and has been incorporated into the operating budget.

Utilities

There were no noteworthy changes in this expense category between fiscal year 2011 and 2012.

Depreciation and Amortization

This classification will decrease by $80,000 or 8.4% from FY 2011, as a result of additional assets reaching their fully depreciated cost basis during the fiscal year.

Other Expenses

Other expenses were reduced by approximately $157,000 as a result of the elimination of various hospital memberships ($75,000), the reduction of recruitment and relocation costs ($60,000) and the reduction to estimated risk management litigation reserves ($40,000).

ALAMEDA HOSPITAL
STATEMENT OF INCOME AND EXPENSE
FY 2012 OPERATING BUDGET

	FY 2009	FY 2010	FY 2011 YTD April 30th	FY 2011 Forecast	FY 2012 Budget
Net Patient Revenue	63,041,903	67,513,961	50,031,819	58,988,144	61,047,530
	22.3%	24.2%	24.2%	23.9%	22.4%
Other Operating Income	197,258	422,951	102,278	122,081	121,100
Total Revenue	63,239,161	67,936,912	50,134,097	59,110,225	61,168,631
Expenses					
Salaries and Agency	37,711,335	39,524,441	31,734,181	38,101,577	35,697,602
Benefits	9,846,834	10,115,283	8,142,092	9,677,721	9,558,480
Professional Fees	3,536,554	3,447,118	3,068,695	3,673,827	3,762,958
Supplies	9,106,290	9,984,917	7,204,658	8,584,325	9,088,119
Purchased Services	4,126,176	4,651,602	3,656,613	4,404,126	4,435,339
Rent	722,041	843,137	702,471	838,483	1,181,095
Insurance	533,368	496,419	318,464	381,340	202,960
Utilities	840,806	836,617	630,020	753,370	778,878
Depreciation	1,406,626	1,155,022	797,809	955,254	875,256
Other	875,962	984,817	887,384	1,062,514	905,403
Total Expenses	68,705,992	72,039,371	57,142,388	68,432,537	66,486,089
Operating Ince / (Expense)	(5,466,831)	(4,102,459)	(7,008,292)	(9,322,312)	(5,317,459)
Non-Operating					
Parcel Tax Revenues	6,029,594	6,031,534	4,798,498	5,747,851	5,741,539
Interest Income	-	-	-	11,135	2,500
Interest Expense	(142,448)	(96,183)	(96,425)	(118,429)	(148,955)
Other Non-Operating Revenue	-	-	1,670,035	1,713,604	262,526
Total Non-Operating	5,887,146	5,935,351	6,372,107	7,354,161	5,857,610
Net Income / (Loss)	420,315	1,832,892	(636,185)	(1,968,151)	540,151

ALAMEDA HOSPITAL
FISCAL YEAR 2012 ASSUMPTIONS
OPERATING STATISTICS

			FY 2011	FY 2012	
	FY 2009 Actual	FY 2010 Actual	YTD Projected	Proposed Budget	Var from Proj. FY 2011
PATIENT DAYS					
CCU	1,320	1,406	1,622	1,682	3.70%
DOU	4,379	4,445	4,172	4,238	1.58%
Medical/Surgical	6,087	4,728	4,991	5,293	6.05%
Total Acute	11,786	10,579	10,785	11,213	3.97%
Sub-Acute	12,010	12,196	11,898	12,078	1.51%
SNF	6,666	7,832	8,001	8,052	0.64%
Total Long Term Care	18,676	20,028	19,899	20,130	1.16%
Grand Total	30,462	30,607	30,684	31,343	2.15%
DISCHARGES					
CCU	166	168	160	178	11.25%
DOU	1,047	1,191	988	1,102	11.54%
Medical/Surgical	1,598	1,443	1,366	1,523	11.49%
Total Acute	2,811	2,802	2,514	2,803	11.50%
Sub-Acute	34	14	21	17	-19.05%
SNF	112	127	115	106	-7.83%
Total Long Term Care	146	141	136	123	-9.56%
Grand Total	2,957	2,943	2,650	2,926	10.42%

ALAMEDA HOSPITAL
FISCAL YEAR 2012 ASSUMPTIONS
OPERATING STATISTICS

	FY 2009 Actual	FY 2010 Actual	FY 2011 YTD Projected	FY 2012 Proposed Budget	Var from Proj. FY 2011
AVG. LENGTH OF STAY					
Acute	4.2	3.8	4.3	4.0	-6.75%
AVG. DAILY CENSUS					
CCU	3.6	3.9	4.4	4.6	4.55%
DOU	12.0	12.2	11.4	11.6	1.75%
Medical/Surgical	16.7	13.0	13.7	14.5	5.84%
Total Acute	32.3	29.1	29.5	30.7	4.07%
Sub-Acute	32.9	33.4	32.6	33.0	1.23%
SNF	18.3	21.5	21.9	22.0	0.46%
Total Long Term Care	51.2	54.9	54.5	55.0	0.92%
Grand Total	83.5	84.0	84.0	85.7	2.02%
OUTPATIENT VISITS					
Outpatient Registrations	26,044	26,204	24,093	24,594	2.08%
Observation Days	602	795	746	532	-28.69%
Emergency	17,338	17,624	16,805	16,836	0.18%
IP Surgeries-Non Kaiser	588	592	550	526	-4.36%
IP Surgeries - Kaiser	102	91	-	-	0.00%
Total IP Surgeries	690	683	550	526	-4.36%

ALAMEDA HOSPITAL
FISCAL YEAR 2012 ASSUMPTIONS
OPERATING STATISTICS

			FY 2011	FY 2012	
	FY 2009 Actual	FY 2010 Actual	YTD Projected	Proposed Budget	Var from Proj. FY 2011
OP Surgeries - Non Kaiser	1,206	1,224	1,545	1,555	0.65%
OP Surgeries - Kaiser Eye	1,976	1,461	-	-	0.00%
OP Surgeries - Kaiser Amb.	1,931	1,417	-	-	0.00%
Total OP Surgeries	5,113	4,102	1,545	1,555	0.65%
Minor Procedures	82	127	133	130	-2.26%
Total Surgeries	5,885	4,912	2,228	2,211	-0.76%
Total Surgeries without Kaiser	1,876	1,943	2,228	2,211	-0.76%
ALAMEDA MEDICAL OFFICES					
Physician Clinic - Total Vistis		1,112	2,188	1,529	-30.12%
Physician Clinic - New Patients		376	585	878	50.00%

Alameda Hospital
Fiscal Year 2012
Capital Budget

As part of the District's annual budgeting process, it is required to submit and approve a capital budget in addition to the operating budget. As part of the capital budget process, input is solicited from all departments of the organization as well as from members of the medical staff.

For FY 2012, the total of capital budget requests submitted was $2.4 million. Provided with the request, is an explanation of why the request is being made and the degree of importance/urgency. Management then has the task of evaluating the submitted requests against the organizations ability to fund them.

Given the challenge of developing a positive FY 2012 operating budget and given the capital projects that have already been approved or are in process, the amount of additional capital acquisitions being recommended is very limited. However, if some of the initiatives discussed in the operating budget narrative, but not included in the operating budget itself, come to realization, we will reevaluate our ability to recommend for approval additional capital budget expenditures.

Attached is a list of the recommended capital budget items for fiscal year 2012 that total $1,875,949. This is broken down as follows:

• Equipment	$89,986
• Information Technology	$85,963
• Plant Maintenance	$150,000
• Contingency	$100,000
Sub Total	$425,949

Already in process or previously approved items are as follows:

• Continue to develop Seismic Plans	$100,000
• Electronic Health Record Implementation	$450,000
• Wound Care Program	$900,000

<u>Funding:</u>

The Wound Care program will be funded with a $100,000 contribution from the Foundation, a $125,000 loan from the Foundation and the remaining $675,000 through an approved loan with the Bank of Alameda.

The Electronic Health Record implementation is primarily an internal employee who is dedicated to the implementation of PCS and PCM, as well as an allowance for outside consulting assistance as these implementations progress through the next fiscal year. These items are currently being funded with operating dollars.

Before acquisition of the other new capital items, we will need to find a funding source and obtain Board approval. Two such source could be the annual Jaber Fund contribution which has been averaging about $120,000 per year and the hospital auxiliary which has been contributing around $35,000 - $40,000 per year.

In addition, we will work through the Foundation to pursue external grants for select equipment items as we did during FY 2011.

FY2012 Capital Expenditure Budget

Cardiology			
	Mortara Stress Exercise System	Current Equipment in use for 10 years; parts and maintenance no longer supported. Wireless to prevent patient falls; will be interfaced with Meditech	$25,539
Engineering			
	Heating Boiler Retro Fit	Required to upgrade boilers by end of CY 2012 to decrease BTU emissions. This is retrofit rather than replacement for cost effectiveness.	$150,000
Neurology Clinic			
	Electromyograph - 2 channel Sierra Wave	Allows us to conduct EMG studies in addition to EEG studies ordered by two new active Neurologists. Will generate sufficient marginal revenue to return investment in well under 1 year.	$17,655
Surgery			
	Stryker Drill & Saw	Current system which is essential to support orthopedic and podiatric surgery is quite old and needs updating.	$46,792
Information Technology			
	CISCO Network Switch Expansion	Replaces existing switches or augments services allowing additional devices to connect	$24,436
	CISCO Wireless Controller	Expands wireless connectivity for the EMR project, supporting WOW deployment throughout facility	$18,796
	Servers - Meditech PCM/PCS Upgrades	5 addl. Servers to support Meditech modules and improve overall system and network performance	$42,731
		SUBTOTAL - HIGH PRIORITY	$325,949
		CONTINGENCY	$100,000
OTHER CAPITAL ITEMS			
	Seismic Plan Development (SPC & NPC)	Continue to advance SPC and NPC 2 planning and oshpd submittals.	$100,000
	Electronic Health Record - Installation	Mostly capitalized labor costs expended for 'EHR installation	$450,000
	Wound Care Tenant Improvements/FFE	Previously approved	$900,000
		TOTAL CAPITAL EQUIPMENT	**$1,875,949**

COBLENTZ, PATCH, DUFFY & BASS LLP ATTORNEYS AT LAW

MEMORANDUM

CONFIDENTIAL COMMUNICATION

TO: Kerry Easthope, Alameda Hospital

CC: Tom Driscoll, Esq.
Ryan Hattersley, Cushman & Wakefield

FROM: Eileen K. Chauvet

RE: Marina Village Business Park Alameda Hospital Wound Care Center Lease

DATE: May 17, 2011

As we have discussed, certain terms of the lease agreement have varied from the original terms let out in the Letter of Intent dated December 3, 2010 previously approved by the Hospital. The essential terms of the lease agreement, the final draft form of which is attached to this memorandum, are below. Note that this is a general overview, and you and the Board should refer to the lease agreement for detailed requirements. In addition, the form purchase and sale agreement referenced in the purchase options sections has been revised and comments sent to Landlord's counsel. We expect to have that exhibit finalized and attached to the lease this week.

Premises	815 Atlantic Avenue, Alameda, California, Suite 100, comprised of approximately 10,612 rentable square feet
Condition of the Premises	Landlord will deliver the Premises with building-wide systems in good working order and repair. Landlord will provide a warranty period of 90 days after the Lease Commencement Date during which time it will repair those systems at no cost to Tenant if the systems are not in good working order and repair.
Lease Commencement Date	The earliest to occur of (i) the date Tenant commences business operations in the Premises, or (ii) 180 days after both of the following have occurred (A) mutual execution and delivery of the Lease and (B) receipt of the signed SNDA (or the hospital's waiver of the requirement).
Term	10 years, 3 months (123 months) after the Lease Commencement Date. Term expires on the last calendar day of the 123rd month of the term.

Contingency/Right to Terminate	During the 175 days after (A) mutual execution and delivery of the Lease and (B) receipt of the signed SNDA (or the hospital's waiver of the requirement) Tenant will diligently pursue obtaining the OSHPD 3 permit and all other permits needed to build and operate the facility. If Tenant cannot obtain needed permits during that time, it may terminate the lease not later than 179 days after the above date. If Tenant terminates the lease, it must pay $12,500 to Landlord to compensate Landlord for its legal fees in preparing the lease.
Early Occupancy	After (A) mutual execution and delivery of the Lease and (B) receipt of the signed SNDA (or the hospital's waiver of the requirement), Tenant may enter the Premises install its furniture, fixtures, equipment, and leasehold improvements. Tenant may not install any improvements without Landlord's express written consent until after the 175-day permit contingency period has expired or it has waived its right to terminate.
Use	Operation of a medical office providing wound care, rehabilitation/physical therapy, medical laboratory services, radiology services, general physician services, urgent care services, and administrative offices. Tenant may install equipment as needed so long as it complies with all applicable laws and Tenant's permits. The Premises may not be used to perform abortion services, or for overnight or in-patient uses.
Base Rent	The 4th month of Base Rent is payable on (A) mutual execution and delivery of the Lease and (B) receipt of the signed SNDA (or the hospital's waiver of the requirement).

Months of Lease Term	Annual Base Rent	Monthly Installment of Base Rent	Monthly Rental Rate per Rentable Square Foot the Premises
1-3	$0	$0	$0
4-12	$89,140.80	$7,428.40	$0.70
13-24	$95,508.00	$7,959.00	$0.75
25-36	$101,875.20	$8,489.60	$0.80
37-48	$108,242.40	$9,020.20	$0.85
49-60	$114,609.60	$9,550.80	$0.90
61-72	$120,976.80	$10,081.40	$0.95
73-84	$127,344.00	$10,612.00	$1.00
85-96	$133,711.20	$11,142.60	$1.05
97-108	$140,078.40	$11,673.20	$1.10
109-120	$146,445.60	$12,203.80	$1.15
120-123	$152,812.80	$12,734.40	$1.20

Operating Expenses, Tax Expenses, and Utilities Costs	42.59% of Operating Expenses, Tax Expenses, and Utilities Costs. Operating Expenses include all costs of management, maintenance, repair, renovating, and managing the Building. Certain capital expenditures may be passed through, including (i) improvements intended as a labor saving device or to effect economies in operation or maintenance of the Project, (ii) improvements made after the Lease Commencement Date that required to comply with laws, (iii) replacements of wall and floor coverings, ceiling tiles and fixtures in common areas, and (iv) improvements reasonably required to maintain the functional character of the Project as a first class office park. Capital improvements with be amortized over the life of the improvement with interest at 10% per annum. But, items under (iii) and (iv) are limited—they may not exceed $30,000 in any year, will not include any work to the foundation of the building, and will be amortized over the life of the improvement without interest. Tax Expenses expressly exclude any assessments under the Marina Village Assessment District 84-3.
Option to Renew	Tenant has an option to extend the term for two 5-year periods. Tenant must provide an "interest notice" to Landlord not more than 13 months or less than 11 months before the end of the then-current term. The Landlord will then provide its estimate of the fair market rent not later than 10 months before the end of the term. Tenant must exercise its option to extend at least 9 months before the end of the term. In its exercise notice, Tenant will either accept the Landlord's proposed fair market rent or object, in which case the fair market rent will be negotiated in good faith, and if no agreement is reached, decided by a panel of experienced real estate brokers. Tenant has no right to extend the term if it is in default (after notice and expiration of any cure period) or if it and its Business Affiliates are in less than 30% occupancy of the Premises.

Option to Expand	For the first 18 months after the Lease Commencement Date, Tenant may expand into available space in the building. Space is considered available if it is unleased, no existing tenant has rights to lease that space and if the Landlord has not executed a letter of intent or is not in lease negotiations for that space. If Tenant wishes to expand, it may deliver an inquiry to the Landlord asking what space is available. Tenant may send the inquiry to the Landlord once every 2 months. If space is available, then the Landlord will respond identifying the space and the terms (other than rent) on which it is willing to lease. During the first 12 months after the Lease Commencement Date the expansion space would be at the same base rent as the Premises. From months 13-18, the expansion space will be at fair market rent. Tenant will have 15 days to respond to the Landlord either electing to lease the expansion space or pass. Tenant has no rights under the expansion option if it is in default (after notice and expiration of any cure period) or if it and its Business Affiliates are in less than 30% occupancy of the Premises.
Right of First Refusal to Lease	Until the last 24 months of the term (including any extension), Tenant will have the right to lease any remaining space in the building on the same economic terms as those offered to a 3rd party, or those that Landlord intends to accept from a 3rd party. Landlord will give Tenant 7 business days notice, during which time Tenant may elect to rent the space or pass. If the Landlord changes the economic terms by 10% or more or does not enter into a lease for space that is rejected by the Tenant, then the Landlord must re-offer the space to the Tenant. If the Tenant rejects the space but the 3rd party's lease expires while Tenant's right is active, then the Landlord must offer the space to the Tenant before entering into another 3rd party lease. Tenant has no right of first refusal if it is in default (after notice and expiration of any cure period) or if it and its Business Affiliates are in less than 30% occupancy of the Premises.
Landlord's Maintenance Obligations	Landlord will maintain the structural portion of the building, exterior glass, interior and exterior common areas, building-wide mechanical, electrical, plumbing, and life-safety systems. If Landlord fails to perform its maintenance obligations within 30 days after notice,, Tenant may provide an additional 3 business days notice to Landlord to perform. If Landlord does not perform, the Tenant may perform at Landlord's expense.

Assignment and Subletting	Tenant may sublet space to a Business Affiliate without Landlord's consent. A Business Affiliate is a health care provider offering health care services on behalf of or in cooperation with Tenant. In addition, Tenant may assign or sublease to an Affiliate without Landlord's consent. An Affiliate is (i) any entity that purchases all or substantially all of the assets of Tenant, or (ii) a successor to Tenant by purchase, merger, consolidation or reorganization. Landlord must consent to any other assignment of the lease of subletting of the Premises. Tenant will pay $1,500 per request for consent plus Landlord's reasonable legal fees, but if Tenant executes Landlord's standard consent documents, the forms of which are attached to the Lease, the legal fees will be capped at $1,000. In an assignment or subletting to anyone other than a Business Affiliate or an Affiliate, Landlord and Tenant will split any sublease or assignment profits 50-50. In an assignment or subletting to anyone other than a Business Affiliate or an Affiliate, if Tenant seeks consent to an assignment of all of Tenant's interest in the Lease or a sublease for more than 50% of the Premises for substantially all of the remaining term, the Landlord has the right to re-take the Premises (or portion proposed for subleasing).
Parking	Tenant has 36 unreserved parking spaces (i.e., 34 unreserved parking spaces/1,000 rentable square feet)
Alterations/Tenant Improvements	Landlord must consent to all improvements or alterations (including plans and Tenant's contractors) to the Premises, except minor alterations. Notice, but not consent is required for minor alterations. Minor alterations are non-structural, interior alterations that do not exceed $50,000 in any 12-month period, do not require a building permit, and are performed by qualified contractors that normally perform work in comparable buildings. Tenant will pay Landlord for its actual costs of supervising Tenant's alterations up to a maximum of the lesser of 2% of the cost of the alterations or $15,000 per project.
Signage	Tenant may install an exterior sign displaying Tenant's trade name, "Alameda Hospital," accompanying logo and any other markings (including the names and/or logos of Tenant's Business Affiliates) approved by Landlord. Tenant has the right to install the same on a monument sign, at its expense.
Access	Tenant has access to the Premises 24/7/365.
Security Deposit	$12,734.40, payable on execution of the Lease.

Subordination, Non-disturbance, and Attornment Agreement	Landlord will deliver a Subordination, Non-disturbance, and Attornment Agreement in the form approved by Tenant from its lender within 60 days after execution of the Lease. If the lender does not deliver the signed SNDA, then Tenant may terminate the lease or waive the requirement. The Lease is not effective until the SNDA is received.
Memorandum	Upon Tenant's request, Landlord will record a Memorandum in the County Recorder's office, providing notice of Tenant's rights to lease additional space and to purchase the Property.
Offset Right for Unpaid Broker's Commission	If Landlord does not pay Tenant's broker's commission, Tenant has the right to pay the commission and deduct the amount paid from the rent.
Oxygen Tank and Equipment Pad	Tenant has the right to pour a concrete pad or pads in the adjacent parking area for an approximately 17x21 foot enclosure and a 12x12 foot enclosure, each not to exceed 17 feet high, for bulk oxygen, emergency generator, and special medical equipment serving the Premises.
Right to Purchase at a Fixed Price	Until August 13, 2013, Tenant has the right to purchase the building for $4,983,400.00. Within 30 days after the Lease Commencement Date, Landlord will deliver to the Tenant due diligence materials on the building for Tenant's review before exercise of the option. If Tenant elects to purchase the building, it will execute the form of purchase agreement attached to the lease and deposit $150,000 deposit into escrow, which is nonrefundable unless Landlord defaults under the purchase and sale agreement. Closing will occur on the 60th day after exercise. Tenant has no rights under the Fixed Price Purchase Option if (i) it is in default after notice and expiration of any cure period, (ii) the Lease has been assigned, or (iii) the property has been sold to a buyer unrelated to Landlord, (iv) the property has been foreclosed upon or conveyed by a deed in lieu of foreclosure, unless the lender has expressly agreed to honor the option in its SNDA (which the current lender has agreed to do), or (v) Landlord previously delivered a First Refusal Notice and Tenant declined to purchase the building.

Right of First Refusal to Purchase	During the term of the Lease, if the Landlord is going to list the Building for sale, then it will first notify Tenant of the terms on which the Building will be offered for sale, and the Tenant will have the right to purchase the building on those terms. If the Landlord's notice is given during the term of the Fixed Price Option, then the price will be the lesser of the Fixed Price, or the list price. Tenant must respond within the later of 10 days after receipt of the Landlord's notice or 2 business days after receipt of an updated title report, and accept, decline, or indicate it would be interested in purchasing at a price that is 5% less than the listed purchase price. If Tenant indicated it would be interested in purchasing at a price that is 5% lower than the listed price, then, if Landlord agrees with a third party to sell the building at a price that is 5% lower than the listed price (or less than the Fixed Price, if during the time when the Fixed Price Option is in effect), then Landlord will reoffer the building to Tenant at the lower price. Tenant will have 5 business days to respond to the reoffer. The Right of First Refusal is not applicable if the building is a part of a sale of 10 or more other properties owned by Landlord. If the Tenant exercises its Right of First Refusal, it must deposit $150,000 in escrow, which is nonrefundable unless Landlord defaults under the purchase and sale agreement. Closing will occur on the 60th day after exercise. Tenant has no rights under the Right of First Refusal to Purchase if (i) it is in default after notice and expiration of any cure period, (ii) the Lease has been assigned, or (iii) Tenant previously exercised its Fixed Price Option to Purchase. In addition, the Right of First Refusal will terminate if the property has been foreclosed upon or conveyed by a deed in lieu of foreclosure, unless the lender has expressly agreed to honor the option in its SNDA (which the current lender has agreed to do) or if the building is sold as part of a portfolio sale (10 or more buildings).

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

DATE: June 1, 2011

TO: City of Alameda Health Care District, Board of Directors

FROM: Kerry Easthope, Associate Administrator

SUBJECT: Recommendation to Enter into a Lease Agreement with Legacy Marina Village for Building Lease for Wound Care Program

Recommendation:

It is being recommended that the Finance Committee and Board of Directors approve the Terms and Conditions of a building lease at Marina Village and authorize management to execute this lease at the appropriate time following approval. The key Terms and Conditions of the lease agreement are enclosed, and the complete lease document is available to review upon request.

Background:

An important aspect of the hospital's strategic plan is growth and the development of new programs and services that will allow us to better serve the medical needs of those in our community while providing a positive contribution to the hospitals financial strength. A second aspect of our strategic plan is to develop a more comprehensive medical staff base that will support the primary care physician needs in the community but also support the growth and medical strength of the acute care hospital.

As we look at new programs and services, especially outpatient programs, adequate medical office / clinical space have been an ongoing challenge. In addition, the future need for better and additional physician office space has been identified. The hospital currently leases approximately 8,400 sq. ft. of space at Alameda Towne Center. In that space, we have 12 physicians practicing, many of which are part of the hospitals 1206 (b) clinic. We also operate a lab draw station at that location to make it more accessible to patients who require this diagnostic testing.

The lease at Alameda Towne Center has a term date of April 30, 2012, with two 1-year renewal options at the hospital's discretion. The landlord has not been willing to provide extension options beyond that date and there have been discussion of possible alternative uses for this building space in the long term.

Space within the hospital available for outpatient services is very limited and very costly to renovate and bring up to current OSHPD building code if we were to convert space for

alternative uses. Utilizing our current licensed inpatient space for inpatient services is a better and more cost effective use of these spaces once suitable services are identified.

Given the aforementioned, management has been directed to pursue other potential space within the district boundaries that can be utilized to serve the needs of our local physicians as well as enhance and/or expand our outpatient service capabilities.

For the past several months, management together with our attorney and commercial real estate agent, have been in negotiation with the Landlord (Legacy Partners), to finalize the terms, conditions and contract language. There have been compromises made by both parties and the final agreed to terms and conditions are enclosed.

Discussion:

There is very limited functional space available within Alameda for physician office and clinical services use. However, we have identified a building located at 815 Atlantic Avenue, part of the Marina Village business park, that would be suitable to help us accomplish our strategic plans.

The entire building is just less than 25,000 sq. ft. It is the first building you come to when accessing the business park off of Constitution Way or Webster Street and is therefore very accessible, not only to those residents living on the West end of Alameda, but to patients who would utilize the services provided at this location who live in Oakland.

Initial Leased Space (Suite 100):
The initial recommendation, presented last board meeting, was to enter into a lease for 10,612 sq. ft. We would have expansion rights for the remaining available suite (Suite 105) which is 11,640 sq. ft., as well as, two other smaller suites of 1,122 and 1,492 sq. ft. respectively once they come available.

The plan for the initial leased space (suite 100) is to open a Wound Care Center as previously discussed. This program would be operated in conjunction with Accelecare Wound Centers Inc., who is experienced in managing this type of service. Our preliminary schematic plan indicates that the Wound Care program would take about 4,000 sq. ft. of direct clinical space and waiting room area. We are prepared to move forward with implementation of this program once our lease agreement is finalized and we secure financing for the required tenant improvements.

The remaining space in suite 100 (approx 6,600 sq. ft.) would be used for Rehabilitation Services (outpatient physical therapy, speech therapy, occupational therapy, sports medicine, and potentially cardio fit services). Our current rehab services space here at the hospital is only about 1,400 sq. ft. and has limited treatment space. In addition, because of the lack of space, we do not have the desired equipment, machines and apparatuses that would provide for improved therapy and recovery for a broader spectrum of patients.

There is currently a consistent back-log to schedule an initial assessment for outpatient therapy, due in part, to our limited clinical space.

Expansion Space:
Within the first year after executing the initial lease, it would be our goal to exercise our expansion right in to Suite 105. This space would be designed and built out for physician office space and would allow us to vacate the space at Alameda Towne Center and even relocate some of the physicians currently located in the 1925 building. In addition to physician office space, the plan would be to have a Lab draw station, basic radiology and ultrasound. This would provide a comprehensive one-stop for primary care and diagnostic services.

Once we are able to exercise expansion rights into the smaller two suites that are currently occupied, we are contemplating adding an urgent care or possibly expanding and/or relocating other hospital based outpatient services to this building.

Summary:

In order to achieve our strategic plans of growth, physician recruitment and enhancing the types and quality of services that we provide to the community, securing the physical space where these activities can occur is an important first step. Given the terms and conditions that we have negotiated and that will become part of our long term lease, we will have space not only to implement a new service and expand existing services in the immediate future, but we will have the necessary space to meet our longer term expansion / relocation needs.

Furthermore, the location at Marina Village is very attractive because of its location on the west end of Alameda. Our ability to have a primary care and medical presence on the west end of Alameda will be of benefit to the residents who live or work in that area, but will also service the Oakland / Chinatown population. We feel that this is a good opportunity and will accomplish many of our short and long term objectives.

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

May 26, 2011

Memorandum to:	Finance Committee City of Alameda Health Care District
From:	Deborah E. Stebbins Chief Executive Officer
RE:	**Update on Status of Fixed Fund Investment Option under 401(a) Pension Plan and 457(b) Voluntary Plan**

The purpose of this memorandum is to provide information to the Finance Committee about a recent change in the options available to our employees under both our mandatory 401(a) Pension Plan and our voluntary employee contribution only 457(b) plan. Under both plans, employees have the right to designate how their funds are to be invested, choosing from a list of approximately 20-25 options, including bond, equity and stable value funds. The role of the Pension Committee is to make sure we maintain an appropriate array of well managed options from which employees may choose. They make such choices with available advice and information provided by Mr. Bruce Miller and his associates, of Stark Miller Financial Benefits Group. This information was reviewed in detail at the administrative Pension Committee meeting on May 25, 2011.

One of the options available to our employees under both plans was a Fixed Fund offered by Transamerica which previously paid a guaranteed minimum rate of 1.5% under the 401(a) fund and 3.5% under the 457(b) fund. As a result of the 2008-2009 crises in the financial markets there have been a progressive tightening of the terms and investment guidelines for stable value products such as the Fixed Fund. On March 25, 2011, we received notice from Transamerica that effective July 1, 2011, any newly contributed investments placed in the Fixed Fund would be subject to a guaranteed rate of interest of 1% for both plans. The actual level of interest may exceed the minimum of 1% based upon the prevailing change in interest rates, but the minimum guarantee would only be 1%. It should also be noted any investments made prior to July 1, 2011 will still be subject to the previous minimum of 1.5% and 3.5% in the 401(a) and 457(b) plans, respectively.

A number of our employees elect to participate in part or in whole in the Fixed Fund option especially if they are seeking a more conservative guaranteed investment portfolio. The Pension Committee explored whether other options for a fixed fund vehicle should be offered with our advisors. The Committee was satisfied that Transamerica's actions are consistent with what has happened in similar fixed fund vehicles. Furthermore, the current Fixed Fund offers some liquidity advantages that other funds do not.

In the interest of making employees aware of this change and their options for responding to it, Mr. Miller will be holding of meetings to which affected employees will be invited during the first week in June. In addition, written materials about the change will be presented to all employees. Mr. Miller also continues to be at the Hospital every Wednesday to meet with employees and answer their questions about this change and other investment options.

Alameda Hospital
Projected Cash Flow Statement
FY 2012 Capital and Operating Budget

Cash Flow Estimate

Budgeted Net Income / (Loss)	$	540,151
Add Non Cash Transactions:		
Depreciation Expense		875,256
Less Non Income Statement Transactions:		
Capital Expenditures - Capital List		(425,949)
Capital Expenditures - Seismic		(100,000)
Capital Expenditures - EHR		(450,000)
Capital Expenditures - Wound Care		(900,000)
Principal Payments of Debt:		
Bank of Alameda - Existing Note		(458,550)
Bank of Alameda - Wound Care		(74,314)
State of California - FY 2009 Cost Report Settlement		(346,937)
Plus Non Income Statement Transactions:		
Financing Activities		
Jaber Funds Capital Equipment Purchases		122,120
Alameda Hospital Foundation Gift - Wound Care		100,000
Alameda Hospital Foundation Loan - Wound Care		125,000
Bank of Alameda Loan - Wound Care		675,000
Other Funding Sources		325,000
Net Cash Flow	$	6,777