Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

PUBLIC NOTICE

CITY OF ALAMEDA HEALTH CARE DISTRICT

BOARD OF DIRECTORS

REGULAR MEETING AGENDA

Monday, November 7, 2011

6:00 p.m. (Closed) | 7:00 p.m. (Open)*

Location: Alameda Hospital (Dal Cielo Conference Room)
2070 Clinton Avenue, Alameda, CA 94501
Office of the Clerk: (510) 814-4001

***PLEASE NOTE CHANGE IN START TIME FOR OPEN SESSION to 7:00 P.M.**

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.

I. Call to Order **(6:00 p.m. – 2 East Board Room)** — Jordan Battani

II. Roll Call — Kristen Thorson

III. Adjourn into Executive Closed Session

IV. Closed Session Agenda

A. Call to Order
B. Approval of Closed Session Minutes – October 10, 2011 (Regular)
C. Medical Executive Committee Report and Approval of Credentialing Recommendations — H & S Code Sec. 32155
D. Board Quality Committee Report (BQC) — H & S Code Sec. 32155
E. Discussion of Pooled Insurance Claims — Gov't Code Sec. 54956.95
F. Consultation with Legal Counsel Regarding Pending and Threatened Litigation — Gov't Code Sec. 54956.9(a)
G. Discussion of Report Involving Trade Secrets — H & S Code Sec. 32106
H. Adjourn into Open Session

V. Reconvene to Public Session **(Expected to start at 7:00 p.m. – Dal Cielo Conference Room)**

A. Announcements from Closed Session — Jordan Battani

VI. Regular Agenda

A. Consent Agenda — **ACTION ITEMS**

- ✔ 1) Approval of October 10, 2011 Regular Meeting Minutes [enclosure] **(PAGES 4- 11)**
- ✔ 2) Approval of District Board Calendar **[enclosure]** **(PAGES 12-13)**
- ✔ 3) Approval of New Surgical Procedures for Ophthalmology **[enclosure]** **(PAGES 14)**

B. Action Items

- ✔ 1) Acceptance of September 2011Unaudited Financial Statements and October 26, 2011 Finance and Management Committee Report [enclosure] **(PAGES 15-37)** — Michael McCormick
- ✔ a) Memorandum Regarding Impact of AB97 and IGT on September 2011Financial Statements **[enclosure]** **(PAGES 38-39)** INFORMATIONAL — Diana Surber
- ✔ 2) Approval of Change of Terms to Bank of Alameda Loan Agreements [enclosure] **(PAGES 40-49)** — Kerry Easthope
- ✔ 3) Approval of Resolution 2011-8I - Approving the Sublease Agreement and Transition Agreement to Operate Waters Edge Skilled Nursing Facility and Authorize the Chief Executive Officer to Submit Licensure and Certification Applications [enclosure] **(PAGES 50-81)** — Deborah E. Stebbins, Kerry Easthope, Diana Surber
  - b) *Supplemental Documentation* INFORMATIONAL
  - ✔ i. *Summary of Due Diligence* [enclosure] **(PAGES 82-89)**
  - ✔ ii. *Capital Budget* [enclosure] **(PAGES 90-92)**
  - ✔ iii. *Financial Pro Formas* [enclosure] **(PAGES 93-99)**
  - iv. *Minutes of Public Workshop* [to be distributed]
- ✔ 4) Approval of Resolution 2011-7I – Delegation of Authority to On-Site SNF Manager [enclosure] **(PAGE 100-101)** — Deborah E. Stebbins

C. Presidents Report — Jordan Battani

D. Chief Executive Officer's Report **INFORMATIONAL** — Deborah E. Stebbins

- ✔ 1) FY Ending June 30, 2011 Goals and Objectives Update (Year End) [enclosure] **(PAGES 102-119)**
- 2) Organizational Structure
- 3) Legislative Update
- 4) Monthly Volume Statistics
- 5) Monthly Quality Metrics
- ✔ a) HCAHPS (Hospital Consumer Assessment of Healthcare Provider and Systems) [enclosure] **(PAGE 120)**
- 6) Hospital Updates / Events

F. Medical Staff President Report INFORMATIONAL — James Yeh, DO

H. Community Relations and Outreach Committee Report INFORMATIONAL — Stewart Chen, DC

1) October 25, 2011 Committee Meeting

VII. General Public Comments

VIII. Board Comments

IX. Adjournment

CITY OF ALAMEDA HEALTH CARE DISTRICT

Minutes of the City of Alameda Health Care District Board of Directors
Open Session
Monday, October 10, 2011 Regular Meeting
RESCHEDULED FROM OCTOBER 3, 2011

Board Members Present	Management Present	Legal Counsel Present	Guests
Jordan Battani Stewart Chen, DC Robert Deutsch, MD* Elliott Gorelick J. Michael McCormick	Deborah E. Stebbins Kerry J. Easthope Diana Surber	Thomas Driscoll, Esq.	N/A
		Medical Staff Present	Excused
		Jim Yeh, DO*	N/A
Submitted by: Kristen Thorson, District Clerk			

Topic		Discussion	Action / Follow-Up
I.	Call to Order	The meeting was called to order at 6:08 p.m.	
II.	Roll Call	Ms. Thorson called roll noting a quorum of Directors were present.	
III.	Adjourn into Executive Closed Session	The meeting was adjourned into Executive Closed Session at 6:09 p.m.	
IV.	Closed Session Agenda		
V.	Reconvene to Public Session	The meeting was reconvened into public session at 7:35 p.m.	

A. Announcements From Closed Session

Director Battani stated that the Minutes were approved from September 12, 2011 and September 28, 2011. The Board Quality Committee Reports for June and July were accepted as presented. The Board approved the Credentialing Recommendations of the Medical Staff as outlined below. No other action was taken.

Initial Appointments – Medical Staff

	Name	Specialty	Affiliation	

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Topic	Discussion		Action / Follow-Up	
	• Adelaida Alfiler, MD	Internal Medicine	AIM	
	• Ryzard Chetowski, MD	Gynecology	Alta Bates IVF Program	
	• Christopher Herndon, MD	Gynecology	Alta Bates IVF Program	
	• Michael Hibbard, MD	General Surgery	First Surgical Associates	
	• Jaison James, MD	Orthopedics	Solo Practice	
	• Sophia Kung, MD	Teleradiology	BIC	
	• Nicolas Nelson, MD	Internal Medicine	AIM	
	• Nicole Peoples, DO	Internal Medicine	AIM	
	• Robert Verceles, DDS	Dental	Solo Practice	
	• Bhupinder Virk, MD	Nephrology	Renal Associates	
	Reappointments – Medical Staff			
	Name	Specialty	Staff Status	Appointment Period
	• Giovanni Begossi, MD	General Surgery	Courtesy	11/01/11 – 10/31/13
	• Kimberly Blumberg, MD	Teleradiology	Courtesy	11/01/11 – 10/31/13
	• Lorraine Bonner, MD	Internal Medicine	Active	11/01/11 – 10/31/13
	• Joseph Chan, MD	Radiology	Courtesy	11/01/11 – 10/31/13
	• Samuel Choi, MD	Teleradiology	Courtesy	11/01/11 – 10/31/13
	• Denis Drew, MD	Cardiology	Active	11/01/11 – 10/31/13
	• Barry Engelstad, MD	Teleradiology	Courtesy	11/01/11 – 10/31/13

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Topic	Discussion		Action / Follow-Up	
	• Ira Finch, MD	Teleradiology	Courtesy	11/01/11 – 10/31/13
	• Carol Gerdes, MD	OB/Gyn	Active	11/01/11 – 10/31/13
	• David Goldberg, mD	Teleradiology	Courtesy	11/01/11 – 10/31/13
	• Suzanne Johnson, MD	Emergency Medicine	Active	11/01/11 – 10/31/13
	• Tom Joseph, MD	Radiology	Courtesy	11/01/11 – 10/31/13
	• Teresa Kim, MD	General Surgery	Courtesy	11/01/11 – 10/31/13
	• Keyvan Nouri, MD	Radiology	Courtesy	11/01/11 – 10/31/13
	• Ronald Olson, MD	Radiology	Courtesy	11/01/11 – 10/31/13
	• Susan Wakerlin, MD	Geriatrics	Courtesy	11/01/11 – 10/31/13
	• Randolph Wright, DPM	Podiatry	Active	11/01/11 – 10/31/13
	Reappointment - Allied Health Professional			
	Name	Specialty	Appointment Period	
	• Kaitlin Le PA-C	Physician Assistant	11/01/11 – 10/31/13	
	Resignations			
	Name	Specialty	Affiliation	
	• Jan-Petter Haugen, MD	Ophthalmology	Kaiser	
	• Rutlandra Hodges, MD	Anesthesiology	Kaiser	
	• Stephen Kotler, MD	Ophthalmology	Kaiser	
	• Amardeep Mangat, MD	Internal Medicine	AIM	

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Topic	Discussion		Action / Follow-Up
	• Judy O'Young, MD	Anesthesiology	Kaiser	
	• David Poor, DDS	Oral/Max Surgery	Kaiser	
	• Peter Van Peteghen, MD	Orthopedic Surgery	Kaiser	
VI. Regular Agenda				
A. Consent Agenda				
1) Acceptance of September 12, 2011 Regular Meeting Minutes			Director Gorelick made a motion to approve the Consent Agenda as presented. Director McCormick seconded the motion. The motion carried.	
2) Approval of September 28, 2011 Special Meeting Minutes				
3) Approval of Administrative Policies and Procedures				
B. Action Items				
1) Acceptance of FY Ending June 30, 2011 Audited Financial Statements Rick Jackson, CPA from TCA Partners presented the Audited Financial Statements for fiscal year ending June 30, 2011. He noted that the financials were reviewed in detail at the Finance and Management Committee. Mr. Jackson reviewed in detail the Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets. Increase (decrease) in net assets for the fiscal year was a loss of $1,428,859. Director Gorelick inquired about Note C – Net Patient Service Revenues and Note G Capital Assets. Director Deutsch inquired about the deductions from revenue. Director Battani asked about the provisions for bad debt and the description in the audit. Director McCormick asked about the value of the land and appreciated value of the land and how it is recorded. Mr. Jackson and Management responded to the questions and inquiries.			Director Deutsch made a motion to accept the Audited Financial Statements as presented. Director McCormick seconded the motion. The motion carried.	
The agenda order was modified from the original order.				
D. Chief Executive Officer's Report				
1) Special Reports | Presentations | Updates				
a) Stroke Survey Report and Update			No action taken	

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Topic	Discussion	Action / Follow-Up
	Mary Bond, RN, Claudine Dutaret, MD, Michaele Baxter, RN, Irene Pakel, RN and Louise Nakada gave an update on the successful Joint Commission Stroke Certification as well as the process leading up to certification. The Board congratulated the staff on the Certification. Copies of the presentation are included in the posted and original Board packet. Director Battani stated that formers Board Director and physician of the Hospital sent her an email with accolades for all staff and the hospital on the	
E.	Medical Staff President Report Dr. Yeh stated that the CME programs for October are slated for October 11 and October 25 with the following speakers presenting. • Greg Cochran, MD, JD - Electronic Health Record Pitfalls; Update in Medical Malpractice Liability. • Russell Monroe, MD – Management of Psychiatric Patient in the Acute Medical Setting He also congratulated Dr. Dutaret and the stroke team on the Joint Commission certification onbehalf of the Medical Staff.	
B.	Action Items (continued)	
2)	Acceptance of August 2011 Unaudited Financial Statements and October 5, 2011 Committee Report. Director McCormick reviewed some of the key highlights of the October Financials and updated the Board as to discussions that occurred at the Finance and Management Committee of October 5. Director Gorelick wanted to put on the record an exchange with Ms. Stebbins related to the IGT. Ms. Stebbins stated that the hospital accrued $186,000 in July for IGT for 2 months. Since putting the budget together, the total amount for 2012 amount is expected to be twice as what we had experienced in 2011. The hospital continues to accrue at 80% of the anticipated levels to be on the conservative side. Director Battani requested an analysis of the volume assumptions to actuals and steps planned or taken by the hospital to mitigate the lower experienced volumes in the first quarter of the fiscal year.	Director Deutsch made a motion to accept the August 2011 Unaudited Financial Statements as presented. Director Chen seconded the motion.
Director Deutsch and Dr. Yeh left the meeting at 8:45 p.m.		
3)	Approval of Resolution 2011-6I – Authorizing Further Development of Proposed Transaction to Sublease and Operate Waters Edge Skilled Nursing Facility. Ms. Stebbins introduced and thanked Christian Zimmerman, CEO at Waters Edge	Director Gorelick made a motion to amend the current Resolution so that the sublease be submitted to the Board no later than December 2011. There was no

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Topic	Discussion	Action / Follow-Up
	Skilled Nursing Facility for attending the meeting. Deborah Stebbins, Kerry Easthope and Diana Surber presented the details of the proposed transaction to sublease and operate Waters Edge Skilled Nursing Facility. Copies of the presentation are included in the posted and original Board packet. The presentation included an overview of the Waters Edge Facility, the strategic rationale for partnering with a skilled nursing facility in the District, terms of the proposed agreement with Waters Edge, a timeline, assumptions for the base scenario, financial scenarios (including scenarios for lower volumes and rates). Director Chen expressed concern about the expedited timeline of the transaction and components. Ms. Stebbins stated that she did not feel that the timeline would be rushed. Ms. Stebbins stated that delays in approval will ultimately delay the licensure process and the transfer of operations. Director Chen expressed concern about potential risk factors such as additional reduced rates. Director Gorelick asked if CMS needed to approve the transaction. There was additional discussion on the strategic rationale of expanding skilled nursing facility (SNF) beds when other facilities are closing their SNF units and in light of reduction of payments from the state and federal government. Director Gorelick asked about depreciation and ammonization. There was discussion on industry standards used for the assumptions in the financial pro formas. The Board and management discussed the likelihood of distinct part skilled nursing rates going away and discussion on how many distinct part skilled nursing beds and facilities in the State of California. Management will research the numbers and report back to the Board. Director Gorelick asked what the financial impact of this transaction would mean to the financial viability of the organization. Ms. Stebbins stated that it was crucial to the long term viability of the Hospital. Director Battani expressed her viewpoint regarding the transaction and stated that that this was positive opportunity for the organization that will allow us to transform the operations of the district. The Board discussed having a public workshop regarding this transaction towards the end of October. The Board and Management discussed what the Board was asked to approve at the meeting. Director Battani stated that the approval was intended to allow management to move forward with the due diligence and finalization of documents for approval by the Board. Ms. Stebbins stated that ultimately the final approval will be the licensing and certification approval by the State and Federal government. There was a continued discussion about delaying the decision and what the affects that would potentially have on the organization. Director McCormick stated that there was enough information presented that a decision could be made at the meeting and did not see the benefit in delaying a decision. Mr. Driscoll provide clarification to the Board after there was discussion on	second. The motion did not carry. Director McCormick made a motion to approve Resolution 2011-6I. Director Chen seconded the motion. The motion carried 4 in favor to 1 against (Gorelick).

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Topic	Discussion	Action / Follow-Up
	amending the resolution, stating that the Board is being asked to approve that management move forward with the due diligence and negotiate the contracts.	
	4) Approval of Resolution 2011-7I – Delegation of Authority to On-Site SNF Manager	Action item was deferred to the November 7, 2011 District Board meeting.
C.	President's Report Director Battani did not have a report.	No action taken.
D.	Chief Executive Officer's Report (continued)	
	2) FY Ending June 30, 2011 Goals and Objectives Update (Year End)	Agenda item was deferred to the next Board Meeting in the interest of time.
	3) Monthly Volume Statistics	Agenda item was deferred to the next Board Meeting in the interest of time.
	4) Monthly Quality Metrics	Agenda item was deferred to the next Board Meeting in the interest of time.
	a) HCAHPS (Hospital Consumer Assessment of Healthcare Provider and Systems)	
	5) Hospital Updates / Events	Agenda item was deferred to the next Board Meeting in the interest of time.
F.	Finance and Management Report	
	1) Revenue Cycle Review Findings	Agenda item was deferred to the next Board Meeting in the interest of time.
G.	Community Relations and Outreach Report	Agenda item was deferred to the next Board Meeting in the interest of time.
VII.	General Public Comments	
VIII.	Board Comments Director Gorelick requested that Ms. Stebbins send out a email to Board members with the monthly statistics that are usuallyreported in	

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Topic		Discussion	Action / Follow-Up
	the CEO report since the report was deferred in the interest of time.		
IX.	Adjournment	Being no further business, the meeting was adjourned at 11:11 p.m.	

Attest:

Jordan Battani
President

Elliott Gorelick
Secretary

DRAFT

Date: November 7, 2011

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

From: Kristen Thorson, District Clerk

Subject: Approval of 2012 District Board Meeting Calendar

Recommendation

The attached list of District Board meetings and Board designated committee meetings is being presented for approval by the Board of Directors for 2012.

Background / Discussion

District Board meetings and Board designated committee meetings are proposed to remain on the same general schedule as in 2011 and as outlined below.

District Board	Finance and Management Committee	Community Relations and Outreach Committee	Board Quality Committee
First Monday of the Month*	Last Wednesday of the month	4th Tuesday of the Month	3rd Wednesday of the month
Closed Session & Open Session	Open Session	Open Session	Closed Session
6:00 p.m. / 7:30 p.m.	7:30 a.m.	7:30 a.m.	7:30 a.m.
Board Room Dal Cielo Room	Dal Cielo Room	Dal Cielo Room	Board Room

*January, July and September District Board Meetings are proposed for the 2nd Monday of the month.

Cityof Alameda Health Care District
2011 Meeting Dates

	District Board	Finance & Management Committee	Community Relations Committee	Board Quality Committee
	First Monday of the Month (unless otherwise noted)	Last Wednesday of the month	4th Tuesday of the Month	3rd Wednesday of the month
	Closed Session & Open Session	Open Session	Open Session	Closed Session
	6:00 p.m. / 7:30 p.m.	7:30 a.m.	7:30 a.m.	7:30 a.m.
	Dal Cielo Room / Board Room	Dal Cielo Room	Dal Cielo Room	Board Room
Jan-12	Monday, January 09, 2012	Wednesday, January 25, 2012	Tuesday, January 24, 2012	Wednesday, January 18, 2012
Feb-12	Monday, February 06, 2012	Wednesday, February 29, 2012	Tuesday, February 28, 2012	Wednesday, February 15, 2012
Mar-12	Monday, March 05, 2012	Wednesday, March 28, 2012	Tuesday, March 27, 2012	Wednesday, March 21, 2012
Apr-12	Monday, April 02, 2012	Wednesday, April 25, 2012	Tuesday, April 24, 2012	Wednesday, April 18, 2012
May-12	Monday, May 07, 2012	Wednesday, May 30, 2012	Tuesday, May 22, 2012	Wednesday, May 16, 2012
Jun-12	Monday, June 04, 2012	Wednesday, June 27, 2012	Tuesday, June 26, 2012	Wednesday, June 20, 2012
Jul-12	Monday, July 09, 2012	Wednesday, July 25, 2012	Tuesday, July 24, 2012	Wednesday, July 18, 2012
Aug-12	Monday, August 06, 2012	Wednesday, August 29, 2012	Tuesday, August 28, 2012	Wednesday, August 15, 2012
Sep-12	Monday, September 10, 2012	Wednesday, September 26, 2012	Tuesday, September 25, 2012	Wednesday, September 19, 2012
Oct-12	Monday, October 01, 2012	Wednesday, October 31, 2012	Tuesday, October 23, 2012	Wednesday, October 17, 2012
Nov-12	Monday, November 05, 2012	Wednesday, November 28, 2012	Tuesday, November 27, 2012	Wednesday, November 21, 2012
Dec-12	Monday, December 03, 2012	No Meeting*	No Meeting	Wednesday, December 19, 2012
	(*Last Weds. In Dec. falls the day after Christmas)			

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

Date: November 7, 2011

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

From: James Yeh, D.O.
President, Medical Staff

Re: **New Surgical Procedures for Ophthalmology**

The Medical Executive Committee respectfully requests your approval to add the following procedures to the procedures approved to be performed by qualified ophthalmologists at Alameda Hospital. These procedures have been reviewed and approved by the Surgery Committee and the Medical Executive Committee.

1. **Canaloplasty**

Canaloplasty is an advanced treatment for glaucoma. A microcatheter is inserted into the eye's drainage system canal. After insertion, the catheter enlarges the canal and allows the fluid to drain properly.

2. **DSAEK (Descemet's Stripping Automated Endothelial Kerotoplasty)**

This procedure is used in corneal surgery. It is a new type of graft operation in which the inner endothelial cell layer is replaced. The endothelial cell layer pumps fluid out of the cornea. When it fails, vision declines (blindness can occur) and the eye can be painful when bubbles form from the accumulated fluid and burst. The speed and quality of the visual recovery is generally much better than the conventional penetrating graft.

3. **DALK (Deep Anterior Lamellar Keroatoplasty)**

This new procedure also is also used in corneal surgery. It is a partial thickness graft that preserves (vs the DSAEK procedure which replaces) the two inner most layers of the cornea, Descemet's membrane and the endothelium. The procedure selectively removes the diseased anterior layers of the cornea and retains the healthy innermost layer (endothelium). Because the inner layer is retained, the body does not recognize the donor tissue and there is no risk of rejection.

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THE CITY OF ALAMEDA HEALTH CARE DISTRICT

ALAMEDA HOSPITAL

UNAUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDING SEPTEMBER 30, 2011

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

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ALAMEDA HOSPITAL
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER, 2011

The management of 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 September 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 September, 2011

- For the month of September 2011, combined revenue over expense is a loss of ($349,000) versus a budgeted excess of revenue over expense of $98,000. This loss was driven by a lower than expected volume, both inpatient and outpatient, but especially in outpatient volume and revenue. Year-to-date the hospital had a combined loss of ($585,000) compared to a budget of excess revenues over expenses of $195,000. Some of the highlights of the variances are outlined in this report: management will present a corrective action plan addressing responses to the negative performance to budget at the October Finance Committee.

- Gross patient revenue for September was less than budget by $1.1 million or 5.2%. Inpatient programs were unfavorable to budget by $575,000, and the outpatient programs were also unfavorable by $537,000. On a year-to-date bases gross revenue is below budget by $2.4 million (3.6%), with both inpatient and outpatient under budget on an equivalent percentage basis. While the gross patient revenue Per Adjusted Patient Day (PAPD) month was slightly above the budget of $5,814 the September gross revenue PAPD of $5,821 and 3% above August results of $5,651.

- Total patient days for the month were 2,395, or 4.1% below budget, and YTD days of 7,641 are 106 days (1.4%) under budget. Prior month was 2,701 and prior year's September was 2,446 total patient days, while prior year September YTD was 7,551.

- The average daily acute care census was 27.27, unfavorable to a budget of 29.27 by 2.0 ADC, and a slight improvement over the 27.17 in the prior month; the average daily Sub-Acute census was 32.16 versus a budget of 33.0 and 32.37 in the prior month and the Skilled Nursing program had an average daily census of 20.43 versus a budget of 20.97 and prior month census of 22.0. Year-to-date ADC is 2.4% below the budget of 84.2 at 83.0, but still above the 2010 YTD ADC of 82.3.

- Emergency Care Center (ECC) visits were 1,381 just one visit over the budget of 1,380 visits and 21 visits or 1.5% higher than the prior month's visits of 1,360. And YTD, the ECC visits are just 6 below the budget. However, while the visits are even with budget, the gross revenue generated in this department is below budget almost 6%.

- Total surgery cases were greater than budgeted expectations by 28.7% for the month at 211 cases versus the budgeted 164 cases, inpatient cases were 5 under budget while outpatient cases were 52 over budget. Year-to-date surgery cases were 639 or 15.3% above the budget of 554.

- Outpatient registrations were 1,748, or 11.9% below budget and 168 or 8.8% below prior month. The average of 58.3 visits per day was 5.8% lower than the prior month's 61.8 visits per day. YTD outpatient registrations are below budget by 9.3% at 5,439 versus the budget of 5,998. The outpatient visits (linked to registrations) were below budget primarily in Radiology (36% below budget) due to areas in the department down due to equipment upgrades and remodeling.

Total assets decreased by $683,000 from the prior month, nearly all of which was in current assets. The following items make up the decrease in current assets:

- Total unrestricted cash and cash equivalents for September decreased by $933,000 and days cash on hand including restricted use funds decreased to 9.7 days on hand in September from 15.3 days on hand in August. The decrease in cash was the result of below budget cash collections, increased accounts receivable and decreased payroll liabilities partially offset by an increase in accounts payable.

- Net patient accounts receivable increased in September by $203,000 compared to a decrease of $149,000 in August. Days in outstanding receivables were 56.5 at September month end, a slight increase from 55.2 days in August. Collections in September were $4.5 million compared to $5.3 million in August.
- Other Receivables remained steady from August to September.

Total liabilities decreased by $330,000 compared to an increase of $276,000 in the prior month. This decrease in the current month was the result of the following:

- Third party settlement accounts increased by $242,000, due to the monthly reserve for the impact of the AB 97 reduction in Medi-Cal SNF reimbursement rates that is currently being reviewed by CMS.

- Payroll related accruals decreased by $744,000 as a result of fewer days of required accrued payroll liabilities at the end of September due to the timing of unpaid payrolls at month-end (6 days accrued at month end versus 18 days accrued in August).

- Deferred revenues decreased again by $477,000 due to the recognition of one-twelfth of the 2011/2012 parcel tax revenues of $5.7 million.

- The current portion of the long term debt increased $223,000 due to draws on the line of credit. At month end $500,000 of the board approved $750,000 had been drawn down.

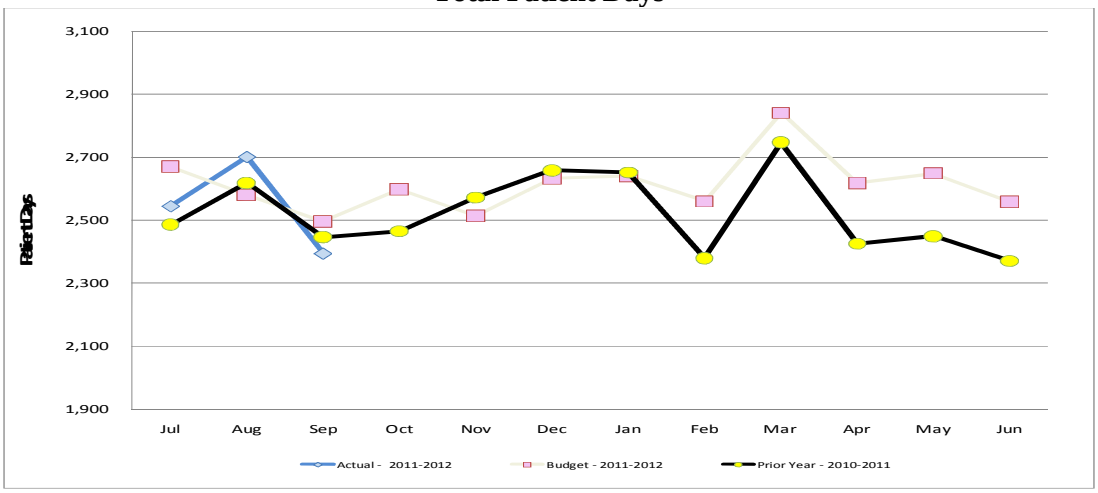
- Accounts payable and other accrued expenses increased $409,000 as vendor payments were delayed due to low cash collections.

Volumes

The combined actual average daily census was 79.83 versus a budget of 83.23 or an unfavorable variance of 4.1%. The current month's overall unfavorable variance was the result of average daily census that was unfavorable to budget in the acute care areas by 2.0 patients per day or 6.8%. The Sub-Acute program was also unfavorable to budget by 2.6% or .87 in the average daily census, while the Skilled Nursing program also had a negative variance to budget of .53 patients per day or 2.5%. September's total census represents an 8.4% decline from the high August levels.

The graph on the next page shows the total patient days by month for fiscal year 2012 compared to the operating budget and fiscal year 2011 actual.

Total Patient Days

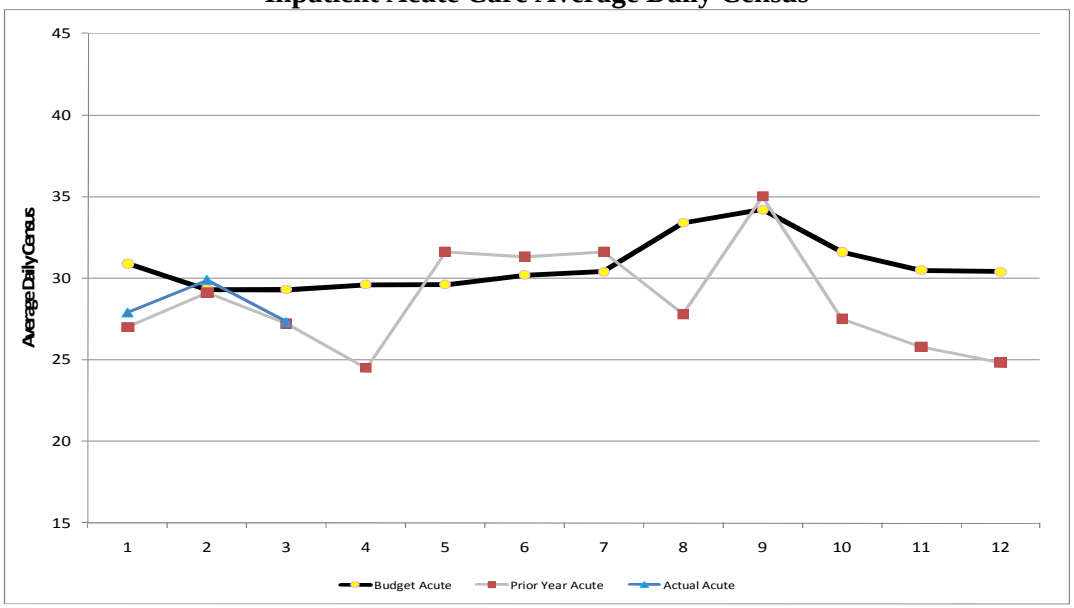


The various components of our inpatient volumes for the month of September are discussed in the following sections.

Acute Care

The acute care patient days were 6.8% (60 days) less than budgeted and even with the prior year's average daily census of 27.17 for September. The acute care program is comprised of the Critical Care Unit (4.6 ADC, 4.9% unfavorable to budget), Definitive Observation Unit (11.2 ADC, 12.8% above budget) and Med/Surg Units (11.5 ADC, 20.9% unfavorable 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.

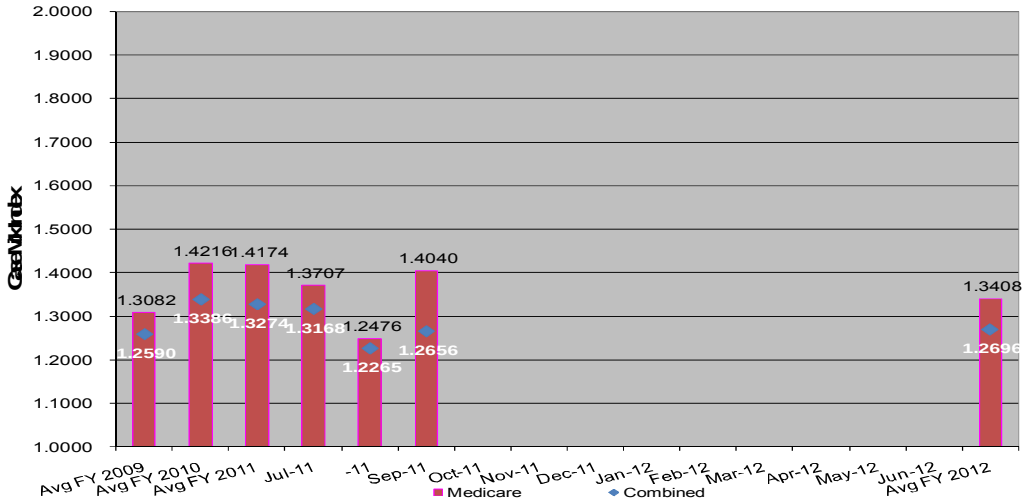
Inpatient Acute Care Average Daily Census



Case Mix Index

The hospital's overall Case Mix Index (CMI) increased to 1.2656, up from the prior month of 1.2392, but is below the prior fiscal year average of 1.3274. The Medicare CMI increased from 1.2476 in August to 1.4040 in September. The graph below shows the CMI for the hospital during the current fiscal year as compared to the prior three fiscal years.

Case Mix Index Trend



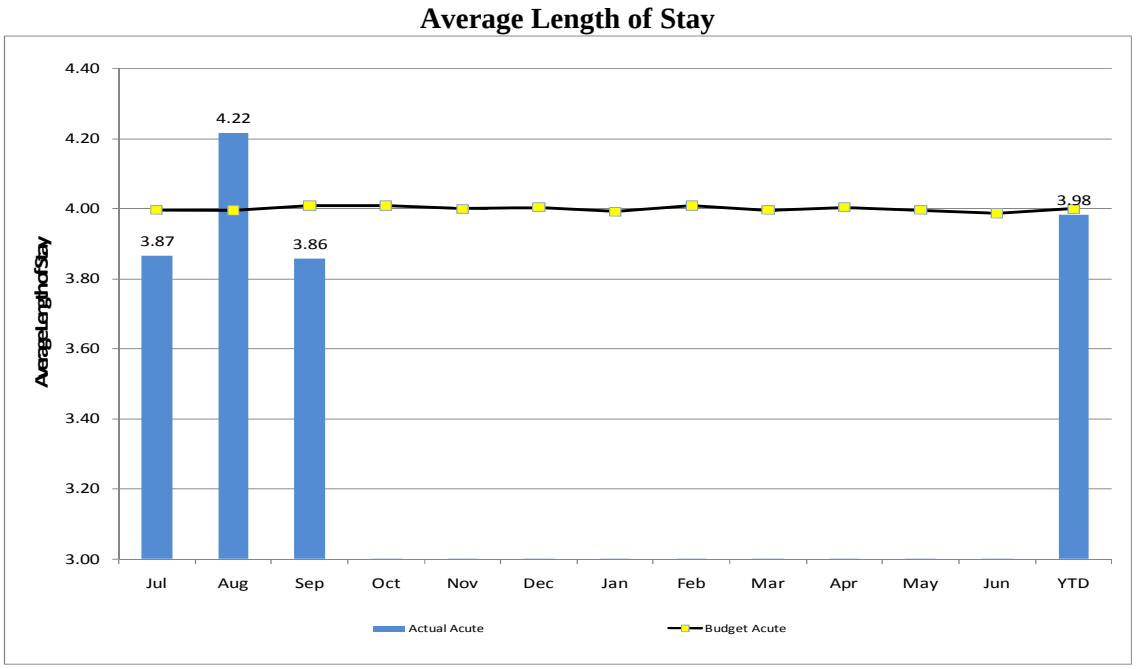
The CMI at the time of forecasting this year's budget, June 2010 through March 2011, the combined CMI was 1.3758. Comparing the first quarter of last year versus the first quarter of this year, the average CMI has dropped from 1.4085 in July - September 2010 to 1.2754 in July – September 2011, or a 9.4% decline. We are researching the reason for this drop, but it could be due to our initiative to convert observation patients to inpatients, and thus inpatients who would be less acute. See the table below that compares the CMI by payer for the three periods.

Case Mix Index Comparison

Financial Class	Jun 10 - Mar 11	Sep 10 YTD	Sep 11 YTD
Commercial - Non-Contracted	1.9649	2.4050	0.6522
HMO	1.2522	1.1622	1.4590
Industrial	1.8373	0.8465	1.3701
Kaiser	1.8412	1.5267	1.2587
Medi-Cal HMO	1.0008	1.0036	0.9075
Medi-Cal	1.2724	1.2046	1.1545
Medicare	1.4724	1.5034	1.3501
Medicare HMO	1.3568	1.4867	1.3320
Personal Pay	1.0105	1.1703	1.0816
Medi-Cal Pending	1.8334	3.2624	2.0751
PPO	1.2613	1.3089	1.1210
VA	1.4051	1.4881	1.0787
Combined	**1.3758**	**1.4085**	**1.2754**

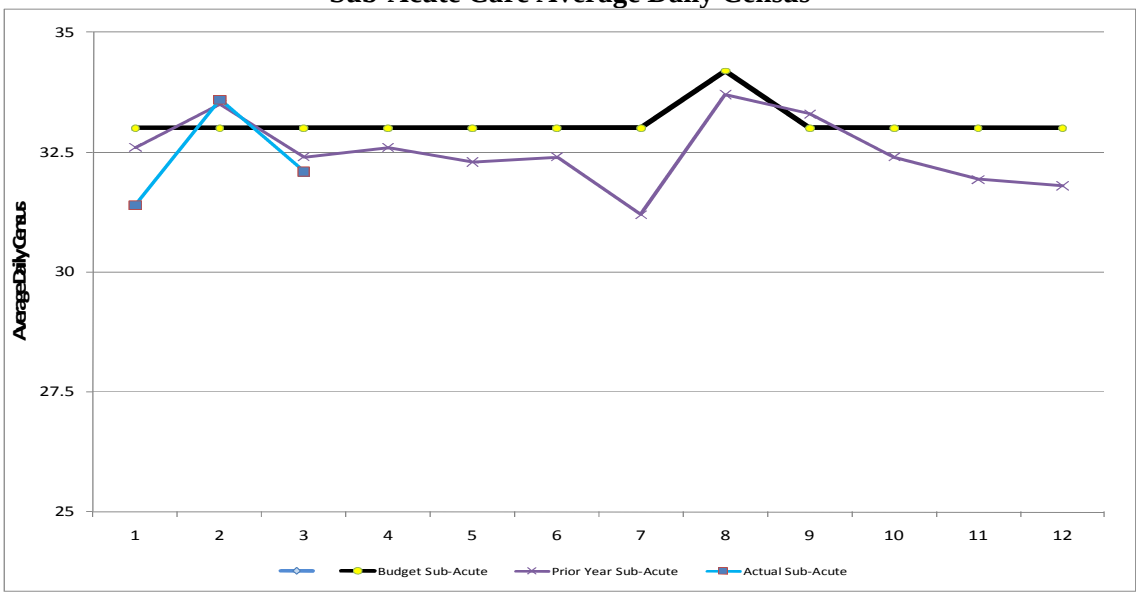
Average Length of Stay

The acute average length of stay (ALOS) decreased from the August high of 4.22 to 3.86 in September, which is a below September in the prior year of 4.20. Budgeted acute ALOS is 4.0. The overall acute ALOS for FY 2011 was 4.13. The graph below shows the ALOS by month and the budgeted ALOS for fiscal year 2012.



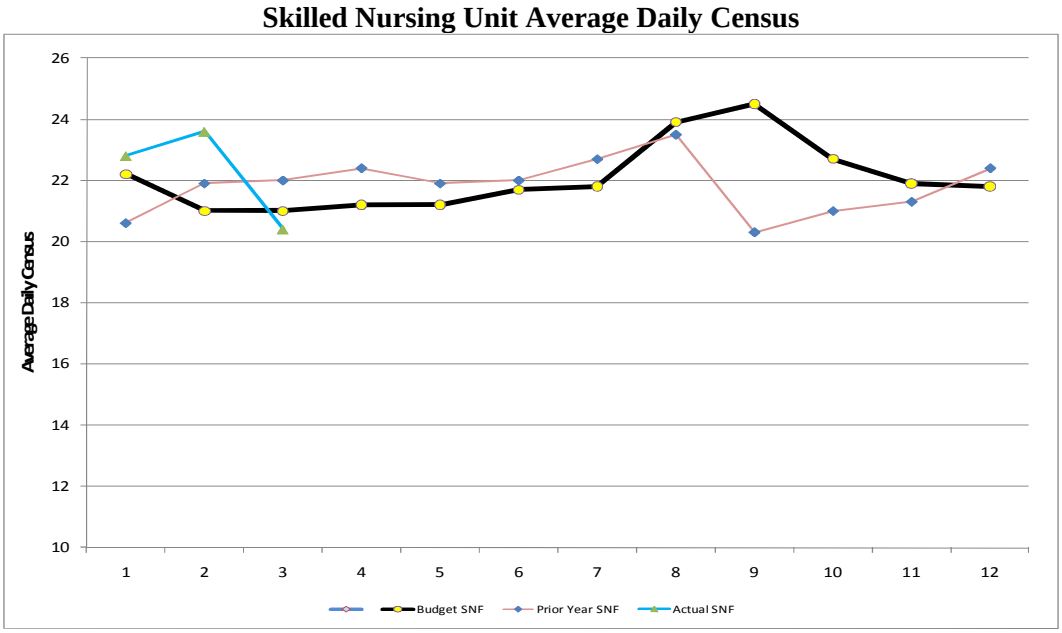
Sub-Acute Care

The Sub-Acute program average daily census of 32.13 in September was slightly less than budgeted projections of 33.0. The graph below shows the Sub-Acute programs average daily census for the current fiscal year as compared to budget and the prior year.



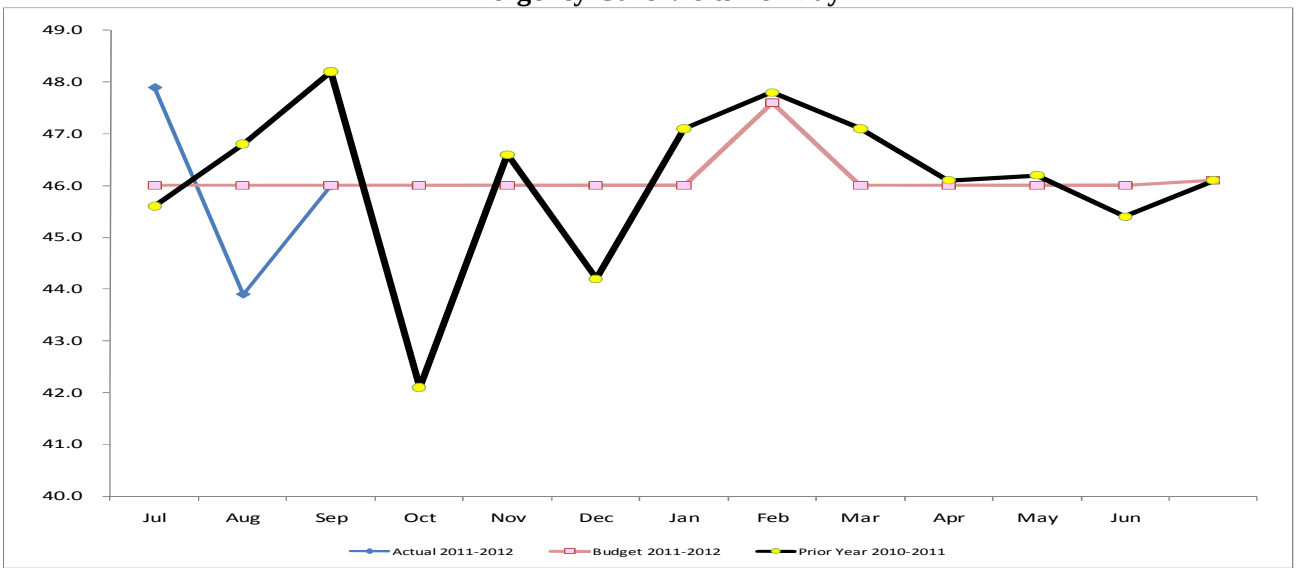
Skilled Nursing Care

The Skilled Nursing Unit (South Shore) patient days were 2.5% or 16 patient days lower than budgeted for the month of September, down 118 days or 16.1% from August. This program's volume remains greater than the prior year-to date, with September year-to-date patient days higher than September 2010 year-to-date by 3.6% and a year-to-date average daily census of 22.3 versus 21.9 in fiscal year 2011. The following graph shows the Skilled Nursing Unit monthly average daily census as compared to budget and the prior year.



Emergency Care Center (ECC)

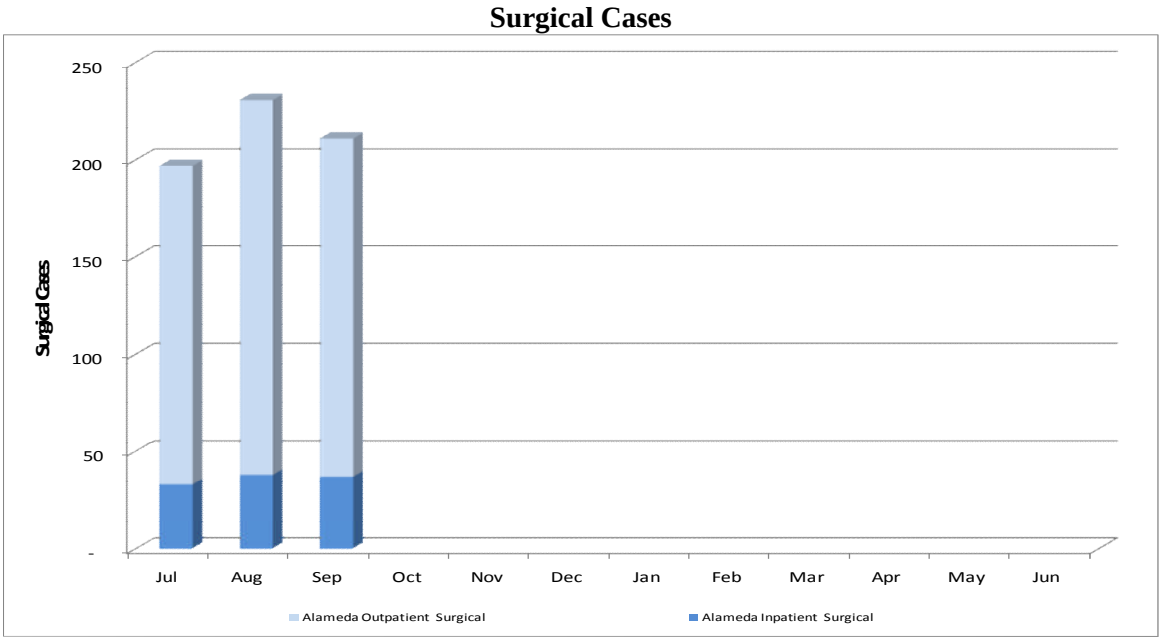
Emergency Care Center visits in September totaled 1,381 and was just one over the budget of 1.380, 16.3% of these visits resulting in inpatient admissions versus 17.1% in August. On a per day basis, the total visits represent a increase of 4.8% from the prior month daily average. In September, there were 308 ambulance arrivals versus 302 in the prior month. Of the 308 ambulance arrivals in the current month, 205 or 66.5% were from Alameda Fire Department (AFD) ambulances.



Surgery

In September, surgery cases were 211 versus 164 budgeted cases and 168 cases in the prior September. Surgery volume was slightly lower than August. Inpatient and outpatient cases totaled 37 and 174 versus 38 and 193 in September and August, respectively.

The graph below shows the number of inpatient and outpatient surgical cases by month for fiscal year 2012.

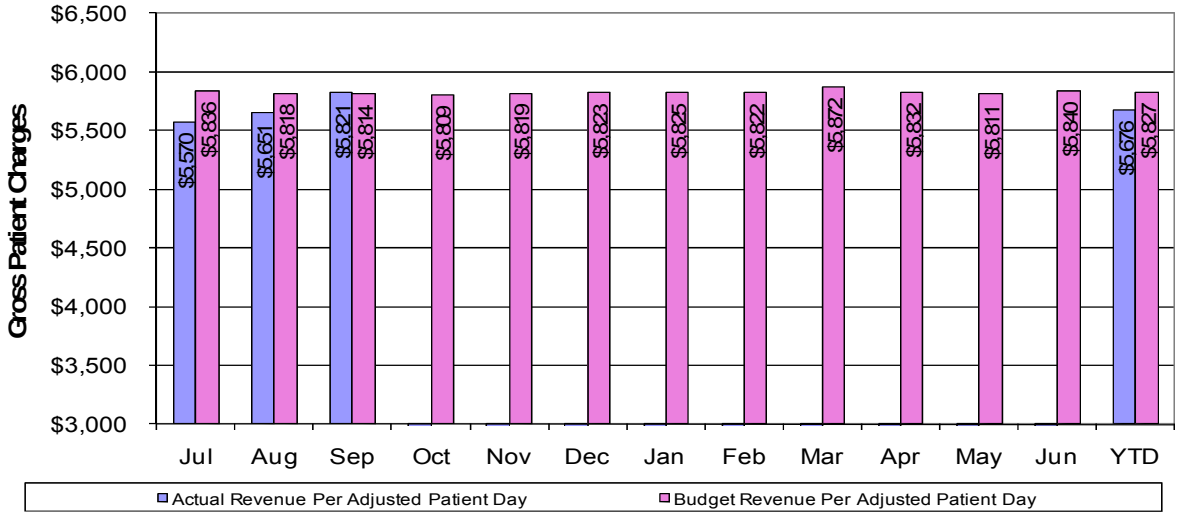


Income Statement

Gross Patient Charges

Gross patient charges in September were less than budget by $1.1 million, or 5.2%, greater than patient days down 4.1% and consistent with the drop in CMI. This unfavorable variance was comprised of an unfavorable variance to inpatient of $575,000 and unfavorable variance in outpatient of $537,000. The decrease in inpatient gross revenues was driven by lower volume in Acute Care, primarily 3 West. Outpatient revenues were lower than budgeted as a result of lower than expected outpatient visits but offset by higher outpatient surgeries. On an adjusted patient day basis total patient revenue was $5,821 slightly above the budget of $5,814 for the month of September and increased from the August gross revenue per APD of $5,651. In addition, medical supplies, clinical laboratory and imaging services were below budget for the month, while the acute Telemetry unit was above budget as well as the sub-acute Respiratory Therapy was also above budget. The following table shows the hospital's monthly gross revenue per adjusted patient day by month and year-to-date for fiscal year 2012 compared to budget.

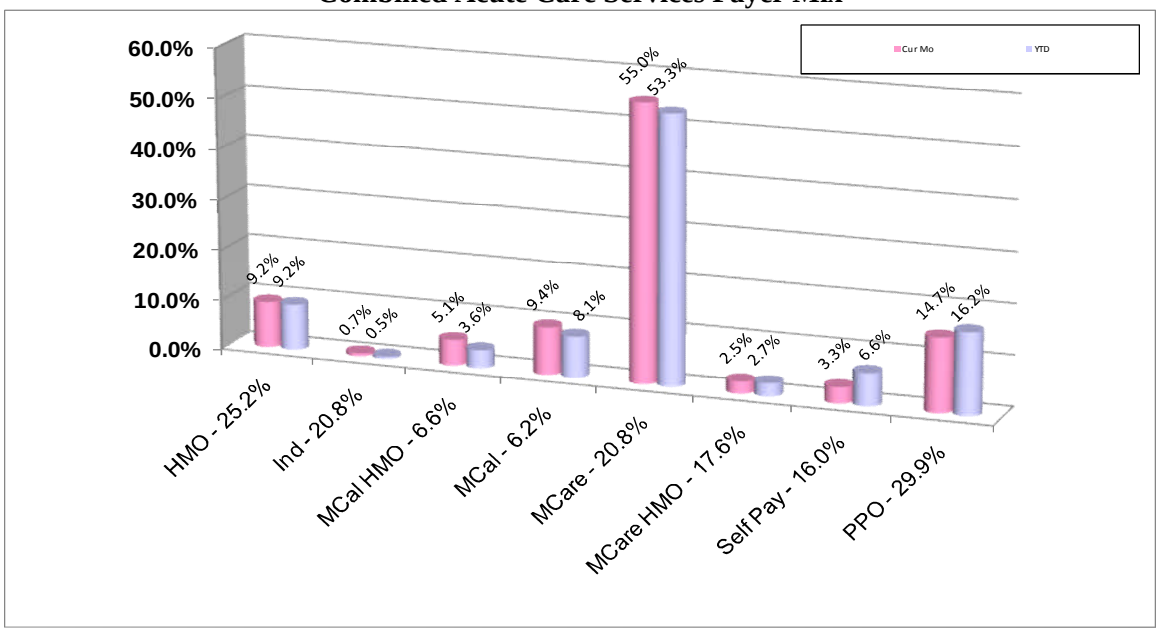
Gross Charges per Adjusted Patient Day



Payer Mix

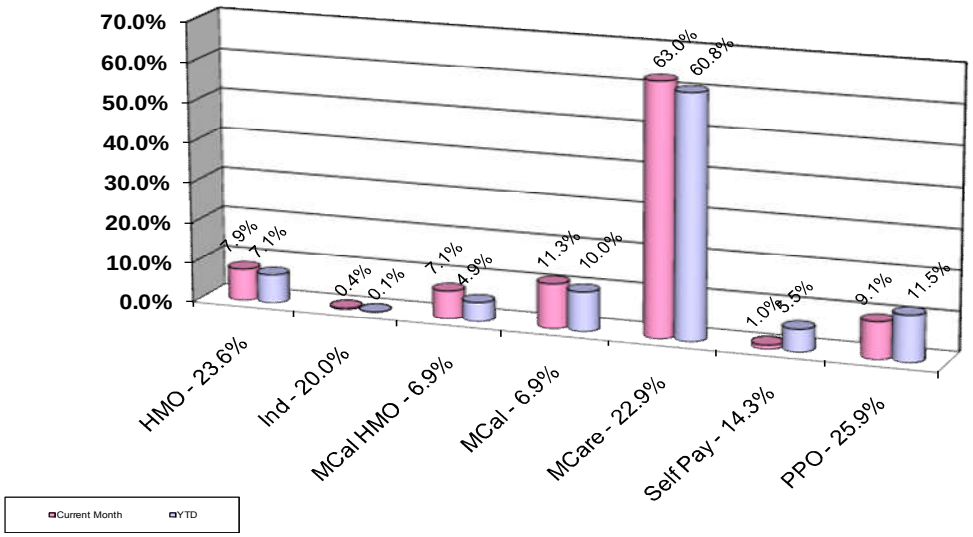
Combined acute care services, inpatient and outpatient, Medicare and Medicare Advantage total gross revenue in September made up 57.5% of the month's total gross patient revenue. Combined Medicare revenue was followed by HMO/PPO utilization at 24.0%, Medi-Cal Traditional and Medi-Cal HMO utilization at 14.5% and self pay at 3.3%. The graph on the following page shows the percentage of gross revenues generated by each of the major payers for the current month and fiscal year to date as well as the current month's estimated reimbursement for each payer for the combined inpatient and outpatient acute care services.

Combined Acute Care Services Payer Mix



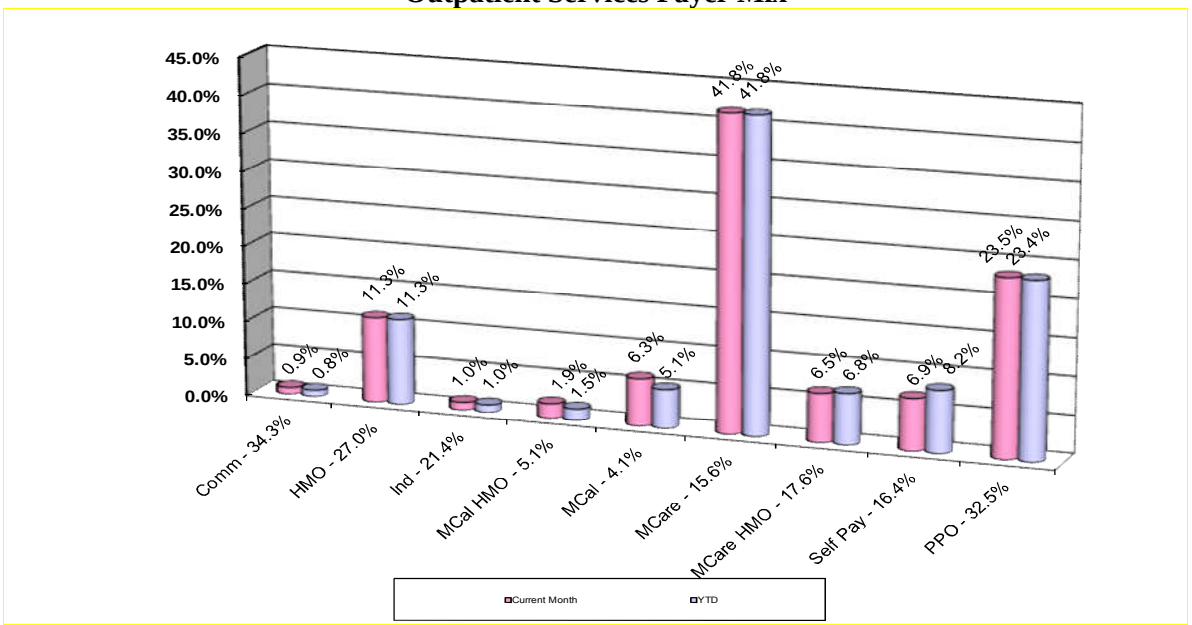
The inpatient acute care current month gross Medicare and Medicare Advantage charges made up 63.0% of our total inpatient acute care gross revenues followed by HMO/PPO at 17.0%, Medi-Cal and Medi-Cal HMO at 18.4% and Self Pay at 1.0% of the inpatient acute care revenue. The graph below shows inpatient acute care current month and year to date payer mix and current month estimated net revenue percentages for fiscal year 2012.

Inpatient Acute Care Payer



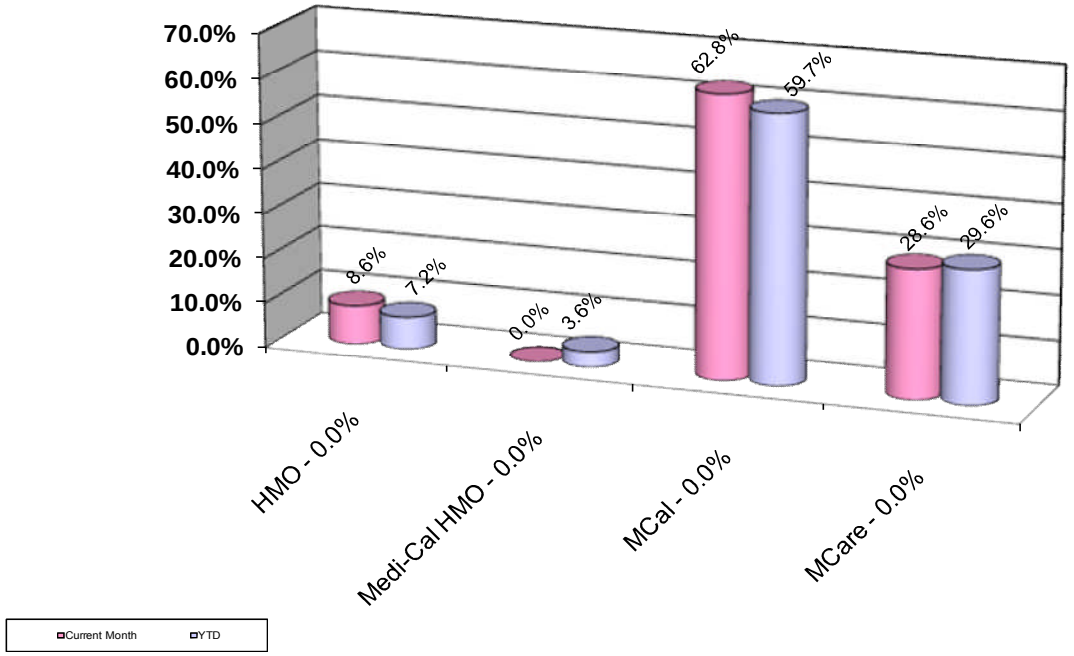
The outpatient gross revenue payer mix for September was comprised of 48.3% Medicare and Medicare Advantage, 35.6% HMO/PPO, 8.2% Medi-Cal and Medi-Cal HMO, and 6.9% self pay. The graph below shows the current month and fiscal year to date outpatient payer mix and the current months estimated level of reimbursement for each payer.

Outpatient Services Payer Mix



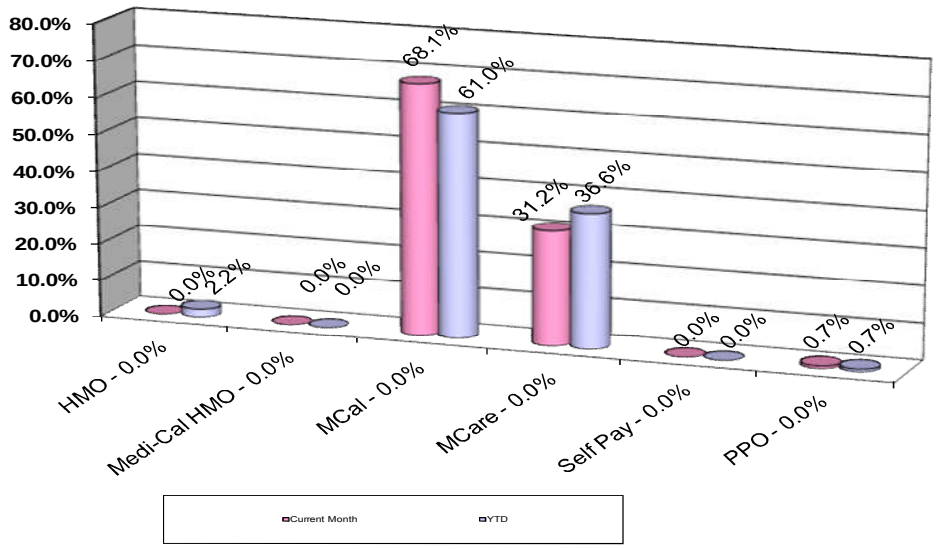
In September, the Sub-Acute care program again was dominated by Medi-Cal utilization of 62.8%, up from 60.2% in August. Medicare was 28.6% and HMO rounds out the unit at 8.6%. The graph below shows the payer mix for the current month and fiscal year to date and the current months estimated reimbursement rate for each payer.

Inpatient Sub-Acute Care Payer Mix



In September, the Skilled Nursing program gross revenues were comprised primarily of Medicare at 31.2% and Medi-Cal at 68.1%. The graph below shows the current month and fiscal year to date skilled nursing payer mix and the current months estimated level of reimbursement for each payer.

Inpatient Skilled Nursing Payer 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 September contractual allowances, bad debt and charity adjustments (as a percentage of gross patient charges) were 80.7% versus the budgeted 77.6%. The large contractual percent is a major contributor to the net loss in September.

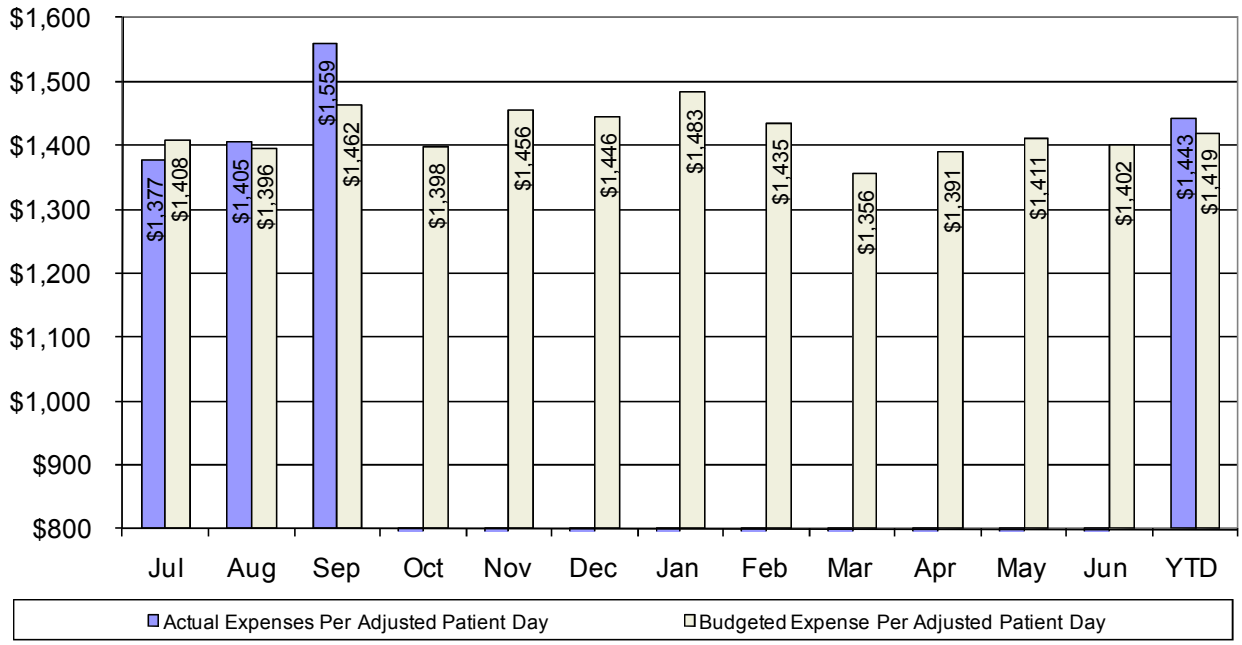
Net Patient Service Revenue

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, current month and year to date net patient service revenues include estimates for payments from the State of California's FY 2011 Intergovernmental Transfer (IGT) Program and reserves for the impact of AB 97 reduction in Medi-Cal long term care rates. The IGT revenue is estimated at $93,000 per month and is $279,000 year to date. The AB 97 reserve is based on the number of long term care days and is recorded as an increase to contractual allowances (decrease to net revenues) of $242,000 in the current month and $760,000 year to date.

Total Operating Expenses

Total operating expenses were higher than the fixed budget by $53,000 or 1.0%. On an adjusted patient day basis, our cost per adjusted patient day was $1,559 which was $97 per adjusted patient day unfavorable to budget and $154 higher than the prior month. This variance in expenses per adjusted patient day was primarily the result of unfavorable variances in salaries, benefits as well as non-medical professional fees due to prior month consulting fee accrual. The graph on the following page shows the actual hospital operating expenses on an adjusted patient day basis for the 2012 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.

Expenses per Adjusted Patient Day

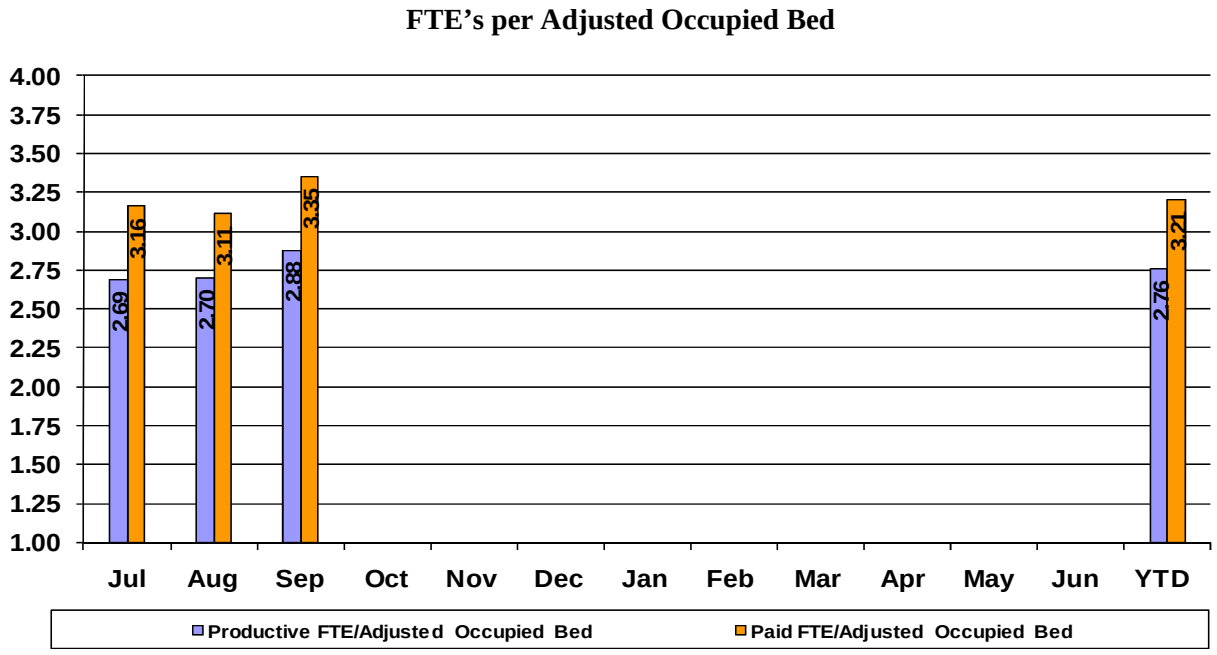


Salary and Temporary Agency Expenses

Salary and temporary agency costs combined were favorable to the fixed budget by $28,000 but were unfavorable to budgeted levels on a per adjusted patient day (PAPD) basis by $39 or 4.9%. On an adjusted occupied bed basis, productive FTE's were 2.89, above the budget of 2.77 FTE's and paid FTE's were 3.36, 2.8% above budget.

Productive salaries per patient day in the CCU were 6.7% above budget, productive salaries per patient day in the DOU were 26.0% above budget, and productive salaries in 3West were 18.6% above budget on a per patient day basis. Acute days were 4.1% below budget, again highlighting a need to better flex staff in relation to volume. Salaries per visit in the Emergency Care Center were again above budget 15.3% while the volume in the ECC was right on budget.

The graph below shows the productive and paid FTE's per adjusted occupied bed for FY 2012 by month.



Benefits

Benefits were unfavorable to the fixed budget by $19,000 or 2.4%.

Professional Fees

Professional fees were unfavorable to budget by $111,000 in September, primarily due to accrual catch up from prior months as well as some much needed revenue cycle consulting.

Supplies

Supplies were favorable to budget by $79,000 (10.7%) or $11 per adjusted patient day in September. As in August, this favorable variance was the result of lower than budgeted patient related supplies such as medical supplies expense, pharmacy supplies, and prosthetics due to low patient volume and below budget inpatient surgeries.

Purchased Services

Purchased services were right at budget on a fixed basis but $5 unfavorable PAPD.

Rents and Leases

Rents and leases were again right at the fixed budget and $23 per adjusted patient day in September, versus budget of $21.

The following pages include the detailed financial statements for the three (3) months ended September 30, 2011, of fiscal year 2012.

ALAMEDA HOSPITAL
KEY STATISTICS
SEPTEMBER 2011

	ACTUAL SEPTEMBER 2011	CURRENT FIXED BUDGET	VARIANCE (UNDER) OVER	%	SEPTEMBER 2010	YTD SEPTEMBER 2011	YTD FIXED BUDGET	VARIANCE	%	YTD SEPTEMBER 2010
Discharges:										
Total Acute	212	219	(7)	-3.2%	194	656	686	(30)	-4.4%	609
Total Sub-Acute	3	1	2	200.0%	2	7	4	3	75.0%	5
Total Skilled Nursing	8	8	-	0.0%	7	18	26	(8)	-30.8%	28
	223	228	(5)	-2.2%	203	681	716	(35)	-4.9%	642
Patient Days:										
Total Acute	818	878	(60)	-6.8%	815	2,612	2,744	(132)	-4.8%	2,552
Total Sub-Acute	964	990	(26)	-2.6%	971	2,979	3,036	(57)	-1.9%	3,021
Total Skilled Nursing	613	629	(16)	-2.5%	660	2,050	1,967	83	4.2%	1,978
	2,395	2,497	(102)	-4.1%	2,446	7,641	7,747	(106)	-1.4%	7,551
Average Length of Stay										
Total Acute	3.86	4.01	(0.15)	-3.8%	4.20	3.98	4.00	(0.02)	-0.5%	4.19
Average Daily Census										
Total Acute	27.27	29.27	(2.00)	-6.8%	27.17	28.39	29.83	(1.43)	-4.8%	27.74
Total Sub-Acute	32.13	33.00	(0.87)	-2.6%	32.37	32.38	33.00	(0.62)	-1.9%	32.84
Total Skilled Nursing	20.43	20.97	(0.53)	-2.5%	22.00	22.28	21.38	0.90	4.2%	21.50
	79.83	83.23	(3.40)	-4.1%	82.03	83.05	84.21	(2.05)	-2.4%	82.34
Emergency Room Visits	1,381	1,380	1	0.1%	1,445	4,226	4,232	(6)	-0.1%	4,310
Outpatient Registrations	1,748	1,984	(236)	-11.9%	1,964	5,439	5,998	(559)	-9.3%	5,938
Surgery Cases:										
Inpatient	37	42	(5)	-11.9%	46	108	129	(21)	-16.3%	153
Outpatient	174	122	52	42.6%	122	531	425	106	24.9%	425
	211	164	47	28.7%	168	639	554	85	15.3%	578
Adjusted Occupied Bed	116.72	123.71	(6.99)	-5.7%	123.95	122.63	125.32	(2.69)	-2.1%	123.31
Productive FTE	337.24	342.71	(5.47)	-1.6%	358.92	341.43	340.92	0.51	0.2%	359.02
Total FTE	392.33	404.54	(12.21)	-3.0%	416.54	397.67	404.25	(6.58)	-1.6%	417.56
Productive FTE/Adj. Occ. Bed	2.89	2.77	0.12	4.3%	2.90	2.78	2.72	0.06	2.3%	2.91
Total FTE/ Adj. Occ. Bed	3.36	3.27	0.09	2.8%	3.36	3.24	3.23	0.02	0.5%	3.39

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

	Current Month	Prior Month	Prior Year End
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 941,631	$ 1,875,126	$ 1,802,225
Patient Accounts Receivable, net	8,655,232	8,447,995	7,249,185
Other Receivables	7,509,956	7,459,738	8,216,998
Third-Party Payer Settlement Receivables	360,158	360,158	278,580
Inventories	1,179,225	1,193,907	1,238,762
Prepaids and Other	319,472	312,138	262,359
Total Current Assets	18,965,674	19,649,062	19,048,109
Assets Limited as to Use, net	518,081	507,181	483,716
Fixed Assets			
Land	877,945	877,945	877,945
Depreciable capital assets	43,429,274	43,429,274	43,385,071
Construction in progress	3,163,020	3,085,614	2,921,048
Depreciation	(39,088,895)	(39,015,751)	(38,862,494)
Property, Plant and Equipment, net	8,381,344	8,377,082	8,321,570
Total Assets	**$ 27,865,099**	**$ 28,533,325**	**$ 27,853,395**
Liabilities and Net Assets			
Current Liabilities:			
Current Portion of Long Term Debt	$ 1,158,483	$ 935,139	$ 711,784
Accounts Payable and Accrued Expenses	7,795,234	7,385,914	7,025,089
Payroll Related Accruals	3,710,336	4,454,143	4,003,695
Deferred Revenue	4,294,838	4,771,873	5,725,900
Employee Health Related Accruals	568,693	515,207	343,382
Third-Party Payer Settlement Payable	1,066,399	823,997	267,474
Total Current Liabilities	18,593,983	18,886,273	18,077,324
Long Term Debt, net	1,002,937	1,040,714	1,142,109
Total Liabilities	19,596,920	19,926,987	19,219,433
Net Assets:			
Unrestricted	7,522,521	7,871,582	8,022,670
Temporarily Restricted	745,657	734,757	611,292
Total Net Assets	8,268,178	8,606,339	8,633,962
Total Liabilities and Net Assets	**$ 27,865,099**	**$ 28,533,325**	**$ 27,853,395**

City of Alameda Health Care District

Statements of Operations

September 30, 2011

$'s in thousands

	Current Month					Year-to-Date				
	Actual	Budget	$ Variance	% Variance	Prior Year	Actual	Budget	$ Variance	% Variance	Prior Year
Patient Days	2,395	2,497	(102)	-4.1%	2,446	7,641	7,747	(106)	-1.4%	7,551
Discharges	223	228	(5)	-2.2%	203	681	716	(35)	-4.9%	642
ALOS (Average Length of Stay)	10.74	10.95	(0.21)	-1.9%	12.05	11.22	10.82	0.40	3.7%	11.76
ADC (Average Daily Census)	79.8	83.2	(3.40)	-4.1%	81.5	83	84.2	(1.15)	-1.4%	82.1
CMI (Case Mix Index)	1.2265				1.4031	1.3168				1.4062
Revenues										
Gross Inpatient Revenues	$ 13,941	$ 14,516	$ (575)	-4.0%	$ 13,588	$ 43,379	$ 45,035	$ (1,655)	-3.7%	$ 41,615
Gross Outpatient Revenues	6,522	7,059	(537)	-7.6%	7,143	21,190	21,937	(747)	-3.4%	20,958
Total Gross Revenues	20,463	21,575	(1,112)	-5.2%	20,730	64,570	66,972	(2,402)	-3.6%	62,573
Contractual Deductions	15,260	15,897	637	4.0%	15,062	48,146	49,281	1,135	2.3%	45,146
Bad Debts	359	683	325	47.5%	659	1,577	2,128	552	25.9%	1,873
Charity and Other Adjustments	246	164	(82)	-50.1%	118	760	512	(248)	-48.5%	496
Net Patient Revenues	4,599	4,830	(232)	-4.8%	4,891	14,087	15,051	(964)	-6.4%	15,058
Net Patient Revenue %	22.5%	22.4%			23.6%	21.8%	22.5%			24.1%
Net Clinic Revenue	31	-	31	0.0%	43	98	21	77	367.2%	112
Other Operating Revenue	8	10	(2)	-20.2%	9	182	30	152	502.0%	28
Total Revenues	**4,638**	**4,841**	**(203)**	-4.2%	**4,944**	**14,367**	**15,102**	**(735)**	-4.9%	**15,197**
Expenses										
Salaries	2,818	2,798	(20)	-0.7%	2,900	8,556	8,396	(160)	-1.9%	8,943
Temporary Agency	94	143	48	33.9%	137	327	446	120	26.9%	485
Benefits	809	790	(19)	-2.4%	519	2,626	2,384	(242)	-10.1%	2,135
Professional Fees	401	290	(111)	-38.5%	312	997	863	(134)	-15.6%	926
Supplies	653	732	79	10.7%	877	1,900	2,257	357	15.8%	2,421
Purchased Services	372	373	1	0.4%	315	1,022	1,116	94	8.4%	1,089
Rents and Leases	80	79	(1)	-0.9%	71	247	237	(10)	-4.3%	193
Utilities and Telephone	64	65	0	0.7%	52	196	194	(2)	-1.0%	168
Insurance	27	17	(10)	-62.2%	31	87	50	(37)	-72.8%	96
Depreciation and amortization	73	68	(5)	-7.0%	82	226	204	(22)	-10.9%	247
Other Opertaing Expenses	88	73	(15)	-20.8%	92	231	216	(15)	-7.0%	246
Total Expenses	**5,480**	**5,427**	**(53)**	-1.0%	**5,387**	**16,415**	**16,364**	**(52)**	-0.3%	**16,949**
Operating gain (loss)	**(842)**	**(586)**	**(255)**	-43.5%	**(443)**	**(2,049)**	**(1,262)**	**(787)**	62.4%	**(1,752)**
Non-Operating Income / (Expense)										
Parcel Taxes	481	478	2	0.4%	478	1,435	1,434	1	0.1%	1,434
Investment Income	1	0	0	180.3%	1	2	(38)	39	-104.6%	5
Interest Expense	(14)	(13)	(1)	-6.4%	(7)	(45)	(13)	(32)	251.7%	(22)
Other Income / (Expense)	25	23	2	9.6%	23	71	73	(1)	-1.8%	72
Net Non-Operating Income / (Expense)	**493**	**489**	**4**	**0.8%**	**495**	**1,464**	**1,457**	**7**	**0.5%**	**1,489**
Excess of Revenues Over Expenses	**$ (349)**	**$ (98)**	**$ (251)**	**257.6%**	**$ 52**	**$ (585)**	**$ 195**	**$ (780)**	**-400.1%**	**$ (262)**

City of Alameda Health Care District

Statements of Operations - Per Adjusted Patient Day

September 30, 2011

	Current Month					Year-to-Date				
	Actual	Budget	$ Variance	% Variance	Prior Year	Actual	Budget	$ Variance	% Variance	Prior Year
Revenues										
Gross Inpatient Revenues	$ 3,966	$ 3,911	$ 54	1.4%	$ 3,641	$ 3,814	$ 3,909	$ (95)	-2.4%	$ 3,665
Gross Outpatient Revenues	1,855	1,902	(47)	-2.5%	1,914	1,863	1,904	(41)	-2.2%	1,846
Total Gross Revenues	5,821	5,813	7	0.1%	5,555	5,677	5,813	(136)	-2.3%	5,511
Contractual Deductions	4,341	4,284	(57)	-1.3%	4,036	4,233	4,278	44	1.0%	3,976
Bad Debts	102	184	82	44.6%	177	139	185	46	25.0%	165
Charity and Other Adjustments	70	44	(26)	-58.5%	32	67	44	(22)	-50.4%	44
Net Patient Revenues	1,308	1,302	6	0.5%	1,311	1,239	1,306	(68)	-5.2%	1,326
Net Patient Revenue %	22.5%	22.4%			23.6%	21.8%	22.5%			24.1%
Net Clinic Revenue	9	-	9	0.0%	12	9	2	7	373.3%	10
Other Operating Revenue	2	3	(0)	-15.8%	2	16	3	13	509.7%	2
Total Revenues	**1,319**	**1,304**	**15**	1.2%	**1,325**	**1,263**	**1,311**	**(48)**	-3.6%	**1,339**
Expenses										
Salaries	802	754	(48)	-6.3%	777	752	729	(24)	-3.2%	788
Temporary Agency	27	38	12	30.2%	37	29	39	10	25.9%	43
Benefits	230	213	(17)	-8.1%	139	231	207	(24)	-11.6%	188
Professional Fees	114	78	(36)	-46.2%	84	88	75	(13)	-17.1%	82
Supplies	186	197	11	5.8%	235	167	196	29	14.7%	213
Purchased Services	106	101	(5)	-5.2%	84	90	97	7	7.2%	96
Rents and Leases	23	21	(1)	-6.5%	19	22	21	(1)	-5.7%	17
Utilities and Telephone	18	17	(1)	-4.8%	14	17	17	(0)	-2.3%	15
Insurance	8	5	(3)	-71.2%	8	8	4	(3)	-75.1%	8
Depreciation and Amortization	21	18	(2)	-13.0%	22	20	18	(2)	-12.3%	22
Other Operating Expenses	25	20	(5)	-27.5%	25	20	19	(2)	-8.4%	22
Total Expenses	**1,559**	**1,462**	**(96)**	-6.6%	**1,443**	**1,443**	**1,420**	**(23)**	-1.6%	**1,493**
Operating Gain / (Loss)	**(239)**	**(158)**	**(81)**	-51.5%	**(119)**	**(180)**	**(109)**	**(71)**	64.6%	**(154)**
Non-Operating Income / (Expense)										
Parcel Taxes	137	129	8	6.0%	128	126	124	2	1.4%	126
Investment Income	0	0	0	195.9%	0	0	0	0	178.4%	0
Interest Expense	(4)	(3)	(0)	-12.4%	(2)	(4)	(3)	(1)	21.2%	(2)
Other Income / (Expense)	7	6	1	15.7%	6	6	6	(0)	-0.5%	6
Net Non-Operating Income / (Expense)	**140**	**132**	**8**	**6.4%**	**133**	**129**	**128**	**1**	**0.9%**	**131**
Excess of Revenues Over Expenses	**$ (99)**	**$ (26)**	**$ (73)**	277.6%	**$ 14**	**$ (51)**	**$ 18**	**$ (70)**	-379.8%	**$ (23)**

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

	Current Month	Year-to-Date
Cash flows from operating activities		
Net Income / (Loss)	$ (349,063)	$ (585,055)
Items not requiring the use of cash:		
Depreciation and amortization	73,144	$ 226,401
Write-off of Kaiser liability	-	$ -
Changes in certain assets and liabilities:		
Patient accounts receivable, net	(207,237)	(1,406,047)
Other Receivables	(50,218)	707,042
Third-Party Payer Settlements Receivable	242,402	717,347
Inventories	14,682	59,537
Prepaids and Other	(7,334)	(57,113)
Accounts payable and accrued liabilities	409,320	770,145
Payroll Related Accruals	(743,807)	(293,359)
Employee Health Plan Accruals	53,486	225,311
Deferred Revenues	(477,035)	(1,431,062)
Cash provided by (used in) operating activities	(1,041,660)	(1,066,853)
Cash flows from investing activities		
(Increase) Decrease in Assets Limited As to Use	(10,900)	(34,365)
Additions to Property, Plant and Equipment	(77,406)	(286,175)
Other	2	84,906
Cash provided by (used in) investing activities	(88,304)	(235,633)
Cash flows from financing activities		
Net Change in Long-Term Debt	185,567	307,527
Net Change in Restricted Funds	10,900	134,365
Cash provided by (used in) financing and fundraising activities	196,467	441,892
Net increase (decrease) in cash and cash equivalents	(933,497)	(860,595)
Cash and cash equivalents at beginning of period	1,875,126	1,802,225
Cash and cash equivalents at end of period	$ 941,629	$ 941,630

City of Alameda Health Care District
Ratio's Comparison

Financial Ratios	Audited Results FY 2008	FY 2009	FY 2010	Unaudited Results FY 2011	YTD 9/30/2011
Profitability Ratios					
Net Patient Revenue (%)	22.48%	22.69%	24.16%	23.58%	21.84%
Earnings Before Depreciation, Interest, Taxes and Amortization (EBITA)	-0.72%	3.62%	4.82%	-1.01%	-2.41%
EBIDAP[Note 5]	-10.91%	-5.49%	-3.66%	-13.41%	-12.42%
Operating Margin	-3.75%	1.03%	2.74%	-2.61%	-3.89%
Liquidity Ratios					
Current Ratio	0.98	1.15	1.23	1.05	1.02
Days in accounts receivable ,net	51.70	57.26	51.83	46.03	56.50
Days cash on hand (with restricted)	30.61	13.56	21.60	14.14	9.70
Debt Ratios					
Cash to Debt	187.3%	115.3%	249.0%	123.3%	66.25%
Average pay period	58.93	58.03	57.11	62.68	68.43
Debt service coverage	(0.14)	3.87	5.98	(0.70)	(0.29)
Long-term debt to fund balance	0.26	0.20	0.14	0.18	0.21
Return on fund balance	-29.59%	8.42%	18.87%	-19.21%	-7.48%
Debt to number of beds	20,932	13,481	10,482	11,515	13,425

City of Alameda Health Care District
Ratio's Comparison

Financial Ratios	Audited Results FY 2008	FY 2009	FY 2010	Unaudited Results FY 2011	YTD 9/30/2011
Patient Care Information					
Bed Capacity	135	161	161	161	161
Patient days(all services)	22,687	30,463	30,607	30,270	7,641
Patient days (acute only)	11,276	11,787	10,579	10,443	2,612
Discharges(acute only)	2,885	2,812	2,802	2,527	656
Average length of stay (acute only)	3.91	4.19	3.78	4.13	3.98
Average daily patients (all sources)	61.99	83.46	83.85	82.93	83.05
Occupancy rate (all sources)	45.92%	52.94%	52.08%	51.51%	51.59%
Average length of stay	3.91	4.19	3.78	4.13	3.98
Emergency Visits	17,922	17,337	17,624	16,816	4,226
Emergency visits per day	48.97	47.50	48.28	46.07	45.93
Outpatient registrations per day[Note 1]	84.54	82.05	79.67	65.19	59.12
Surgeries per day[Note 1]	14.78	16.12	13.46	6.12	6.95

Notes:

1. Includes Kaiser Outpatient Sugercial volume in Fiscal Years 2008, 2009 and through March 31, 2010.
2. In addition to these general requirements a feasibility report will be required.
3. Based upon Moody's FY 2008 preliminary single-state provider medians.
4. EBIDA - Earnings before Interest, Depreciation and Amoritzation
5. EBIDAP - Earnings before Interest, Depreciation and Amortization and Parcel Tax Proceeds

Glossary of Financial Ratios

Term	What is it? Why is it Important?	How is it calculated?
EBIDA	A measure of the organization's cash flow	Earnings before interest, depreciation, and amortization (EBIDA)
Operating Margin	Income derived from patient care operations	Total operating revenue less total operating expense divided by total operating revenue
Current Ratio	The number of dollars held in current assets per dollar of liabilities. A widely used measure of liquidity. An increase in this ratio is a positive trend.	Current assets divided by current liabilities
Days cash on hand	Measures the number of days of average cash expenses that the hospital maintains in cash or marketable securities. It is a measure of total liquidity, both short-term and long-term. An increasing trend is positive.	Cash plus short-term investments plus unrestricted long-term investments over total expenses less depreciation divided by 365.
Cash to debt	Measures the amount of cash available to service debt.	Cash plus investments plus limited use investments divided by the current portion and long-term portion of the organization's debt insruments.
Debt service coverage	Measures total debt service coverage (interest plus principal) against annual funds available to pay debt service. Does not take into account positive or negative cash flow associated with balance sheet changes (e.g. work down of accounts receivable). Higher values indicate better debt repayment ability.	Excess of revenues over expenses plus depreciation plus interest expense over principal payments plus interest expense.
Long-term debt to fund balance	Higher values for this ratio imply a greater reliance on debt financing and may imply a reduced ability to carry additional debt. A declining trend is positive.	Long-term debt divided by long-term debt plus unrestricted net assets.

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

Date: November 7, 2011

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

From: Diana Surber, Interim Controller

Subject: Impact of AB 97 and IGT adjustments

We will be updating year-to-date net revenues in October to reflect the recent CMS decision to deny the Medi-Cal Sub Acute rate cuts included in AB 97. In addition, we will be updating accrued IGT revenues based on recently received information about the final level of funding for FY 10/11 as well as updated estimates for FY 11/12. The adjustments will affect both prior year and current year accruals.

The Sub Acute adjustment will be favorable in the amount of $814,878 ($197,659 for FY11 and $617,219 for FY12), which will be partially offset by a $502,247 reduction to the IGT revenue accrual ($380,817 for FY11 and $121,430 for FY12). There will be a favorable monthly variance to budgeted net revenues for the remainder of the fiscal year related to the AB 97 decision. We do not expect further adjustments to the IGT revenue, which will track budgeted amounts each month.

The net impact is a positive $312,631, which will be reflected in the October financial statements to be presented to the FMC in November. The information for both of these adjustments was received subsequent to the September close. If the adjustments had been booked in September, the year-to-date loss would have been reduced to $272,000 for the first quarter of FY 2012. September financials, including the impact of these adjustments, are shown on the following page.

Alameda Hospital

City of Alameda Health Care District

Statements of Operations

September 30, 2011 with AB 97 and IGT Adjustments

$'s in thousands

	Current Month					Year-to-Date				
	Actual	Budget	$ Variance	% Variance	Prior Year	Actual	Budget	$ Variance	% Variance	Prior Year
Total Gross Revenues	20,463	21,575	(1,112)	-5.2%	20,730	64,570	66,972	(2,402)	-3.6%	62,573
Contractual Deductions	15,260	15,897	637	4.0%	15,062	48,146	49,281	1,135	2.3%	45,146
Bad Debts	359	683	325	47.5%	659	1,577	2,128	552	25.9%	1,873
Charity and Other Adjustments	246	164	(82)	-50.1%	118	760	512	(248)	-48.5%	496
Net Patient Revenues	4,599	4,830	(232)	-4.8%	4,891	14,087	15,051	(964)	-6.4%	15,058
Net Clinic Revenue	31	-	31	0.0%	43	98	21	77	367.2%	112
Other Operating Revenue	8	10	(2)	-20.2%	9	182	30	152	502.0%	28
Total Revenues	**4,638**	**4,841**	**(203)**	-4.2%	**4,944**	**14,367**	**15,102**	**(735)**	-4.9%	**15,197**
Total Expenses	**5,480**	**5,427**	**(53)**	-1.0%	**5,387**	**16,415**	**16,364**	**(52)**	-0.3%	**16,949**
Operating gain (loss)	**(842)**	**(586)**	**(255)**	-43.5%	**(443)**	**(2,049)**	**(1,262)**	**(787)**	62.4%	**(1,752)**
Net Non-Operating Income / (Expense)	**493**	**489**	**4**	**0.8%**	**495**	**1,464**	**1,457**	**7**	**0.5%**	**1,489**
Excess of Revenues Over Expenses	**$ (349)**	**$ (98)**	**$ (251)**	**257.6%**	**$ 52**	**$ (585)**	**$ 195**	**$ (780)**	**-400.1%**	**$ (262)**
AB 97 Sub Acute Adjustment	**815**					**815**				
IGT Revenue Adjustment	**(502)**					**(502)**				
Adjusted Excess of Revenues Over Expenses	**$ (36)**	**$ (98)**	**$ 61**	**-62.7%**	**$ 52**	**$ (272)**	**$ 195**	**$ (467)**	**-239.7%**	**$ (262)**

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

DATE: November 7, 2011

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

FROM: Kerry Easthope, Associate Administrator

SUBJECT: Approval of Change of Terms to Bank of Alameda Loan Agreements

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Recommendation:

Management is recommending that the Board of Directors approve the changes in terms and covenants to the Bank of Alameda Line of Credit Agreement, Wound Care Construction Loan Agreement, and Term Loan Agreement agreed to between the Bank of Alameda and Alameda Hospital as outlined in the attached Change in Terms Agreements.

Additionally, Management is requesting that the Board of Directors authorize the District's Chief Executive Officer and Associate Administrator to execute the required documents to reflect these changes on behalf of the District.

Background & Discussion:

Discussions began in May, 2011 with the Bank of Alameda regarding the Hospital's non-compliance with two of the original covenants with respect to our June 30, 2011 financial statements, specifically the required Annual Debt Service Coverage Ratio (DSCR) of 1.20:1.00 and the minimum actual Net Income of $1.00 for year-end June 30, 2011. Following a series of discussions regarding this matter with representatives from the Bank of Alameda, it was agreed that these two covenants be waived. This waiver request was approved by the Bank's Loan Committee on July 21, 2011. Furthermore, it was agreed and approved by the Bank of Alameda Loan Committee, that the following Amendments to the Terms and Covenants be adopted for both the Line of Credit and Wound Care Construction Loan. The Board of Directors approved the following amendments at the August 8, 2011 District Board Meeting (see attached memo).

- Eliminate and remove all DSCR requirements in their entirety.
- Add: Minimum current ratio of 1:00:1:00 to be tested every quarter-end (next test September 30, 2011).
- Maintain: Minimum Net Income of $1.00 to be tested at fiscal year-end (next test June 30, 2012).
- Add: Minimum Tangible Net Worth of $7.5 million to be tested every quarter-end (next test September 30, 2011.

- To limit the availability of the $900K Wound Care Loan to $700K for costs associated with only construction, construction planning and management, furniture, fixtures and equipment. Any draw exceeding $700K for any other purposes will require the approval of the Bank on a case by case basis. (November 2011 Update: The Bank will allow the hospital to utilize the entire loan amount of $900,000 if we are in compliance with all terms and covenants.)

Final approval of these amendments was conditional upon an independent legal review from the Bank's legal counsel confirming that the special parcel tax will continue to support all loans from the Bank to the Hospital. Since the August 8, 2011 Board Meeting, the Bank of Alameda has completed the legal review and has recommended the following Changes in Terms be added to the Line of Credit Agreement, Wound Care Construction Loan Agreement as well as the original Term Loan Agreement.

1. Borrower represents that it has used, and agrees in the future that it will use, the proceeds of the Note and any other note, loan agreement or other credit facilities provided by Lender only for the following purposes: repaying outstanding Borrower indebtedness, and defraying ongoing hospital general operating expenses and capital improvement expenses.

2. Until Borrower has repaid the Note and any other note, loan agreement and other credit facilities provided by the Lendor to Borrower or has funded a sinking fund or made similar provision sufficient to pay the Note and other note, loan agreement or credit facilities in full, Borrower agrees, unless it has paid all amounts due to Lendor from other sources, to first use the Measure A parcel tax revenues it collects to make payment on amounts then due to Lendor under the Note and other credit facilities.

All other Terms and Covenants of the Loan and Line of Credit would remain in full force and effect.

The attached Change in Terms Agreement reflect all of the conditions approved at the August 8, 2011 Board Meeting as well as the above two additional changes. In addition, all these changes are to be incorporated into the original Term Loan Agreement to be consistent with the terms of the Line of Credit Agreement and Wound Care Construction Loan Agreement.

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

DATE: August 8, 2011

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

THROUGH: Finance and Management Committee

FROM: Deborah E. Stebbins, Chief Executive Officer
Kerry Easthope, Associate Administrator

SUBJECT: Approval of Modifications to Bank of Alameda Line of Credit and Wound Care Loan Covenants

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Recommendation:

The Finance and Management Committee and executive management recommend that the Board of Directors approve the modifications and waivers to the Terms and Covenants for the Line of Credit and Wound Care Construction Loan agreed to between the Bank of Alameda and Alameda Hospital.

Additionally, executive management is requesting that the District's Chief Executive Officer and Associate Administrator execute the required documents to reflect these modifications on behalf of the District.

Background & Discussion:

On May 9, 2011 the City of Alameda Health Care Board of Directors approved the final Terms and Conditions of the Line of Credit and Wound Care Construction Loan. Since that time, we have informed the Bank of Alameda that the Hospital would be in violation of two of the original covenants with respect to our June 30, 2011 financial statements. The specific violations are the required Annual Debt Service Coverage Ratio (DSCR) of 1.20:1.00 and the minimum actual Net Income of $1.00 for year-end June 30, 2011.

Following a series of discussions regarding this matter with representatives from the Bank of Alameda, it was agreed that these two covenants be waived. This waiver request was approved by the Bank's Loan Committee on July 21, 2011.

Furthermore, it was agreed and approved by the Bank of Alameda Loan Committee, that the following Amendments to the Terms and Covenants be adopted for both the Line of Credit and Construction Loan.

- Eliminate and remove all DSCR requirements in their entirety.

- Add: Minimum current ratio of 1:00:1:00 to be tested every quarter-end (next test September 30, 2011).
- Maintain: Minimum Net Income of $1.00 to be tested at fiscal year-end (next test June 30, 2012).

- Add: Minimum Tangible Net Worth of $7.5 million to be tested every quarter-end (next test September 30, 2011.

- To limit the availability of the $900K Wound Care Loan to $700K for costs associated with only construction, construction planning and management, furniture, fixtures and equipment. Any draw exceeding $700K for any other purposes will require the approval of the Bank on a case by case basis.

This Amendment approval is conditioned upon an updated legal opinion from the Bank's legal counsel confirming that the special parcel tax will continue to support all loans from the Bank to the Hospital. It is anticipated that the Bank will charge the Hospital for a portion or all of this review cost. However, we will be able to borrow under the Line of Credit upon execution of the Loan Covenant Violation Waiver. Thomas Driscoll, Legal Counsel to the District, previously provided the Bank of Alameda with a legal opinion regarding use of the parcel tax as a security interest. That legal opinion is attached for reference.

All other Terms and Covenants of the Loan and Line of Credit would remain in full force and effect.

CHANGE IN TERMS AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
$1,160,920.99	11-07-2011	02-15-2014	1410778	510 / 0015	35774	111	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item.
Any item above containing "****" has been omitted due to text length limitations.

Borrower: CITY OF ALAMEDA HEALTH CARE DISTRICT
2070 CLINTON AVENUE
ALAMEDA, CA 94501

Lender: Bank of Alameda
Administration
1701 Harbor Bay Parkway
Suite 100
Alameda, CA 94502
(510) 748-8460

Principal Amount: $1,160,920.99 **Date of Agreement: November 7, 2011**

DESCRIPTION OF EXISTING INDEBTEDNESS. Promissory Note dated February 23, 2009 in the principal amount of $2,260,000.00 with a current principal balance of $1,160,920.99, referencing Loan No. 1410778 ("Note").

DESCRIPTION OF COLLATERAL. Commercial Security Agreement dated November 15, 2005.

DESCRIPTION OF CHANGE IN TERMS.

1. The following paragraph titled "Additional Representations and Warranties" is hereby added to such Business Loan Agreement dated February 23, 2009, under the heading titled "Representations and Warranties":

Borrower represents that it has used, and agrees in the future that it will use, the proceeds of the Note and any other note, loan agreement or other credit facilities provided by Lender only for the following purposes: repaying outstanding Borrower indebtedness, and defraying ongoing hospital general operating expenses and capital improvement expenses.

2. The following paragraph titled "Additional Affirmative Covenants" is hereby added to such Business Loan Agreement dated February 23, 2009, under the heading titled "Affirmative Covenants":

Until Borrower has repaid the Note and any other note, loan agreement and other credit facilities provided by Lender to Borrower or has funded a sinking fund or made similar provision sufficient to pay the Note and other note, loan agreement or credit facilities in full, Borrower agrees, unless it has paid all amounts due to Lender from other sources, to first use the Measure A parcel tax revenues it collects to make payment on amounts then due to Lender under the Note and other credit facilities.

3. Also under the "Affirmative Covenants" section of such Business Loan Agreement, the Financial StatementsReporting requirements section is hereby replaced in its entirety by the following:

3.1. Interim Statements. As soon as available, but in no event later than sixty (60) days after the end of each fiscal quarter, Borrower's balance sheet and profit and loss statement for the period ended, prepared by Borrower.

3.2. Interim Accounts Receivable Reports. As soon as available, but in no event later than sixty (60) days after the end of each fiscal quarter, Borrower's Accounts Receivable Reports for the period ended, prepared by Borrower.

3.3. Interim Accounts Payable Reports. As soon as available, but in no event later than sixty (60) days after the end of each fiscal quarter, Borrower's Accounts Payable Reports for the period ended, prepared by Borrower.

3.4. Annual Accounts Receivable Reports. As soon as available, but in no event later than sixty (60) days after the end of each fiscal year, Borrower's Accounts Receivable Reports for the year ended, prepared by Borrower.

3.5. Annual Statements. As soon as available, but in no event later than two-hundred-ten (210) days after the end of each fiscal year, Borrower's balance sheet and income statement for the year ended, prepared by a certified public accountant satisfactory to Lender, on an audited basis.

3.6. Annual Statements. As soon as available, but in no event later than one-hundred-eighty (180) days after the end of each fiscal year, Borrower's balance sheet and income statement for the year ended, prepared by Borrower.

3.7. Annual Accounts Payable Reports. As soon as available, but in no event later than sixty (60) days after the end of each fiscal year, Borrower's Accounts Payable Reports for the year ended, prepared by Borrower.

3.8. Budget Financials. Borrower shall furnish to Lender Budget Financials for the succeeding year, due within sixty (60) days after the end of each fiscal year-end (beginning June 30, 2011), prepared by Borrower.

4. All existing financial covenants and ratios will be replaced by the following:

4.1. Maintain not less than the following Minimum Net Income and Cash Flow Requirement level of $1.00. This Net Income requirement will be evaluated as of fiscal year-end.

4.2. Proforma Debt Service Coverage Ratio (ratio to be evaluated and Borrower must be in compliance prior to incurring any new indebtedness to exceed $1,000,000.00 (One Million & 00/100 Dollars) in aggregate per occurrence during the period where there are in existence any commitments and outstanding loans with the Bank of Alameda). Maintain a Proforma ratio of Cash Flow/Current Maturity (LTD) in excess of 1.750 to 1.000. The definition of "Cash Flow" shall be defined as net patient service revenue plus other operating revenue, less all cash recurring operating expenses (excluding interest expense, depreciation and amortization charges) plus Alameda District Tax Revenues and recurring investment income, grants, contributions and rental income collectively on an actual past rolling 4-quarters basis. "Current Maturity (LTD)" shall be defined as all required principal and interest payments against all existing and proposed new indebtedness of the Borrower collectively on a projected forward rolling 4-quarters basis".

4.3. Working Capital Requirements/Current Ratio:

Maintain a Current Ratio in excess of 1.000 to 1.000. The term "Current Ratio" means Borrower's total Current Assets divided by Borrower's total Current Liabilities. This liquidity ratio will be evaluated as of quarter-end including fiscal year end.

4.4. Tangible Net Worth Requirements:

Maintain a minimum Tangible Net Worth of no less than $7,500,000.00. This requirement is to be evaluated every quarter including fiscal year end.

4.5. Depository Accounts.

Borrower agrees to maintain primary operating accounts with the Lender.

5. Commercial Security Agreement.

The following collateral description is hereby added to such Commercial Security Agreement dated November 15, 2005:

All Inventory, Chattel Paper, Accounts, Equipment and General Intangibles, and (to include, but not limited to) all current and future parcel tax revenues under Measure A (passed and approved in 2002 by the voters of the City of Alameda Health Care District) whether any of the foregoing is owned now or acquired later; all accessions, Additions, replacements, and substitutions relating to any of the foregoing; all records of any kind relating to any of the foregoing; all proceeds relating to any of the foregoing (including insurance, general intangibles and other accounts proceeds).

CONTINUING VALIDITY. Except as expressly changed by this Agreement, the terms of the original obligation or obligations, including all agreements evidenced or securing the obligation(s), remain unchanged and in full force and effect. Consent by Lender to this Agreement does not waive Lender's right to strict performance of the obligation(s) as changed, nor obligate Lender to make any future change in terms. Nothing in this Agreement will constitute a satisfaction of the obligation(s). It is the intention of Lender to retain as liable parties all makers and endorsers of the original obligation(s), including accommodation parties, unless a party is expressly released by Lender in writing. Any maker or endorser, including accommodation makers, will not be released by virtue of this Agreement. If any person who signed the original obligation does not sign this Agreement below, then all persons signing below acknowledge that this Agreement is given conditionally, based on the representation to Lender that the non-signing party consents to the changes and provisions of this Agreement or otherwise will not be released by it. This waiver applies not only to any initial extension, modification or release, but also to all such subsequent actions.

PRIOR TO SIGNING THIS AGREEMENT, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS AGREEMENT. BORROWER AGREES TO THE TERMS OF THE AGREEMENT.

BORROWER:

CITY OF ALAMEDA HEALTH CARE DISTRICT

By: _____
DEBORAH STEBBINS, Chief Executive Officer of CITY OF ALAMEDA HEALTH CARE DISTRICT

By: _____
Authorized Signer for CITY OF ALAMEDA HEALTH CARE DISTRICT

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CHANGE IN TERMS AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
$900,000.00	11-07-2011	05-16-2016	1425537	510 / 0015	35774	278	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item.
Any item above containing "****" has been omitted due to text length limitations.

Borrower: CITY OF ALAMEDA HEALTH CARE DISTRICT
2070 CLINTON AVENUE
ALAMEDA, CA 94501

Lender: Bank of Alameda
Administration
1701 Harbor Bay Parkway
Suite 100
Alameda, CA 94502
(510) 748-8460

Principal Amount: $900,000.00 **Date of Agreement: November 7, 2011**

DESCRIPTION OF EXISTING INDEBTEDNESS.

A Non-Revolving to Term/Conversion loan evidenced by a promissory note dated May 16, 2011, in the original principal amount of $900,000.00 referencing Loan No. 1425537 ("Note").

DESCRIPTION OF COLLATERAL.

Commercial Security Agreement dated May 16, 2011.

DESCRIPTION OF CHANGE IN TERMS.

1. The following paragraph titled "Additional Representations and Warranties" is hereby added to such Business Loan Agreement dated May 16, 2011, under the heading titled "Representations and Warranties":

Borrower represents that it has used, and agrees in the future that it will use, the proceeds of the Note and any other note, loan agreement or other credit facilities provided by Lender only for the following purposes: repaying outstanding Borrower indebtedness, and defraying ongoing hospital general operating expenses and capital improvement expenses.

2. The following paragraph titled "Additional Affirmative Covenants" is hereby added to such Business Loan Agreement dated May 16, 2011, under the heading titled "Affirmative Covenants":

Until Borrower has repaid the Note and any other note, loan agreement and other credit facilities provided by Lender to Borrower or has funded a sinking fund or made similar provision sufficient to pay the Note and other note, loan agreement or credit facilities in full, Borrower agrees, unless it has paid all amounts due to Lender from other sources, to first use the Measure A parcel tax revenues it collects to make payment on amounts then due to Lender under the Note and other credit facilities.

3. All existing financial covenants and ratios will be replaced by the following:

3.1. Maintain not less than the following Minimum Net Income and Cash Flow Requirement level of $1.00. This Net Income requirement will be evaluated as of fiscal year-end.

3.2. Proforma Debt Service Coverage Ratio (ratio to be evaluated and Borrower must be in compliance prior to incurring any new indebtedness to exceed $1,000,000.00 (One Million & 00/100 Dollars) in aggregate per occurrence during the period where there are in existence any commitments and outstanding loans with the Bank of Alameda). Maintain a Proforma ratio of Cash Flow/Current Maturity (LTD) in excess of 1.750 to 1.000. The definition of "Cash Flow" shall be defined as net patient service revenue plus other operating revenue, less all cash recurring operating expenses (excluding interest expense, depreciation and amortization charges) plus Alameda District Tax Revenues and recurring investment income, grants, contributions and rental income collectively on an actual past rolling 4-quarters basis. "Current Maturity (LTD)" shall be defined as all required principal and interest payments against all existing and proposed new indebtedness of the Borrower collectively on a projected forward rolling 4-quarters basis".

3.3. Working Capital Requirements/Current Ratio:

Maintain a Current Ratio in excess of 1.000 to 1.000. The term "Current Ratio" means Borrower's total Current Assets divided by Borrower's total Current Liabilities. This liquidity ratio will be evaluated as of quarter-end including fiscal year end.

3.4. Tangible Net Worth Requirements:

Maintain a minimum Tangible Net Worth of no less than $7,500,000.00. This requirement is to be evaluated every quarter including fiscal year end.

3.5. Depository Accounts.

Borrower agrees to maintain primary operating accounts with the Lender.

.

CONTINUING VALIDITY. Except as expressly changed by this Agreement, the terms of the original obligation or obligations, including all agreements evidenced or securing the obligation(s), remain unchanged and in full force and effect. Consent by Lender to this Agreement does not waive Lender's right to strict performance of the obligation(s) as changed, nor obligate Lender to make any future change in terms. Nothing in this Agreement will constitute a satisfaction of the obligation(s). It is the intention of Lender to retain as liable parties all makers and endorsers of the original obligation(s), including accommodation parties, unless a party is expressly released by Lender in writing. Any maker or endorser, including accommodation makers, will not be released by virtue of this Agreement. If any person who signed the original obligation does not sign this Agreement below, then all persons signing below acknowledge that this Agreement is given conditionally, based on the representation to Lender that the non-signing party consents to the changes and provisions of this Agreement or otherwise will not be released by it. This waiver applies not only to any initial extension, modification or release, but also to all such subsequent actions.

PRIOR TO SIGNING THIS AGREEMENT, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS AGREEMENT. BORROWER AGREES TO THE TERMS OF THE AGREEMENT.

BORROWER:

CITY OF ALAMEDA HEALTH CARE DISTRICT

By: _____
DEBORAH STEBBINS, Chief Executive Officer of CITY OF ALAMEDA HEALTH CARE DISTRICT

By: _____
Authorized Signer for CITY OF ALAMEDA HEALTH CARE DISTRICT

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CHANGE IN TERMS AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
$1,500,000.00	11-07-2011	02-23-2012	1421338	510 / 0015	35774	278	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item.
Any item above containing "***" has been omitted due to text length limitations.

Borrower: CITY OF ALAMEDA HEALTH CARE DISTRICT
2070 CLINTON AVENUE
ALAMEDA, CA 94501

Lender: Bank of Alameda
Administration
1701 Harbor Bay Parkway
Suite 100
Alameda, CA 94502
(510) 748-8460

Principal Amount: $1,500,000.00 **Date of Agreement: November 7, 2011**

DESCRIPTION OF EXISTING INDEBTEDNESS. Promissory Note dated May 16, 2011 in the amount of $1,500,000.00, referencing Loan No. 1421338 ("Note").

DESCRIPTION OF COLLATERAL. Commercial Security Agreement dated May 16, 2011.

DESCRIPTION OF CHANGE IN TERMS.

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3.2. Proforma Debt Service Coverage Ratio (ratio to be evaluated and Borrower must be in compliance prior to incurring any new indebtedness to exceed $1,000,000.00 (One Million & 00/100 Dollars) in aggregate per occurrence during the period where there are in existence any commitments and outstanding loans with the Bank of Alameda). Maintain a Proforma ratio of Cash Flow/Current Maturity (LTD) in excess of 1.750 to 1.000. The definition of "Cash Flow" shall be defined as net patient service revenue plus other operating revenue, less all cash recurring operating expenses (excluding interest expense, depreciation and amortization charges) plus Alameda District Tax Revenues and recurring investment income, grants, contributions and rental income collectively on an actual past rolling 4-quarters basis. "Current Maturity (LTD)" shall be defined as all required principal and interest payments against all existing and proposed new indebtedness of the Borrower collectively on a projected forward rolling 4-quarters basis".

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CONTINUING VALIDITY. Except as expressly changed by this Agreement, the terms of the original obligation or obligations, including all agreements evidenced or securing the obligation(s), remain unchanged and in full force and effect. Consent by Lender to this Agreement does not waive Lender's right to strict performance of the obligation(s) as changed, nor obligate Lender to make any future change in terms. Nothing in this Agreement will constitute a satisfaction of the obligation(s). It is the intention of Lender to retain as liable parties all makers and endorsers of the original obligation(s), including accommodation parties, unless a party is expressly released by Lender in writing. Any maker or endorser, including accommodation makers, will not be released by virtue of this Agreement. If any person who signed the original obligation does not sign this Agreement below, then all persons signing below acknowledge that this Agreement is given conditionally, based on the representation to Lender that the non-signing party consents to the changes and provisions of this Agreement or otherwise will not be released by it. This waiver applies not only to any initial extension, modification or release, but also to all such subsequent actions.

PRIOR TO SIGNING THIS AGREEMENT, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS AGREEMENT. BORROWER AGREES TO THE TERMS OF THE AGREEMENT.

BORROWER:

CITY OF ALAMEDA HEALTH CARE DISTRICT

By: _____
DEBORAH STEBBINS, Chief Executive Officer of CITY OF ALAMEDA HEALTH CARE DISTRICT

By: _____
Authorized Signer for CITY OF ALAMEDA HEALTH CARE DISTRICT

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Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

DATE: November 7, 2011

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

FROM: Kerry Easthope, Associate Administrator

SUBJECT: Approval of Resolution 2011-8I - Approving the Sublease Agreement and Transition Agreement to Operate Waters Edge Skilled Nursing Facility and Authorize the Chief Executive Officer to Submit Licensure and Certification Applications

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Recommendation:

Approval is requested for Board Resolution No. 2011-8I which authorizes the District to enter into the Transition and Sublease Agreements to operate Waters Edge Skilled Nursing Facility and authorizes the Chief Executive Officer to submit related Licensure and Certifications Applications.

Background/Discussion:

Transition Agreement:

The attached Transition Agreement (Exhibit A) contains the terms and conditions agreed to between Waters Edge and the Hospital to facilitate the transfer of the Waters Edge operation to the Hospital as well as to delineate the rights and responsibilities of both parties during the Term of the Sublease Agreement.

The terms and conditions outlined in the Transition Agreement reflect those items agreed to by the owners of Waters Edge and the Hospital on September 9, 2011 and as presented to the District Board at the October 10, 2011 public Board meeting.

Sublease Agreement:

The attached Sublease Agreement (Exhibit B) reflects the terms and conditions agreed to between Waters Edge and the Hospital for the use and operation of the skilled nursing facility premises described in the sublease, together with all the fixtures, furnishings, equipment and personal property contained at the facility. Also set forth are the ongoing duties and obligations of both parties to be performed in conjunction with Sublease Agreement.

As with the Transition Agreement, the Sublease reflects those items related to use of the premises as mentioned above as agreed to by the owners of Waters Edge and the Hospital on September 9, 2011, and as presented to the District Board at the October 10, 2011 Board meeting.

Both documents are being reviewed by both parties and may have incidental edits for clarification and form, but contain the material terms agreed to by both parties as discussed above.

RESOLUTION NO. 2011-8I

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

*** * ***

APPROVING THE SUBLEASE AGREEMENT AND TRANSITION AGREEMENT TO OPERATE WATERS EDGE SKILLED NURSING FACILITY AND AUTHORIZE THE CHIEF EXECUTIVE OFFICER TO SUBMIT LICENSURE AND CERTIFICATION APPLICATIONS

WHEREAS, the City of Alameda Health Care District ("District") is desirous of entering into a sublease agreement for the Waters Edge Skilled Nursing Facility ("WE') and operating it under the license of Alameda Hospital, as more particularly described in the attachments hereto (the "Transaction"); and

WHEREAS, the Parties have conducted a 'due diligence' process, in which the the Waters Edge facilities were inspected and the various assumptions of the Parties have been verified, the results of which are summarized in the Supplemental Documentation include in the meeting materials of this District Board Meeting; and

WHEREAS, through the negotiation and development of definitive written agreements, a formal Sublease Agreement (Exhibit A) and Transition Agreement (Exhibit B), collectively, the "Transaction Agreements", have been finalized in order to complete the Transaction; and

WHEREAS, the District must, in order to effectuate the Transaction, secure licenses, permits and entitlements from, and give notices to, various responsible regulatory agencies and third party payors that have contracts with WE; and

WHEREAS, it is in the best interests of the District that its Chief Executive Officer be authorized to execute and deliver the Transaction Agreements, and prepare and submit the necessary applications and agreements and give the necessary notices to effectuate the Transaction and the commencement of operations by the District as expeditiously as possible, and

WHEREAS, based upon the materials presented to this Board, it appears to be in the best interests of the District that the District authorize the execution of the Transaction Agreements, submission of the necessary applications, and delivery of the necessary notices to

effectuate the Transaction and commencement of operations by the District as expeditiously as possible.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors that the Chief Executive Officer of the District be, and hereby is, authorized (a) to execute and deliver the Transaction Agreements in substantially the form attached hereto, and (2) to prepare, execute and submit, on behalf of the District, any and all documents necessary to effectuate the Transaction and to secure such licenses, permits and other entitlements as may be required, including without limitation, any change of ownership applications for WE, provider enrollment forms, applications for transfers of licenses, permits or other entitlements or notices to the California Department of Public Health and /or Department of Health Care Services and, third-party payors, and such other regulatory agencies and taxing authorities as may be necessary or convenient to effectuate the Transaction and secure the necessary rights to operate same.

RESOLVED FURTHER, that the transfer of the operations to the District take effect when the Transaction Agreements have been duly executed, all conditions precedent have been satisfied, and any required licenses and certifications have been duly approved and issued by the responsible regulatory agencies.

PASSED, APPROVED AND ADOPTED at a regular meeting of the Board held on the 7th day of November, 2011 by the following vote, to wit:

AYES: _____ NOES: _____ ABSENT: _____

_____
Jordan Battani
President

ATTEST:

_____
Elliott Gorelick
Secretary

TRANSITION AGREEMENT

This TRANSITON AGREEMENT ("Agreement") is made and entered into at Alameda, Alameda County, California, this _____ day of _____, 2011 by and between Waters Edge Inc. ("Waters Edge") and City of Alameda Health Care District, doing business as Alameda Hospital ("Alameda"), with reference to the following:

RECITALS

WHEREAS, Waters Edge is holder and owner of the leasehold interest in those certain premises commonly known as the Waters Edge Skilled Nursing Facility (the “Premises”) evidenced by that certain Restated Triple Net Lease dated as of October 31, 2011 (the “Lease”) by and between F.M.A. Laguna, LP, a California limited partnership ("Lessor") and Waters Edge, Inc., a California Corporation ("Lessee"); and

WHEREAS, Pursuant to the terms, conditions and agreements set forth below (the “Transaction”), the parties desire that Alameda become the Sublessee of the Premises, and its duly licensed operator.

NOW, THEREFORE, Waters Edge and Alameda, desiring to be legally bound, hereby agree as follows:

1. On the Closing Date (defined below), Waters Edge shall transfer to Alameda (a) its leasehold interest in the Premises in accordance with the terms of that certain Sublease, a copy of which is attached hereto as Exhibit A, and (b) its interest in the 120 bed California skilled nursing facility license to operate the Premises, all as set forth below and in return for the consideration set forth below. The Sublease shall also provide for the use of existing beds, furniture, equipment, leasehold improvements and fixtures, and Alameda shall return such items (and their replacements then in place) in similar condition upon the expiration of the term of the Sublease. Unless otherwise negotiated, Alameda will not purchase any of the above mentioned Waters Edge assets; however, the fair rental value of such assets is incorporated into the rent payable pursuant to the terms of the Sublease. Prior to the Closing Date, the parties hereto shall (1) prepare an inventory of major furniture, fixtures and equipment located on the Premises, which shall provide the parties with a benchmark against which to measure Alameda’s return/replacement obligation at the termination of the Sublease; and (2) develop a process for valuing and paying each other for consumable supplies or inventory existing

on the Premises both as of the Closing Date, and upon any termination of the Sublease. The "Closing Date" shall be the close of the first Waters Edge pay period following the issuance, to Alameda, of the licenses and certifications it needs to operate the Premises as a Distinct Part Skilled Nursing Facility, as part of Alameda Hospital.

2. Assumed Liabilities: All debts, obligations and liabilities of Waters Edge, whether known or unknown, asserted or unasserted, as of the Closing Date, other than those specifically assumed hereunder (the "Assumed Liabilities"), shall be and remain the responsibility of Waters Edge.

3. Unassumed Liabilities: Other than the Assumed Liabilities, Alameda shall not assume, nor shall Alameda be deemed to have assumed or guaranteed, any other debt, liability or obligation or any nature of Waters Edge, or claims of such liability or obligation, whether accrued, matured or unmatured, liquidated or unliquidated, fixed or contingent. By way of example and not by way of limitation, all Medicare or Medi-Cal claims before the Closing Date shall be and remain the responsibility of Waters Edge, as will all employment, malpractice and general liability claims of every nature and description, payroll, accounts payable, and other debts, obligations and liabilities incurred before the Closing Date.

4. Following the Closing Date, Alameda and Waters Edge shall develop a mechanism for ongoing discussion of the development of a continuum of services for elders on the island of Alameda and surrounding communities. This may or may not take the form of an Advisory Committee in which representatives of Waters Edge, Alameda and other community organizations participate. One of the goals of this will be to maximize the synergy and coordination of care rendered at other Alameda Elder Care organizations with that rendered by Alameda.

5. Alameda and Waters Edge agree that, as of the Closing Date, Alameda may use the name: **"Alameda Hospital at Waters Edge"** in order to continue to benefit from the long established reputation and "equity" earned by Waters Edge over its years of operating the Premises. Alameda understands that the "Waters Edge" name is used by other facilities within the Alameda Elder Communities organization (the Waters Edge parent corporation) and that said approval of the use of the "Waters Edge" name by Alameda is solely limited to the skilled nursing facility currently known as Waters Edge on Blanding Avenue in Alameda, California. Use of the name

by Alameda will be limited to the term of the Sublease only. Continued use of the name by any future sublessee shall be subject to the prior written approval of Waters Edge, which approval shall not be unreasonable withheld or delayed.

6. Alameda and Waters Edge agree that Waters Edge shall pay the first two Waters Edge payrolls following the Closing Date (the "Payroll Advance") and that payment of the first two months sublease payments shall be postponed (the "Delayed Rent"). Repayment of the Payroll Advance and the Delayed Rent, a total sum not to exceed $500,000, will be repaid by Alameda no later than 120 days following the Closing Date at an annualized interest rate of 4.0%, compounded monthly.

7. Alameda shall pay Waters Edge a management retainer of $5,000 per month for three months following the Closing Date. This fee will cover actual hours spent on transition issues by Chris and Darnelle Zimmerman (at hourly rate of $200 each), Lauren Zimmerman (at hourly rate of $250), Waters Edge Personnel Director (at hourly rate of $100) and any clerical staff (at hourly rate of $50). Any hours expended by Waters Edge staff in excess of the amount covered by the retainer during such three month period or any hours spent by Waters Edge through mutual agreement between Waters Edge and Alameda will be compensated by Alameda at the hourly rates listed above.

8. The parties are engaged in a Due Diligence process, time being of the essence in completing this Transaction. As such, the parties have agreed to a responsive schedule for exchanging documents and shall comply with such schedule to complete this process. Both parties agree to work diligently to complete this process within sixty days. Each party shall provide a requested list of information and documents (which may be supplemented prior to the Closing Date) to the other, who will promptly review, approve and respond to such requests.

9. Alameda agrees to hire all existing employees of Waters Edge who are recommended for continued employment by Waters Edge management and who successfully pass Alameda's pre-employment screening (the "Transition Workforce"). Wage and benefit levels will initially match the terms negotiated by Waters Edge under the terms its most recent agreement with its Employee Group. Alameda reserves the right to adjust the hours of work of certain employees based on fluctuations in census or to conform to the Hospital staffing model. For example, there may be a temporary decline in census after the transition due to an expected loss of

private pay patients. Should Alameda have to substantially reduce scheduled hours of certain staff or have a planned layoff, Alameda agrees to notify Waters Edge confidentially so Waters Edge may at its discretion hire said staff. To facilitate the transition of employees, Alameda and Waters Edge agree that Alameda may lease the Transition Workforce from Waters Edge for a period of time to be mutually agreed upon following transition. Alameda has a required 90-day waiting period for new employees before their benefits, such as health care coverage, commences. Alameda agrees to cover the cost of any gap in coverage for any benefited employees either by payment of COBRA fees or through direct reimbursement to the covering entity. Waters Edge intends to offer its employees the option of either cashing out all of their accrued paid time off (PTO) at time of termination from the Waters Edge payroll or to carry over up to forty (40) hours to their employment with Alameda (the "Employment Transfer Date"). In the event of a request to carry over PTO by any or all of its employees, Waters Edge shall transfer those PTO funds, including the amount of all appropriate payroll taxes, to Alameda on the Employment Transfer Date.

10. Alameda agrees to discuss and consider existing contractual relations with their providers. Waters Edge shall provide Alameda with a recommended list of contractors.

11. It is understood that the Transaction is subject to the approval of each party's Board of Directors.

12. Alameda will initially be subleasing 120 licensed beds from Waters Edge at the time of the transition. If for programmatic purposes, Alameda determines it is advantageous to reduce the number of licensed beds, such a decision will be subject to approval by Waters Edge, including the possibility of compensation paid to Waters Edge for reduced licensed capacity. Given that the change in licensed beds is subject to approval by Waters Edge, Waters Edge agrees that the number of licensed beds may be different at the termination of the lease as accounted for by the approved license bed changes.

13. It is understood and agreed that Waters Edge shall obtain permission from the property owners, F.M.A. Laguna, a California limited partnership, a related family entity, to sublease the building and that Alameda shall sign the Sublease with Waters Edge and that the Sublease shall contain the written consent of F.M.A. Laguna. It is acknowledged that, at some point in the future, the ownership of the Premises (on which Waters Edge is situated) may change. The Sublease shall provide that the terms of the

Sublease between Waters Edge and Alameda shall be honored upon any such ownership change. Waters Edge acknowledges that Alameda may, at its option, record a form of Memorandum of Sublease with the County of Alameda.

14. In the event Waters Edge and/or F.M.A. Laguna decides to sell the Premises either during the term of the Sublease or at the time of termination, other than to other family members or related companies, Alameda shall have first right of refusal to purchase the property from Waters Edge and/or F.M.A. Laguna. The terms of such a purchase shall be subject to negotiation but shall be guided by a survey of fair market value of similar facilities at the time of negotiation of the sale.

15. No covenant, agreement, condition or representation or the breach thereof shall be deemed waived, except by written consent of the party against whom the waiver is claimed, specifically referring to this Agreement and the intention to waive the same, and any such waiver of the breach of any covenant, agreement, condition or representation shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other covenant, agreement, condition or representation.

16. Each party represents that it has not had any dealings with any real estate broker, finder or other person with respect to this Agreement in any manner.

17. Time is of the essence with respect to this Agreement and each and every provision hereof.

18. If Waters Edge or Alameda shall bring any action for relief against the other, declaratory or otherwise, arising out of this Agreement, the losing party shall pay the successful party a reasonable sum for attorneys' fees which shall be deemed to have accrued on the commencement of such action and same shall be paid whether or not such action is prosecuted to judgment.

19. If any term or provision of this Agreement shall, to any extent, be determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of the Agreement shall not be affected thereby, and each term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

20. Waters Edge shall not become or be deemed a partner or a joint venturer with Alameda by reason of the provisions of this Agreement.

21. This Agreement shall be construed and interpreted in accordance with the laws of the State of California.

22. Except as otherwise expressly set forth herein, or as may be set forth in writing contemporaneous with or subsequent to this Agreement, this Agreement (including the Sublease attached hereto as Exhibit A) contains the entire agreement between the parties with respect to the Transaction, and all previous and collateral agreements, representations, warranties, promises and conditions with respect thereto are superseded by this Agreement. No prior representation, promise or condition not referred to or incorporated in this Agreement shall be binding on either party. No alteration or modification of any of the provisions of this Agreement shall be binding unless such alteration or modification is in writing, is duly executed by the party to be bound thereby, and specifically refers to this Agreement and the intention to modify or alter the same.

23. All the covenants, agreements, conditions and representations contained in this Agreement to be performed by any party, if such party shall consist of more than one person or entity, shall be deemed to be joint and several. All rights and remedies of the parties hereunder shall be cumulative and shall be in addition to any and all other rights and remedies that may exist at law or in equity.

City of Alameda Health Care District	The Waters Edge, Inc.
By : _____	By: _____
Deborah E. Stebbins Chief Executive Officer	Darnelle Zimmerman _____
_____ Date	_____ Date

The undersigned, the trustee of the general partner of F.M.A. Laguna, LP, a California limited partnership, acknowledges that he has read the foregoing

Transition Agreement, and the attached Sublease, which create certain obligations to be performed by F.M.A. Laguna, LP (the "F.M.A. Laguna Obligations"). By signing below, the undersigned, acting on behalf of F.M.A. Laguna, LP, a California limited partnership, hereby agrees to be bound by this Agreement as though a party to the extent of, and as such to perform, the F.M.A. Laguna Obligations as set forth above.

F.M.A. Laguna, LP

By: _____

Christian Zimmerman
Trustee of F.M.A.TRUST,
its General Partner

_____

Date

SUBLEASE

This SUBLEASE ("Sublease") is made and entered into at Alameda, Alameda County, California, this _____ day of _____, 2011 by and between Waters Edge Inc. ("Sublessor") and City of Alameda Health Care District, doing business as Alameda Hospital ("Sublessee"), with reference to the following:

RECITALS

Whereas, Sublessor is holder and owner of the leasehold interest in those certain premises commonly known as the Waters Edge Skilled Nursing Facility (the “Premises”) evidenced by that certain Restated Triple Net Lease dated as of October 31, 2011 (the “Lease”) by and between F.M.A. Laguna, LP, a California limited partnership ("Lessor") and Waters Edge, Inc., a California Corporation ("Lessee"); and

WHEREAS, the undersigned parties hereto desire that Sublessee sublease the Premises to which the Lease pertains.

1. NOW, THEREFORE, Sublessor does hereby sublease to Sublessee and Sublessee hereby subleases from Sublessor the premises described in the Lease together with all those certain items of fixtures, furnishings, equipment and personal property thereon and therein situated, and Sublessee hereby assumes and agrees to perform all of the obligations to be performed on the part of Lessee under the terms, conditions and provisions of the Lease and to be bound by all of the terms, provisions and conditions of the Lease. For the purposes of this Sublease, unless otherwise indicated, the word "Premises" shall include both the real estate and the fixtures, furnishings, equipment and personal property which are the subject of this Sublease.

2. This Sublease shall confer no rights to Sublessee with respect to the Premises that are greater or more extensive than conferred to Lessee under the terms, provisions and conditions of the Lease.

3. Sublessee shall have the right to use the name "Alameda Hospital at Waters Edge" for the Premises during the term of this Sublease and Sublessor represents and warrants that such use of the name shall not infringe on the rights of any other person or entity,

4. Sublessee accepts the Premises in their present condition as of the date of this Sublease, "AS IS", with all faults, if any, and without any warranty whatsoever, specifically, but without limiting the generality of the foregoing, without any warranty of the nature or quality of the construction of the Premises or any portion thereof, the adequacy of the design of the Premises or any portion thereof, the quality of the labor or materials included in any of the

work of improvements on the Premises or any portion thereof, or the fitness of the Premises or any portion thereof for any particular purpose.

5. The term of this Sublease shall be for a period of twenty (20) years with two (2) five (5) year renewal options. Thus, this Sublease shall be for a period which shall not, except as otherwise set forth herein, end prior to _____. The term of this Sublease shall commence on or before _____, providing all of the following events have occurred:

a. Sublessee obtains all insurance required to be maintained by Lessee under this Sublease and delivers certificates of such insurance to Sublessor and Lessors;

b. Sublessee is granted all licenses, permits, and certifications to operate the Premises as a Distinct Part (D/P) Skilled Nursing Facility, as required by any and all applicable local, county, state and federal laws and regulations.

6. Sublessee shall pay to Sublessors sublease payments per licensed bed per month as specified in Attachment I. "Licensed bed" is defined as a legally qualified bed which can be utilized by the facility operations. Sublease payments shall be made solely on licensed beds available regardless of their occupancy. Such payments shall be due and payable on the first of each month and shall become delinquent after the 10th of each month. Waters Edge shall also be entitled to sublease payment adjustments as set forth on Attachment I

7. This Sublease shall be a "triple net" Sublease. As such, the rent payable to Sublessor shall not be reduced by any cost or charge whatsoever, and all expenses and charges, whether for upkeep, maintenance, improvements, upgrades, insurance, taxes owing with respect to the premises (but not income or similar taxes payable by Sublessor or its Lessor), utilities, federal, state and municipal requirements and all other charges of a like nature or type or otherwise, shall be paid by Sublessee. This provision is not in derogation of the specific provisions of this Sublease, but in expansion thereof and as an indication of the general intentions of the parties hereto. Also, this provision is not in derogation of the obligations of Lessor under the terms and provisions of the Lease, which obligations shall, with respect to Sublessee, remain in full force and effect.

8. During the term hereof Sublessee shall pay, prior to delinquency, all taxes, assessments, license fees and other charges assessed against and levied upon the personal property and all other fixtures, furnishings, equipment and personal property installed or located in or on the Premises. When possible, Sublessee shall cause said personal property to be assessed and billed separately from the real property. In the event any or all of such personal property shall be assessed and taxed

with the real property, then Sublessee shall pay to the taxing authorities such taxes not later than ten (10) days after receipt from Lessor of the tax bill, or ten (10) days before the taxing authority's delinquency date, whichever is later. Sublessee shall furnish Sublessor with satisfactory evidence of payment of such taxes within thirty (30) days of payment. For purposes of determining the amount of such taxes, the figures supplied by the County Assessor as to the amounts so assessed shall be conclusive. All taxes for the year in which the Sublease commences and terminates shall be apportioned and adjusted on the basis of a 365-day year. Sublessee shall comply with the provisions of any law, ordinance or rule of taxing authorities which requires Sublessee to file a report of such personal property installed or located in or on the Premises.

9. During the term hereof Sublessee shall pay all real estate taxes, levies, assessments and all other charges in the nature of taxes or assessments, general or special, ordinary and extraordinary of any kind or nature, which during the term of this Sublease are laid, levied, assessed or imposed or become a lien upon or chargeable against the Premises. Sublessee shall pay to the taxing authorities such real estate taxes not later than ten (10) days before the taxing authority's delinquency date. Sublessee shall furnish satisfactory evidence of payment of such taxes within thirty (30) days of payment. Sublessee's obligation to pay any assessments herein shall be calculated on the basis of the amount due if any such assessment were allowed to go to bond with the assessment to be paid in installments, even if Sublessor pays the assessment in full. For the purposes of determining the amount of such taxes, the figures supplied by the County Assessor as to the amounts so assessed shall be conclusive. All taxes for the year in which the Sublease commences and terminates shall be apportioned and adjusted on the basis of a 365-day year. All taxes and charges which are the obligation of Sublessee to pay hereunder shall be reduced to the extent, if at all, that the same are paid by the Lessors pursuant to the terms, conditions and provisions of the Lease.

10. Sublessee at its cost shall have the right, at any time, to seek a reduction in the assessed valuation of the Premises. If Sublessee seeks a reduction or contests the real estate taxes, the failure on Sublessee's part to pay any real estate taxes, shall not constitute a default as long as Sublessee complies with the provisions herein below. Sublessor shall not be required to join in any proceeding or contest brought by Sublessee unless the provisions of any law require that the proceeding or contest be brought by or in the name of Sublessor or any owner of the Premises. In that case, Sublessor shall join in the proceeding or contest or permit it to be brought in Sublessor's name as long as Sublessor is not required to bear any cost. Sublessee, on final determination of the proceeding or contest, shall immediately pay or discharge the real estate taxes determined by any decision or judgment rendered, together with all costs, charges, interest and penalties incidental to the decision or judgment. If

Sublessee does not pay the real estate taxes when due and Sublessee seeks a reduction or contests them as provided hereinabove, before the commencement of the proceeding or contest, Sublessee shall furnish to Sublessor a surety bond issued by an insurance company qualified to do business in the State of California satisfactory to Lessor. The amount of the bond shall equal 100% of the total amount of real estate taxes in dispute. The bond shall hold Sublessor and the Premises harmless from any damage arising out of the proceeding or contest and shall insure the payment of any judgment that may be rendered.

11. Sublessee shall not be required to pay any municipal, county, state or federal income or franchise taxes of Sublessor, or any municipal, county, state or federal estate, succession, inheritance or transfer taxes of Sublessor. If at any time during the term, the State of California or any political subdivision of the State, including any county, city, public corporation, district or any other political entity or public corporation of the State, levies or assesses against Sublessor a tax, fee or excise on rents, the square footage of the improvements on the Premises or the Premises, the act of entering into this Sublease, or the occupancy of Sublessee, or levies or assesses against Sublessor any other tax fee or excise, however described, including, without limitation, a so called value added tax, as a direct substitution in whole or in part for, or in addition to, any real estate taxes described in this Sublease, Sublessee shall pay before delinquency such tax, fee or excise.

12. The Premises shall be used and occupied by Sublessee for the purpose of operating a licensed Skilled Nursing Facility in accordance with all applicable local, county, state and federal laws and regulations, and for no other purpose without the prior written consent of Sublessor.

13. Sublessee shall be responsible for obtaining and maintaining in force, all licenses and permits to operate the Premises as a Skilled Nursing Facility as required by local, county, state and federal laws and regulations throughout the term of this Sublease. In the event that any such regulatory authority or governing body issues any report, citation, order, requirement or condition (hereinafter called "report") to Sublessee respecting its operation of the Premises as a Skilled Nursing Facility and which requires Sublessee to repair, maintain, alter or replace the Premises, or any part thereof, or modify, alter, add to or change its methods of operations, procedures, personnel or policies, the failure to comply with which poses a potential threat to the facility's skilled nursing facility license or to its participation in the Medicare or Med-iCal programs, Sublessee shall deliver to Sublessor a copy of such report within ten (10) business days of receipt of such report. Sublessee shall at its sole cost and expense promptly comply with the requirements of such report, provided that Sublessee shall have the right to contest by appropriate judicial or administrative proceeding, without

cost or expense to Sublessor, the validity or application of any such report.

14. Sublessor shall be entitled to inspect the property on an annual basis or may request additional inspections from Sublessee. In addition, Sublessee will present Sublessor with the results of any State surveys or inspections, along with plans for correction of any recommendations or findings.

15. Sublessee shall not use the Premises or permit anything to be done in, on or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation or requirement of duly constituted public authorities now in force and which may hereafter be enacted or promulgated. Sublessee shall at its sole cost and expense promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force and with the requirements of any board of fire underwriters or other similar body now or hereafter constituted relating to or affecting the condition, use or occupancy of the Premises. The judgment of any court of competent jurisdiction or the admission of Sublessee in any action against Sublessee, whether Sublessor be a party thereto or not, that Sublessee has violated any law, statute, ordinance or governmental rule, regulation or requirement, shall be conclusive of the fact as between Sublessor and Sublessee. Sublessee shall not use or allow the Premises to be used for any unlawful or objectionable purpose, nor shall Sublessee cause, maintain or permit any nuisance in, on or about the Premises. Sublessee shall not commit or suffer to be committed any waste in or upon the Premises.

Sublessee shall not do or permit anything to be done in or about the Premises nor bring or keep anything therein which will in anyway increase the existing rate or affect any fire or other insurance upon the Premises or any of the contents therein (unless Sublessee shall pay any increased premium as a result of such use or acts), or cause a cancellation of any insurance policy covering said Premises or any of the contents therein, nor shall Sublessee sell or permit to be kept, used or sold in or about said Premises any articles which may be prohibited by standard form policy of fire insurance (except for oxygen and other medically necessary chemicals and substances ordinarily used in the operation of a Skilled Nursing Facility and for which use insurance coverage is maintained.)

16. Sublessee shall during the term hereof make all arrangements for and pay for all charges for electricity, gas, heat, air conditioning, water, telephone service, disposal and janitorial services, security and all other utilities and services supplied to the Premises and shall hold Sublessor harmless from any liability therefrom.

17. (a) Sublessee shall indemnify and hold harmless Sublessor from and against any and all claims arising from Sublessee's use of the Premises or the conduct

of its business or from any activity, work, or things done, permitted or suffered by Sublessee in, on or about the Premises, and shall further indemnify and hold Sublessor harmless from and against any and all claims arising from any breach or default in the performance of any obligation on Sublessee's part to be performed under the terms of this Sublease, or arising from any act or negligence of Sublessee, or any of its agents, representatives or employees, and from and against any and all costs, attorneys' fees, expenses and liabilities incurred in connection with any such claim or any action or proceedings brought thereon; and in case any action or proceeding be brought against Sublessor by reason of any such claim, Sublessee, upon notice from Sublessor, shall defend the same at Sublessee's expense by counsel reasonably satisfactory to Sublessor. Sublessor shall not be liable for injury or damage which may be sustained by the person, goods, wares, merchandise or property of Sublessee, its employees or invitees or any other person in or about the Premises from any cause. Sublessee waives all claims against Sublessor for any such injury or damage arising for any reason, except that Sublessor shall be liable to Sublessee for injury or damage to the extent proximately caused by the negligent or intentional acts of Sublessor and its designated agents, representatives or employees, unless covered by insurance Sublessee is required to provide pursuant to this Sublease.

(b) Sublessor shall indemnify and hold harmless Sublessee from and against any and all claims arising from any breach or default in the performance of any obligation on Sublessor's part to be performed under the terms of this Sublease, or arising from any act or negligence of Sublessor, or any of its agents, representatives or employees, and from and against any and all costs, attorneys' fees, expenses and liabilities incurred in connection with any such claim or any action or proceedings brought thereon; and in case any action or proceeding be brought against Sublessee by reason of any such claim, Sublessor, upon notice from Sublessee, shall defend the same at Sublessor's expense by counsel reasonably satisfactory to Sublessee. Sublessee shall not be liable for injury or damage which may be sustained by the person, goods, wares, merchandise or property of Sublessor, its employees or invitees, except that Sublessee shall be liable to Sublessor for injury or damage to the extent proximately caused by the negligent or intentional acts of Sublessee and its designated agents, representatives or employees, unless covered by insurance Sublessor is required to provide pursuant to this Sublease.

18. Sublessee shall, at Sublessee's sole cost and, expense, but for the mutual benefit of Sublessor, Sublessee, and Lessors, take out and keep in force during the term of this Sublease broad form comprehensive public liability and property damage insurance against claims for personal injury, death or property damage arising out of or in connection with Sublessee's use or occupancy of the Premises or the

conduct of its business thereon. Such insurance shall have a single combined liability limit of not less than Five Million Dollars ($5,000,000.00) and property damage limits of not less Two Million Dollars ($2,000,000.00) shall insure performance by Sublessee of all insurable acts set forth in the indemnity provisions of this Sublease, and shall name both parties (and at election of Sublessor, any lender of Sublessor having a deed of trust, mortgage or security interest against the Premises) as additional insureds. Sublessee's insurance maintained under this paragraph shall be primary to any insurance maintained by Sublessor.

19. Sublessee shall, at sublessee's sole cost and expense, take out and keep in force during the term of this Sublease fire and extended coverage insurance, including vandalism and malicious mischief coverage, on all personal property and all other fixtures, furnishings, equipment and personal property installed or located in or on the Premises in an amount equal to their full replacement value. The proceeds from any such insurance shall be used by Sublessee for the replacement or repair of such personal property. Any such policy shall name Sublessee as primary insured, and Sublessor (and at election of Sublessor, any lender of Sublessor having a security interest against such personal property) as a loss payee, as their interest may appear. Sublessor and Sublease agree that the current' full replacement value of such personal property is not more than Seven Hundred Thousand Dollars ($700,000.00) ;not more frequently than once each year beginning on the commencement date of the term of this Sublease, if the full replacement value of such personal property, as reasonably determined by Sublessor and Sublessee, has increased above the insurance coverage limit then in effect, Sublessee shall immediately increase the limit to the full replacement value as so determined.

20. Sublessee shall, at Sublessee's sole cost and expense, take out and keep in force during the term of this Sublease fire and extended coverage all peril casualty insurance, including vandalism and malicious mischief coverage, in an amount equal to the full replacement value of the improvements on the Premises, exclusive of personal property and all other fixtures, furnishings, equipment and personal property installed or located in or on the Premises, as reasonably determined by Sublessor from time to time, and full coverage boiler and machinery insurance on all boilers, air conditioning equipment, and other pressure vessels and systems located in, on about the Premises. The insurance policy or policies shall be issued in the names of Sublessor, Sublessee, Lessor, Sublessor's and Lessor’s lender, if any, as their interests appear. Sublessor and Sublessee agree that the current full replacement value of such improvements is not more than Three Million Dollars, ($3,000,000.00). Not more frequently than once each year beginning on the commencement date of the term of the term of this Sublease, if the full replacement value of such improvements, as reasonably determined by Sublessor and Sublessee,

has increased above the insurance coverage limit then in effect, Sublessee shall immediately increase the limit to the full replacement value as so determined.

21. Sublessee shall, at Sublessee's sole cost and expense, take out and keep in force during the term of this Sublease business interruption insurance insuring that the minimum monthly rent will be paid to Sublessor for a period of up to one (1) year if the Premises are destroyed or rendered inaccessible by a risk insured against by a policy or policies of fire and extended coverage insurance as provided in this Sublease.

22. The insurance policies required by this Sublease shall be in a form reasonably satisfactory to Sublessor and issued by insurance companies with a financial rating of at least "A-7" status as rated in the most recent edition of Best's Insurance Reports. A certificate as to such insurance shall be presented to Sublessor. Sublessee shall have the right to provide insurance coverage which it is obligated to provide under this Sublease pursuant to blanket policies obtained by Sublessee, provided such blanket policies expressly afford coverage as required by this Sublease. Sublessee shall obtain a written obligation on the part of any such insurance company to notify Sublessor in writing of any delinquency in premium payments, and at least ten (10) days prior thereto, of any cancellation of any such policy.

23. Sublessor and Sublessee each hereby waive any and all rights of recovery against the other, or against the officers, employees, agents and representatives of the other, if any, on account of loss or damage occasioned to such waiving party or its property or the property of others under its control to the extent that such loss or damage is insured against under fire and extended coverage insurance policy which either may have in force at the time of such loss or damage.

24. In the event of any damage or destruction to the Premises or any portion thereof, there shall be no abatement or reduction of rent. The rights of the parties in the event of damage or destruction are to be governed solely by the provisions of this Sublease and not by any statutes or laws. Sublessee waives the provisions of Sections 1932(2) and 1933(4) of the California Civil Code, or any similar law, present or future, with respect of any damage or destruction of the Premises or any portion thereof.

25. Sublessee, at Sublessee's sole cost and expense, shall maintain the Premises and every part thereof all in good order, condition and repair, and shall provide, either through its own personnel or through maintenance agreements with licensed contractors, for the maintenance and repair of the heating, ventilating and air conditioning systems, including any boilers and other pressure vessels, and the machinery and equipment located in or upon the Premises or which

otherwise are a part of the Premises. Any governmental requirements for new equipment or modifications to the physical plant shall be the responsibility of Sublessee, but costs incurred by Sublessee will be considered at the time of return of the building and equipment as reimbursable at the assets' depreciated value with the exception of any capital upgrades made by Sublessee due to program changes or upgrades (e.g. a Subacute program) Sublessor shall not have any responsibility to maintain the Premises or any portion thereof. Sublessee waives the provisions of Sections 1941 and 1942 of the California Civil Code, or any similar law, present or future, with respect to Sublessor's obligations for tenantability of the Premises and Sublessee's right to make repairs and deduct the expenses of such repairs from rent.Sublessee shall make or permit no alterations, additions or improvements to the Premises or any part thereof which result in a reduction of the number of licensed nursing home beds below the existing number of ill beds, without the prior written consent of Sublessor, which consent shall not be unreasonably withheld; provided however, since such decision will be subject to approval by Sublessor, including potential compensation to Sublessor for reduced licensed capacity as may be negotiated between the parties, Sublessor acknowledges that the number of licensed beds at the termination of the sublease may be less than 120.

26. Except as otherwise provided for herein, Sublessee shall not assign, sublease, voluntarily transfer, mortgage, pledge, hypothecate or encumber its interest, or any part thereof, in this Sublease or in the Premises or any part thereof or allow any other person or entity to occupy or use all or any part of the Premises, without first obtaining the prior written consent of Sublessor. Sublessor shall not unreasonably withhold its consent under this paragraph. The provisions, covenants and agreements of this Sublease shall be binding upon any and all assignees and sublessees and successor assignees and sublessees of Sublessee.

27. No interest of Sublessee in this Sublease shall be assignable by operation of law. Each of the following acts shall be considered an involuntary assignment:

a. The making by Sublessee of any general assignment or general arrangement for the benefit of creditors;'

b. The filing by or against Sublessee of a petition to have Sublessee adjudged a bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy:

c. The appointment of a trustee or receiver to take possession of

substantially all of Sublessee's property located in or on the Premises or of Sublessee's interest in this Sublease; or

d. The attachment, execution or other judicial seizure of substantially all of Sublessee's property located in or on the Premises or of Sublessee's interest in this Sublease.

An involuntary assignment shall constitute a default by Sublessee and Sublessor shall have the right to elect to terminate this Sublease, in which case this Sublease shall not be treated as an asset of Sublessee.

28. Termination Due to Financial Hardship.

a. Meet and Confer Period. If at any time during the term of the original Sublease or subsequent option periods, Sublessee determines it can no longer continue to operate a distinct part SNF, whether for regulatory or statutory reasons, or as a result of the complete elimination or drastic reduction of the distinct part reimbursement differential or the establishment of regulatory or statutory requirements that adversely affect Sublessee's cost of providing SNF care, Sublessee shall first notify Sublessor of the circumstances leading to its decision (the "Changed Circumstances") and request the initiation of a "Meet and Confer Period" to seek resolution of the issues raised by the Changed Circumstances for a period up to three (3) months duration. During this period, the alternatives would be discussed on a confidential basis only between the principals and any outside parties that they mutually agree to include. The alternatives that could be explored and mutually agreed to include but are not limited to:

1. A first right of refusal for Sublessor to resume responsibility for the operation of the facility;

2. A decision for Sublessee to retain the license but utilize Sublessor to manage the facility;

3. A renegotiation of the lease terms between Sublessee and Sublessor in order to restore the financial viability of the facility under continued hospital operation; or

4. The initiation of an attempt by both parties to identify an alternative sublessee acceptable to Sublessor.

During the Meet and Confer Period, both parties shall exert their best efforts to seek a satisfactory resolution to the issues raised by the Changed Circumstances. Sublessee will disclose any financial records necessary to substantiate the nature of the circumstances. During the Meet and Confer Period, Sublessee will continue to

pay whatever lease and triple net expenses are due and payable through the Meet and Confer Period.

b. Notice of Intent for Early Termination. In the event that no satisfactory resolution of the issues raised by the Changed Circumstances can be identified during the three month Meet and Confer Period, Sublessee shall have the right to give a six (6) months prior written notice to Sublessor of its intent for early termination of the Sublease (the "Termination Notice"). In the event of such Termination Notice, Sublessor shall have a first right of refusal to resume direct operation of the Waters Edge facility. Sublessee will cooperate fully in facilitating an application by Sublessor to obtain appropriate licensure for the facility. If Sublessor decides not to resume operation of the facility, Sublessee shall be responsible for seeking a qualified alternative sublessee to assume the terms of the sublease and presenting the proposed sublessee to Sublessor for their approval. Such approval of a proposed alternative sublessee by Sublessor shall not be unreasonably withheld. Since it is highly unlikely that there will be another sublessee/operator who would be able to operate Waters Edge as a distinct part SNF, the parties understand and agree that the terms of any such sublease will be set at the then-current fair rental value for a free-standing community SNF. In the event the parties hereto cannot agree on the then-current fair rental value for a free-standing community SNF, the parties shall engage the services of a qualified appraisal firm to make such a determination, and the cost of such an appraisal shall be shared by the parties.

c. Inability to Identify an Acceptable Alternative Tenant. In the event that, after 90 days following the Termination Notice, Sublessor has no interest in reassuming the operation and a satisfactory alternative sublessee cannot be identified by Sublessee, Sublessee may begin the process of closing down operations and will assume responsibility for placement of all residents of Sublessor. During this "wind-down" process, Sublessee will continue to pay the lease rate on all licensed beds throughout the six (6) months following the Termination Notice. If the wind-down continues thereafter, Sublessee will pay the then-current fair rental value per **occupied** bed for a free-standing community SNF, as established in paragraph b., above, until all patients are placed at alternative facilities. After completion of the wind down, Sublessee shall return the facility and its then-associated fixtures, furniture and equipment to Sublessor as provided for in Section 1.

d. Resumption of Management and Licensure by Sublessor due to Early Termination. In the event at any time during the process for early termination of this Sublease as set forth in this Sections 29, Sublessee will cover the first two week payroll following the date of transition and advance Sublessor funds to cover additional operating expenses not to exceed $500,000 in total. Repayment of the total sum not to exceed $500,000 will be repaid by Sublessor no later than 120 days following the transition date at an annualized interest rate of 4.0%, compounded monthly. Also, in the event Sublessor decides

to take over the operation at any point during the processes outlined above for early termination of this Sublease, Sublessee shall undertake all necessary steps to ensure a smooth transition and expedient change in licensure back to Sublessor

e. Liquidated Damages. In the event that Sublessee must exercise early termination of the sublease as set forth above, Sublessee agrees to pay Sublessor liquidated damages in the amount specified on Attachment II. These liquidated damages are intended to provide fixed and final compensation to Sublessor for any and all costs and expenses associated with such termination. At the same time, these liquidated damages provide for a limitation of the financial exposure Sublessee in connection with such an early termination of the Sublease.

29. Unless otherwise provided herein, any notice, tender or delivery to be given hereunder by either party to the other may be effected by personal delivery in writing or by registered or certified United States mail, postage prepaid, return receipt requested, and, in the case of notice by mail, shall be deemed delivered forty-eight (48) hours after deposit into the United States mail in accordance herewith or upon any earlier refusal of receipt therefore. Mailed notices shall be addressed as set forth below, but each party may change its address for written notice in accordance herewith:

If to Sublessor:

Waters Edge Inc.
Alameda Elder Communities
801 Island Drive
Alameda, CA 9450

If to Sublessee:

City of Alameda Health Care District
2070 Clinton Ave
Alameda, CA 94501
attn: Chief Executive Officer

30. If Sublessee remains in possession of the Premises after expiration of this Sublease, without a written sublease in force and in effect, Sublessee shall be deemed to be occupying and using the same as a tenant from month-to-month, subject to all the conditions, provisions and obligations of this Sublease insofar as they may be applicable to such month-to-month tenancy. In such event the rent shall be 100% of the rent existing at the expiration of the term hereof.

31. Subject to the provisions of this Sublease pertaining to assignment and

subletting, the covenants and agreements of this Sublease shall be binding upon the heirs, legal representatives, successors, sublessees and assigns of the parties hereto.

32. The occurrence of any of the following shall constitute a material default and breach of this Sublease by Sublessee:

a. Any failure by Sublessee to pay the rent or any other monetary sums required to be paid hereunder within 15 days after same becomes due.

b. The abandonment or vacation of the Premises by Sublessee (failure to occupy the Premises for ten (10) consecutive days shall be deemed an abandonment or vacation).

c. Any failure by Sublessee to observe and perform any other provision of this Sublease to be observed or performed by Sublessee, where such failure continues for forty-five (45) days after written notice thereof by Sublessor to Sublessee; provided, however, that if the nature of the default is such that the same cannot reasonably be cured within said forty-five (45) day period, Sublessee shall not be deemed to be in default if Sublessee shall within such forty-five (45) day period commence such cure and thereafter diligently prosecute the same to completion.

d. The making by Sublessee of any involuntary assignment of this Sublease as set forth in this Sublease.

33. In the event of any default or breach by Sublessee, Sublessor may, at any time thereafter without limiting Sublessor in the exercise of any right or remedy at law or in equity which Sublessor may have by reason of such default or breach:

a. Continue this Sublease in full force and effect, and the Sublease will continue in effect as long as Sublessor does not terminate Sublessee's right to possession, and Sublessor shall have the right to collect rent when due. During the period Sublessee is in default, Sublessor may enter the Premises and relet the Premises to third parties for Sublessee's account. Sublessee shall be liable to Sublessor for all costs Sublessor incurs in reletting the Premises, including, without limitation, brokers' commissions, expenses of remodeling the Premises required by the reletting, and like costs. Reletting may be for a period shorter or longer than the remaining term of this Sublease. No act by Sublessor allowed hereunder shall terminate this Sublease unless Sublessor notifies Sublessee that Sublessor elects to terminate this Sublease. If Sublessor elects to relet the Premises as provided herein, then notwithstanding any provision herein to the contrary, any rent that Sublessor receives from reletting shall be applied to the payment of: (I) first, to any indebtedness from Sublessee to Sublessor other than rent due from Sublessee; (ii) second, to all costs, including for maintenance,

incurred by Sublessor in reletting; and (iii) third, to any rent due and unpaid under this Sublease. After deducting the payments referred to herein, any sum remaining from the rent Sublessor receives from reletting shall be held by Sublessor and applied in payment of future rent as rent becomes due under this Sublease. In no event shall Sublessee be entitled to any excess rent received by Sublessor. If, on the date rent is due under this Sublease, the rent received from the reletting is less than the rent due on that date, Sublessee shall pay to Sublessor, in addition to the remaining rent due, all costs, including for maintenance, Sublessor incurred in reletting that remain after applying the rent received from the reletting as provided herein.

b. Terminate Sublessee's right to possession of the Premises at any time. No act by Sublessor other than giving written notice to Sublessee shall terminate this Sublease. Acts of maintenance, efforts to relet the Premises, or the appointment of a receiver on Sublessor's initiative to protect Sublessor's interest under this Sublease shall not constitute a termination of Sublessee's right to possession. On termination, Sublessor shall have the right to recover from Sublessee: (i) the worth, at the time of the award, of the unpaid rent that had been earned at the time of termination of this Sublease, (ii) the worth, at the time of the award, of the amount by which the unpaid rent that would have been earned after the date of termination of this Sublease until the time of award exceeds the amount of the loss of rent that Sublessee proves could have been reasonably avoided, (iii) the worth, at the time of the award, of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of the loss of rent that Sublessee proves could have been reasonably avoided; and (iv) any other amount, including attorneys' fees and court costs, necessary to compensate Sublessor for all detriment proximately caused by Sublessee's default. For purposes of this paragraph, the term "rent" means the minimum monthly rent to be paid pursuant to this Sublease and all other monetary sums to be paid by Sublessee pursuant to this Sublease.

c. Cure the default at Sublessee's cost. If Sublessor at any time, by reason of Sublessee's default, pays any sum or does any act that requires the payment of any sum, the sum paid by Sublessor shall be immediately due from Sublessee to Sublessor at the time the sum is paid and shall be considered additional rent.

34. Sublessee hereby acknowledges to Sublessor that late payment by Sublessee to Sublessor of rent and other sums due hereunder will cause Sublessor to incur costs not contemplated by this Sublease, the exact amount of which will be extremely difficult to ascertain. Accordingly, if any installment of rent or other sum due from Sublessee shall not be received by Sublessor or Sublessor's designee within 15 days after such amount shall be due, Sublessee shall pay to Sublessor a late charge equal to two percent (2%) of such overdue amount. The parties hereby agree that such

late charge represents a fair and reasonable estimate of the costs Sublessor will incur by reason of late payment by Sublessee. Acceptance of such late charge by Sublessor shall not constitute a waiver of Sublessee's default with respect to any such overdue amount.

35. Sublessee shall keep the Premises and every part thereof free from any liens arising out of work performed, materials furnished, or obligations incurred by Sublessee and shall indemnify, hold harmless and defend Sublessor from any liens and encumbrances arising out of any work performed and materials furnished by or at the direction of Sublessee. Sublessor shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law for the protection of Sublessor and the Premises from mechanics' and materialmens' liens, and Sublessee shall give to Sublessor at least ten (10) days prior written notice of the expected date of commencement of any work of improvement on the Premises.

36. If, during the term of this Sublease, there is any taking of all or any part of the Premises or any interest in this Sublease by condemnation, the rights and obligations of the parties shall be determined as follows:

a. For purposes of this paragraph, the term "condemnation" shall mean the exercise of any governmental power, whether legal proceedings or otherwise, by a condemnor, and a voluntary sale or transfer by Sublessor to any condemnor, either under threat of condemnation or while legal proceedings for condemnation are pending. The term "condemnor" shall mean any public or quasi-public authority, or private corporation or individual, having the power of condemnation.

b. If the Premises are totally taken by condemnation, this Sublease shall terminate on the date the condemnor has the right to possession of the Premises.

c. If any portion of the Premises is taken by condemnation, this Sublease shall remain in effect, except that Sublessee may elect to terminate this Sublease if the remaining portion of the Premises is rendered unsuitable or uneconomical for Sublessee's continued use of the Premises. If Sublessee elects to terminate this Sublease, Sublessee must exercise its right to terminate by giving notice to Sublessor within sixty (60) days after the nature and the extent of the taking have been finally determined. If Sublessee elects to terminate this Sublease as provided herein, Sublessee shall also notify Sublessor of the date of the termination, which date shall not be earlier than three (3) months after Sublessee has notified Sublessor of its election to terminate; except that this Sublease shall terminate on the date the condemnor has the right to possession of the property being condemned if such date falls on a date before the date of termination as designated by Sublessee. If Sublessee does not terminate this Sublease within the sixty (60) day period, this Sublease shall

continue in full force and effect. If any portion of the Premises is taken by condemnation and this Sublease remains in full force and effect, on the date of taking the minimum monthly rent shall be reduced by an amount that is in the same ratio to minimum monthly rent as the number of beds lost as a result of the taking bears to the number of beds as may exist on the Premises on the date of taking.

d. Each party waives the provisions of Section 1265.130 of the California Code of Civil Procedures, or any similar law, present or future, allowing either party to petition the Superior Court to terminate this Sublease in the event of a partial taking of the Premises.

e. No award for any partial or entire taking shall be apportioned, and Sublessee hereby assigns to Sublessor any award which may be made in such taking, together with any and all rights of Sublessee now or hereafter arising in or to the same or any part thereof; provided, however; that nothing contained herein shall be deemed to give Sublessor any interest in or to require Sublessee to assign to Sublessor any award made to Sublessee for the taking of personal property belonging to Sublessee, for Sublessee's unamortized cost of leasehold improvements or for the value of Sublessee's leasehold interest in the Premises.

f. No temporary taking of all or any part of the Premises or of Sublessee's rights therein or under this Sublease shall terminate this Sublease or give Sublessee any other rights under this Sublease; provided however, nothing herein precludes Sublessee from seeking compensation from the condemnor with respect to such temporary taking..

37. This Sublease at Sublessor's option shall be subject and subordinate to the lien of any mortgages or deeds of trust in any amount or amounts whatsoever now or hereafter placed on or against the Premises by Sublessor or Lessor without the necessity of the execution and delivery of any further instruments on the part of Sublessee to effectuate such subordination. If any mortgagee or trustee shall elect to have this Sublease prior to the lien of its mortgage or deed of trust, and shall give written notice thereof to Sublessee, this Sublease shall be deemed prior to such mortgage or deed of trust, whether this Sublease is dated prior or subsequent to the date of said mortgage, deed of trust, or the date of the recording thereof. Sublessee covenants and agrees to execute and deliver upon demand without charge therefore, such further instruments evidencing such subordination of this Sublease to the lien of any such mortgages or deeds of trust as may be reasonably required by Sublessor. Sublessor covenants and agrees with Sublessee that upon Sublessee paying rent and other monetary sums due under this Sublease and performing its covenants and conditions under this Sublease, Sublessee shall and may peaceably and quietly have,

hold and enjoy the' Premises for the term; subject, however, to the terms of this Sublease and of any of the mortgages or deeds of trust described hereinabove.

38. In the event of foreclosure or the exercise of the power of sale under any mortgage or deed of trust made by Sublessor covering the Premises, Sublessee shall attorn to the purchaser upon any such foreclosure or sale and recognize such purchaser as the Sublessor under this Sublease; provided however, said purchaser shall take the Premises subject to this Sublease and expressly agree in writing to be bound by the terms of this Sublease.

39. In the event of a sale or conveyance by Sublessor's interest in the Premises other than a transfer for security purposes only, Sublessor shall be relieved from and after the date specified in any such notice of transfer of all obligations and liabilities accruing thereafter on the part of Sublessor, provided that any funds in the hands of Sublessor at the time of transfer in which Sublessee has an interest shall be delivered to the successor of Sublessor. This Sublease shall not be affected by any such sale and Sublessee agrees to attorn to the purchaser or assignee provided all Sublessor's obligations hereunder are assumed in writing by the transferee.

40. Sublessee shall, at any time upon not less than ten (10) days prior written notice from Sublessor, execute, acknowledge and deliver to Sublessor a statement in writing: (i) certifying that this Sublease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Sublease, as so modified, is in full force and effect) and the date to which the rent or other charges are paid in advance, if any; and (ii) acknowledging that there are not, to Sublessee's knowledge, any uncured defaults on the part of Sublessor hereunder, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises. Sublessee's failure to deliver such statement within such time shall be conclusive upon Sublessee: (i) That this Sublease is in full force and effect, without modification except as may be represented by Sublessor: (ii) that there are no uncured defaults in Sublessor's performance; and (iii) that not more than one month's rent has been paid in advance. If Sublessor desires to finance or refinance the Premises, or any portion thereof, Sublessee hereby agrees to deliver to any lender designated by Sublessor such financial statements of Sublessee as may be reasonably required by such lender.

41. In the event Sublessee fails to pay rent in accordance with the terms and provisions of this Sublease, then, after each or such events, Subleases shall provide and deliver to Sublessor, in form satisfactory to Sublessor, current monthly operating statements with respect to the Premises within ten (10) days after written request from Sublessor. The operating statements shall include a balance sheet, income statement

and statement of cash receipts and disbursements, prepared on the accrual basis, and a detailed statement of accrued expenses and accounts, contracts and notes payable, a detailed patient census report and a detailed statement of Medi-Cal accounts receivable. Sublessee shall further provide and deliver to Sublessor audited annual financial statements with respect to Sublessee within one hundred twenty (120) days after the end of each fiscal year of Sublessee and a copy of the Long-Term Care Facility Integrated Disclosure and Medi-Cal Cost Report within ten (10) days after filing of the report by Sublessee with the State of California. Sublessee shall keep and maintain a full and accurate set of books and records with respect to the Premises and shall permit Sublessor, and its authorized agents, representatives and employees, at any time during normal business hours to inspect and copy at Sublessor's expense any and all of Sublessee's books and records with respect to the Premises.

42. Upon vacating the Premises, Sublessee shall surrender the Premises in a clean and orderly condition and in the same condition as received or as improved, reasonable wear and tear excepted. Where costs were incurred by Sublessee, in response to any governmental requirements for new equipment or modifications, such costs (with the exception of any capital upgrades made by Sublessee due to program changes or upgrades (e.g. a subacute program)) shall be reimbursable to Sublessee by Sublessor at the assets' then-current depreciated value. The voluntary or other surrender of this Sublease by Sublessee, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Sublessor, terminate all or any existing subleases or subtenancies, or may, at the option of Sublessor, operate as an assignment to it of any or all such subleases or subtenancies.

43. No covenant, agreement, condition or representation or the breach thereof shall be deemed waived, except by written consent of the party against whom the waiver is claimed, specifically referring to this Sublease and the intention to waive the same, and any such waiver of the breach of any covenant, agreement, condition or representation shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other covenant, agreement, condition or representation.

44. Each party represents that it has not had any dealings with any real estate broker, finder or other person with respect to this Sublease in any manner.

45. Time is of the essence of this Sublease and each and every provision hereof.

46. If Sublessor or Sublessee shall bring any action for relief against the other, declaratory or otherwise, arising out of this Sublease, including any suit by Sublessor for the recovery of rent or possession of the Premises, the losing party shall pay the successful party a reasonable sum for attorneys' fees which shall be deemed to have

accrued on the commencement of such action and same shall be paid whether or not such action is prosecuted to judgment.

47. If any term or provision of this Sublease shall, to any extent, be determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of the Sublease shall not be affected thereby, and each term and provision of this Sublease shall be valid and enforceable to the fullest extent permitted by law.

48. This Sublease shall not be recorded, except that if either party requests the other party to do so, the parties shall execute a Memorandum of Sublease in recordable form. On the expiration or termination of this Sublease, Sublessee shall execute and deliver to Sublessor, immediately on Sublessor's request, a quitclaim deed to the Premises, in recordable form, designating Sublessor as transferee.

49. Sublessor shall not become or be deemed a partner or a joint venturer with Sublessee by reason of the provisions of this Sublease.

50. This Sublease shall be construed and interpreted in accordance with the laws of the State of California.

51. Except as otherwise expressly set forth herein, or as may be set forth in writing contemporaneous with or subsequent to this Sublease, this Sublease contains the entire agreement between the parties with respect to the subleasing of the Premises, and all previous and collateral agreements, representations, warranties, promises and conditions with respect thereto are superseded by this Sublease. No prior representation, promise or condition not referred to or incorporated in this Sublease shall be binding on either party. No alteration or modification of any of the provisions of this Sublease shall be binding unless such alteration or modification is in writing, is duly executed by the party to be bound thereby, and specifically refers to this Sublease and the intention to modify or alter the same.

52. All the covenants, agreements, conditions and representations contained in this Sublease to be performed by any party, if such party shall consist of more than one person or entity, shall be deemed to be joint and several. All rights and remedies of the parties shall be cumulative and nonexclusive and shall be in addition to any and all other rights and remedies that may exist at law or in equity.

53. Sublessee shall have the Right of First Refusal (“ROFR to Purchase”) to purchase the Premises such that prior to entering into a Purchase and Sale Agreement with an unrelated third party buyer (“3rd Party Buyer”), Sublessor shall first offer the Premises to Sublessee under the identical terms (including identical due diligence periods, deposit amounts, contingencies, etc.) that the Sublessor and the 3rd Party Buyer have agreed

upon ("Purchase Offer"). At that point, Sublessee to have ten (10) business days to either accept, or reject, such Purchase Offer. If Sublessee rejects the Purchase Offer, Sublessor shall have the right to sell the Premises to the 3rd Party Buyer under the terms of the Purchase Offer. In the event escrow does not close within five (5) months of the date on which the rejection notice was given to Sublessor, however, the ROFR to Purchase shall again apply.

IN WITNESS WHEREOF, the parties have executed this Sublease as of the day and year first above written.

Sublessor:	Sublessee:
City of Alameda Health Care District	The Waters Edge, Inc.
By : _____	By: _____
Deborah E. Stebbins	Darnelle Zimmerman
Chief Executive Officer	_____
_____	_____
Date	Date

The undersigned, the trustee of the general partner of F.M.A. Laguna, LP, a California limited partnership, acknowledges that he has read the foregoing Transition Agreement, and the attached Sublease, which create certain obligations to be performed by F.M.A. Laguna, LP (the "F.M.A. Laguna Obligations"). By signing below, the undersigned, acting on behalf of F.M.A. Laguna, LP, a California limited partnership, hereby agrees to be bound by this Agreement as though a party to the extent of, and as such to perform, the F.M.A. Laguna Obligations as set forth above.

F.M.A. Laguna, LP

By: _____
Christian Zimmerman
Trustee of F.M.A.TRUST, its General Partner

_____
Date

Attachment I			
RENT			
Based upon 120 Licensed beds			
Year	**Index Rate Cap ***	**Bed Rate**	**Annual Lease Payment**
1		$638.00	$918,720
2	1.75%	$ 649.17	$934,798
3	1.75%	$ 660.53	$951,157
4	1.75%	$ 672.08	$967,802
5	1.75%	$ 683.85	$984,738
6	1.75%	$ 695.81	$1,001,971
7	1.75%	$ 707.99	$1,019,506
8	1.75%	$ 720.38	$1,037,347
9	1.75%	$ 732.99	$1,055,501
10	1.75%	$ 745.81	$1,073,972
11	1.75%	$ 758.87	$1,092,766
12	1.75%	$ 772.15	$1,111,890
13	1.75%	$ 785.66	$1,131,348
14	1.75%	$ 799.41	$1,151,147
15	1.75%	$ 813.40	$1,171,292
16	1.75%	$ 827.63	$1,191,789
17	1.75%	$ 842.11	$1,212,645
18	1.75%	$ 856.85	$1,233,867
19	1.75%	$ 871.85	$1,255,459
20	1.75%	$ 887.10	$1,277,430
		Total	$21,775,144

Attachment II

Liquidated Damages Schedule

Sublease Year	Calendar Year in which Early Termination Notice Given	Liquidated Damages Due from AH to WE
1	2012	$500,000
2	2013	$500,000
3	2014	$500,000
4	2015	$500,000
5	2016	$400,000
6	2017	$400,000
7	2018	$400,000
8	2019	$400,000
9	2020	$300,000
10	2021	$300,000
11	2022	$300,000
12	2023	$300,000
13	2024	$200,000
14	2025	$200,000
15	2026	$200,000
16	2027	$200,000
17	2028	$100,000
18	2029	$100,000
19	2030	$100,000
20	2031	$100,000

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

DATE: November 7, 2011

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

FROM: Kerry Easthope, Associate Administrator

SUBJECT: Physical Plant Due Diligence Report for Waters Edge

The following is an executive summary of the Waters Edge (WE) due diligence review. For this review, we had hospital staff as well as outside engineers look at the following components of the WE facility: data and technology (computers and telephone systems), structural, mechanical and electrical. Bill Dasher with Thorton Tomasetti was the structural engineer, John Oldham provided a mechanical review and Jennifer Shaw with JRA Electric provided the electrical review. Dan Dickenson, our Director of Information Technology, provided the data and technology review.

Data and Technology:

1. All rooms have phone and cable connectivity. Currently, it is only connected if the patient requests the service and is willing to pay for it.
2. Cable service is provided by Comcast. Cable routing is challenging and is routed over and around the building, through windows and doors.
3. There are about 12 PC's in the building being used for charting and other clinical functions.
4. Limited network cabling is in place which runs through the corridors since there are hard lid ceilings throughout.
5. A wireless network is in place throughout the facility.
6. Clinical documentation software is Point Click Care and this software has been in use for several years and facilitates their MDS and billing functions. This is an internet based software application.
7. The facility uses a biometric time-keeping system (like a Kronos system), which ties in with their staffing schedules. It uses a modem to connect with Quicken, which processes their payroll and is also used for their accounting functions.

Overall, the systems and processes that are in place seem to be functioning well for their needs. It will be our intent to keep most of these in place at least for a period of time following transition to Alameda Hospital, and then look for a more coherent integration plan during the first year of operation.

Highest priorities include: Connecting WE to Alameda Hospital network (data systems, email and phone systems); plan to clean up cable mapping throughout facility; and clean up wiring in the telephone closet.

Structural Review:

As a background note, skilled nursing facilities, even those associated with acute hospitals, are not subject to SB 1953 seismic requirements.

Exterior walls are stacked 8" light weight masonry block, presumably grouted and reinforced. We were told that the foundation is a conventional spread foundation and the floor is slab-on-grade. No damage was reported following the Loma Prieta earthquake and no visible cracking was observed. The roof is covered with a foam roofing material. It was installed in 1991, and will need to be replaced during the term of our lease. One section of roof, over the "Bay Room" is tar and gravel. The roof itself is plywood supported by wood trusses. Restrooms are not ADA compliant. The facility is fully sprinklered. Although the hot water heaters are properly braced, they also need to be properly anchored for seismic compliance at some point.

It should be noted that the facility is located next to the estuary, which is composed of bay mud. Although there was no apparent structural damage at this point, there is concern as to how well it would perform following a major earthquake.

Mechanical Review:

Mechanical:

Most of the building has heating only, from 13 natural gas fired rooftop forced air heating units. They do not have outside air intakes and have 1" thick prefiltration. The ceiling is well insulated. Air ducts do not have balancing dampers and have had not previous air balancing. There are two fire-rated walls which include fire/smoke dampers in the ducts crossing the walls. The HVAC Units appear to be original and are nearing the end of their useful life. No air balance reports have ever been performed.

Plumbing:

Toilets are tank type. There are six central shower rooms. There are two hot water heaters that serve the building. A set of solar panels with a large tank is piped to the domestic hot water system to preheat the water. The solar system is about 30 years old, but is fully operational. There is no central bulk oxygen tank, medical air compressor or medical vacuum system. The only medical gas is oxygen supplied by bottles. The code required backflow preventer for the water main entering the building is not in place.

The building was constructed in 1971 and is an OSHPD 2 skilled nursing facility. Since the building predates OSHPD, it does not comply with many of the current codes for such a building. To the extent that existing systems can be maintained, they are generally grandfathered in. However, to the extent that a piece of equipment, machinery or component needs to be completely replaced, it will need to be brought up to current OSHPD compliance. In addition, if we initiate any facility modifications in the future, any component affected by the modification will need to be brought up to current OSHPD compliance.

Electrical Review:

Emergency System:

The facility has an old exterior mounted natural gas electrical generator (manufactured around 1967) and per the owner, it has been maintained and transfers within 10 seconds. The system is remotely monitored at the nurse's station. The minimum fuel supply requirement is 6 hours. The emergency generator supports the fire alarm, nurse call, various hall lights, emergency egress lighting, furnaces, kitchen lighting, telephone systems, and red receptacles in the hallway, the solar system and refrigerators.

Main Electrical System:

The facility has a 1000 amps main electrical panel (circa 1970). The hot water heaters are in the same closet as the main switchboards and encroach on clearance. At some point in the future when modifications are made to either the electrical panel or the boilers, they should be relocated.

Nurse Call System:

The nurse call system is also original. It is visual alarm with one enunciator in the front nursing station and the master unit at the rear nursing station. Each patient room bed has an emergency call station with pull cord and the bathrooms have a call button with an indication light above the patient room door.

Fire Alarm System:

The system is functional and maintained. There are smoke detectors and magnetic door holders located at fire rated egress doors and the Bay Room entrance doors. Fire alarm chime signals devices are located in the halls. There are no visual strobes in the building.

Electrical recommendations for a skilled nursing building with no life support measures:

- Replace generator with new emergency system with weather proof sound attenuating enclosure. Fuel source and tanks to be replaced with supply for 6 hours and provide better monitoring capability.
- If subacute or higher acuity programs are implemented, greater and more efficient capacity for electrical distribution will be needed.
- When emergency generator is replaced, Segregate Life Safety type circuits (egress lighting, fire alarm, nurse call, paging and telephone) to new panel.
- Hot water heaters should be relocated away from Main switchboard.
- Replace nurse call system with new visual alarm system – due to age; this is not an urgent requirement.
- Bathrooms should have a call cord type station.
- Over time, replace components of fire alarm system (one for one replacement). If we modify floor plan, changes must comply with current codes for fire alarm system for entire building.
- GFI receptacles are required in all patient bathrooms.

- Any new HVAC to components which are added should connect to Equipment Emergency panels.

Electrical Recommendations for "Acute" SNF building or group of rooms:

- Replace generator with greater load capacity and 24 hour fuel source.
- Provide Life Safety branch, Critical Brand and Equipment system Automatic Transfer Bypass Switches.
    - Upgrade electrical distribution panels to facilitate the above branch configurations.
- Any new HVAC and medical gas system to connect to Equipment Emergency Power.
- Segregate Life Safety type circuits
- Provide red four-plex receptacle at each "acute snf" patient bed for critical branch panel.

Summary:

As would be anticipated with a 40 year old building, Waters Edge has many components that are old and that will eventually need to be replaced. It does appear that the current owners have done a good job at maintaining the existing systems in a functional manner. It should be anticipated that during the term of our 20-year sublease, that we will need to perform ongoing maintenance and upgrades to many of the systems as noted in this report summarized again here:

- Roof Replacement
- HVAC System
- Emergency Power
- Solar Panels/System
- Water heater anchorage
- Relocate hot water heaters
- Replace Electrical Distribution for Life Safety Sections
- Upgrade Nurse Call System
- Upgrade Fire Alarm System

A capital budget estimate with anticipated replacement timeframes has been developed to help plan for these future capital expenditures.

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

DATE: November 7, 2011

TO: City of Alameda Healthcare District, Board of Directors

FROM: Kerry Easthope, Associate Administrator

SUBJECT: Summary Report on Due Diligence for Waters Edge

This report summarizes the due diligence findings for Waters Edge skilled nursing facility, for items other than the physical plant which is discussed on a separate report.

Due diligence items that will be discussed here include the following:

1. Personnel
2. Workers Compensation Experience / Claims
3. Five Year Litigation History and any open litigation
4. Last two annual surveys by California Department of Public Health (CDPH)
5. Facility Walk-Thru with skilled nursing consultants
6. Operating Contracts Review
7. Follow up on other California D/P skilled nursing facilities with greater than 100 beds

Personnel:

Waters Edge has approximately 125 employees. Upon review of their employee roster, only two individuals have been identified who currently work at both Waters Edge and Alameda Hospital. Under Waters Edge's current pay practices, many of the employees have opted out of benefits in lieu of higher pay. As is discussed in the budget assumptions, our budget estimates reflect the higher pay rates between Waters Edge and South Shore Skilled Nursing to account for this factor. The facility has an in-house Employee Association which we recognize and employees are currently covered for health insurance under a Kaiser plan.

Workers Compensation Experience:

According to the current owners and after reviewing the Waters Edge workers comp loss run report, there are no employees currently out on workers comp leave and they have not had any long term workers comp cases in recent years. The loss experience reports indicate no workers comp claims for Waters Edge during policy year 2011 (5/27/11 – 5/27/12) and 14 reported cases in 2010 with total paid expense of $444.64 and all 14 cases are now closed. This experience demonstrates a work environment that emphasizes employee safety.

Five Year Litigation History:

According to the current owners, there are currently no General or Professional Liability Claims against the facility. Furthermore, they have not had any General or Professional liability claims within the last five years. They have had one employee claim which was mediated and closed about a year ago. They have just received notification about another employee case, although no claim has been received.

Annual Surveys by CDPH (January 2010 & March 2011):

We have reviewed both the Licensing and Life Safety surveys for each of the last two years. There were several survey findings during the 2010 survey; however, the facility only had 2 findings in 2011.

In 2010 several F-Tags were nursing assessment, nursing care, and resident information related, but no findings that were serious in nature. Several findings were related to strapping the hot water tanks, flammable items stored inappropriately and the solar water tank.

With respect to the solar water tank: WE called the company representative to inspect the tank. WE documented that the representative recommended replacement of the solar water tank in 5 years and that certain parts were replaced.

The 2011 recommendations were minor. One was for the number of times that nurses document medications given and the second was for infection control where nurses were found not washing their hands, etc. All noted deficiencies for both years were addressed on the Plan of Correction submitted to the State.

We also reviewed the 2010 and 2011 Life Safety Survey reports, which are separate surveys that accompany the annual Licensing survey. In 2010 there were 11 findings and in 2011 there were 8 findings. Both years had some common findings such as miscellaneous penetrations that need to be sealed an doors not closing and/or latching during fire system testing (many times because they were blocked open, etc). All noted items for both years were addressed on the Facilities Plan of Correction and accepted by the State.

Facility Walk-Through with Skilled Nursing Consultants:

Representatives from hospital administration and two knowledgeable skilled nursing consultants from HFS Consultants toured the facility. Some of the noted findings include:

- Overall, the facility was well kept: Nice looking, but tired, as would be indicative of a 1971 facility. Several areas could use basic cosmetic enhancements (painting etc).
- Kitchen is a nice size, but on the few hot days that we have in Alameda, can get quite warm.
- Patient laundry service area was small, but seemed to accommodate the personal laundry needs of the facility. Linens are laundered at another Zimmerman facility.
- Most rooms are 2 bedrooms. Ten rooms have 3 beds, but only 2 beds have been in use. Most rooms have shared bathrooms.

- Therapy space seems like it should work to facilitate enhanced level of Rehab Service that we would like to provide.
- A big obstacle in developing a higher acuity program is the emergency generator system. (This is also mentioned in the Physical Plant Report). In addition, more outlets will be needed in some patient rooms.
- They have one large and one small nursing station.
- They have begun implementation of an internet based charting / medical record "Point Click Care". They indicate that they have been using this system for several years for MDS and billing and it seems to be a good system.
- We were informed that the original tile floor most likely has asbestos given the age of the building, although it has never been tested. The existing floor, which is good condition, is an overlay which is the standard approach for addressing this potential issue. No additional abatement will be required at this time.
- Not all patients have televisions, residents must provide their own TV's and pay for their own cable service.
- We were informed that most of the beds were electric and in working order.
- The facility has a very large "Bay Room" that can facilitate many large group and social activities. In addition, there are 2 or 3 patios that provide natural light and air access for the resident rooms.
    - Live music for the residents is provided every day in the Bay Room.
- Most resident admits come from word of mouth, family and friends.
- The Administrative & Business Services space in the facility was very small and some functions are performed off-site.

<u>Operating Contracts Review:</u>

As part of our due diligence, we spent time reviewing and discussing with the current operators their service contracts and leases. Waters Edge has leases for the laundry machines used for patients personal laundry and a lease for storage space across the road from the facility and the hospital will want to maintain these two leases.

Waters Edge uses many of the same service providers and vendors as the hospital. All contracts can be terminated if the hospital should choose to use a different provider. During the transition period, we will work with the current operators to transition all necessary service contracts to the hospital and terminate those that will not longer be needed.

<u>Follow up on other California D/P skilled nursing facilities with greater than 100 beds:</u>

As a follow up to some expressed concerns about additional future reimbursement reductions by the Medi-Cal program for Distinct Part D/P Skilled Nursing Facilities in California, we wanted to learn if by taking over the Waters Edge operation, if we would be one of the few facilities in the State with a large number D/P SNF beds, and therefore are greater exposure and risk for such changes in reimbursement.

- There are 76 California hospitals that receive D/P SNF payments from Medi-Cal
- The total Licensed SNF beds in these facilities is 6,236
- Licensed SNF beds as a percent of total Facility beds ranges from 1% to 97%; the average is 30%. With Waters Edge, our D/P SNF bed percentage would be 181 / 281 or 64%.
- There are 18 hospitals with greater than 100 D/P SNF licensed beds who receive Medi-Cal payments.

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

DATE: November 7, 2011

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

FROM: Kerry Easthope, Associate Administrator

SUBJECT: Water Edge Capital Budget Narrative

As part of our due diligence and long term planning for Waters Edge Skilled Nursing Facility, we are providing an initial Capital Budget estimate for some of the more significant capital needs of the facility. It should be noted that these budget estimates are based upon our preliminary due diligence in looking at the existing conditions of the facility, as well as the key mechanical, electrical and structural components of the Waters Edge facility. The timing and nature of these capital expenditures may change as we gain more experience with the facility and develop programmatic strategies that may modify the use and function of the facility (e.g. subacute).

The most noteworthy system issues identified during the physical plant due diligence reviews are included in the capital budget. These include:

- Emergency Generator
- Modification to the electrical panels and distribution if we add more acute SNF patients to accommodate the dedicated distribution for Life Safety, emergency equipment and critical branches.
- HVAC System
- Roof Replacement
- Nurse Call System
- Fire Alarm System
- Solar Panel System
- Telephone, IT and Television Services
- Other items include: beds, furniture and rehabilitation equipment replacement

The current operators have maintained these systems in good working order. However, as was noted in the due diligence report, the building is 40 years old and many of these systems are 30 plus years old and will need to be replaced during the term of the sublease.

It is important to note, that we are not currently required to replace any of the items identified in the capital budget and as long as we can maintain and/or replace the components with “like kind” components, it will not require a significant capital outlay and an OSHPD project etc. and will be

part of the ongoing maintenance of the facility. In addition, the operating budget for years 1 and 2 includes $200,000 per year for Repair & Maintenance expense.

It is also important to note that if we plan to make alterations to the facility (e.g. modify rooms and spaces) or change the licensed use, it will most likely trigger OSHPD project and any affected systems may need to be brought up to current code as part of that project. No immediate changes are contemplated in assuming operation of Waters Edge. Cost associated with such needs would be incorporated in feasibility studies for such future program modifications.

Waters Edge Capital Budget
Estimates only prepared November 2011
Based upon preliminary information from due diligence findings

Capital Budget Item	Budget Estimate	Comments	Years 1 & 2	Year 3	Year 4	Year 5	Year 6	Year 7	Years 8 -12	Years 12 - 20	Total
Emergency Generator	250,000	greater capacity, Life Safety Branches etc.		250,000							250,000
Electrical Panels and Distribution	200,000	$25,000 for like kind replacement only for "acute SNF" upgrades			200,000						200,000
Roof Replacement	125,000	If full replacement needed						125,000			125,000
HVAC System Replacement	72,000	for like kind replacement, more for damper and duct work upgrades.				72,000					72,000
Nurse Call System Replacement	80,000	if we need to replace entire system can be maintained							80,000		80,000
Fire Alarm System Replacement	100,000	if we need to replace entire system can be maintained							100,000		100,000
Solar Panels & System	50,000	Can be maintained or bypassed.							50,000		50,000
Bed & Furniture Replacement	200,000	Replace beds, chairs, tables etc.							100,000	100,000	200,000
Rehabilitation Equipment	50,000	To enhance rehab capabilities	25,000						25,000		50,000
Telephone, Television, IT Connections	250,000	Televisions in all rooms, wireless, telephone system	75,000	25,000	25,000					125,000	250,000
Other Physical Plant Projects Misc.	875,000	Allowance of unanticipated capital expenditures	25,000	50,000	50,000	50,000	50,000	50,000	300,000	300,000	875,000
Total	2,252,000		125,000	325,000	275,000	122,000	50,000	175,000	655,000	525,000	2,252,000

Note: If during the term of the sublease we choose to make program changes or modifications to the existing facility, such changes may require upgrade or replacement of some of the above Life Safety system as a component of those OSHPD projects. Also, the cost of these facility modifications would need to be determined separately as a part of such proposals.

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

Date: November 7, 2011

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

From: Diana Surber, Interim Controller

Subject: Updated Waters Edge Base Scenario Pro Forma

Based on our due diligence and further analysis, management has updated the Base Scenario to reflect current information. The changes are as follows:

Other Operating Expenses increased from $252,000 to $450,000 for additional hospital support services. We performed a detailed analysis of the additional positions needed in hospital services in order to support the addition of Waters Edge operations. Approximately 4.3 Full Time Equivalent positions were identified in Human Resources, Infection Control, Pharmacy, Information Technology and Case Management.

Medi-Cal Reimbursement Rates were recalculated to include the $198,000 of expense added to Hospital Support Services. The Medi-Cal payment rate increased from $315.21 to $316.01 in Year 1 and from $304.69 to $305.45 in Year 2. The rates were applied to Medi-Cal and Private Pay days and resulted in increased net revenues of roughly $23,000 in each year.

Start-up Costs – Start-up costs increased by $75,0000 due to updated consulting fees and the identification of two positions (Administrator and Admissions Coordinator) that will be hired one month pre-transition date.

The changes noted above resulted in the following performance:

	Year 1	**Year 2**
Contribution	$1,520,000	$2,377,000
Cash Flow	$1,098,000	$2,400,000
ROI	159%	249%

Waters Edge
Financial Projections
Summary of Revenues and Expenses **Base Scenario**

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1	Year 2
Average Daily Census	**86**	**89**	**94**	**96**	**102**	**104**	**105**	**105**	**106**	**106**	**107**	**108**	**101**	**108**
Net Patient Revenues	**969,922**	**937,414**	**1,075,376**	**1,060,933**	**1,184,986**	**1,171,029**	**1,246,704**	**1,246,704**	**1,226,348**	**1,265,893**	**1,244,918**	**1,304,271**	**13,934,500**	**14,999,909**
Avg per day	363.81	363.20	369.04	368.38	374.76	375.33	383.01	383.01	385.64	385.24	387.83	389.57	378.07	380.52
Expenses														
Salaries														
Nursing	341,609	339,565	366,615	361,829	391,622	387,642	401,624	401,624	390,869	401,624	390,869	401,624	4,577,119	4,744,205
Other	115,084	115,084	115,084	115,084	115,084	115,084	115,084	115,084	115,084	115,084	115,084	115,084	1,381,006	1,381,006
Total Salaries	456,693	454,649	481,699	476,913	506,706	502,726	516,708	516,708	505,953	516,708	505,953	516,708	5,958,125	6,125,211
Benefits	137,008	136,395	144,510	143,074	152,012	150,818	155,012	155,012	151,786	155,012	151,786	155,012	1,787,438	1,837,563
Total Salary & Benefits	**593,701**	**591,044**	**626,209**	**619,987**	**658,717**	**653,544**	**671,721**	**671,721**	**657,739**	**671,721**	**657,739**	**671,721**	**7,745,563**	**7,962,774**
Other Operating Expenses														
Professional Fees	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	66,000	66,000
Supplies	85,839	83,453	92,800	91,846	99,762	98,583	102,373	102,373	100,267	103,243	101,110	104,983	1,166,632	1,166,632
Purchased Services	101,355	99,049	108,084	107,161	114,812	113,673	117,336	117,336	115,301	118,177	116,115	119,859	1,348,256	1,348,256
Rents and Leases	76,560	76,560	76,560	76,560	76,560	76,560	76,560	76,560	76,560	76,560	76,560	76,560	918,720	934,798
Utilities and Telephone	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	180,000	180,000
Insurance	16,333	16,333	16,333	16,333	16,333	16,333	16,333	16,333	16,333	16,333	16,333	16,333	196,000	196,000
Depr & Amort	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Operating Expenses	70,011	70,177	70,291	70,247	64,042	64,038	64,051	64,051	64,044	64,054	64,047	64,060	793,114	768,400
Total Other Op Expenses	**370,598**	**366,071**	**384,569**	**382,647**	**392,010**	**389,687**	**397,153**	**397,153**	**393,005**	**398,867**	**394,664**	**402,296**	**4,668,722**	**4,660,086**
Total Operating Expenses	**964,298**	**957,115**	**1,010,778**	**1,002,635**	**1,050,727**	**1,043,231**	**1,068,874**	**1,068,874**	**1,050,744**	**1,070,588**	**1,052,403**	**1,074,017**	**12,414,284**	**12,622,860**
Contribution	**5,624**	**(19,702)**	**64,598**	**58,298**	**134,259**	**127,798**	**177,831**	**177,831**	**175,604**	**195,305**	**192,515**	**230,255**	**1,520,216**	**2,377,049**

Waters Edge
Financial Projections
Summary of Patient Days & Net Patient Revenues **Base Scenario**

Average Daily Census	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1	Year 2
Private	5	5	5	5	5	5	3	3	3	3	3	3	4.0	3
MediCal	70	73	74	76	77	78	78	78	78	78	78	78	76.3	78
Medicare	8	8	10	10	12	12	15	15	16	16	17	18	13.1	18
Other	3	3	5	5	8	9	9	9	9	9	9	9	7.3	9
Total	86	89	94	96	102	104	105	105	106	106	107	108	100.7	108
Days in Month	31	29	31	30	31	30	31	31	30	31	30	31	366	365

Patient Days	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1	Year 2
Private	155	145	155	150	155	150	93	93	90	93	90	93	1,462	1,095
MediCal	2,170	2,117	2,294	2,280	2,387	2,340	2,418	2,418	2,340	2,418	2,340	2,418	27,940	28,470
Medicare	248	232	310	300	372	360	465	465	480	496	510	558	4,796	6,570
Other	93	87	155	150	248	270	279	279	270	279	270	279	2,659	3,285
Total	2,666	2,581	2,914	2,880	3,162	3,120	3,255	3,255	3,180	3,286	3,210	3,348	36,857	39,420

Room Rates	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1	Year 2
Private	$316	$316	$316	$316	$316	$316	$316	$316	$316	$316	$316	$316	$316	$305
MediCal	$316	$316	$316	$316	$316	$316	$316	$316	$316	$316	$316	$316	$316	$305
Medicare	$619	$619	$619	$619	$619	$619	$619	$619	$619	$619	$619	$619	$619	$619
Other	$450	$450	$450	$450	$450	$450	$450	$450	$450	$450	$450	$450	$450	$450
Total	$349	$348	$355	$355	$362	$363	$371	$371	$373	$373	$375	$378	$365	$370

Net Patient Revenues	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1	Year 2
Private	48,982	45,821	48,982	47,402	48,982	47,402	29,389	29,389	28,441	29,389	28,441	29,389	462,007	334,468
MediCal	685,742	668,993	724,927	720,503	754,316	739,463	764,112	764,112	739,463	764,112	739,463	764,112	8,829,319	8,696,162
Medicare	153,512	143,608	191,890	185,700	230,268	222,840	287,835	287,835	297,120	307,024	315,690	345,402	2,968,724	4,066,830
Other	41,850	39,150	69,750	67,500	111,600	121,500	125,550	125,550	121,500	125,550	121,500	125,550	1,196,550	1,478,250
Total	930,085	897,573	1,035,548	1,021,104	1,145,165	1,131,205	1,206,886	1,206,886	1,186,524	1,226,075	1,205,094	1,264,453	13,456,600	14,575,709
Part B	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	480,000	480,000
Hospital Dilution	(163)	(159)	(172)	(171)	(179)	(176)	(182)	(182)	(176)	(182)	(176)	(182)	(2,100)	(55,800)
Total Net Patient Revenue	**969,922**	**937,414**	**1,075,376**	**1,060,933**	**1,184,986**	**1,171,029**	**1,246,704**	**1,246,704**	**1,226,348**	**1,265,893**	**1,244,918**	**1,304,271**	**13,934,500**	**14,999,909**

Waters Edge
Financial Projections
Salary Expense - Nursing

Base Scenario

		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1	Year 2
	Days in Month	31	29	31	30	31	30	31	31	30	31	30	31	366	365
	Patient Days	2,666	2,581	2,914	2,880	3,162	3,120	3,255	3,255	3,180	3,286	3,210	3,348	36,857	39,420
	FTE Hours	177	165	177	171	177	171	177	177	171	177	171	177	2,088	2,080
Nursing	Hours PD														
RN	8.0	1,627	1,615	1,776	1,747	1,924	1,901	1,984	1,984	1,920	1,984	1,920	1,984	22,366	23,360
LVN	8.0	1,627	1,615	1,776	1,747	1,924	1,901	1,984	1,984	1,920	1,984	1,920	1,984	22,366	23,360
NA	37.0	7,524	7,468	8,213	8,081	8,901	8,791	9,176	9,176	8,880	9,176	8,880	9,176	103,442	108,040
		10,778	10,698	11,764	11,575	12,750	12,593	13,144	13,144	12,720	13,144	12,720	13,144	148,173	154,760
FTE's		61	65	67	68	72	74	74	74	74	74	74	74	71	74
Hours PPD		4.04	4.14	4.04	4.02	4.03	4.04	4.04	4.04	4.00	4.00	3.96	3.93	4.02	3.93
Salaries															
RN	$47.30	76,951	76,376	83,990	82,643	91,028	89,908	93,843	93,843	90,816	93,843	90,816	93,843	1,057,900	1,104,928
LVN	$37.27	60,631	60,177	66,176	65,115	71,722	70,839	73,940	73,940	71,555	73,940	71,555	73,940	833,527	870,580
NA	$18.05	135,822	134,806	148,244	145,867	160,667	158,690	165,636	165,636	160,293	165,636	160,293	165,636	1,867,225	1,950,230
		273,403	271,360	298,410	293,624	323,416	319,437	333,419	333,419	322,663	333,419	322,663	333,419	3,758,653	3,925,739
	Other Nursing														
DON	1.0	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	132,000	132,000
Asst. DON	1.0	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	99,000	99,000
MDS	2.0	17,226	17,226	17,226	17,226	17,226	17,226	17,226	17,226	17,226	17,226	17,226	17,226	206,712	206,712
Staff Development	1.5	12,920	12,920	12,920	12,920	12,920	12,920	12,920	12,920	12,920	12,920	12,920	12,920	155,034	155,034
Unit Secretary	4.0	13,781	13,781	13,781	13,781	13,781	13,781	13,781	13,781	13,781	13,781	13,781	13,781	165,370	165,370
QA Nurse	0.5	5,029	5,029	5,029	5,029	5,029	5,029	5,029	5,029	5,029	5,029	5,029	5,029	60,350	60,350
			-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-
		68,206	68,206	68,206	68,206	68,206	68,206	68,206	68,206	68,206	68,206	68,206	68,206	818,466	818,466
Total Nursing Salaries		341,609	339,565	366,615	361,829	391,622	387,642	401,624	401,624	390,869	401,624	390,869	401,624	4,577,119	4,744,205

Waters Edge
Financial Projections
Summary of Salaries & Benefits **Base Scenario**

	Dept		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1	Year 2
Days in Month			31	29	31	30	31	30	31	31	30	31	30	31	366	365
Patient Days			2,666	2,581	2,914	2,880	3,162	3,120	3,255	3,255	3,180	3,286	3,210	3,348	36,857	39,420
FTE Hours			177	165	177	171	177	171	177	177	171	177	171	177	2,088	2,080
Total Nursing Salaries	Nursing		341,609	339,565	366,615	361,829	391,622	387,642	401,624	401,624	390,869	401,624	390,869	401,624	4,577,119	4,744,205
Other Salaries																
Plant Ops Sup	Plant Ops		13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	158,400	158,400
Housekeeping	Housekeeping		5,907	5,907	5,907	5,907	5,907	5,907	5,907	5,907	5,907	5,907	5,907	5,907	70,884	70,884
Laundry	Laundry		6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	79,200	79,200
Dietary	Dietary		34,100	34,100	34,100	34,100	34,100	34,100	34,100	34,100	34,100	34,100	34,100	34,100	409,200	409,200
Activities	Nursing		13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	158,400	158,400
Administrator	Admin		9,910	9,910	9,910	9,910	9,910	9,910	9,910	9,910	9,910	9,910	9,910	9,910	118,919	118,919
Business Office	Admin		5,929	5,929	5,929	5,929	5,929	5,929	5,929	5,929	5,929	5,929	5,929	5,929	71,148	71,148
Medical Records	Admin		7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	7,200	86,394	86,394
Social Services	Nursing		5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	66,000	66,000
Admissions Coord	Admin		6,769	6,769	6,769	6,769	6,769	6,769	6,769	6,769	6,769	6,769	6,769	6,769	81,231	81,231
Marketing Director	Admin		6,769	6,769	6,769	6,769	6,769	6,769	6,769	6,769	6,769	6,769	6,769	6,769	81,231	81,231
				-	-	-	-	-	-	-	-	-	-	-	-	-
				-	-	-	-	-	-	-	-	-	-	-	-	-
Other Salaries			115,084	115,084	115,084	115,084	115,084	115,084	115,084	115,084	115,084	115,084	115,084	115,084	1,381,006	1,381,006
Total Salaries			456,693	454,649	481,699	476,913	506,706	502,726	516,708	516,708	505,953	516,708	505,953	516,708	5,958,125	6,125,211
Benefits		30.0%	137,008	136,395	144,510	143,074	152,012	150,818	155,012	155,012	151,786	155,012	151,786	155,012	1,787,438	1,837,563
Total Salaries & Benefits			593,701	591,044	626,209	619,987	658,717	653,544	671,721	671,721	657,739	671,721	657,739	671,721	7,745,563	7,962,774

Waters Edge
Financial Projections
Summary of Cash Flow

Base Scenario

	Start-Up	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1	Year 2
Cash flows from operating activities															
Net Contribution		5,624	(19,702)	64,598	58,298	134,259	127,798	177,831	177,831	175,604	195,305	192,515	230,255	1,520,216	2,377,049
Start-up costs - licensing and consulting fees	(182,425)													(182,425)	
Start-up costs - infrastructure enhancements (1 month S&B for Administrator & Admissions)	(21,683)													(21,683)	
Items not requiring the use of cash:															
Changes in certain assets and liabilities:														-	
Accounts Receivable															
Private	0	0	0	0	0	0	0	0	0	0	0	0	0	-	0
Medi-Cal	-	(685,742)	201,298	(6,636)	(13,272)	(6,636)	(6,636)	-	-	-	-	-	-	(517,624)	17,297
Medicare	-	(193,512)	16,235	(32,172)	(1,204)	(33,460)	(1,204)	(50,792)	-	(18,536)	1,204	(18,536)	(16,128)	(348,105)	(693)
Other	-	(41,850)	4,050	(25,200)	-	(37,800)	(12,600)	-	-	-	-	-	-	(113,400)	-
Patient accounts receivable, net	-	(921,104)	221,584	(64,009)	(14,477)	(77,896)	(20,441)	(50,792)	-	(18,536)	1,204	(18,536)	(16,128)	(979,129)	16,604
Accounts payable and accrued liabilities	-	426,829	22,413	(2,132)	12,022	(1,220)	11,780	(4,314)	-	9,291	(6,803)	9,291	(4,314)	472,843	(13,561)
Payroll Related Accruals	-	270,480	34,292	(187,299)	37,047	57,316	41,538	52,651	(198,016)	37,706	52,302	38,770	51,237	288,023	20,083
Employee Health Plan Accruals	0	0	0	0	0	0	0	0	0	0	0	0	0	-	0
Other accrued liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0	-	0
Cash provided by (used in) operating activities	**(204,108)**	**(218,171)**	**258,587**	**(188,842)**	**92,891**	**112,459**	**160,675**	**175,375**	**(20,185)**	**204,065**	**242,008**	**222,040**	**261,050**	**1,097,844**	**2,400,177**
Cash flows from financing activities														-	
(Increase) Decrease in Deferred Payroll	-	222,748		0	(222,748)	0	0	0	0	0	0	0	0	-	0
(Increase) Decrease in Deferred Rent	-	76,560	76,560	0	(153,120)	0	0	0	0	0	0	0	0	-	0
Cash provided by (used in) financing	**-**	**299,308**	**76,560**	**-**	**(375,868)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net increase (decrease) in cash	(204,108)	81,137	335,147	(188,842)	(282,977)	112,459	160,675	175,375	(20,185)	204,065	242,008	222,040	261,050	1,097,844	2,400,177
Cash at beginning of period	$ -	$ (204,108)	$ (122,971)	$ 212,176	$ 23,334	$ (259,644)	$ (147,185)	$ 13,490	$ 188,866	$ 168,680	$ 372,745	$ 614,754	$ 836,794	$ -	$ 1,097,844
Cash at end of period	**$ (204,108)**	**$ (122,971)**	**$ 212,176**	**$ 23,334**	**$ (259,644)**	**$ (147,185)**	**$ 13,490**	**$ 188,866**	**$ 168,680**	**$ 372,745**	**$ 614,754**	**$ 836,794**	**$ 1,097,844**	**$ 1,097,844**	**$ 3,498,021**

Waters Edge
Financial Projections
Return On Investment / Contract Risk
Base Scenario

Start up Costs	
Legal Fees	20,000
Professional Fees / Consultants	119,285
Facility Inspection Fees	7,500
Licensing Fees	35,640
Infrastructure Enhancements	250,000
Pre-transition staff	21,683
Total Start up Costs	454,108
Contract Risk	
Liquidated Damages provision	500,000
Total Contract Risk	500,000
Total Start up Cost / Contract Risk	954,108
* *Asume Yr. 2 wind down, no revenue, no expenses, but pay rent for 6 months*	*467,399*

Return

Year 1	
Operating Contribution Margin	1,520,216
Return on Investment / Contract Risk	159%
Year 2	
Operating Contribution Margin	2,377,049
Return on Investment / Contract Risk	249%
* *Operating contribution with Yr. 2 Risk assumption*	*1,188,525*
	84%

Date: November 7, 2011

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

From: Deborah E. Stebbins, CEO

Subject: Approval of Resolution 2011-7I Delegation of Authority to On-Site SNF Manager

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Recommendation:

Management recommends approval of Resolution 2011-7I, Delegation of Authority to On-Site SNF Manager.

Background:

This resolution delegates to the Chief Executive Officer of the District, the authority to operate Waters Edge Skilled Nursing Facility as "Alameda Hospital at Waters Edge", on behalf of the District, as the onsite SNF Manager/Administrator.

Furthermore, this resolution is required as part of the application process for the Change of Ownership and licensure requirements with the California Department of Public Health.

Alameda Hospital

CITY OF ALAMEDA HEALTH CARE DISTRICT

RESOLUTION NO. 2011-7I

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

*** * ***

Delegation of Authority to Onsite SNF Manager

WHEREAS, the City of Alameda Health Care District ("District") intends to enter into a sublease agreement with Waters Edge Skilled Nursing Facility ("WE") and operate it under the license of Alameda Hospital as Alameda Hospital at Waters Edge ("Facility"); and

WHEREAS, there must be an on-site Skilled Nursing Facility (SNF) Manger/Administrator to handle all decisions concerning the daily operation of the Facility; and

WHEREAS, it is in the best interests of the District that its Chief Executive Officer be delegated the authority to act as the SNF Manager/Administrator of the Facility; and

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors that the Chief Executive Officer of the District be, and hereby is, delegated the authority to operate Waters Edge Skilled Nursing Facility as "Alameda Hospital at Waters Edge", on behalf of the District, as the onsite SNF Manager/Administrator.

PASSED, APPROVED AND ADOPTED at a regular meeting of the Board held on the 7th day of November, 2011 by the following vote, to wit:

AYES: _____ NOES: _____ ABSENT: _____ ABSTAIN: _____

ATTEST:

_____
Jordan Battani, President

_____
Elliott Gorelick, Secretary

City of Alameda Health Care District

2009-2013 Goals and Objectives

FY Ending June 30, 2011 Progress Update (Year End)

Financial Strength	
Achieve long-term financial viability	
Measures of success:	
▪ Achievement of positive operating margin = 3% of net revenues by 2013	
▪ Generate operating profitability levels necessary to support capital needs/service debt	
▪ Raise $500,000 per year through Foundation fundraising initiatives	
▪ Shift reliance on parcel tax from support of operations to support for capital investments and strategic development projects	
▪ Sustain Performance vis-à-vis operating benchmarks at 90th percentile levels (e.g., FTE/Adj. Occupied Bed, Length of Stay, Costs per UOS)	
Initiatives	Status
(A) STRATEGY: Enhance financial and strategic relationship with payers.	
▪ Achieve average rate increase for private payor contracts of 8% (Healthnet, Interplan, etc.).	▪ Since FY 2008, all contracts have been reviewed and re-negotiated with the applicable payer. Annual rate increases have ranged from 8% to 17% depending upon the status of the contract in comparison to other contracted rates as well as the mix of services that have been experienced. New terms have included carve-outs for implantable devices as well as other high cost items. In future years, it is anticipated that increases of this magnitude will be less likely to occur and increases approximating 5% will be more likely as Health Care Reform continues to evolve. ▪ Obtained exclusive hospital contract with HealthNet Blue and Gold plan for mid East Bay Market
▪ Promote public awareness of new MediCal contract, including linkages with partner providers (La Clinica, Fruitvale primary practices, Family Bridges, Chinatown practices, etc).	▪ Productive meetings with La Clinica, Family Bridges, and moved one Chinatown practice. ▪ Initiate meetings with County to determine our role in contracting to serve county patients
▪ Early, effective management of self-pay and MediCal eligible patients.	▪ Implemented financial counselor to begin process of screening patients for eligibility for Medi-Cal or charity. Process is overseen

	by Manager of Patient Financial Services. If Financial Counselor is unable to obtain Medi-Cal eligibility within 30 days, account is referred to an outside agency Health Advocates which will provide direct intervention with family including assisting patient to appropriate meetings with aid agencies in order to assist patient in obtaining available medical insurance coverage and provide source of payment for hospital services.
▪ Reapply for Intergovernmental Transfer matching money to supplement MediCal contract in early FY 2011.	▪ Applied for participation in the FY 2011 IGT program in September 2010 as requested by the California Medical Assistance Commission (CMAC) and as required in FY 2010. However, shortly after, through efforts of the California Hospital Association, (CHA) the requirement of having a CMAC contract and CMAC's acting as the intermediary for this program was eliminated. This together with increased education and communication about this program by the District Hospital Leadership Forum has made it possible for all 46 district hospitals in the state to participate in the IGT program which will dilute the amount of funds available to the Hospital by almost half of the prior year funding. We are awaiting receipt of our FY 2011 IGT match and will apply shortly for FY2012 match.
▪ Enhance relationship with local IPA's. ▪ Identify and correct contract relationship gaps that impede referrals from new physicians. ▪ Achieve rapid enrollment of 1206(b) physicians on key plans.	▪ Held meeting with Affinity medical group regarding closer collaboration under Health Care Reform ▪ 1206 (b) physicians are credentialed with key plans. Medi-Cal is a slow process taking months and is pending as of the fiscal year end
▪ Identify perceived or real contracting barriers influencing patient referrals.	
▪ Formulate longer term physician alliance strategy to prepare for successful operation under bundled payment structure.	▪ Education Session for physicians regarding ACO's (Oct 2010) ▪ Meetings with AFP, Affinity (2011)
(B) STRATEGY: Seek contracting opportunities to increase volume and improve financial standing.	

▪ Formalize service offerings to personnel and dependents of Coast Guard (CG Island). ▪ Explore expanding volume of services provided to VA beneficiaries. ▪ Evaluate provision of subacute services (thru expansion or acquisition) for SF hospital consortium.	▪ Contract is complete: Participated in annual Coast Guard Day. ▪ No significant increase in VA patients served. ▪ SF Hospitals still show interest. Have not attempted to advance discussions until our own SNF expansion options are clear.
(C) STRATEGY: Perform and maintain a portfolio analysis of service line profitability; create service line plans that match our target population, address service lines that are not performing up to expectations.	
▪ Profitability analysis for service lines (LTC, Infusion, GI, and Oncology).	▪ Completed for Infusion only, Financial Analyst being recruited. ▪ Currently evaluating options for the addition of additional LTC capacity which appears to have a very favorable impact on the organizations financial performance. ▪ Infusion and Oncology Services – review of the IVT program has been completed awaiting final report of recommendations in order to meet with physician and team regarding this program.
▪ Analyze financial impact of increases in INP census by 5 patient increments. ▪ Monitor financial impact of services to Medi-Cal patients. ▪ Monitor productivity and utilization of 1206(b) physicians.	▪ Not complete. ▪ Not complete. ▪ Analysis complete, distributed to Finance Committee, Reported in March 2011 to FMC ▪ Monthly reports are provided to the Director of Physician Relations which shows the volume activity of each physician in the Clinic. These include detailed reports of each service provided by physician. In addition, the first quarterly and YTD report of the performance of the clinic was prepared which demonstrated increased levels of activity at the clinic as well as significant spin-off revenue for the OB/GYN, General Surgeon and Timeshare units of the Clinic.
(D) STRATEGY: Maintain our position in cost/expenses as compared to local/national benchmarks.	
▪ Patient Financial Services performance of gross days in AR of 50 days and 3% bad debt write off.	▪ In mid February we implemented the Collector and Biller Desktops of the Meditech application which provides daily work lists for each member of the Patient Financial Services Team to focus efforts of the team's daily billing and collection activities

	while providing the management team detailed reporting capabilities to monitor staff performance. ▪ Bad debt write-offs for the last three fiscal years have remained under 3% of gross revenues at 2.4%, 2.7% and 2.3% for FY 2008, 2009 and 2010, respectively. For the seven (7) months ended January 31, 2011, we have seen this increase to 2.9%. ▪ Completed Revenue Cycle Analysis in September 2011. Results to be reported to Finance Committee and Board.
(E) STRATEGY: Enhance fundraising activities and programs.	
▪ Increase $1,000 contributors by 20% or 9 contributors . ▪ Develop a foundation grants program. ▪ Establish 3 promising local large corporate relationships.	▪ 13% increase or 6 new contributors. ▪ Submitted 20 proposals seeking support for the Subacute Care Unit. Received Longs Foundation Grant for $22,000. ▪ 1 relationship forged with Abbott Diabetes: Meeting with VP and HR and conducted 3B's program on site. ▪ Submitted grant request to Abbott Fund. Denied. ▪ Perforce: CEO attended Fall Gala. ▪ Perforce became a $2,500 event sponsor. ▪ Bay Ship and Yacht: Co-owner, Leslie Cameron, identified and involved Foundation with Chamber of Commerce. ▪ Co-owners attended Foundation event. ▪ Met with all 3 business associations. ▪ Submitted grant to Bank of America. Pending.
▪ Increase Foundation current mailing database (1,776) by 10%.	▪ Current database 2,175, an 18% increase.
(F) STRATEGY: Communicate value/benefits of parcel tax through transparency and accountability to the community.	
▪ Present positive case for Parcel Tax. ▪ Develop and disseminate quarterly community report card with financial and quality indicators.	▪ Increased community event participation. ▪ Being addressed as a part of our general outreach and community awareness activities ▪ Developing comprehensive outreach and communication plan and quarterly report card.
(G) STRATEGY: Evaluate and forge beginning of one strategic alliance.	

▪ Priority is on forging one strategic alliance with community SNF.	▪ Priority is on forging one strategic alliance with Community SNF ▪ Also have initiated discussions with Kaiser to provide regional LTC support.

Growth

Pursue fiscally responsible growth in services that target the most pressing acute and non-acute healthcare needs of the community.

Measures of success:

- Market share growth.
  - ✓ From 31.25 percent to 35.0 percent – Alameda Island (ZIP Codes 94501 and 94502).
  - ✓ From 0.94 percent to 1.10 percent - Off-Island.
- Service line growth: volume targets defined by service line.
- Development of new access points and locations.
- Increase inpatient census by 5 ADC by 2013 to offset loss of Kaiser revenue and to support basic INP/ER infrastructure.

Initiatives	Status
(A) STRATEGY: Using portfolio analysis as a guide, prioritize service line development and develop specific plans for growth.	
▪ Increase procedural/surgical services that will improve our financial results(Ortho, pain management, plastics, cardiac, other).	▪ Exploring development of a premier orthopedic program. Recruited a Pain Management physician to the 1206(b) clinic timeshare. Have a competitive cosmetic fee schedule in place for cash pay patients. ▪ Outpatient EEG Lab being established (August 2011 ▪ Surgery volume has increased by 14.87%over FY 2010, exceeding budget projections.
▪ Implement Wound Care Center.	▪ Completed all analysis, lease and contractual arrangements. Based upon project timeline, projecting a spring of 2012 opening.
▪ Complete evaluation of Acute Rehab Center.	▪ In process.
▪ Conduct /build vs. buy analysis on best option for expansion of SNF and Subacute programs.	▪ Complete; Negotiations in process.

▪ Evaluate and implement new or expanded niche programs that attract patients from outside the District (e.g. subacute, long term care services, wound center, acute rehab, retinal surgery, joint replacement center, aesthetic medicine).	▪ 80 % Complete.
▪ Evaluate ways to improve the continuum of services offered to seniors in service area.	▪ Met with local SNF's individually to discuss discharge issues/problems from both sides and have implemented a discharge task force to improve the transition process and documentation necessary for AH as well as the skilled facilities. We plan a luncheon with Alameda and other local SNF's in the spring to present new efforts and get input about the process.
▪ Track activity and evaluate ways to improve effectiveness of Asian Outreach program.	▪ Physician speakers at Alameda Intercultural Club (HBI). Increased participation in Oakland Chinatown events. ▪ Physicians utilize the program and bring their patients to Hospital for services ▪ Attracts patients from Oakland Chinatown physicians ▪ Nearly $400,000 actual payment from Oakland Chinatown physicians (01/10-4/30/11 (Drs. Bui & Chen)
▪ Institute organized customer contact and services to community skilled nursing facilities in Alameda and surrounding Oakland neighborhoods.	▪ Initiated standardized discharge process to SNF's. ▪ Meetings with 5 community SNF's recently.
(B) STRATEGY: Using portfolio analysis as a guide, prioritize service line development and develop specific plans for growth.	
▪ Evaluate Concentra relationship to see if maximum potential being achieved.	▪ Concentra Relationship in place. They are pleased with having Alameda Hospital as an after-hour service provider.
▪ Explore closer linkages with Port of Oakland.	▪ Not Complete
(C) STRATEGY: Target service area population, to limit outmigration of residents who can be cared for at Alameda Hospital.	
▪ Continue to evaluate ways to enhance market share and service to residents of Bay Farm.	▪ Harbor Bay Isle Lunar New Year Festival. ▪ Regular articles in HBI homeowners assoc. newsletter. ▪ Participation in Harbor Bay Club Fitness Fairs. ▪ Walking rounds on Bay Farm by TOLA Fellows to promote the Hospital's services—May 2011
▪ Evaluate Marina Village location for selected OP services, including longer term relocation of offices/services located in 1925 building.	▪ Complete.

(D) STRATEGY: Develop services and tools that would make us more accessible to our community	
▪ Increase accessibility to local residents through transportation, communication, etc.	▪ Postcard mailings highlighting physician offices in Alameda ▪ City of Alameda Paratransit Shuttle services to Hospital and South Shore MOB
▪ Increase our draw of off-island residents (access points, aesthetic services).	▪ Not complete
▪ Strengthen collaborative relationships with Family Bridges, Chinatown practices, Fruitvale practice and Alameda Alliance to maximize access for patients under the new Medi-Cal contract.	▪ Management Staff actively participate in organizations and events benefiting Asian community. ▪ Alameda Hospital is the preferred hospital for La Clinical de la Raza. ▪ 1206 (b) clinic and physicians soon to be credentialed with Alameda Alliance.
▪ Organize menu of healthcare services and education to offer to local businesses/business associations.	▪ Established relationships with major business associations and Chamber of Commerce. ▪ Inclusion of local businesses in direct mail communications ▪ Presented seminar to GABA on health care reform.
▪ Establish three formalized relationships with larger Alameda based corporations.	▪ Abbott Labs: meeting to be scheduled. Perforce Software and Bay Ship and Yacht Company
(E) STRATEGY: Enhance general public communication regarding services, quality outcomes.	
▪ Target Bay Farm population, to increase awareness of Alameda Hospital.	▪ Ongoing focus on Bay Farm in communication efforts ▪ Walking rounds in May to inform residents of Alameda Hospital's services ▪ Stroke Awareness and Assessments held every month for last 6 months
▪ Establish business partnership model for small businesses through formalizing communication with Alameda business associations.	▪ Have held at least one meeting with all 3 business associations
▪ Develop three linkages to larger Alameda-based companies.	▪ Abbott Labs, Perforce Software and Bay Ship and Yacht Company
▪ Expand outreach services and interface with Alameda Schools (e.g. trainers, education). ▪ Take lead in initiating a Building a Healthier Alameda campaign with schools, public	▪ Established a "Let's Move Alameda" city-wide taskforce to decrease and prevent childhood obesity. Participation from School District, City, Parks and Rec, Girls Inc, Boys and Girls Club, etc.

service sector, City Government.	
(F) STRATEGY: Target recruitment of physicians from areas that are vulnerable to change.	
▪ Monitor evolving San Leandro market.	▪ In process. Ongoing
(G) STRATEGY: Formulate strategy for Long Term Care Service Line Development.	
▪ Institute system of routine marketing and contact with local nursing homes to solidify referral relationships and improve continuity of care for residents. ▪ Strengthen ties to Senior Center.	▪ Regular Meetings; Case Management & SNF leadership; Hospitalists have established relationships with all Alameda SNF's. ▪ Presented stroke education lectures at Mastick Senior Center and Cardinal Point. ▪ Participation in Mastick's Annual Senior Fitness Event.
(H) STRATEGY: Encourage focused growth in Medi-Cal business.	
▪ Through the promotion of public awareness of new MediCal contract, including linkages with partner providers (La Clnica, Fruitvale primary practices, Family Bridges, Chinatown practices, etc).	▪ Needs continuing work.
(I)STRATEGY: Obtain Joint Commission Certification as a Stroke Center	
	▪ Stroke Coordinator designated ▪ Stroke Team designated and meeting bi-monthly ▪ Get With The Guidelines database complete and current ▪ Contact to TJC and application to be submitted 3/31/11 ▪ All ECC physicians certified on NIHSS stroke screening scale ▪ Education for nursing scheduled for March, April, & May 2011 ▪ Community education and screening began 2/28/11 and monthly through 6/11 ▪ Medical director of the Stroke program designated: Dr. Dutaret ▪ Joint Commission application process complete: May 2011 ▪ Education for physicians and hospital staff complete: August 2011 ▪ Additional patient education & screening in June and July; scheduled for September ▪ Web page on website set up dedicated to Stroke Awareness: May2011

	▪ Alameda County EMS approval to receive stroke patients: August 2011 ▪ First stroke patient brought by EMS September 1,2011 ▪ Joint Commission survey scheduled for September 30, 2011

Facilities and Technology

Enhance our facility and technological capabilities to foster the achievement of our goals.

Measures of success:

- Percentage of physicians who sign up for electronic access.
- Volume of hits to hospital website.
- Fund depreciation to TBD% in order to create capital reserve fund .

Initiatives	Status
(A) STRATEGY: Ensure that our technological investments include enhancement of hospital - physician connectivity and connectivity with community.	
▪ Continue to enhance interactive use of website and exploration of selective social networking approach to marketing; establish proactive email program.	▪ Monthly eblasts and ability for community to register for classes via website established. ▪ Enhanced linkages of hospital website to physician practice websites continues.
▪ Continue to pursue EHR meaningful use timetable through parallel exploration of enhancing Meditech usage or purchasing IT capabilities from partner organization.	▪ EHR on schedule; Implementation of EDM by May 2011; Implementation of PCS by March 2012. ▪ EDM implemented (100%) ▪ Meditech 5.65 upgrade has been inserted for November 2011 (90%) – this is a requirement for PCS to be functional ▪ PCM-1 has been inserted for December 2011 (85%) ▪ PCS is reset March 2012; currently 50%

(B) STRATEGY: Identify organizations that can be collaborative partners in developing/expanding facilities: e.g., real estate, VA, other area healthcare systems, other districts.	
▪ Continue strategic evaluation by Board of opportunities with other providers for mutual program development and alignment. Pursue follow-up with other organizations as identified in partnership strategy.	▪ Needs greater focus.
(C) STRATEGY: Develop a facility master plan that prepares for state seismic requirements and program/service plans.	
▪ Complete plan submission, contractor selection, bidding and City entitlement process for renovation of Stephens and West Wing for compliance with SB 1953.	▪ Plan submission Complete
▪ Review and make decisions on approach to financing seismic renovation in possible combination with financing other program development.	▪ Financing remains as a barrier to implement options. Probable extension
▪ Educate City officials and key community stakeholders on seismic plans .	▪ Plan presented to City Council on September 7, 2010.
(D) STRATEGY: Assure systematic review of facility: flow, appearance, safety.	
▪ Identify low-cost/high-yield renovation projects that will improve our image (e.g. cosmetic upgrade of 2S lobby)	▪ 2 South updates ongoing. ▪ Evaluation of 3-west for expansion of sub-acute program underway. Proposed Alternative means of compliance sent to OSHPD in July 2011, awaiting response.
(F) STRATEGY: Utilize technology to improve quality and enhance clinical services and to provide the community with access to information relating to our services and performance.	
▪ Evaluate use of website as vehicle for patient pre-registration. ▪ Provide monthly website updates on hospital services/ programs.	▪ Online patient pre-registration is being evaluated. Pre-registration form is available online to download. ▪ Website is updated at least weekly with new programs/services/events. ▪ Improved calendar access and inclusion of district board and committee meetings.
▪ Implement PACS system and Imaging Department upgrades by December, 2010; implement communications and marketing plan to introduce technology to physicians and community in order to achieve 12% increase in outpatient imaging volume.	▪ PACS went “go-Live “ in April 2011. Implementation of Voice Recognition component in October 2011. Installation of new Radiology equipment & Mammography July – early October 2011, due to unanticipated delay in

	OSHPD review and approval of project. All equipment installations expected to be complete and approved by OSHPD by mid October 2011. ▪ PACS has gone live – March 2011 (100%) ▪ Voice Recognition (VR) is available October 2011 (100% next week)
(G) STRATEGY: Develop capital plan that supports service line strategies, facilities and technology requirements.	
▪ Develop annual and rolling five-year budget.	▪ Annual Operating and Capital budgets are completed during the period March – June of each fiscal year. This process was complete for FY 2012 and was approved by the Board. In addition, a Master Lease Agreement was established to assist the organization with the ability to purchase high cost medical equipment. This Master Lease has been used to finance such purchases as: Picture and Archiving Communication System (PACS), Digital Radiology Equipment, New Telemetry Monitoring Equipment, Mobile Devices for the Electronic Health Record (EHR) initiative.

Physicians

Ensure that the Hospital attracts qualified and capable physicians through collaboration and alignment.

Measures of success:

- Increase number and reduce average age of active physicians through targeted recruitment.
- Achieve annual recruitment goals.
- Increase volume of work by Alameda surgeons.

Initiatives	Status
(A) STRATEGY: Continue recruitment of new physicians to Alameda Medical Offices (1206 B) as employees or time share tenants.	
▪ Add one additional PCP on 2 ½ days/week. ▪ Set up system for monitoring and increasing physician productivity. ▪ Assess effectiveness of medical office billing services.	▪ PCP's Green-Yeh, Thompson, and Brimmer on Staff ▪ Dr Dutaret on staff ▪ Reporting tool in place to monitor

	▪ Developing process to monitor.
(B) STRATEGY: Develop standard IT connectivity package for physicians.	
▪ Address physician connectivity through EHR strategic development or organizational affiliation. ▪ Increased use of e-mail for communication with physicians.	▪ Increased use of email to MD's, Emails regarding important information continues. ▪ All physicians have email and access via webmail (100%)
(C) STRATEGY: Consider alignment with multiple medical groups/IPAs.	
▪ Participate in Hospital Council evaluation of developing a Master Medical Foundation (MMF) as physician alignment strategy for non-system hospitals.	▪ Decided not to participate at this time.
(D) STRATEGY: Continue to pursue physician community development plan: identify community needs and ways to fill gaps either through direct recruitment or collaboration with other groups.	
▪ Continued physician recruitment in orthopedics, plastic surgery, urology, ENT, selective primary care.	▪ Plastic Surgeon and Neurologists recruited in past year. ▪ ENT, Urologists and Orthopedists being actively sought
(E) STRATEGY: Develop directed strategies to strengthen affiliated physician practices (primary care, specialty services): e.g., group development, joint ventures; evaluate potential of implementing collaborative strategies with other healthcare organizations to enhance physician network and access to specialists for our community.	
▪ Implement physician practice building initiatives with existing practices. ▪ Advertising campaign to focus on the Medical Staff. ▪ Enhanced website to provide in depth information on physicians.	▪ Ed Chan MD recruited for AFP (2010) ▪ 2 networking events held in 2010. ▪ Direct mail campaigns focus on specialty and primary care physicians. ▪ Web site physician directory provides interactive features and in depth info.
(F) STRATEGY: Evaluate off-island physicians for alignment opportunities that will help us expand our visibility and referral base.	
▪ Continue recruitment of off-island specialists to establish a presence in Alameda. ▪ Continue to monitor and respond to possible closure of San Leandro Hospital. ▪ Develop physician recruitment strategies to support development of new niche programs.	▪ Neurologist Diane Lee, MD joined 1206(b) time share (2010) . Oakland Family Physician Mable Lim, MD being actively recruited ▪ San Leandro physicians remain loyal to San Leandro. ▪ Additional plastic surgeons interested in augmenting wound care center. ▪ Wound Care program has generated interest from physicians on and off island (~15 physicians)

(G) STRATEGY: Implement outreach strategy, including evaluation of feasibility of satellite locations.	
▪ Continue to explore satellite medical office space at Bay Farm. ▪ Evaluate remote placement of physician offices and outpatient programs (including Wound Center) in Marina Village.	▪ Investigated opportunities on Bay Farm; not feasible at this time ▪ Site lease in progress ▪ Future program expansion at Marina Village still remains a future option.
(H) STRATEGY: Engage physicians as central participants in the leadership of the Hospital.	
▪ Continue engagement of physician leadership in IT Steering Committee.	▪ Complete – Physician Champion approved: 6 Physicians on IT Steering Committee.
Quality/Service	
Achieve superior clinical and service results on a consistent basis.	
Measures of success:	
Patient satisfaction (patient experience) as measured by 95% or more willing to recommend hospital to a friend	
Joint Commission Core Measure compliance	
Joint Commission/CMS/CDPH Accreditation	
QI/Risk Reports that demonstrate improvement in problem areas	
Improve accuracy of information collection at time of registration	
Initiatives	**Status**
(A) STRATEGY: Create a culture of quality and service that is aimed at helping us achieve our goals	
▪ Continue monitoring streamlined structure of functional and departmental performance improvement at the management and Board levels with focused action plans appointed to address key problem areas.	▪ The process of performance improvement reporting has been streamlined to move those items that require quality monitoring within a department or function into quality control. QC issues are placed on the performance improvement track when a plan of action is needed for improvement only. ▪ A HAPU PI Team Charter was established which has not only reduced the prevalence of HAPU but improved the early detection and treatment of wounds.

	▪ Infection Prevention efforts have proven effective in reducing hospital acquired infections to near zero. ▪ Core Measures scores are at or better than State and National averages in most indicators. ▪ A PI Team Charter was established to improve the validated claims rate (claims entering the billing system clean). A goal of 80% was set. ▪ Restructuring of MERP (Medication Error Reduction Pla) Committee to review all medication errors and plan processes for reductions. Annual effectiveness showed reduction of med errors overall after ▪ Implementation of several action plans (e.g. improved access to med storage lockers, night pharmacy to prevent overrides).
(B) STRATEGY: Evaluate all access points to the organization to improve the patients/visitor experience: e.g., scheduling, admission, and billing	
▪ Evaluate advance on-line registration and scheduling system.	▪ Not complete.
(C) STRATEGY: Create programs that celebrate exemplary service/quality performance/results.	
▪ Create a dashboard report, that highlights both the objectives and the outcomes of our quality and service initiatives	▪ Not complete.
(D) STRATEGY: Restructure performance expectations and training to highlight quality and service.	
▪ Maintain employee evaluation cycle at 14 months with aggregate reporting to Board .	▪ Complete. Monitored by HR.
(E) STRATEGY: Work collaboratively with medical staff leadership to assure physician engagement in quality/safety initiatives .	
▪ Develop and initiate a streamlined, interdisciplinary patient discharge process.	▪ A discharge planning/continuum of care interdisciplinary task force has been established to streamline the discharge process and provide the best discharge and continuum of care possible for the patient. ▪ A comprehensive Physician Discharge/Transfer Order Set developed and implemented 7/11 to improve patient discharge information, provide SNF's with necessary documentation and orders and to trigger core measures complaince. ▪ A discharge "time out" on all "core measure" qualifying patients occurs to ensure all required element s are met.

▪ Initiate organized physician – nurse rounding.	▪ Task force reconvening to discuss possibility of follow-up calls on high risk diagnoses to avoid readmissions.. ▪ Nursing managers attending the discharge stand up meetings with physicians and case managers as a prelude to rounds on the nursing units. ▪ Daily case management rounds with physicians, and ancillary departments as necessary, proving effective.
(F) STRATEGY: Engage Hospital staff across all levels in active development of Alameda Hospital Culture.	
▪ Enroll staff in customer service training to improve patient experiences throughout their stay at our facility.	▪ Mandatory classes held for entire hospital in February concentrating on communication with patients and family members with >80% participation. ▪ Customer service discussed at every general hospital orientation . ▪ Hospital Forums held to report Staff Satisfaction Survey results and impact of HCAHPS on reimbursement.

People

Foster a culture of exemplary performance through recruitment and retention practices
that are founded on adherence to core performance standards and the continual development and celebration of our employees.

Measures of success:

▪ Increase number of Staff Nurse III among nursing staff by 2 in FY 2010-11 and by 1 each year thereafter (4 SN III in FY 2010).
▪ Maintain employee vacancy rates below regional benchmarks. Vacancy rate = 2%
▪ Develop and monitor employee satisfaction surveys.
Turnover rates of *15%* or less (Q42009 = 3.58%). Turnover rate = 10.14%
▪ Less comments about non-English in the workplace.
Annual performance evaluations include aggregate measurement of service excellence. 99.9% (1 delinquent out of 126 due during that period).(none during this period at the "needs improvement" level - all were "competent".

Initiatives	Status
(A) STRATEGY: Maintain a compensation and benefit strategy that is competitive and rewards desired performance.	

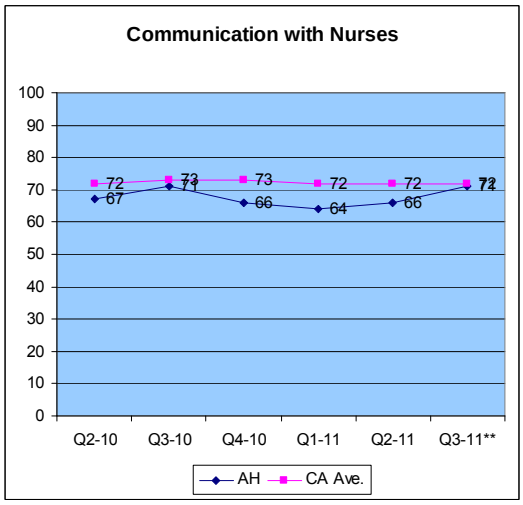
▪ Conduct a baseline compensation study for non-represented and exempt .	▪ In process.
(B) STRATEGY: Establish performance standards that are comprehensive: capabilities, service, citizenship.	
▪ Continue work of Service Excellence Committee to foster reinforcement of CARE values and address feedback from patient surveys.	▪ Committee continues to meet bi-monthly. ▪ Initiatives established based on HCAHPS satisfaction surveys (Quiet at night; Cleanliness; Communication). ▪ Improved "Quietness at night" from 38% in Qtr 3 2010 to 48% for the rolling last 3 months ▪ Service excellence discussed at all general hospital orientation meetings. ▪ 2 new Staff Nurse III achieved in 2010-2011
(C) STRATEGY: Establish recruitment and hiring standards that are consistent with performance expectations.	
(D) STRATEGY: Invest in our staff through annual training and education programs: service, capabilities, management.	
▪ Implement online mandatory annual training (MAT) for all staff.	▪ Complete. ▪ Employee survey results received in June 2011
(E) STRATEGY: Create a recognition program to celebrate top performers in areas such as growth, quality, and service.	
▪ Continue development of innovative recognition programs.	▪ "Shining Star Program" developed by the Service Excellence Committee that utilizes peer to peer recognition.
(F) STRATEGY: Tailor orientation program to make sure new staff have clear understanding of what is expected of them, and that celebrates their addition to the Alameda Hospital Team.	
▪ Enhanced orientation and training for all newly hired employees of the organization.	▪ Complete.
▪ Expansion of orientation to additional day for Nursing Staff to review Medication Administration, Wound Management, Falls, Restraints, Equipment, Protocols, Quality Initiatives…launched May 2009.	▪ Changed to a program of "Nursing Update" to continue to keep existing Nursing staff apprised of current trends, policy/procedure updates and continue concentration on wounds, falls, medication administration and core measures. Continues on a bi-monthly basis. Nursing "re" orientation held bi-monthly in 2010 concentrating on reinforcing patient care initiatives around falls, wounds, restraints, core measures; Approx 165 nurses attended

	these programs. ▪ Online programs continue to be developed to enhance competency and skills (stroke, tPA administration)to encourage continued competency added to hospital intranet (stroke, wound assessment, etc).
▪ Continue to hold annual benefits and safety fair.	▪ Complete (March 2011)

HCAHPS – Hospital Consumer Assessment of Healthcare Providers and Systems.

A national, standardized, publicly reported survey of patients' perceptions of hospital care. Alameda Hospital focus areas for improvement are communication, quietness, and cleanliness. These are the key drivers that have the greatest influence on the patient's perception of care.

(Note: Q3-11** data is not complete, but current as of 10.4.11)

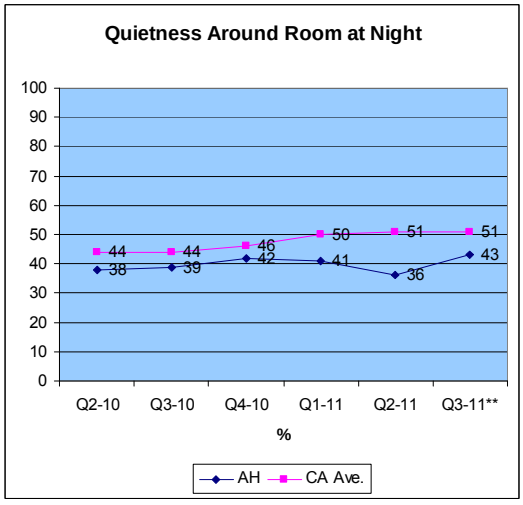


Communication with Nurses:

Mandatory hospital-wide customer service training with a focus on communication throughout the organization was held in March and April 2011.

Hourly nurse rounding has been implemented. This allows the nurse to address patient concerns in a timely manner. Nurse managers also round daily to address patient concerns

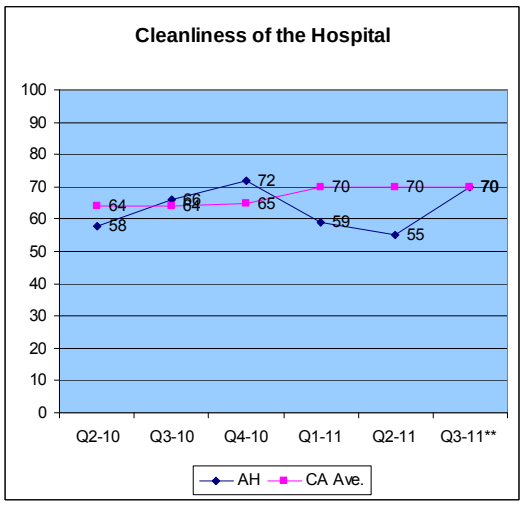
A gradual improvement in communication scores has occurred and we are currently at the California average.



Quietness Around Room at Night:

A multi-disciplinary committee of evening and night shift floor nurses and representatives from ancillary departments began to meet monthly, effective September 2011, to discuss quietness at night.

"Quiet Zone" signs are being placed throughout the units. Patients are encouraged to contact their nurse if noise is an issue. Ear plugs are available and patient doors are closed if appropriate. Nursing supervisors are rounding at night and reminding staff to decrease noise levels.



Cleanliness of the Hospital:

After seeing a significant improvement in this area, Q1-11 and Q2-11 showed drops in cleanliness scores.

Bedside signs have been placed in each room encouraging patients, family members and staff to contact Environmental Services immediately for cleanliness issues. The lead environmental services supervisor carries a cell phone for immediate response. This sign also encourages the reporting of noise and communication issues.

Q3-11 scores, although not complete, are improving and also at the California average.

While communication with nurses, quietness at night, and cleanliness will continue to be the focus for improving the patient's perception of care, all HCAHPS scores are reviewed and made available on the Hospital's intranet. When appropriate, subcommittees are formed to develop and implement improvement plans in specific areas such as discharge planning and communication about medications.