

June 4, 2009

The Future of San Leandro Hospital

San Leandro Hospital has had history of financial losses for each full fiscal year since 2000 (when it was owned by Triad Corporation). In 2004 the Eden Township HealthCare District purchased the hospital and leased it to Eden Medical Center. Eden Medical Center was required, under this lease agreement, to operate the facility as an acute care hospital for three years. In 2008, the lease agreement was amended and the District, Eden Medical Center and Sutter Health entered into another agreement called the Memorandum of Understanding. As part of these agreements and in an attempt to enhance services at the hospital, Sutter Health and Eden Medical Center committed to investing in new technology for the radiology department, enhancing surgical services, transforming a vacant floor of the hospital to an acute rehabilitation unit, and establishing a hospitalist program, while continuing general acute care and emergency services until at least June, 2009. During the past two years Eden Medical Center and Sutter Health have worked with local physicians and providers to enhance services and improve the financial performance of the hospital. But, despite the well-intended efforts SLH continues to suffer financial losses.

Now, the Sutter Health, Eden Medical Center and Eden Township Healthcare District have arrived at a crossroad. Any time from July 1, 2009, until June 30, 2010, Sutter may exercise its option to purchase the facility, terminate the lease by giving notice or continue to lease the Hospital until the end of June, 2010.

While the options may appear clear cut and simple, the issues surrounding the pending decisions are quite complex. San Leandro Hospital is a well-established hospital and an integral part of a local medical services system, which provides not only health care services, but employment to several hundred people within the local community. The forthcoming decisions will no doubt impact many constituents.

The following information is provided to help you understand some of those issues as they pertain to the Eden Township Healthcare District's role in the above decision(s) and as a means of addressing questions we have received from the general public. If you have further questions or concerns, please contact Jonnie Banks with the Eden Township Healthcare District at (510) 861-7613 or e-mail Jbanks66@sbcglobal.net.

1. **Why can't the District lease SLH to another operator?**

The agreement with Sutter Health has very specific terms and unless Sutter terminates the lease and returns the hospital—the District has limited authority as to what it can do to influence the disposition of San Leandro Hospital. Sutter Health currently holds the lease and must take the initiative before the District can react. The hospital requires a lot of resources and many organizations are currently feeling the repercussions of this tough economic time.

2. **What happens to the investment the District has made in SLH? (\$35M over the last 5 yrs)**

This investment of \$35 million is being depreciated annually as the hospital ages. Sutter has the option to buy or continue the lease until the end of June in 2010, which will determine the District's investment value.

3. **Why aren't the on-going discussions among interested parties (Sutter, SLH, City of San Leandro, Alameda County, etc.) shared with the community?**

Negotiations are usually conducted under a confidentiality agreement. This is nothing unusual for any business transaction. It is the responsibility of the interested parties to present a well-thought out viable proposal prior to any public discussions, so as not to waste the public's time on issues that are not up for discussion/debate, such as contractual agreements.

4. **Why can't Sutter step up to the plate and subsidize SLH from profits they make at other Sutter facilities?.**

This is a question for Sutter Health.

5. **Have all possible options to keep SLH open been considered?**

The District has considered a number of options. Only one potential operator has made a proposal other than the County/Sutter Health proposal to convert San Leandro Hospital to an Acute Rehab and Outpatient Services facility. The District has asked the City of San Leandro to consider using its resources or seeking additional tax approval from the voters to keep the hospital open as it is. The District recruited a consultant to look at operation of San Leandro Hospital as a free-standing acute hospital. The District concluded that it did not have the resources to operate the hospital itself. (For detailed information, please refer to the HFS Consultant's report of November, 2008 which is posted under the Healthcare/San Leandro Hospital tab of our website).

6. **Who represents the interests of San Leandro and the local communities with regard to the decisions that are being made?** All 5 members of the Board represent all of the communities in the District. There are four board members out of a total of five, who live, work or have worked in San Leandro representing the interests of San Leandro residents.

7. **Why hasn't ETHD come forward to speak out and share information prior to this?**
Again, as in answer to question 3, negotiations are conducted under a confidentiality agreement, until there is substantial agreement on issues to bring forth to the public.
8. **In 2004, what was the District's decision to purchase SLH based on? During discussions it became apparent that the District's purchase of San Leandro Hospital would benefit the communities served by the hospitals - what has changed?**
In 2004, a lease agreement was entered into with Eden Medical Center to operate San Leandro Hospital under a consolidated structure with general acute inpatient services at Eden Medical Center and to develop rehabilitation and outpatient services at the San Leandro Hospital facility. In 2008, the lease was amended and, together with the Memorandum of Understanding, it was agreed that San Leandro Hospital would probably change its use from acute care to acute care rehabilitation and/or other services after June 2009. The current County/Eden/Sutter proposal is entirely in keeping with that goal. (For detailed information, please refer to the 2008 lease agreement (amended) and Memorandum of Understanding, which is posted under the Healthcare/San Leandro Hospital tab of our website).
9. **What has ETHD identified as viable options for SLH?**
There are currently two options being considered: an acute rehab and outpatient services, and general acute care and emergency services by a third party operator.
10. **The SLH financial crisis is contrived: they are "paper losses" and "medical redlining."**
San Leandro Hospital has a record of losing money according to reports filed with OSHPD as required by law. The facility had operating losses in 2001-2003 before the District acquired it and leased it to Eden/Sutter. It has continued to lose money since. The District commissioned an independent consultant to evaluate the facility and the feasibility of operating it as a free-standing acute general hospital. They concluded that the patient profile suggested continuing losses. (For detailed information, please refer to the HFS Consultant's report of November, 2008 which is posted under the Healthcare/San Leandro Hospital tab of our website).
11. **Why can't the District make the Environmental Impact Report of Eden Medical Center's replacement project a condition of Sutter keeping San Leandro Hospital open?**
This is inconsistent with the lease agreement and Memorandum of Understanding terms currently in place and the District would be in violation of these agreements.
12. **Can Sutter obstruct the ability of the District to find another operator for San Leandro Hospital as an acute general hospital?**
It is unclear, under the terms of the existing agreement, whether the District has the right to determine the future of San Leandro Hospital unilaterally.