

## PUBLIC NOTICE

CITY OF ALAMEDA HEALTH CARE DISTRICT BOARD OF DIRECTORS

### SPECIAL MEETING AGENDA

**MONDAY, JUNE 17, 2013**

**6:30 p.m. (OPEN)**

**Location:** Alameda Hospital (Dal Cielo Conference Room)

2070 Clinton Avenue, Alameda, CA 94501

**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 and present to the District Clerk. This will ensure your opportunity to speak. Please make your comments clear and concise, limiting your remarks to no more than three (3) minutes.*

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|--|----------------------|
| <b>I. Call to Order</b>  | J. Michael McCormick |
| <b>II. Roll Call</b>   | Kristen Thorson      |
| <b>III. General Public Comment</b>   |                      |
| <b>IV. Regular Agenda</b>  |                      |
| A. Action Items  |                      |
| ✓ 1) Approval of Resolution 2013-3K: Approving Proposed Non-Binding Letter of Intent to Explore Affiliation of the City of Alameda Health Care District (Alameda Hospital) with Alameda Health System and Authorizing the Chief Executive Officer to Execute and Deliver the Letter of Intent to Alameda Health System | Deborah E. Stebbins  |
| [enclosure] (pages 2-36)   |                      |
| <b>V. General Public Comments</b>  |                      |
| <b>VI. Board Comments</b>  |                      |
| <b>VII. Adjournment</b>  |                      |

Date: June 14, 2013

For: June 17, 2013 Special District Board Meeting

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

From: Deborah E. Stebbins, CEO

SUBJECT: Approval of Resolution 2013-3K: Approving Proposed Non-Binding Letter of Intent to Explore Affiliation of the City of Alameda Health Care District (Alameda Hospital) with Alameda Health System and Authorizing the Chief Executive Officer to Execute and Deliver the Letter of Intent to Alameda Health System

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**Recommendation:**

Management recommends that the Board of Directors approve a proposed non-binding Letter of Intent to explore affiliation of the City of Alameda Health Care District (Alameda Hospital) with Alameda Health System (AHS) and authorize the Chief Executive Officer to execute and deliver the Letter of Intent to Alameda Health System.

**Background:**

At Strategic Planning Retreats in 2010 and early 2012, in an effort to plan for new programs and services for Alameda hospital, the Board of Directors of the City of Alameda Health Care District conducted an assessment of the local health care environment and marketplace, including the strategic positioning of Alameda Hospital. One of the conclusions of these planning sessions was that, in order to be sustainable over the long term, Alameda Hospital would need to affiliate with a suitable health care organization or system. Additionally, the Board defined criteria for an ideal affiliation partner. These included a common mission, vision and values, financial strength necessary to provide access to capital, source of potential new volume and revenue for Alameda Hospital, and geographic compatibility. Also, importantly, a potential affiliation partner would need to commit to maintaining an Emergency Care Center and acute inpatient services at Alameda Hospital, be prepared to support the capital needs of the Hospital, including investments in seismic and other regulatory requirements, and agree that Alameda parcel taxes would continue to be used exclusively for the benefit of Alameda Hospital capital and operating requirements.

Management was charged with exploring an interest in affiliation with other organizations. Over the course of approximately six months, discussions proceeded with numerous organizations and systems. In late 2012, discussions between the

CEO's of Alameda Hospital and Alameda County Medical Center (now Alameda Health System) resulted in recognition that there was significant potential synergy between the two organizations. In January, 2013, a Steering Committee comprised of Board, Medical Staff, management and legal counsel representatives began to meet on a frequent basis to discuss the merits and terms of such an affiliation. A consulting firm, Kaufman Hall, was hired jointly by the organizations to facilitate these discussions. Additional work groups with representatives of both organizations were formed to advise the Steering Committee on various aspects of an affiliation, including: Service Work Flow, Medical Staff, Human Resources, Financial Implications, and Communications.

The terms contained in the Letter of Intent proposed by AHS are the results of the work of the Steering Committee and work groups.

### **Discussion:**

Financial projections completed by management before the affiliation discussions with AHS began, and which were updated as a part of the work of the Steering Committee, confirm that Alameda Hospital will not be sustainable even in the near term without entering into an affiliation. The expiration of the Kaiser contract in April, 2010 resulted in a loss of \$10 million in net revenue. While significant expense reductions were made to offset this loss, it was not possible to completely neutralize this loss without impacting patient care and services. While entering into contracts with other organizations was evaluated, the Kaiser experience illustrated that contracting relationships alone, without the reinforcement of meaningful formal organizational affiliation, would simply leave the Hospital vulnerable to future contract changes.

Over the last year, we have successfully implemented three new important specialty programs through the opening of the Kate Creedon Center for Advanced Wound Care, the acquisition of Waters Edge Skilled Nursing Facility and the development of the Bay Area Bone and Joint Center. These very important programs have significantly modulated our losses, but on their own are not enough to sustain the Hospital over the long term. Further, we have minimized losses over the last three years through wages for our employees which have been either reduced or frozen and through slowing our payments to vendors. These strategies, while necessary for financial survival, are also not sustainable or fair to our employees and vendors over the long term.

The AHS proposal meets essentially all of the criteria sought in an affiliation partner, including their commitment to infuse significant capital into Alameda Hospital for seismic, information technology, deferred plant and maintenance needs and working capital. In addition, AHS has the need for more capacity in surgery and for medical inpatient beds that will add volume and revenue to the Hospital. AHS has made a firm commitment to retain the Emergency Care Center and acute care services and acknowledges that the parcel tax revenue must remain dedicated to the exclusive needs of Alameda Hospital. The District Board will continue to collect and control the appropriation of the parcel tax. Finally, District Board representation will be provided for on the AHS Board and major Board Committees.

Supporting Documentation / Enclosures:

1. Resolution 2013-3k: Approving Proposed Non-Binding Letter of Intent to Explore Affiliation of City of Alameda Health Care District (Alameda Hospital) with Alameda Health System and Authorizing the Chief Executive Officer to the Execute and Deliver the Letter of Intent to Alameda Health System  
**(pages 5-6)**
2. Proposed Non-Binding Letter of Intent from Alameda Health System  
**(pages 7-19)**
3. Presentation Document: Alameda Hospital at a Crossroads: A proposal to consider Strategic affiliation with Alameda Health System  
**(pages 20-36)**

## RESOLUTION NO. 2013-3K

### A RESOLUTION OF THE BOARD OF DIRECTORS OF CITY OF ALAMEDA HEALTH CARE DISTRICT

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### APPROVING PROPOSED NON-BINDING LETTER OF INTENT TO EXPLORE AFFILIATION OF CITY OF ALAMEDA HEALTH CARE DISTRICT (ALAMEDA HOSPITAL) WITH ALAMEDA HEALTH SYSTEM AND AUTHORIZING THE CHIEF EXECUTIVE OFFICER TO THE EXECUTE AND DELIVER THE LETTER OF INTENT TO ALAMEDA HEALTH SYSTEM

**WHEREAS**, The City of Alameda Healthcare District (AHD) Board of Directors has received a proposal from Alameda Health System (AHS), a newly formed public health care system, to begin the process of negotiating an agreement to join AHS as a member of the new system (the “Proposal”).

**WHEREAS**, As public institutions, AHD and AHS share common goals to improve access and increase quality of care for the community, while development of the AHS system will position participating facilities, such as Alameda Hospital, to compete effectively under health care reform, including serving new patients through the health care exchange and expanded Medi-Cal programs

**WHEREAS**, Since 2010, the AHD Board has been critically assessing and evaluating both the state of the competitive local and regional healthcare market, and the outlook for the future, and the options available to Alameda Hospital to effectively compete and remain viable.

**WHEREAS**, While new program development has contributed positively to the Hospital, the current financial state is unsustainable without an organizational partner

**WHEREAS**, After significant discussion and deliberation, the AHD Board directed management to proceed with detailed discussions with AHS to determine if there was a mutually beneficial arrangement which would achieve, at a minimum, the following goals:

- Guarantee an Emergency Care Center and acute care hospital on the island without reducing the services available locally to residents;
- Provide funding for regulatory and seismic compliance requirements; and
- Keep authority and control of the parcel tax with the AHD Board, while still providing exclusively for the capital and operating needs of Alameda Hospital.

**WHEREAS**, This Board believes that entering into a non-binding Letter of Intent, as set forth in the Proposal, offers AHD and the citizens of Alameda the opportunity to preserve local access to acute care health services and otherwise to achieve the aforementioned goals.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors that City of Alameda Health Care District accept the proposal from Alameda Health System to enter into a non-binding Letter of Intent to begin the process of exploring a formal affiliation with Alameda Health System in accordance with the terms set forth in the Proposal.

**RESOLVED FURTHER**, that the Chief Executive Officer of the District be, and hereby is, authorized (a) to execute and deliver the Proposal in the form presented to this Board, (2) to negotiate and execute the instruments documenting the proposed Line of Credit, (3) to pursue negotiation, on behalf of the District, of any and all documents necessary to effectuate the proposed affiliation, all subject to final review and approval by this Board, and (4) to take such other actions as may be necessary or convenient in order to accomplish the foregoing.

**PASSED, APPROVED AND ADOPTED** at a regular meeting of the Board held on the 17<sup>th</sup> day of June, 2013 by the following vote, to wit:

AYES: \_\_\_\_\_

NOES: \_\_\_\_\_

ABSTENTION: \_\_\_\_\_

ABSENT: \_\_\_\_\_

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J. Michael McCormick  
President

ATTEST:

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Tracy Jensen  
Secretary



1411 East 31st Street  
Oakland, CA 94602

June 12, 2013

Deborah E. Stebbins  
Chief Executive Officer  
City of Alameda Health Care District  
2070 Clinton Ave  
Alameda, CA 94501

Dear Debi:

Thank you for our several discussions relating to Alameda Health System's interest in creating a long-term affiliation with Alameda Hospital. As you know, it is becoming more and more difficult for stand-alone community hospitals to remain financially viable in this era of healthcare reform. Alameda Health System ("AHS") has conducted an intense process involving our physicians, Board of Trustees and Executive leadership to understand the future realities of healthcare delivery and how those realities impact our role as a major safety-net healthcare provider in Alameda County. The result of that process is a three-year strategic plan approved by our Board of Trustees on October 26, 2012 with six goals that include network development and improved integration of health care services within Alameda County, and regionally, so that participating health care organizations are well prepared for health care reform.

AHS has reached the conclusion that community hospitals like Alameda Hospital will need to affiliate with larger systems of care in order to obtain efficiencies of scale and the necessary financial strength to weather the transformation that our health care system is currently undergoing and will undergo over the next several years. AHS has embarked on a strategy that includes strategic integration with other health care providers in Alameda County in order to develop a broad network of care that will be able to offer services to all residents of Alameda County regardless of their ability to pay. AHS strongly believes that the City of Alameda Health Care District ("AHD") is a natural partner for affiliation with AHS. Both organizations have a long history of providing quality essential health care services to their respective communities.

The future healthcare environment requires that AHS and other community providers organize and execute across several key areas:

1. Growth and positioning from a geographic, physician alignment and clinical depth and breadth viewpoint;
2. Providing value-added services such as financially sustainable high clinical quality and safety, improve our cost per unit of services and be able to manage the health of defined populations; and
3. Develop effective payor diversification and payment strategies through leveraging scale and value across a larger geography than AHS occupies today.

We believe that our patients and the payors of the future are going to demand new levels of performance that we can better achieve working with other providers. By working together with Alameda Hospital and other community health care providers, we can leverage the experience and scale of the combined organizations to deliver better care, and better value, while serving our missions.

#### *AHS's Vision of a Coordinated System of Care*

Alameda Health System continues to expand its vision and build a public community benefit health system and we are pleased to make this proposal to Alameda Hospital to become a part our health system. Our missions to provide quality care and serve the entire community regardless of ability to pay, are critical to the communities we serve. Our strategy has been to develop our system of coordinated care to serve all parts of the County while working with many other organizations and physicians.

A partnership between Alameda Hospital and AHS is critical to the future of healthcare delivery as both providers are essential community providers for the communities we serve. Our organizations are aligned by our shared missions, the similar patients we serve, and the ability to leverage local synergies to offer a "System of Coordinated Care" for Alameda Hospital service area residents.

With that background, the purpose of this Letter (the "Letter") is to propose to the Board of Directors of AHD the principal terms for a collaborative affiliation between Alameda County Medical Center d/b/a Alameda Health System ("AHS") and the City of Alameda HealthCare District ("AHD"). This proposal is for the delegation of management, control and governance of Alameda Hospital by AHD to AHS (the "Transaction"), subject to the further discussions, investigations, negotiation, execution, and delivery of a number of Agreements (as defined below) and other related documents and instruments setting forth all of our agreements, terms, conditions, and other related matters and undertakings. The Transaction will also be subject to both AHD and AHS having mutually conducted, and satisfactorily concluded, an examination of the business, financial condition, and operations of each other's organizations (hereafter "Due Diligence"). This Transaction is proposed to occur on a date that is mutually agreeable to the parties, but in any event, by no later than December 31, 2013.

This Letter sets forth what will be, with the concurrence of your Board, a 'letter of intent' concerning the Transaction, and unless a specific section or provision of this Letter is expressly made binding and enforceable, this Letter shall not be considered binding and enforceable upon either of the parties hereto. As such, and except as set forth below, neither party will be bound by any contractual obligation or provision until such time as the parties are able to negotiate and finalize the terms and conditions of a mutually satisfactory Definitive Agreement, and such other agreements as may be deemed necessary, (hereafter the "Agreements") between the parties concerning the Transaction and such Agreements have been duly executed and delivered. Accordingly, this Letter (but not those sections and/or provisions expressly made binding and enforceable) may be canceled or terminated without liability at any time prior to the signing of the Agreements, except as otherwise provided herein.

If this proposal is accepted by your Board, this Letter will, when signed, evidence the intention of the parties to proceed in good faith to carry out the Transaction substantially in the manner outlined herein. The proposed terms and conditions include, but shall not be limited to, the following:

1. Definition of the Transaction. The parties would agree with each other to pursue the creation of a Definitive Agreement between the parties whereby AHD shall delegate to AHS the management, operation and governance of Alameda Hospital. Other terms and conditions are set forth in the proposed Term Sheet, set forth as Exhibit A, attached hereto and incorporated by reference into this Letter. All other terms and conditions of the Transaction are to be negotiated between the parties.

2. Legal and Other Restrictions. The parties would agree to structure the arrangements contemplated herein to comply with all applicable federal, state and local legal and regulatory requirements, including, but not limited to, the requirements applicable to both AHS and AHD of the Medicare Anti-kickback Statute (42 U.S.C. § 1320(a)-7b(b)).

3. Agreement. The final and binding terms, conditions, covenants, and provisions of the Transaction shall be the subject of the Agreements. Such Agreements shall incorporate the terms, conditions, and provisions set forth herein and shall contain additional standard covenants, conditions, and restrictions customary of a transaction of this nature. The obligations of either party to enter into the Agreements and any other related or ancillary documents are expressly subject to execution of mutually agreeable and acceptable Agreements and all necessary approvals by their respective Boards.

4. Conduct of Business. Unless and until one of the parties cancels or terminates the discussions and negotiations that are the subject of this Letter, AHS and AHD, and each of their officers, directors and employees will continue to conduct the business and affairs of Alameda Hospital in the ordinary and normal course, and neither party nor any of their officers, directors and employees individually and on behalf of

AHS and AHD will enter into or terminate any material contract(s) or transaction(s) relating to Alameda Hospital, nor incur any liability (other than in the normal and ordinary course) with respect to the business of Alameda Hospital, without the prior written notice to the other party, nor will AHS or AHD take any action which would be adverse to the business and business interest and reputation of Alameda Hospital. Both parties shall use its best efforts to preserve its present patients, employees, business reputation, contracts with payers, dealers, suppliers and vendors, and intellectual property and licenses of Alameda Hospital and will not undertake, without notice to the other party, any action not considered in the ordinary course of its regular business.

5. Costs, Expenses and Fees. Each of the parties to the Transaction shall bear its own costs and expenses with respect to the negotiations and consummation of the Transaction, including without limitation lawyers, accountants and consultants fees, except as otherwise agreed in writing.

6. Broker. The parties acknowledge that no broker has been retained by or on behalf of either party and as such, neither party is aware of any person, firm, or entity being entitled to a brokerage or finder's fee or other commission in connection with the Proposed Transaction.

7. Confidentiality. Except as is otherwise necessary to complete the Transaction, each party agrees to keep the contents of the negotiations, all information, and discussions confidential and to not disclose the terms, information or any related negotiations without the prior written consent of the other party, except to the extent that the law requires such disclosure. If for any reason the discussions between the parties do not culminate in the establishment, creation or culmination of a formal business relationship between the parties, the parties shall return any and all information gained from the other and shall keep the same confidential and shall not disclose any information gained during the course of negotiations or due diligence and shall not disclose the existence of negotiations or any facts thereof, except as set forth in Section 8 below. This paragraph shall remain binding upon the parties hereto regardless of whether the Transaction takes place.

8. Public Disclosure. No public disclosure or publicity of the Transaction shall be made concerning the subject matter hereof or the transactions contemplated hereby without the joint approval of AHS and AHD, except any public disclosure which either party in good faith believes is required by law (in which case such party will consult with the other prior to making such disclosure). The parties hereto will cooperate to prepare a joint release to be issued at the appropriate and agreed upon time.

9. Due Diligence. It is agreed that upon proper acceptance and execution of this Letter, the parties, and their employees, agents, attorneys, representatives, and the like shall cooperate with each other and proceed to complete any and all due diligence

investigations deemed necessary. The parties' due diligence may include, but shall not be limited to, review and/or inspection of any real and/or personal property owned or leased by the other party relating to Alameda Hospital, as well as permitted access to any relevant information, books, records, and personnel (including but not limited to employees, managers, consultants, advisors, and staff) of a party related to the Transaction. Such inquiry shall include, without limitation, legal, financial, fiscal, environmental, health and safety, tax, technology, and business conduct investigations. On the basis of the results of these inquiries, each party will form a definitive judgment concerning whether or not to proceed with the Transaction.

10. Binding Effect. This Letter is merely a statement of the present intentions and understandings of AHS and AHD and except for Sections 4 through 8, and 10 through 15 (hereafter the "Binding Provisions"), this Letter shall be binding on the Parties only in accordance with the terms, conditions and provisions of the Agreements, and is not considered or intended to be a contract between the parties and is subject to the parties' (1) satisfactory due diligence investigation permitted herein, (2) negotiation, preparation, and execution of the Agreements containing the necessary representations, warranties, covenants, and indemnities consistent with this Transaction, (3) receipt of any and all necessary governmental, corporate or contractual approvals, licenses, consents, permits and the like, as may be required, necessary, or appropriate in order to consummate the Transaction, (4) verification, transfer, and/or assignment of any and all third party consents, licenses, permits, authorizations and approvals deemed necessary to operate, and (5) the prior and proper approval and consent of the parties' respective Boards of Directors/Trustees and such other necessary approvals as may be required. The parties agree that the Binding Provisions are legally binding upon the parties, enforceable in accordance with their terms, and the enforceability of such provisions is not conditioned on the further negotiation(s) or the successful outcome of any further negotiations between the parties. If the parties execute an Agreement, such agreement shall supersede this Letter. However, failure of the parties to execute such Agreement shall in no way limit the enforceability of the Binding Provisions.

11. Entire Agreement. The Binding Provisions of this Letter constitute the entire agreement among the parties with respect to the Transaction, and this Letter and the Binding Provisions supersede all prior oral and/or written agreements, courses of conduct and dealings, understandings, and representations and warranties between the parties regarding the subject matter of this Letter. Except as may be otherwise provided herein, the Binding Provisions may be amended and/or modified only by a writing executed by all of the parties.

12. Termination. Except with respect to Section 4, which will cease to be binding if one of the parties cancels or terminates the discussions and negotiations that are the subject of this Letter, the Binding Provisions will automatically terminate one (1) year from the date on which the parties execute the Agreement and may be terminated earlier upon the mutual, written consent of the parties. The termination of the Binding

Provisions will not affect the liability of a party for breach of any of the Binding Provisions prior to the termination. Upon termination of the Binding Provisions, the parties will have no further obligations hereunder.

13. Governing Law. The Binding Provisions of this Letter shall be governed by and construed under the laws of the state of California without regard to conflicts of laws principles.

14. Jurisdiction/Service of Process. Any action or proceeding seeking to enforce any provision of, or based upon any right, duty, or obligation arising out of this Letter shall be brought against any of the parties in the courts of the state of California, County of Alameda, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein.

15. Expiration. This Letter shall otherwise expire unless a signed copy has been returned to AHS prior to 5:00 p.m. on July 12, 2013.



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Wright L. Lassiter, III, Chief Executive Officer  
ALAMEDA HEALTH SYSTEM

If the proposal described in this Letter is acceptable to the City of Alameda Health Care District Board of Directors, please confirm that acceptance by signing a copy of this Letter in the space provided below and returning it to me at your earliest convenience.

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Deborah Stebbins, Chief Executive Officer  
CITY OF ALAMEDA HEALTH CARE DISTRICT

## EXHIBIT A

### TERM SHEET

1. Definitive Agreement. It is the intention of the parties to enter into a Definitive Agreement, that will govern the ongoing relationship of the parties, the City of Alameda Health Care District (AHD) and Alameda Health System, a California Healthcare Authority ("AHS"), relating to the continuing operation of Alameda Hospital following an agreed-upon Effective Date. The parties agree that the Definitive Agreement shall be negotiated and ready for submission to their respective Boards within 90 days from execution of this Letter of Intent. Such time period may be extended by mutual agreement of the parties.
2. Delegation of Alameda Hospital. AHD shall delegate to AHS (which shall assume and undertake) the possession of, and the ongoing responsibilities for licensure, control, governance, operation, administration, financial management and maintenance (including, but not limited to, compliance with ongoing regulatory and seismic requirements) of Alameda Hospital. The parties agree that the name 'Alameda Hospital' shall not be changed without the approval of AHD.
3. Board Appointment. In order to ensure both that (a) the objectives of affiliation are achieved from the perspective of Alameda Hospital, and (b) the broader interests of the emerging system are advanced, AHD shall have one (1) voting member on the AHS Board of Trustees. Such Trustee will be nominated by AHD and appointed by the Board of Supervisors of Alameda County. Failure of the Supervisors to appoint a Director nominated by AHD, through the process to be set forth in the Definitive Agreement, shall represent a material breach of a District Reserved Right. That process will describe how, if the Board of Supervisors rejects three (3) successive AHD nominees, or fails to appoint an AHD nominee at all within 6 months of the initial nomination, that would constitute a breach of the Agreement, which could terminate the relationship. In addition, members of the AHD Board of Directors may serve as regular appointed members on one or more AHS Board Committees.
4. Capital Commitments. It is the intention of AHS to commit to such expenditures for the operational, financial and capital needs of Alameda Hospital (including, but not limited to, electronic health records implementation, compliance with 2020 seismic standards, and routine property, plant and equipment repair, maintenance and replacement) as may be reasonably required for Alameda

Hospital. Estimates of such capital requirements through 2020 shall be set forth in the Agreement. The parties have made no estimate of the financial and capital needs of Alameda Hospital after 2020; however, the responsibilities of AHS for licensure, control, governance, operation, administration, financial management and maintenance of Alameda Hospital, consistent with evolving market and regulatory conditions, shall continue throughout the duration of the Agreement. However, such initial capital commitments by AHS shall not require AHS to construct a new acute care facility in compliance with the seismic requirements established by the State of California for 2030. The manner and funding for such an earthquake compliant facility shall be the subject of further negotiations between the parties beginning in 2020.

5. Line of Credit. Upon execution of the Letter of Intent, AHS shall make available to AHD a Line of Credit pursuant to a Line of Credit Agreement totaling \$1,500,000 Dollars to assist AHD in paying its past due accounts payable and such other operating expenses as may be essential to the continued operation of Alameda Hospital, as mutually agreed upon by AHD and AHS. The initial Line of Credit advance will be guaranteed by the Alameda Hospital Foundation. Upon execution of the Definitive Agreement, AHS will agree to consider extension of the Line of Credit to a total of not more than a cumulative \$3,000,000 Dollars, based solely on AHS' determination of the needs of Alameda Hospital prior to close of the Transaction. After consummation of the Transaction, AHD shall repay to AHS the amounts loaned under the Line of Credit from the Parcel Tax levied by AHD. If the parties do not consummate the transactions contemplated by the Definitive Agreement, any amounts advanced under the Line of Credit shall become due and payable to AHS, with interest as specified under the Line of Credit Agreement, and shall be paid in full out of the next year's assessment and collection of the parcel tax
6. Parcel Tax Allocation and Allowable Uses. The parties intend that AHD will support the ongoing operation and capital needs of Alameda Hospital through the annual assessment and collection of its duly authorized parcel tax. In order to comply with the voter-approved resolution that authorized the parcel tax, the parcel tax shall be used solely and exclusively for the operating and capital support of Alameda Hospital, which shall include, when permitted by annual operating and capital surpluses, the establishment and funding of a reserve fund for anticipated capital needs of the hospital. The sole exception to this shall be the repayment of the Line of Credit as set forth in Section 5 above. Moreover, as a further requirement of the parcel tax, AHS shall agree to maintain, at a

minimum (and unless otherwise agreed to by AHD) both a Basic Level Emergency Department and no fewer than 50 licensed beds for the delivery of acute inpatient services at Alameda Hospital.

7. **Parcel Tax Budget.** AHS shall annually develop, and submit to AHD for its reasonable approval a budget and spending plan for the parcel tax revenue, making allocation for Alameda Hospital-specific operating and capital needs, and to cover the reasonably anticipated costs of ongoing AHD operations. In order to minimize such AHD operational costs, AHS shall make available on a regular and mutually agreed-upon basis, meeting rooms and support personnel required for the conduct of AHD business at a not-to-exceed annual amount to be determined. When permitted by annual operating and capital surpluses, the parties shall establish a long-term capital reserve fund for meeting the ongoing capital needs of Alameda Hospital, including the seismic compliance requirements set by the State of California for 2030.
8. **Medical Staffs.** The Definitive Agreement shall set forth the timing and manner in which the respective organized medical staffs of AHS and Alameda Hospital will collaboratively work together so as to support the most efficient delivery of health care services within the AHS system going forward. At close of the Transaction, AHS shall continue to maintain a separate medical staff for Alameda Hospital. At the discretion of AHS, such medical staffs may be consolidated in the future, which consolidation shall be done with the consent of both medical staffs.
9. **Dispute Resolution.** The Definitive Agreement shall set forth a detailed dispute resolution process (meet and confer, mediation, binding arbitration or litigation) for resolution of any future disputes, including but not limited to determinations of materiality of any alleged breaches of the Definitive Agreement, arising between the parties (the “Dispute Resolution Process”). Except as provided in Sections 11 and 12 below, all disputes, claims, causes and actions between the parties shall be finally resolved pursuant to the Dispute Resolution Process.
10. **District Reserved Rights.** The Definitive Agreement shall include the following enumerated rights of AHD, which shall be referred to collectively as the “District Reserved Rights”:
  - a. The name ‘Alameda Hospital’ shall not be changed without the consent of AHD.

- b. The agreed-upon level of 50 licensed beds for acute inpatient services and operation of a Basic Level Emergency Department at Alameda Hospital shall not be reduced or closed without the consent of AHD.
  - c. AHD shall have one (1) voting member appointed to the AHS Board of Trustees. In addition, members of the AHD Board of Directors may serve as regular appointed members on one or more AHS Board Committees.
  - d. Annually, AHS shall develop, and submit to AHD for its prompt and reasonable approval, a budget and spending plan for the parcel tax revenue, making specific allocation for Alameda Hospital-specific operating and capital, and to cover the reasonably anticipated costs of ongoing AHD operations.
  - e. AHS shall make available on a regular and mutually agreed-upon basis meeting rooms and support personnel required for the conduct of District business.
  - f. AHS' Capital Commitment for planned expenditures for the financial and capital needs of Alameda Hospital, as shall be set forth in the Definitive Agreement.
11. Breach by AHD. In the event, at any time, AHD fails to assess, collect and distribute to AHS the parcel tax, and/or support Alameda Hospital, as set forth above, or otherwise acts to limit or rescind the delegation of Alameda Hospital under the Definitive Agreement, or the voters of the City of Alameda rescind or reduce the parcel tax, AHS may avail itself of the following specific remedies, after exhaustion of the Dispute Resolution Process:
- a. AHS may elect to reaffirm the Definitive Agreement and continue to both fulfill and enforce its obligations thereunder; however, in such event:
    - (1) AHD shall cease to have the right to exercise and/or demand any or all of the District Reserved Rights, and any AHD-nominated Board member of the AHS Board shall be subject to immediate removal by action of the AHS Board and AHD shall have no right to further involvement in the committees of the AHS Board.
    - (2) Any outstanding amounts under the Line of Credit, and any other amounts advanced by AHS (not attributable to the parcel tax) for the

use and benefit of Alameda Hospital, whether for capital expenses or for the support and operation of Alameda Hospital by AHS ("AHS Contributions"), from close of the Transaction forward shall become immediately due and payable under the terms of the Line of Credit Agreement, subject to a total cap equal to five (5) times the average annual amount of the parcel tax for the prior three (3) years' assessments. Any balance in a capital reserve fund, after payment of the Line of Credit and the AHS Contributions shall be returned to or retained by (as the case may be) AHD, If the Line of Credit balance and AHS Contributions, subject to the cap, are not paid within thirty (30) days of AHS' demand, AHS shall be entitled to enforce the obligation by any legal process they may determine and such breach shall not be further subject to the dispute resolution process.

b. AHS may elect to declare the Definitive Agreement terminated, and return possession, control and operation of Alameda Hospital to AHD, with no further obligations. In addition, any outstanding amounts under the Line of Credit, and any AHS Contributions from the Close of the Transaction forward shall become immediately due and payable under the terms of the Line of Credit Agreement, subject to a total cap equal to five (5) times the average annual amount of the parcel tax for the prior three (3) years' assessments. Any balance in a capital reserve fund, after payment of the Line of Credit and the AHS Contributions shall be returned to or retained by (as the case may be) AHD, If the Line of Credit balance and AHS Contributions, subject to the cap, are not paid within thirty (30) days of AHS' demand, AHS shall be entitled to enforce the obligation by any legal process they may determine and such breach shall not be further subject to the Dispute Resolution Process.

12. Breach by AHS. In the event, at any time, AHS fails to materially comply with any of the following specified District Reserved Rights:

- a. The name 'Alameda Hospital' shall not be changed without the consent of AHD.
- b. The agreed-upon level of 50 licensed beds for acute inpatient services and operation of a Basic Level Emergency Department at Alameda Hospital shall not be reduced or closed without the consent of AHD.

- c. AHD shall have one (1) voting member for appointment to the AHS Board of Trustees, in accordance with the agreed upon nomination and appointment process.
- d. Members of the AHD Board of Directors may serve as regular appointed members on one or more AHS Board Committees.
- e. Annually, AHS shall develop, and submit to AHD for its prompt and reasonable approval, a budget and spending plan for the parcel tax revenue, making specific allocation for Alameda Hospital-specific operating and capital, and to cover the reasonably anticipated costs of ongoing AHD operations. This provision shall only be subject to the specific remedies set forth immediately below if AHS fails to timely develop and submit such a budget. If AHD fails to approve the budget or the parties otherwise disagree on the budget, such dispute shall only be subject to the Dispute Resolution Process.
- f. AHS shall fulfill its Capital Commitment for planned expenditures for the financial and capital needs of Alameda Hospital, as shall be set forth in the Definitive Agreement.

AHD may avail itself of the following specific remedies after exhaustion of the Dispute Resolution Process:

- a. AHD may elect to reaffirm the Definitive Agreement and continue to fulfill its obligations and to hold AHS to the fulfillment of its obligations thereunder; however, in such event, AHD shall be relieved of its obligation to support the ongoing operation of Alameda Hospital through the annual assessment and collection of its duly authorized parcel tax. In addition, AHD shall be relieved of its obligation to repay AHS the Line of Credit and AHS Contributions. Any balance in a capital reserve fund, after shall be returned to or retained by (as the case may be) AHD,
- b. AHD may declare the Definitive Agreement breached, rescind the delegation thereunder, and upon demand, AHS shall return possession, control and operation of Alameda Hospital to AHD. In such circumstances, AHS shall reasonably cooperate with AHD or its designee to effectuate the desired transition of operations. In the event

of such a breach, AHD shall be relieved of its obligation to repay AHS the Line of Credit and AHS Contributions.

13. **Employee Transition.** It is the intent of the parties that employees of Alameda Hospital shall become employees of AHS at the earliest possible date. However, due to imperatives of the Transaction, employees at AH will remain employed by AHD for a limited period of time to be established in the Definitive Agreement, which period shall not exceed two (2) years (the “Transition Period”) and which period shall serve as a temporary and transitional arrangement only. The Definitive Agreement shall specify the circumstances under which the Transition Period may be terminated prior to the fixed period established in the Definitive Agreement. During the Transition Period, the parties understand and agree that:

1. AHS will agree to honor all existing labor agreements, subject to the requirements of labor law and the rights of the employees to collectively bargain.
2. Specific limitations shall be established in the Definitive Agreement relating to the utilization and assignment of staff to or from Alameda Hospital during the Transition Period. The parties shall agree on the specific departments and services for which inter-facility assignments may or may not be made and the specific services and departments that may be consolidated during the Transition Period.
3. The parties’ respective Human Resources and Labor Relations functions shall continue to be separately administered during the Transition Period.

This approach allows for a number of functions that are currently performed at AH to be consolidated within AHS, and possibly services now being performed at AHS to be shifted to, or newly established at, AH without jeopardizing the “separate employment” structure during the Transition Period.

14. **Business Plan.** Within ninety (90) days following the execution of a Letter of Intent, the parties shall develop a mutually agreed-upon Business Plan, addressing financial and operational projections for two (2) years following the Effective Date, to confirm the economic feasibility of the transactions contemplated by the Definitive Agreement.



# ALAMEDA HOSPITAL AT A CROSSROADS: A PROPOSAL TO CONSIDER STRATEGIC AFFILIATION WITH ALAMEDA HEALTH SYSTEM

Materials for the City of Alameda Health Care District  
Special Meeting: June 17, 2013

# Outline

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- What's happening on June 17, 2013?
- How did we get here?
- Why did the AHD Board think an affiliation was necessary?
- Where did the proposal from AHS come from?
- Why did the AHD Board think that AHS might be a good affiliation?
- How will Alamedans benefit from an affiliation with AHS?
- What is the impact for Alameda Hospital Employees and Medical Staff?
- How will AHS benefit from an affiliation with AHD?
- What about the parcel tax?
- What exactly is in the proposal?
- What happens next?

# What's happening on June 17, 2013?

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- The City of Alameda Healthcare District (AHD) Board of Directors received a proposal from Alameda Health System (AHS), a newly formed public health care system, to begin the process of formally joining AHS as a member of the new system
- The AHD Board will evaluate and discuss this proposal in a special board meeting on June 17, 2013
- If the AHD Board accepts the proposal it will become a **non-binding Letter of Intent (LOI)**
  - LOI is the first step in a formal, open, public exploration and due diligence process to develop all the details for a definitive agreement between AHD and AHS

# How did we get here?

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- In 2010, the AHD Board conducted a closed session strategy discussion, with a leading health care strategy consultant, to explore new programs and services and how they might be delivered and to critically assess and evaluate the following:
  - The state of the competitive local and regional healthcare market and the outlook for the future
  - The options available to Alameda Hospital to effectively compete and remain viable
- Expiration of Kaiser Contract demonstrated impact of a serious reduction in volume and revenue
- Several things emerged from that session – and the AHD Board directed Alameda Hospital management to begin working on options:
  - Expanding programs and services at Alameda Hospital to meet local and regional needs, and to fully utilize capacity
  - Explore affiliation and merger opportunities with larger health care organizations

# How did we get here? (cont'd)

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- These strategic priorities were reaffirmed by the AHD Board in a follow up strategy session in March, 2012
  - Criteria were formulated for an ideal affiliation partner
- Alameda Hospital management has continued to work on the directives and strategic priorities, and the community has seen the results
  - Bay Area Bone and Joint Center
  - Kate Creedon Center for Advanced Wound Care
  - Alameda Hospital at Waters Edge Skilled Nursing Facility
- The exploration of appropriate affiliation partners has taken a significant amount of time
- Management pursued discussion with over a dozen organizations

# Ideal Affiliation Criteria

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- AHD Board identified criteria for the ideal affiliation partner:
  - Shared mission and values
  - Access to capital
  - Assistance with building third party contracting strength
  - Ease of legal affiliation structures
  - Source of referral workload to utilize unused capacity and support Alameda Hospital infrastructure
  - Willingness to commit to retention of core services at Alameda Hospital
  - Geographic fit

# Why did the Board think an affiliation was necessary?

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- In 2010 AHD Board discussed competitive and market forces (health care reform, local and regional market consolidation) which are still true today
- Pressures to affiliate are more imperative under health care reform
- While new program development has contributed positively to the hospital, the current financial state is unsustainable without an organizational partner
- Can no longer expect employees to go without compensation increases
- Can no longer expect vendors to tolerate delays in payment
- More volume is needed to sustain our infrastructure

# Where did the proposal from AHS come from?

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- Discussions with potential affiliation partners were inconclusive until late 2012, when it became clear that the newly forming Alameda Health System could be the partner to provide the support that Alameda Hospital was seeking
- After significant discussion and deliberation, the AHD Board directed management to proceed with more detailed exploratory discussions with AHS and to form a Steering Committee (with Board, Medical Staff and management representation) for that purpose, subject to three essential conditions of an affiliation agreement:
  - Guarantee an Emergency Care Center and acute care hospital on the island
  - Funding for regulatory and seismic compliance requirements
  - Authority and control of the parcel tax by AHD Board exclusively for the capital and operating needs of Alameda Hospital
- The proposal from AHS is the result of the work that the AHD Board directed the Steering Committee to undertake

# Why did the AHD Board think that AHS might be a good affiliation?

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- Alameda Health System is emerging as a new regional health network and includes:
  - Fairmont Hospital
  - Highland Hospital
  - John George Psychiatric Hospital
  - Wellness Centers: Eastmont, Hayward, Highland, Newark
  - San Leandro Hospital (currently under consideration for 10/13)
- Alignment of Mission, Vision and Values: As public institutions, we share common goals to improve access and increase quality of care for the community
- Development of the AHS system will position participating facilities to compete effectively under health care reform, including serving new patients through the health care exchange and expanded Medi-Cal programs
- AHS represented the ideal system to join



# How will Alamedans benefit from an affiliation with AHS?

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- Guarantee of an “on-island” Emergency Care Center and acute care hospital
- Access to a more comprehensive and higher quality continuum of care and expansion of clinical services
- Funding for facility improvement, new technology and seismic remediation
- No reduction in the services available locally to residents
- More secure long-term financial sustainability brought about by maximizing use of current surgical and acute bed capacity

# What is the impact for Alameda Hospital Employees?

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- No reduction of any health care services and no reductions or layoffs of staff are planned
- In fact, the anticipated increase in volume will likely require additional staff
- AHS affirms a commitment to honor all collective bargaining contracts
- Improved ability to retain and recruit high quality employees with more competitive salary adjustments
- Alameda Hospital employees will remain employees of the District for an initial transition period of at least 1 to 2 years, with no change to seniority, work location, benefit or pension plans
- All employees will eventually be brought under the AHS, but if this occurs it will first be discussed in advance with the bargaining units
- “Floating” of staff between facilities is not anticipated

# What is the impact for Alameda Hospital Medical Staff?

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- Alameda Hospital and AHS Medical Staffs kept separate
- Surgical volume from AHS to be covered by AHS surgeons (after joining Alameda Hospital Medical Staff) and Alameda Hospital anesthesiologists
- Medical inpatient volume to be covered by Alameda Hospital hospitalists and specialists
- Compensation to Alameda Hospital physicians for uncompensated care based on rates to be negotiated

# How will AHS benefit from an affiliation with AHD?

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- Expansion of the network will help improve quality of health care, increase access, and reduce cost for everyone in the community
- Maximizing Alameda Hospital operating room and acute bed capacity will provide relief and improved access to AHS patients currently waiting for elective surgery and medical admissions
- Addition of Alameda Hospital and San Leandro Hospital to AHS is the beginning of expanding outreach and service to additional communities in the County

# What about the parcel tax?

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- The parcel tax is expected to continue to be a critical asset for Alameda Hospital even if we enter into an affiliation with AHS
- By law, the parcel tax can only be used for Alameda Hospital, and within the City of Alameda Health Care District
- Currently, Alameda Hospital relies on the parcel tax to fund operations – unfortunately, under current conditions it does not provide enough support to also ensure compliance with larger capital requirements – like seismic remediation
- As an affiliate of a larger health care system, like AHS, AHD would contribute parcel tax revenues to help fund long term capital investments to ensure that Alameda Hospital is a safe and available source of health care within the City of Alameda

# What exactly is in the proposal?

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- District to support the operating and capital needs of Alameda Hospital, and the creation of capital reserves through the annual assessment of the parcel tax to be used solely for Alameda Hospital
- District to delegate licensure, control, governance, operation, financial management, quality oversight and maintenance to AHS
- AHS to submit annual budget to District outlining proposed usage of parcel tax
- District to continue to hold real property and leaseholds
- District to nominate one Board Member to sit on AHS Board; other Board Members to serve on all major AHS committees
- AHS to maintain an Emergency Care Center and inpatient services now and in the future at Alameda Hospital

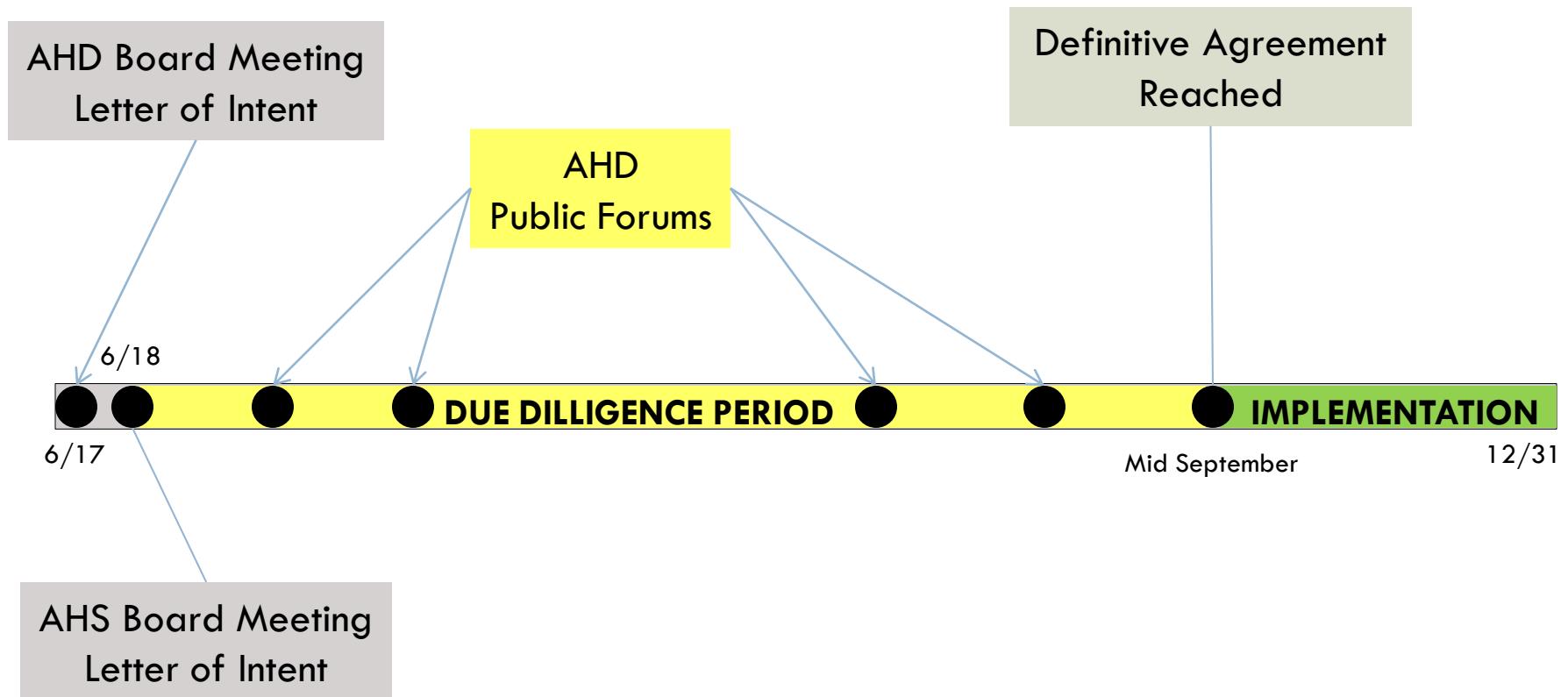
# What exactly is in the proposal? (cont'd)

16

- Alameda Hospital employees to remain employed by the District for transition period
- AHS commits to honor current labor contracts
- Alameda Hospital to maintain its own separate Medical Staff
- AHS commits to meet capital needs of Alameda Hospital, including, but not limited to, electronic health record implementation, compliance with 2020 seismic standards and routine property, plant, equipment maintenance
- Parties to meet no later than 2020 to determine how compliance with 2030 seismic standards will be met
- AHS extends \$1.5M line of credit at LOI signing and an additional amount up to \$1.5M at signing of the Definitive Agreement

# What happens next?

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**Affiliation Exploration Timetable**