



The Future of Eden Medical Center

October 17, 2007
Eden Township Healthcare District
Public Hearing



The Future of Eden Medical Center

Meeting Purpose

- The purpose of meeting is to consider a proposed agreement between Sutter Health, Eden Township Healthcare District and Eden Medical Center, that provides for:
 - The construction of a replacement hospital and related facilities in Castro Valley, and
 - A commitment to acute care services at San Leandro.



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Presentation Overview

- Background and History
- Eden Medical Center Replacement Plan
- Proposed Memorandum of Understanding



Background and History

Steven Hollis, District Consultant

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Background and History

- Eden Township Healthcare District began affiliation discussions with various healthcare systems in 1996.
- In 1998, the District entered into an affiliation agreement with Sutter Health, after a lengthy public proposal process and approval by voters.
 - Sutter paid full fair market value for the assets of Eden Hospital.
 - Since then, Eden Medical Center has been owned and operated as an affiliate of Sutter Health.



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Background and History

- State law SB1953 has imposed new seismic safety standards on California hospitals.
- EMC, Sutter and the District have determined that the preferred option for Eden is a complete replacement.
- The current estimated cost for the proposed replacement hospital is \$300 million.



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Background and History

- Sutter has proposed to the District that it is prepared to commit to this project, with no public funding.
- Once significant progress is made toward construction, a new community board will be appointed to govern Eden Medical Center.



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Background and History

- San Leandro Hospital was acquired by the District in 2004.
- The District leases the hospital to EMC, which operates the hospital in conjunction with Eden.
- The planning process for the viability of replacing Eden looked at San Leandro, where decreasing utilization patterns have led to financial losses.
- Sutter and the physicians are committing to a process to attempt to revitalize San Leandro.



Eden Medical Center Replacement Plan

Cynthia Lee, District Consultant
Carl Scheuerman, Sutter Health

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EMC Replacement Plan Background

- Since the affiliation with Sutter Health, Eden Medical Center leadership has studied various alternatives for SB 1953 compliance.
 - Compliance plan had to be financially feasible
 - Compliance plan had to preserve access to acute inpatient services and the trauma center.

- Why Replace and not Retrofit?
 - Retrofit was ruled out because of cost and disruption of services:
 - Extremely costly – over \$100 million – partial compliance.



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EMC Replace Plan Overview

- Designed to Meet Community Need
 - Sized according to demographic trends for the community
 - Sized according to current average daily census requirements with adjustment for future
 - Maintains Acute Care Services, maternity services, Neurosciences, Emergency Room and Trauma Center

- Designed for Maximum Flexibility
 - All beds are private patient rooms



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EMC Replace Plan Overview

- Designed to Provide State-of-the-Art Care
 - Larger operating and procedure rooms.
 - Full range of diagnostic imaging services.
 - Additional special procedure rooms.

- Program Highlights
 - 6-story hospital
 - Total of 130 Licensed Beds
 - Additional 40-bed Universal Care Center

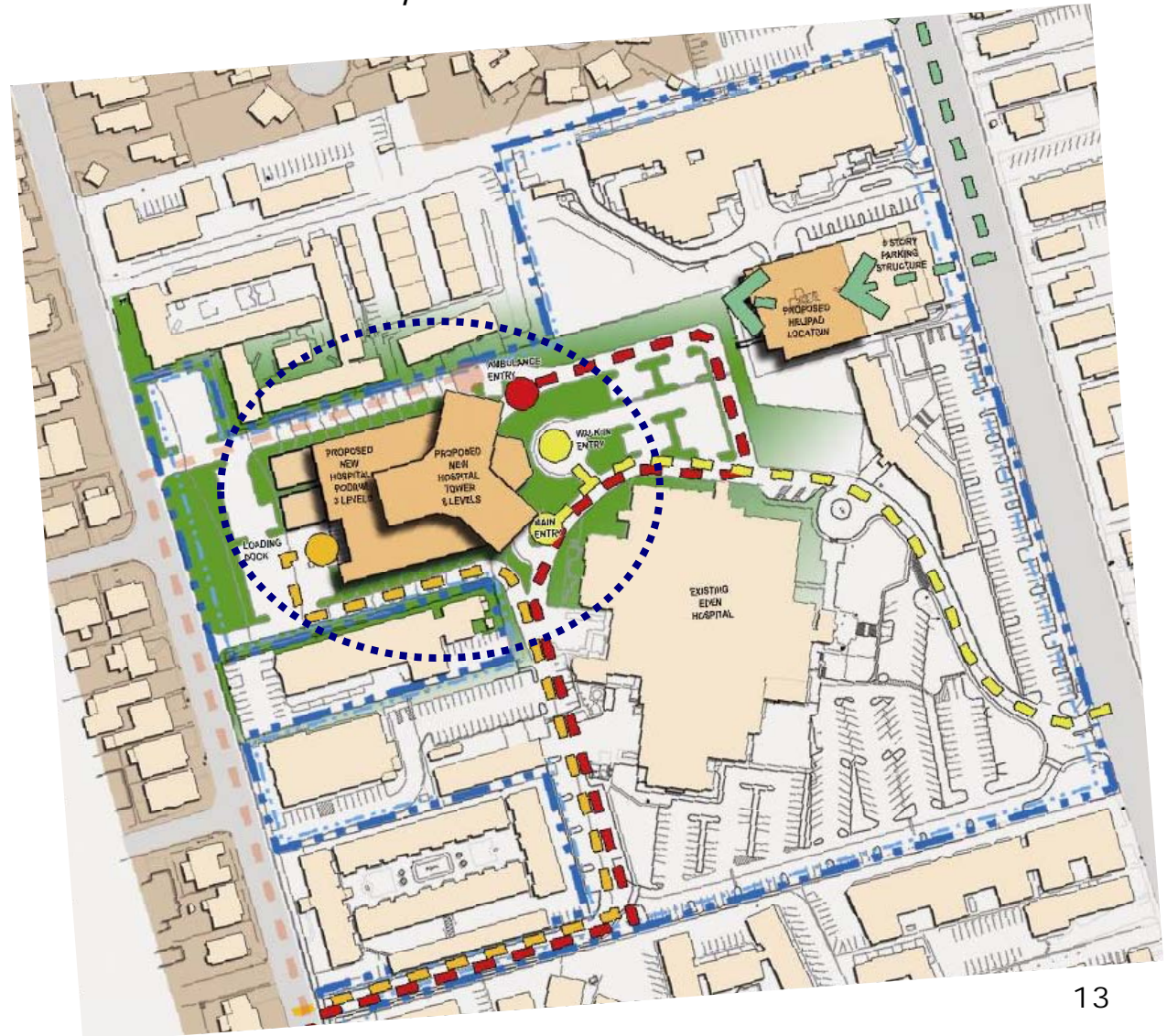
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EMC Replacement Plan Overview – Proposed Site Plan

New hospital orientation at top of the hill facing Lake Chabot Road

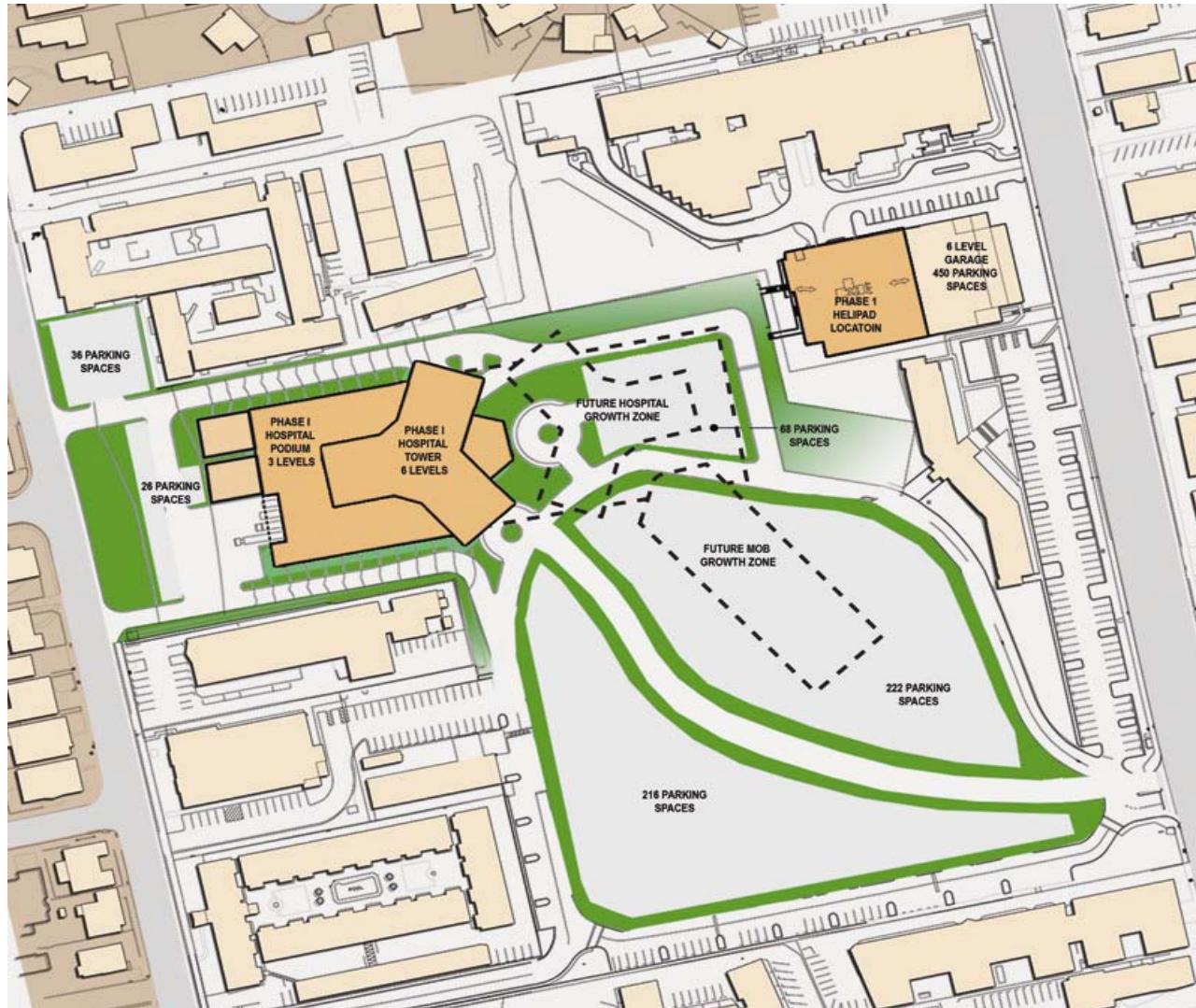
Primary patient access to the campus is still from Lake Chabot Road

Access routes for ambulances, helicopters and all deliveries stay intact



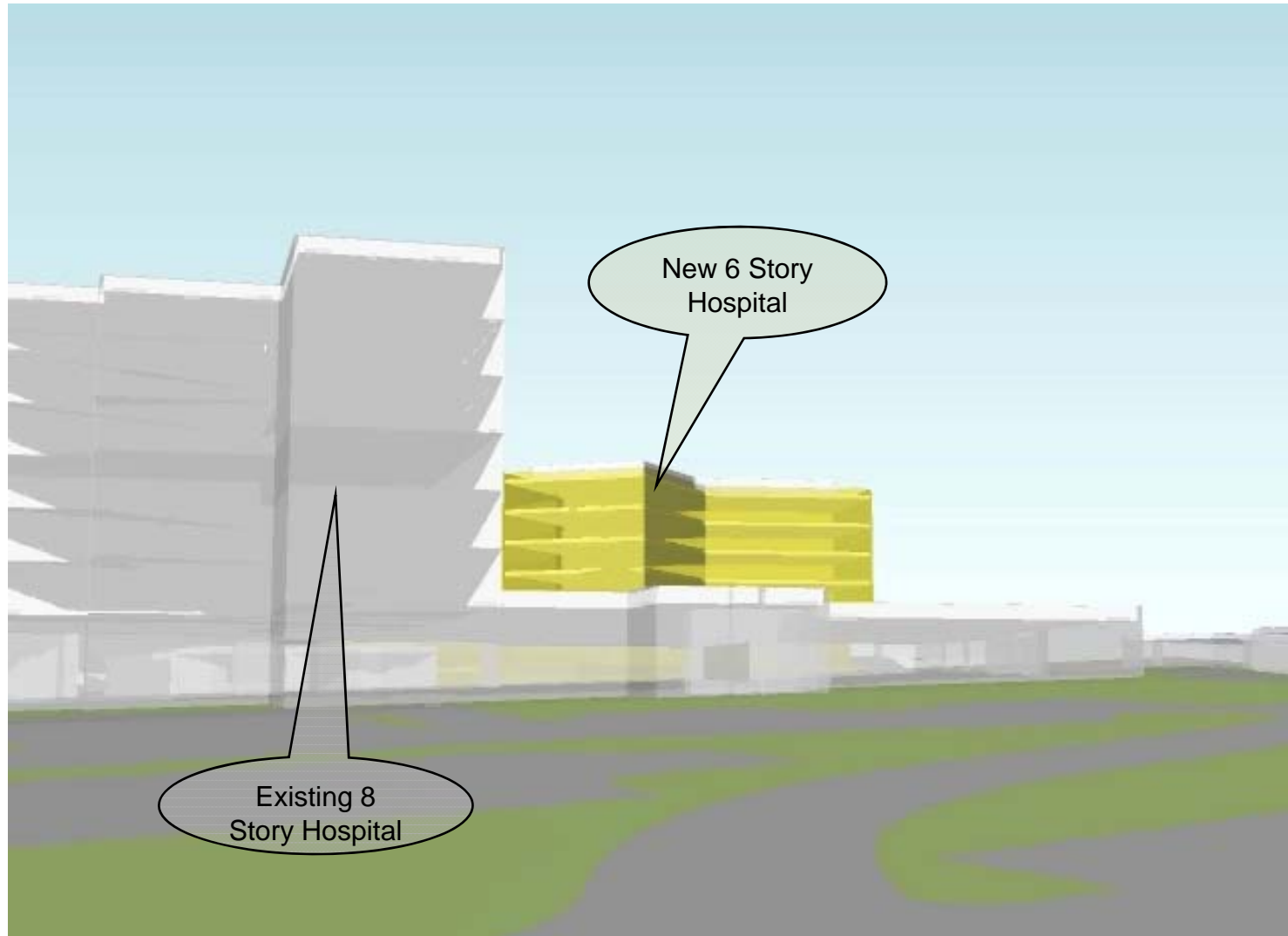
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EMC Replace Plan Overview – Master Site Plan



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EMC Replace Plan Overview – Massing of Proposed Hospital





San Leandro Revitalization Plan

Steve Hollis – District Consultant

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EMC Replacement Plan Background

- In 2004, Eden Township Healthcare District acquired San Leandro Hospital to combine operations and strengthen the financial performance of EMC.
 - Both campuses operate under a single hospital license and have a single medical staff.
 - However, losses due to the under-utilization of the San Leandro campus have been significant.

- Physician Leadership Committee – membership includes local community physicians and representatives from Sutter Health and EMC, formed in May 2007

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San Leandro Campus Revitalization Plan

- Revitalization Plan – Focus is to increase overall utilization of the San Leandro Campus by:
 - Committing to acute care services for at least 2 years.
 - Converting the now vacant 4th floor to an Acute Rehabilitation Unit.
 - Updated Radiology equipment including a CT scanner operational December 2007.
 - Evaluate financial feasibility of the development of a Hospitalist program.
 - Evaluate expansion of operating room hours.

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San Leandro Campus Revitalization Plan

■ Revitalization Plan

- Improve overall communications between Eden, Sutter Health and the physician community.
- Support physician recruitment efforts as validated by community need.
- Develop a marketing and advertising campaign to promote the physicians in the local community.
- Explore feasibility of expanding Sutter Medical Network to include local community physicians.



Proposed Memorandum of Understanding

Steven Hollis – District Consultant

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Proposed Memorandum of Understanding

■ Article II: Master Facility Plan

- Construct a new acute care hospital on Castro Valley Campus.
- Sutter responsible for planning, development and funding of all project costs.
- Master Facility Planning Committee
 - Comprising Sutter, EMC and District Board representatives.

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Proposed Memorandum of Understanding

■ Article III: New Sutter Facility Project

- New hospital will have 130 beds, plus a 40-bed Universal Care Center, and will be located on the existing site, assuming regulatory approvals are obtained.
- Existing hospital to be demolished after the new hospital opens.
- Current cost estimate: \$300 Million
 - Sutter Health responsible for all costs, and cost overruns.
 - No public funding or tax.
- Sutter to consider construction of medical office buildings.



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Proposed Memorandum of Understanding

■ Article IV: San Leandro Hospital Campus

- Continuation of acute services at San Leandro Hospital at least until June 2009.
- Conversion of 4th floor to an acute rehab unit.
- Sutter Health is looking to achieve break-even financial performance.

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Proposed Memorandum of Understanding

■ Article IV: San Leandro Hospital

- If Sutter decides to terminate the lease, Sutter Health will get credit for its cash investment in San Leandro Hospital over and above its rental payments, against the purchase price.

- If lease terminates, District will reimburse Sutter Health for capital expenditures, up to \$5 million.

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Proposed Memorandum of Understanding

■ Article V: Governance

- In recognition of the size of the capital investment it is making, a new Board of Directors will be appointed upon the earlier of:
 - final state approval of all new hospital plans or,
 - 6 months after commencement of construction of foundation and structure.

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■ Article V: EMC Governance

- A majority of seats on the new EMC board will be held by residents of communities served by the hospital. The District will no longer participate in governance.
- The community members will be recommended by the current board and approved by Sutter Health. Any member of the community may apply.
- If Sutter moves to a regional governance structure, at least 2 board members of the regional entity will be from communities served by the hospital.
- By-laws will be amended to provide that the CEO will be an employee of Sutter Health and non-voting member of the board.

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Proposed Memorandum of Understanding

- Article VII: Right of First Refusal
 - District will have right of first refusal if:
 - Sutter chooses to sell EMC.
 - Sutter ceases to operate EMC as an acute care hospital.
 - Sutter converts to for-profit status.
 - Value of the purchase price will be determined by appraisal.



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Proposed Memorandum of Understanding

■ Article IX: Default and Remedies

- Provides a mechanism allowing the District to seek specific performance by Sutter of its obligations.
- Calls for \$260 million of deposited into escrow upon execution.
- In some instances, the District will be reinstated to its governance role.



Conclusions



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Sutter Health Investment

- Sutter Health will fund the entire development and construction of the new acute care hospital on the Eden Campus:
 - Estimated costs \$300 million.
 - No funding from public agencies or taxes.
 - Sutter Health will bear risk of all project overrun costs.

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Sutter Health Investment in San Leandro

- Sutter Health will continue acute care services at the San Leandro Hospital Campus for two more years, funding all associated operating losses
 - Projected to be \$20 million

- Sutter Health has committed to capital investment in San Leandro Hospital
 - New rehabilitation unit - estimated cost for conversion \$5 million
 - Additional capital improvements at San Leandro Hospital Campus - estimated investment of \$5 million.

- Ongoing Physician Leadership Committee



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Conclusions

- New hospital is a much needed asset for the residents of Castro Valley and the District
 - Ensures availability of healthcare services beyond 2030.
 - Provides District residents access to state-of-the-art healthcare technologies.

- Sutter's total commitment to the EMC redevelopment plan and the San Leandro revitalization plan is the most significant capital commitment to this community to date.