

LAFCO MEETING: August 7, 2013
TO: LAFCO
FROM: Neelima Palacherla, Executive Officer
Dunia Noel, LAFCO Analyst
SUBJECT: EL CAMINO HEALTHCARE DISTRICT'S RESPONSE TO LAFCO'S
RECOMMENDATIONS

STAFF RECOMMENDATION

- a. Review the El Camino Healthcare District's (ECHD) response to recommendations from LAFCO's Audit and Service Review of the ECHD and provide further direction, as necessary.
- b. Request that the ECHD continue to make improvements to its budget document and process, adopt a Capital Improvement Plan, integrate the various fund financing decisions into the District's budget process, and provide a copy of the District's FY 2015 Budget to LAFCO.
- c. Request that the ECHD encourage the El Camino Hospital Corporation (Corporation) to consider how its acquisitions outside ECHD boundaries would benefit the District and its residents.

BACKGROUND

LAFCO accepted the ECHD Audit and Service Review Report in August 2012 and requested that ECHD implement the Report's recommendations related to improvements in governance, transparency, and accountability and provide a report back to LAFCO within 12 months on the District's efforts.

On May 7, 2013, the ECHD submitted its response to the recommendations from LAFCO's Audit and Service Review for the District. The packet of information from the District was distributed to LAFCO commissioners as part of the June Agenda Packet.

On July 24, 2013, the ECHD provided LAFCO with a copy of the District Transparency Certificate of Excellence that was issued by the Special District Leadership Foundation of the California Special District Association. In order to receive this designation, a special district must complete certain requirements to demonstrate its commitment to

transparency. Please see **Attachment A** for the ECHD's Certificate and the list of associated requirements. The ECHD is the first special district in Santa Clara County to receive this designation.

ECHD'S RESPONSE TO RECOMMENDATIONS FROM LAFCO'S AUDIT AND SERVICE REVIEW OF THE DISTRICT

LAFCO staff has reviewed the ECHD's response and has had several helpful discussions with the ECHD staff to get clarification on the many issues. It is clear from the ECHD's response and discussion with ECHD staff that the District has made substantial progress in addressing LAFCO's concerns and is willing to continue to work with LAFCO to make further improvements, as necessary. The following is a review of the ECHD's response and LAFCO staff analysis.

LAFCO RECOMMENDATION 1A

District should limit its contributions to the Corporation to payments for principal and interest on debt incurred by the District for the Mountain View Hospital Rebuild. District should cease all automatic contributions to the Corporation to support the Hospital capital improvement program or to be used as a general revenue source.

DISTRICT RESPONSE: District agrees. No automatic contributions will be made to the Corporation to support capital improvements or to be used as general revenue source. District adopted Resolution 2013-01 which requires that the District's capital expenditures shall be for capital improvements within the District and shall be individually approved at a District Board meeting.

However, the District states that it may continue to contribute revenue to the Corporation for capital improvements or hospital community benefit programs, to the extent that the District Board approves the contribution at a public District Board meeting and determines that the use of District funds best serves the ECHD and the people served by the District.

The ECHD also adopted Resolution 2013-02 which creates the following four separate funds:

1. Operating Fund: Will fund routine operating expenses. Initial amount in the fund will be \$1.5 million (equal to the District's 2012 operating expenses) plus additional amount equal to expenses for 120 days.
2. Capital Appropriation Fund: Will include the revenues that it receives in excess of the Gann Limit. Initial amount in the fund will be the amount in the Districts' Capital Outlay general ledger account.
3. Capital Replacement Fund: Will ensure that the District has adequate resources to fund future repair and replacement of its capital assets (i.e., building located in the vicinity of the El Camino Hospital (Hospital) in Mountain View and owned by the District – and partly leased to the YMCA and partly used by the Hospital). Initial amount in the fund will include the amount equal to the

balance in the District's current Funded Depreciation account. On an ongoing basis, a 130% of the annual depreciation expense will be placed in the fund.

4. Community Benefit Fund: Will fund community benefit expenditures. Initial amount in the fund will include the District's cash funds with the exclusion of amounts deposited in the Operating Fund, Capital Appropriation Fund and the Capital Replacement Fund.

LAFCO RECOMMENDATION 1B

LAFCO should seek a legal opinion on applicability of the Gann Limit to healthcare districts and if permitted, the ECHD should dedicate all funds to community benefit programs that more directly benefit residents of the District.

LAFCO obtained a legal opinion from the Legislative Counsel Bureau which stated that the Gann Limit applies to the ECHD for certain revenue sources. At the June 5, 2013 LAFCO meeting, LAFCO directed staff to request that the ECHD consider and evaluate three potential options for addressing its Gann Limit in order to allow the District to use its revenues for programs that more directly benefit residents of the District.

DISTRICT RESPONSE: In response to LAFCO's request that the ECHD consider increasing its Gann Limit to better reflect its revenues, the District indicated that it has raised its Gann Limit as authorized by law to allow for annual CPI increases. However, the District has not indicated if it would consider increasing its Gann Limit even more by submitting the issue for voter approval. In response to LAFCO's request to consider using its excess revenues to pay off its debt, the District has indicated that it has no current right to prepay the GO Bonds and no current plans to incur additional debt that would permit the District to apply its excess revenue to debt service. Please see **Attachment B** which includes LAFCO's letter to the ECHD regarding the Gann Limit, dated June 14, 2013, and the District's response dated June 27, 2013.

LAFCO RECOMMENDATION 2

Cease all automatic payments to the Corporation or its affiliates to support the Corporation's community benefit program and divert those funds to more directly benefit District residents. The District board should consider establishing a Community Benefit Trust Fund for the purpose of awarding District funded community benefit grants to public and private non-profit organizations that would provide healthcare related services to District residents. The Corporation and its affiliates should not be barred from receiving community benefit grants but must be required to compete for dollars along with other providers.

DISTRICT RESPONSE: District agrees. No automatic payments will be made to the Corporation or its affiliates to support the Corporation's Community benefit program. The Corporation will be required to compete for community benefit grants along with other providers of services. District has established a separate bank account and will make disbursements to community benefit recipients directly from that account after July 1, 2013. Furthermore, the District has established a Community Benefit Advisory Council (CBAC) composed of representatives from the District Board, community

leaders and physicians who will provide input on unmet needs in the District, input on current and prospective community benefit partners and recommendations on programs to include in the annual Community Benefit Plan. The District has adopted policies and procedures for assessing community health needs, has established grant criteria and a formal proposal process and prepares a comprehensive annual report on its program for broad distribution to the community.

LAFCO RECOMMENDATION 3

Implement changes to the budget and financial reporting structure of the District, to provide clear and distinct segregation of budget priorities and reporting of financial activities.

The budget process should be restructured to enhance transparency and public accountability, including clear presentation of financial policies, including those related to reserves, as well as projected and actual revenues and expenditures by purpose and program.

The budget should report on specific line items financed by the District, including appropriations that support Mountain View hospital debt service, capital improvements (e.g., the district should adopt a capital improvement plan), staffing and operations (including compensation paid to board members and staff, other employees and consultants if any,) and community benefit programs by grant category and recipient. The district should routinely appropriate all property taxes and non-operating revenues each fiscal year to prevent accumulation of resources, except in designated reserves or trust funds.

Establish a strengthened budget monitoring and reporting system to ensure funds, such as community benefit grants, are being spent in accordance with Board policy.

DISTRICT RESPONSE: District agrees and has implemented changes in the budget process. The District has prepared and adopted a budget (on July 18, 2013) separate from that of the Hospital Corporation. **Attachment C** includes ECHD's FY 2014 Budget adopted by the District on June 18, 2013. The budget is posted on the District's website.

The District has indicated that it will prepare separate unaudited financial information for presentation to the District Board at its meetings and make the information available to the public. As indicated previously, the District has established four funds and will prepare and make available a separate report on all the fund flows. The District has adopted Financial Reserve Policies.

STAFF ANALYSIS: We recognize the District's effort at developing and adopting a budget separate from that of the Corporation, however, we have found that the adopted budget is lacking in transparency and detail, and is difficult to understand. For example:

- It is not clear how the non-operating income of \$5,825,000 and the operating income of \$86,000 on Slide #8 compare to the District income of \$17.2 million on Slide #4.

- There are no amounts associated with the pie chart percentages on slides #4, #5 and #6.
- It is not clear how the \$12.2 million in expenses on Slide #6 compares with the expenses depicted on Slide #8.
- There is no itemized explanation or detail for expenses listed on Slides #5 and #6.
- The budget does not indicate the specific amounts in each of the four funds as approved by the District Board and it is not clear from the budget if the District has any reserves.
- The budget does not include any detail on the District's community benefit programs by grant category and recipient.

The District has indicated that the reason for the apparent inconsistencies is because the form of accounting used to describe revenues and expenditures in the budget is based on the requirements for preparing the annual financial reports. LAFCO Staff has recommended that the District include documentation in the budget to clarify the differences and to explain the lack of consistency in the numbers. A budget is a "financial plan for how an organization will receive and spend money for a set time period" and must be presented in a way that is easy for the public to understand the flow of District's revenues and expenditures. LAFCO Staff has requested the District to review local agency budgets and has also referred the District to publications by the Government Finance Officers' Association and the Institute for Local Government for recommended budget practices and for guidance in preparing a public agency's budget.

Furthermore, the District's Financial Reserves Policy refers to the four funds adopted by the District Board and indicates that the funds will be held in the District's bank account. However, the policies do not specify the purpose for reserves or an appropriate reserve amount for the District.

The District has established a Capital Replacement Fund to provide for future repair and replacement of its capital assets. However, the District has not adopted a Capital Improvement Plan and has stated that it has no plans to expend capital at the District level in FY 2014. The District should prepare and adopt a multi-year long term Capital Improvement Plan and update it annually through the District's budget process with public input. The Plan should detail when and how its assets will be replaced or repaired in order to establish a basis for making the financing decisions, and should inventory the District's assets, assess the need for replacement or repair, and prioritize and estimate costs for the replacement or repair of its assets.

LAFCO RECOMMENDATION #4A

Evaluate current and otherwise necessary professional services agreements with firms or individuals (including the Corporation) used by the District for services, to ensure that the District receives the administrative and legal support necessary to conduct business and differentiate between the two entities.

DISTRICT RESPONSE: District agrees and has evaluated its professional service agreements. The District has prepared a Statement of Work as a supplement to its 1993 Management Services Agreement with the Corporation. By agreement, the Corporation provides management, financial and operational services for the District including providing a Chief Executive Officer, Chief Financial Officer, a Controller and other staffing as needed; allowing use of meeting space in its facilities for District Board meetings; providing notice and performing other legal requirements for the District, providing banking and accounting services, among other things, at an annual cost of \$10,000. Additionally, pursuant to the Statement of Work, the Corporation will provide personnel, supplies, and other expenses required to administer the District's community benefit program at an annual cost of \$247,000.

LAFCO RECOMMENDATION #4B

Review and revise the District's Code of Ethics and Conflict of Interest policy to ensure that the District avoids circumstances of perceived or actual conflicts of interest.

DISTRICT RESPONSE: District agrees and has reviewed its Conflict of Interest Code and as regular practice includes an item on its agenda which asks that Board members declare any conflicts related to matters on the agenda. The District has determined that a separate Code of Ethics policy was not necessary given the significant requirement applicable to the District as a public agency.

LAFCO RECOMMENDATION #5

Clearly demonstrate to LAFCO that no District funds will be used if the Corporation plans to purchase property outside of the District's boundary and provide an explanation for how the purchase will benefit the District since the District's contributions to the Corporation over the years have benefitted the Corporations' reserves and financial standing. This analysis should be specific to the particular purchase.

DISTRICT RESPONSE: The District agrees to notify LAFCO as a courtesy, if the Corporation plans to acquire property outside the District's boundaries in the future, even if no District funds are used for the proposed acquisition.

However, the District has not committed to providing an explanation to LAFCO as to how the Corporation's purchase benefits the residents of the District when the Corporation purchases property outside the District using Corporation funds since the requirements do not apply to the Corporation.

ATTACHMENTS

Attachment A: ECHD's Transparency Certificate of Excellence Issued by the Special District Leadership Foundation of the California Special District Association

Attachment B: LAFCO's letter dated June 14, 2013 to the ECHD regarding the "Gann Limit and Its Applicability to the ECHD" and the ECHD's response letter dated June 27, 2013

Attachment C: ECHD's Fiscal Year 2014 Budget adopted by the District on June 18, 2013



AGENDA ITEM # 5
Attachment A

2500 Grant Road
Mountain View, CA 94040
Phone: 650-940-7300
www.elcaminohealthcaredistrict.org

July 24, 2013

Santa Clara County
Local Agency Formation Commission
70 West Hedding Street
11th Floor, East Wing
San Jose, CA 95110
Attention: Chairperson Mike Wasserman and Honorable Commissioners

BOARD OF DIRECTORS

Dennis W. Chiu, JD
Patricia A. Einarson, MD
Julia E. Miller
David Reeder
John L. Zoglin

Re: El Camino Healthcare District Service Review: District Transparency Certificate of Excellence

To LAFCo Commissioners:

We are pleased to provide you with a copy of the District Transparency Certificate of Excellence recently issued to the El Camino Healthcare District by the Special District Leadership Foundation of the California Special District Association. Please note that the El Camino Healthcare District is the first Special District in Santa Clara County to receive this designation. A copy of the list of requirements is also enclosed for your consideration.

Sincerely,

A handwritten signature in cursive script that reads "Patricia A. Einarson, MD".

Patricia A. Einarson, MD
Chair
El Camino Healthcare District Board of Directors

cc: Vice-Chairperson Susan Vicklund Wilson
Commissioner Pete Constant
Commissioner Sequoia Hall
Commissioner Margaret Abe-Koga
Commissioner Linda J. Lezotte
Alternate Commissioner Johnny Khamis
Alternate Commissioner Yoriko Kishimoto
Alternate Commissioner Terry Trumbull
Alternate Commissioner Cat Tucker
Neelima Palacherla, LAFCo Executive Officer
Emmanuel Abello, LAFCo Clerk
Malathy Subramanian, LAFCo Counsel

Dedicated to improving the health and well being of the people in our community.

District Transparency Certificate of Excellence

July 2013 – June 2015

This 24th day of July 2013

The Special District Leadership Foundation is proud to present this
District Transparency Certificate of Excellence to

El Camino Healthcare District

In recognition of the district's completion of all transparency program requirements
designed to promote transparency in their operations and governance
to the public and other stakeholders.



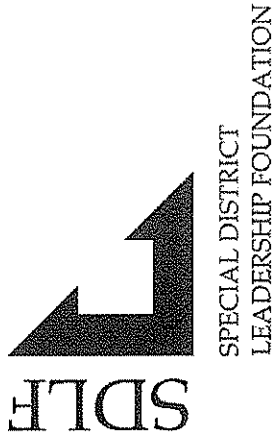
David Aranda, SDLF Board President



Neil McCormick, SDLF Administrator

Special District Leadership Foundation

The Special District Leadership Foundation (SDLF) was formed to provide certification, accreditation and recognition programs to special district elected officials and staff.



All SDLF programs are dedicated to promoting excellence in special district governance and operations throughout California.



District Transparency Certificate of Excellence *checklist*

Showcase your district's commitment to transparency

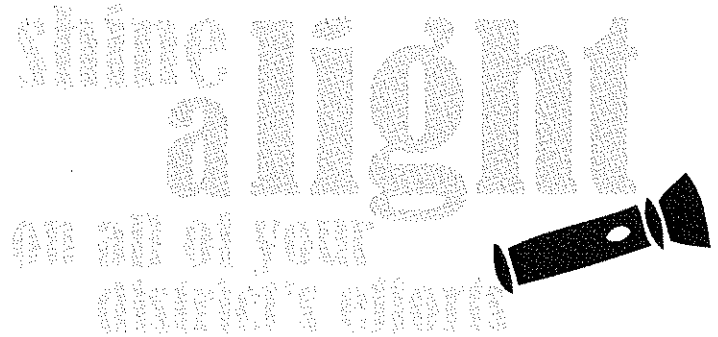
BASIC REQUIREMENTS

- Current Ethics Training for all Board Members**
(Government Code Section 53235)
 - Provide copies of training certificates along with date completed
- Compliance with the Ralph M. Brown Act**
(Government Code Section 54950 et. al)
 - Provide copy of current policy related to Brown Act compliance
 - Provide copy of a current meeting agenda (including opportunity for public comment)
- Adoption of policy related to handling Public Records Act requests**
 - Provide copy of current policy
- Adoption of Reimbursement Policy, if district provides any reimbursement of actual and necessary expenses**
(Government Code Section 53232.2 (b))
 - Provide copy of current policy
- Annual disclosure of board member or employee reimbursements for individual charges over \$100 for services or products. This information is to be made available for public inspection. "Individual charge" includes, but is not limited to: one meal, lodging for one day, or transportation.** (Government Code Section 53065.5)
 - Provide copy of the most recent document and how it is accessible
- Timely filing of State Controller's Special Districts Financial Transactions Report - includes compensation disclosure.** (Government Code Section 53891)
 - Provide copy of most recent filing
SDLF staff will verify that district is not listed on the State Controller's 'non-compliance list'
- Conduct Annual Audits**
(Government Code Section 26909 and 12410.6)
 - Provide copy of most recent audit and management letter and a description of how/where documents were made available to the public
- Other Policies – have current policies addressing the following areas (provide copies of each):**
 - Conflict of Interest
 - Code of Ethics/Values/Norms or Board Conduct
 - Financial Reserves Policy

WEBSITE REQUIREMENTS

- Maintain a district website with the following items**
(provide website link; all are required)
 - Names of Board Members and their terms of office
 - Name of general manager and key staff along with contact information
 - Election procedure and deadlines
 - Board meeting schedule (Regular meeting agendas must be posted 72 hours in advance pursuant to Government Code Section 54954.2 (a) (1) and Government Code Section 54956 (a))
 - District's mission statement
 - Description of district's services/functions and service area
 - Authorizing statute/enabling act (Principle Act or Special Act)
 - Current district budget
 - Most recent financial audit
 - Archive of Board meeting minutes for at least the last 6 months
 - List of compensation of Board Members and staff and/or link to State Controller's webpage with the data
- Website also must include at least 4 of the following items:**
 - Post Board Member ethics training certificates
 - Picture, biography and email address of board members
 - Last 3 years of audits
 - Reimbursement and Compensation Policy
 - Financial Reserves Policy
 - Online/downloadable Public Records Act request form
 - Audio or video recordings of board meetings
 - Map of district boundaries/service area
 - Link to California Special Districts Association mapping program
 - Most recent Municipal Service Review (MSR) and Sphere of Influence (SOI) studies (full document or link to document on another site)

Continued on reverse



Questions about SDLF or the transparency program? Call us for more information at 916.231.2939

checklist continued

OUTREACH/BEST PRACTICES REQUIREMENTS

Must complete at least 2 of the following items:

- Regular district newsletter or communication (*printed and/or electronic*) that keeps the public, constituents and elected officials up-to-date on district activities (*at least twice annually*)
 - Provide copy of most recent communication and short description on the frequency of the communication, how it's distributed and to whom
- Community notification through press release to local media outlet announcing upcoming filing deadline for election and process for seeking a position on the district board, prior to that election (*or prior to the most recent deadline for consideration of new appointments for those districts with board members appointed to fixed-terms*)
 - Provide copy of the press release (*and the printed article if available*)
- Complete salary comparison/benchmarking for district staff positions using a reputable salary survey (*at least every 5 years*)
 - Provide brief description of the survey and process used as well as the general results
- Special Community Engagement Project
Designed and completed a special project promoting community engagement with the district (potential projects may be broad in nature or focus on specific issues such as rate-setting, recycled water, identifying community needs, etc.)
 - Submit an overview of the community engagement project, reviewing the process undertaken and results achieved
- Hold annual informational public budget hearings that engage the public (*outreach, workshops, etc.*) prior to adopting the budget
 - Provide copy of most recent public budget hearing notice and agenda
- Community Transparency Review
The district would be required to obtain a completed overview checklist from at least 2 of the following individuals* (*the district may choose to conduct the overview with these individuals simultaneously or separately*):
 - Chair of the County Civil Grand Jury
 - Editor of a reputable local print newspaper (only one may count toward requirement)
 - LAFCo Executive Officer
 - County Auditor-Controller
 - Local Legislator (only one may count toward requirement)
 - Executive Director or President of local Chamber of Commerce
 - General Manager of a peer agency (special district, city or county)

* Provide proof of completion signed by individuals completing Community Transparency Review

How do I proceed?

- Step 1: Complete the requirement checklist
- Step 2: Send checklist and all supporting materials or contact the SDLF staff on how to submit all materials electronically:
SDLF
1112 I Street, Suite 200
Sacramento, CA 95814
- Step 3: Approval process review performed by SDLF staff
- Step 4: Receive your certificate and recognition

SDLF is supported by



The Special District Leadership Foundation (SDLF) is an independent, non-profit organization formed to promote good governance and best practices among California's special districts through certification, accreditation and other recognition programs. SDLF is supported through the California Special Districts Association and Special District Risk Management Authority.



June 14, 2013

VIA E-MAIL

TO: Michael King, Chief Financial Officer, El Camino Hospital Corporation
FROM: Neelima Palacherla, LAFCO Executive Officer
RE: GANN LIMIT AND ITS APPLICABILITY TO THE EL CAMINO
HEALTHCARE DISTRICT

At its June 5, 2013 meeting, the Local Agency Formation Commission (LAFCO) of Santa Clara County accepted LAFCO Counsel's analysis (based on the Legislative Counsel Bureau's opinion) that the Gann Limit applies to the El Camino Healthcare District (ECHD) for certain revenue sources.

The ECHD already sets appropriations limits for itself consistent with the Gann Limit law. According to LAFCO's Audit and Service Review Report on the ECHD, the District's revenues exceed its Gann Limit each year and the District, in order to be in compliance with the Gann Limit, is compelled to appropriate its excess revenues for capital outlays as such appropriations are exempt from the Gann Limit. This in effect limits the ECHD Board's and indirectly, the District residents' discretion over the use of these revenues for purposes (such as Community Benefit Grants) that could more directly benefit the District's residents.

LAFCO directed staff to request that the ECHD consider how it may address this issue such that the District is better able to utilize its tax revenues to more directly benefit its taxpayers and residents. As appropriate, the ECHD should consider and evaluate the feasibility of the following three options along with any other ideas, to achieve the above stated intent: (1) increasing its Gann Limit to better reflect the revenues it receives, thus removing the limitation and allowing broader discretion on the use of its revenues; (2) using its revenue for other expenditures (such as paying off debt) that qualify for exemption from the Gann Limit and that provide more direct benefit to the District's residents; or (3) returning excess revenues to taxpayers.

Please do not hesitate to contact me with questions or to discuss further. Thank you for your time and consideration of this important issue.

CC: ECHD Board Members
LAFCO Members

70 West Hedding Street • 11th Floor, East Wing • San Jose, CA 95110 • (408) 299-5127 • www.santaclara.lafco.ca.gov

COMMISSIONERS: Pete Constant, Sequoia Hall, Margaret Abe-Koga, Linda J. LeZotte, Mike Wasserman, Susan Vicklund Wilson
ALTERNATE COMMISSIONERS: Johnny Khamis, Yoriko Kishimoto, Terry Trumbull, Cat Tucker
EXECUTIVE OFFICER: Neelima Palacherla



2500 Grant Road
Mountain View, CA 94040
Phone: 650-962-5853
www.elcaminohealthcaredistrict.org

June 27, 2013

Santa Clara County Local
Agency Formation Commission
70 West Hedding Street
11th Floor, East Wing
San Jose, CA 95110
Attention: Chairperson Mike Wasserman and Honorable Commissioners

BOARD OF DIRECTORS

Dennis W. Chiu, JD
Patricia A. Einarson, MD
Julia E. Miller
David Reeder
John L. Zoglin

Re: Response to LAFCo Request Re: Gann Limit and its Applicability to the El Camino Healthcare District

To LAFCo Commissioners:

We are pleased to offer the following response to the June 14, 2013 transmittal to Michael King, Chief Financial Officer of the El Camino Healthcare District (the "District"), requesting that the District consider several options related to the District's use of its revenue.

The District Board of Directors continues to expend the District's funds in a way that it believes best serves the District and the people served by the District. We address each of the suggestions below. The District also addressed several of these issues in its May 7, 2013 responses to LAFCo's requests related to the 2012 audit and service review. Please consider this letter as a supplement to those responses.

The first option LAFCo requests the District to consider is increasing its Gann Limit. The Gann Limit applicable to the District is determined by a specific statutory formula that takes into account variables such as cost of living and changes in population. See Cal. Const., Art XIII B § 1. At its most recent Board meeting, the District adopted (as it has each year since the adoption of the Gann Limit), a resolution increasing its Gann Limit to the maximum amount permitted by law. This action resulted in an increase of the Gann Limit to \$6,284,599. Other than this process, we do not believe that the District Board has the legal authority to increase the District's Gann Limit. Please let us know if LAFCo has any legal analyses that reach a different conclusion.

Next LAFCo requests that the District consider using its revenue for purposes that might provide a more direct benefit to the District, such as paying off debt. Over two-thirds of the voters of the District previously authorized the issuance of General Obligation Bonds for construction of the new El Camino Hospital in Mountain View as well as special ad valorem taxes to service this debt. The District has limited rights (and no current right) to prepay the General Obligation Bonds. Also, the District Board of Directors currently has no plans to incur additional debt that would permit a greater portion of the District's revenue to be applied to debt service.

Please remember that the District uses the revenue it receives that exceeds the Gann Limit towards capital improvements within the District and does not use any funds for capital

Dedicated to improving the health and well being of the people in our community.

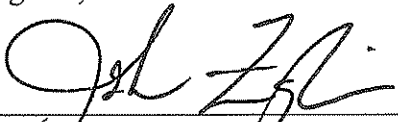
improvements outside the District's boundaries. We are very pleased that we have been able to contribute funds to such valuable health facilities for the District community without incurring any additional debt. The District Board of Directors believes that these capital improvements, including recently authorized improvements to the Behavioral Health Unit, provide a tremendous benefit to the District and the people served by the District and address substantial unmet needs in the District community. The Behavioral Health Unit relieves the pressure on the only other facility in Santa Clara County providing inpatient behavioral health services - Santa Clara Valley Medical Center.

Finally, LAFCo requests the District to consider returning revenues above the Gann Limit to taxpayers. We appreciate that suggestion, and understand that this is always an alternative available for consideration by the Board or by the governing body of any other governmental organization that receives tax revenues.

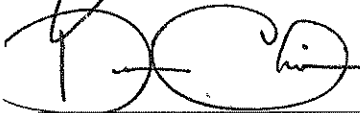
Other alternatives, not discussed in the transmittal from Ms. Palacherla, include the District using funds above the Gann Limit for qualified capital outlay projects within the District, as expressly authorized by the Gann Limit provisions of the California Constitution, the associated statutes and the Health and Safety Code, or considering whether to seek voter approval permitting other potential appropriations of District tax revenues. The District Board believes that the construction of the Behavioral Health Unit, as an example, will have a tremendous direct benefit to the District and people served by the District and addresses a significant unmet need. We can assure you that, each year, the District Board of Directors will continue to exercise its responsibilities to ensure that revenues are spent in ways that the Board determines will best serve the District and the people served by the District.

We welcome LAFCo's continued questions and guidance.

Regards,



John Zoglin, Chairman
El Camino Healthcare District Board of Directors



Dennis Chiu, Director
El Camino Healthcare District Board of Directors

cc: Vice-Chairperson Susan Vicklund Wilson
Commissioner Pete Constant
Commissioner Sequoia Hall
Commissioner Margaret Abe-Koga
Commissioner Linda J. Lezotte
Neelima Palacherla, LAFCo Executive Officer
Emmanuel Abello, LAFCo Clerk
Malathy Subramanian, LAFCo Counsel



Dedicated to improving the health and well being of the people in our community.

AGENDA ITEM # 5
Attachment C

**El Camino Healthcare District
Fiscal Year 2014 Budget**

Presented by Michael King, CFO
June 18, 2013

Basis of the El Camino Healthcare District FY 2014 Budget

- The District budget is first shown in “stand-alone” format, including only those transactions which occur at the District level.
 - This presentation will cover the assumptions driving the District’s budget and will provide information on District-level revenues and expenditures.
 - Additional information about the District’s operations are available in the District’s “Budget Overview” document, which is available on the District website (www.elcaminohealthcaredistrict.org).
 - The budget for El Camino Hospital and its affiliates was reviewed at the hospital’s finance committee meeting on May 28th, and at the hospital’s Board meeting on June 12th. Those meetings were both noticed on the hospital’s website and were open to the public. Additional information on the budget for El Camino Hospital and its affiliates is available on the hospital’s website (www.elcaminohospital.org).
- The District budget is also shown in consolidated format in this presentation as it is the District’s responsibility to approve the consolidated budget.



Major Assumptions

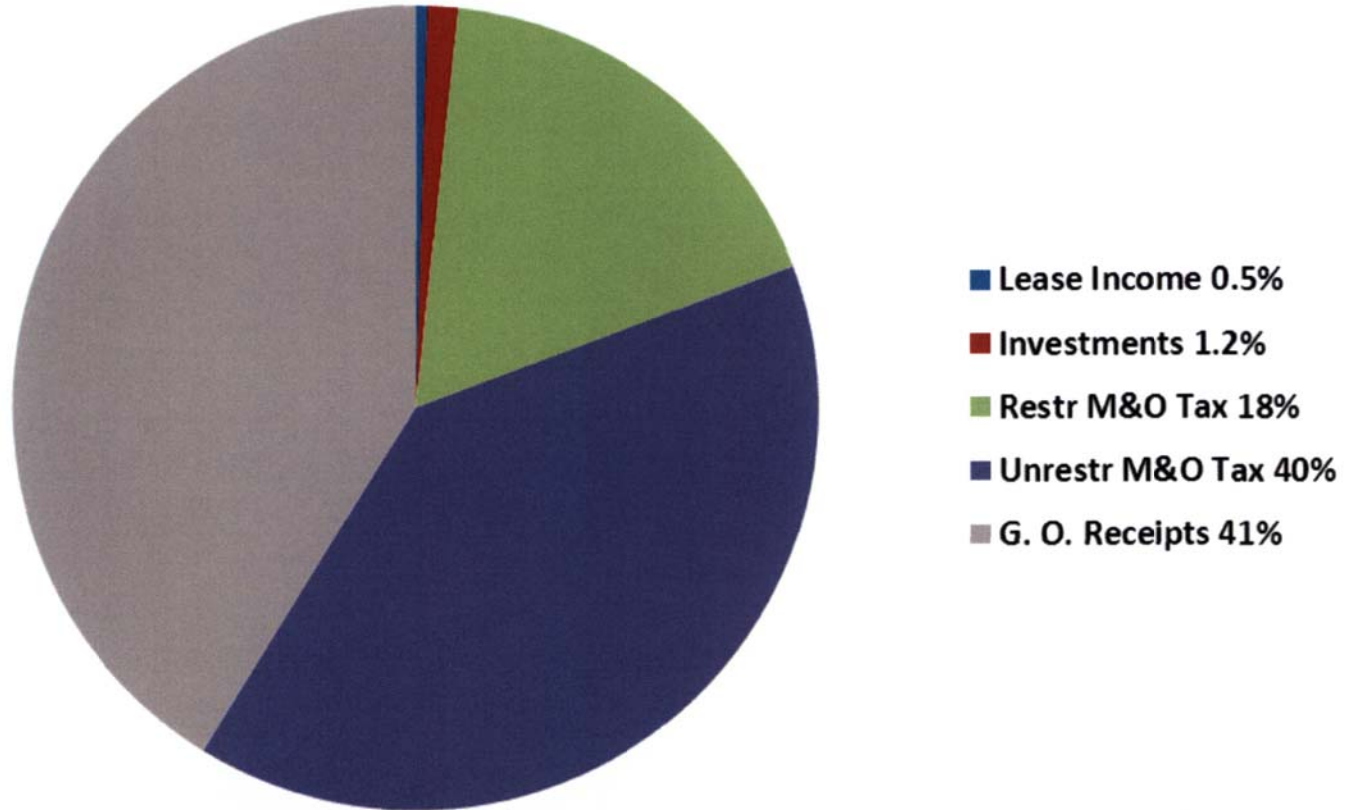
Information excludes El Camino Hospital and its affiliates

- Other Operating Revenue based on existing ground lease agreement.
- All Operating Expenses based on trending two-year District history, with adjustments made for non-recurring events.
- New items budgeted in Fiscal Year 2014 include \$248,000 additional expense to cover the cost of the District's administration of its Community Benefit program and \$17,500 for board member stipends.
- Depreciation is based on assets currently in service, as there is no capital spending expected at the District level.
- Tax receipts are based on the current year's experience.
- Expenses related to the G.O. bonds are based on history and required payment schedules.
- Community Benefit expenditures are based on the draft Community Benefit plan.
- Investment income is based on the expected long-term rate of return for those funds.



District Income by Source - \$17.2 Million

Information excludes El Camino Hospital and its affiliates

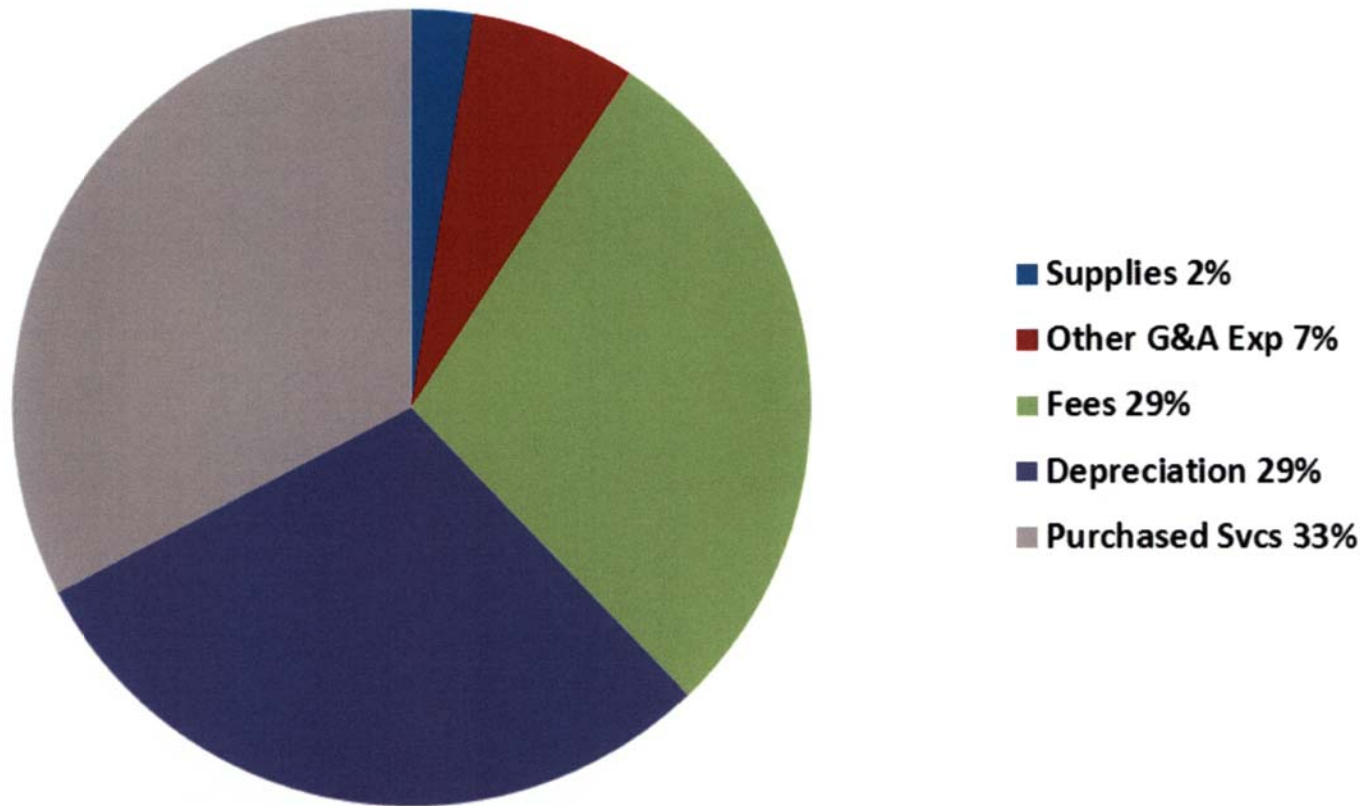


All except Lease Income are classified as "Non-Operating"



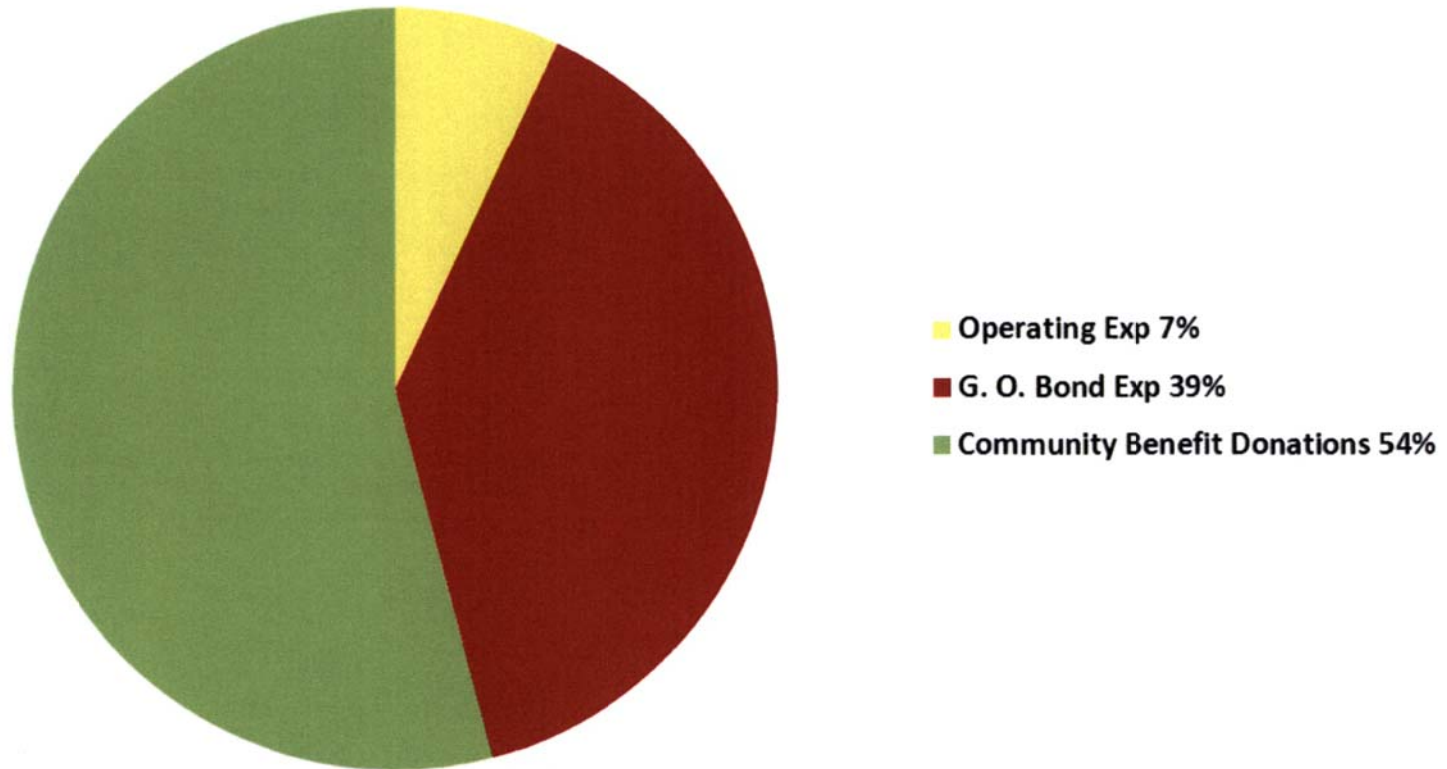
District **Operating** Expense by Category – **\$849 thousand**

Information excludes El Camino Hospital and its affiliates



District Total Expense by Category – \$12.2 Million

Information excludes El Camino Hospital and its affiliates



Yellow "slice" represents entire pie from previous page



El Camino Healthcare District
Statement of Fund Balance Activity for Budget 2014
(In Thousands)

Information excludes El Camino Hospital and its affiliates

UNRESTRICTED FUND ACTIVITY BALANCE

Projected Opening Balance @ 7/01/2013	\$ 31,300
Budgeted Net Income for FY 2014	5,062
Close out of Community Benefit Fund Previously held by Hospital	4,317
Transfer to ECH for Capital Outlay project (BHS)	<u>(3,368)</u>
PROJECTED ENDING BALANCE @ 6/30/2014	<u>\$ 37,311</u>



El Camino Healthcare District

Information excludes El Camino Hospital and its affiliates

	2012	Estimated 2013	Budget 2014	Fav (Unfav) Change	
				Amount	Percent
REVENUES					
Other Operating Revenue	82	84	86	2	2.4%
TOTAL NET REVENUES	82	84	86	2	2.4%
EXPENSES					
Salaries	0	0	0	0	N/A
Employee Benefits	0	0	0	0	N/A
Supplies & Other Expenses	4,036	1,279	599	681	53.2%
Interest	0	0	0	0	N/A
Depreciation/Amortization	233	250	250	0	0.0%
TOTAL EXPENSES	4,269	1,529	849	681	44.5%
OPERATING INCOME	(4,187)	(1,446)	(763)	683	47.2%
NON-OPERATING INCOME	11,635	12,052	5,825	(6,227)	(51.7%)
TOTAL NET INCOME	\$7,447	\$10,606	\$5,062	(\$5,545)	(52.3%)
Operating EBIDA	(\$3,954)	(\$1,196)	(\$513)	\$683	57.1%
Operating Margin Percentage	(5111.4%)	(1729.6%)	(892.1%)		

All dollar amounts in thousands. Totals may not agree due to rounding.



El Camino Healthcare District - CONSOLIDATED

	Standalone	El Camino Hospital	El Camino Hospital Affiliates	Consolidated
REVENUES				
Inpatient Revenue	\$0	\$1,509,284	\$0	\$1,509,283.90
Outpatient Revenue	0	946,516	0	946,516
Gross Patient Service Revenue	0	2,455,800	0	2,455,800
Deductions From Revenue	0	(1,766,903)	0	(1,766,903)
Net Patient Service Revenue	0	688,897	0	688,897
Other Operating Revenue	86	15,689	12,917	28,691
TOTAL NET REVENUES	86	704,587	12,917	717,589
EXPENSES				
Salaries	0	252,277	5,404	257,681
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Supplies & Other Expenses	599	212,002	8,071	220,672
Interest	0	7,681	0	7,681
Depreciation/Amortization	250	50,366	86	50,703
TOTAL EXPENSES	849	647,944	16,481	665,274
OPERATING INCOME	(763)	56,642	(3,565)	52,315
NON-OPERATING INCOME	5,825	19,284	5,839	30,948
TOTAL NET INCOME	\$5,062	\$75,927	\$2,275	\$83,263
Operating EBIDA	(\$513)	\$114,689	(\$3,478)	\$110,698
Operating Margin Percentage	(892.1%)	8.0%	(27.6%)	7.3%

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El Camino Healthcare District - CONSOLIDATED

	2012	Estimated 2013	Budget 2014	Fav (Unfav) Change	
				Amount	Percent
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Inpatient Revenue	\$1,408	\$1,466	\$1,509	\$43	3.0%
Outpatient Revenue	987	1,004	947	(57)	(5.7%)
Gross Patient Service Revenue	2,395	2,469	2,456	(14)	(0.6%)
Deductions From Revenue	(1,759)	(1,781)	(1,767)	14	0.8%
Net Patient Service Revenue	637	688	689	1	0.1%
Other Operating Revenue	27	29	29	0	0.2%
TOTAL NET REVENUES	663	717	718	1	0.1%
EXPENSES					
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Depreciation/Amortization	50	48	51	(2)	(4.8%)
TOTAL EXPENSES	602	644	665	(21)	(3.3%)
OPERATING INCOME	61	73	52	(21)	(28.5%)
NON-OPERATING INCOME	20	41	31	(10)	(23.7%)
TOTAL NET INCOME	\$81	\$114	\$83	(\$30)	(26.8%)
Operating EBIDA	\$119	\$129	\$111	(\$19)	(14.5%)
Operating Margin Percentage	9.3%	10.2%	7.3%		

All dollar amounts in millions. Totals may not agree due to rounding.



El Camino Healthcare District Consolidated Capital Budget

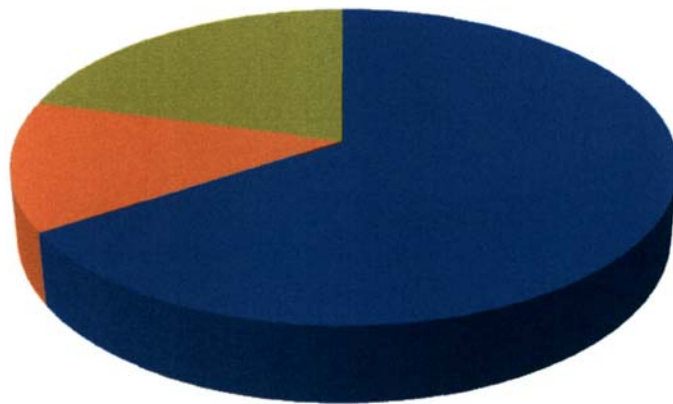
NOTE: There are no plans to expend capital at the District level in Fiscal Year 2014. All capital spending is budgeted to occur at El Camino Hospital and its affiliates.



Consolidated Capital Spending

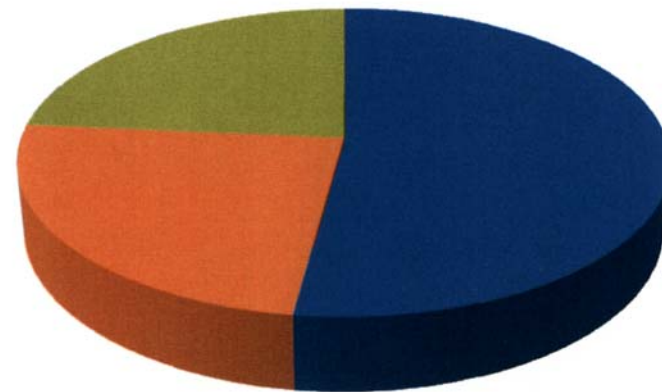
Fiscal 2013 Compared to Fiscal 2014 Budget (\$ Millions)

FY 2013 Expected: \$57.0



■ Facility \$37.5 ■ Equip \$7.6 ■ IT \$11.9

FY 2014 Budgeted: \$47.3

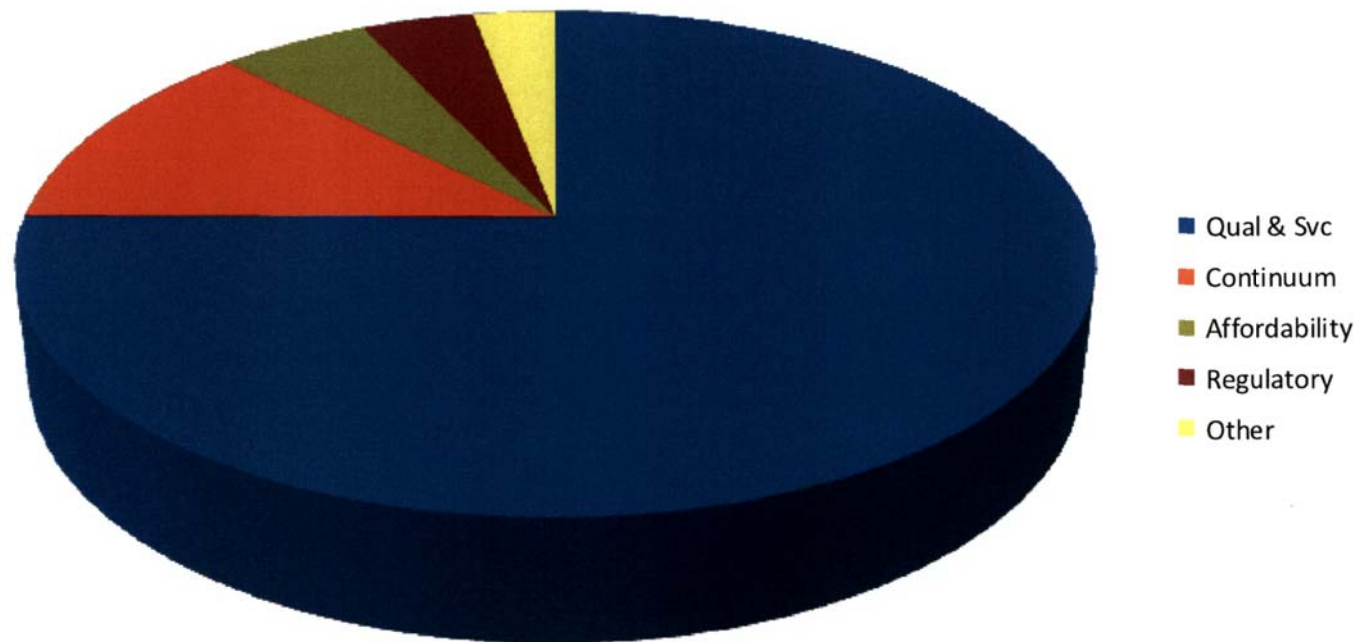


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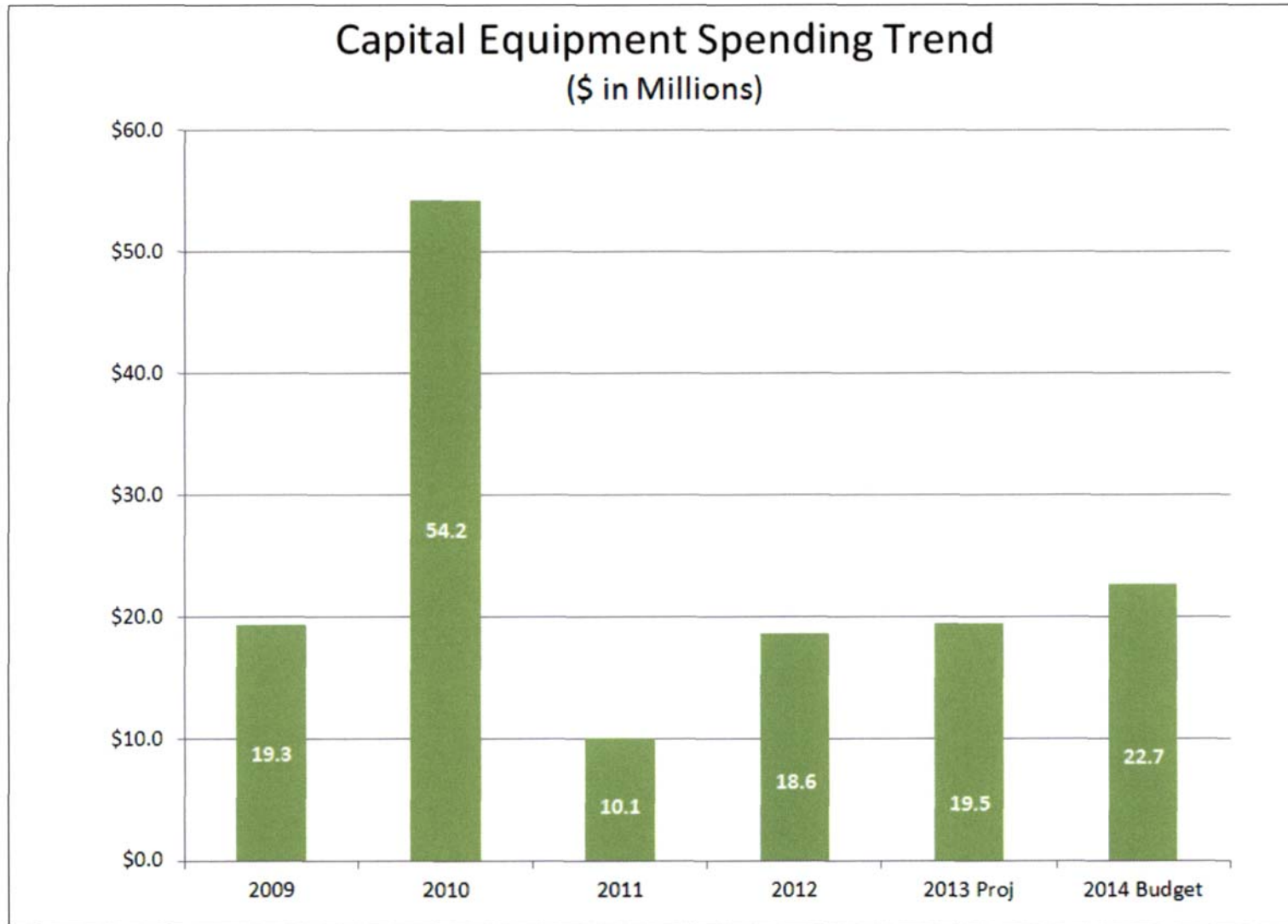


Consolidated Capital Spending

Fiscal 2014 Budget Spending on items over \$250K by Category



Capital Equipment Spending Trend (\$ in Millions)



Excludes land improvements and building additions



ITEM No. 5
Supplemental Information
provided by El Camino
Healthcare District



*Dedicated to improving the health and
well being of the people in our community.*

**El Camino Healthcare District
Fiscal Year 2014 Budget**

Presented by Michael King, CFO
Updated August 4, 2013

Basis of the El Camino Healthcare District FY 2014 Budget

- The District budget is first shown in “stand-alone” format, including only those transactions which occur at the District level.
 - This presentation will cover the assumptions driving the District’s budget and will provide information on District-level revenues and expenditures.
 - Additional information about the District’s operations are available in the District’s “Budget Overview” document, which is available on the District website (www.elcaminohealthcaredistrict.org).
 - The budget for El Camino Hospital and its affiliates was reviewed at the hospital’s finance committee meeting on May 28th, and at the hospital’s Board meeting on June 12th. Those meetings were both noticed on the hospital’s website and were open to the public. Additional information on the budget for El Camino Hospital and its affiliates is available on the hospital’s website (www.elcaminohospital.org).
- The District budget is also shown in consolidated format in this presentation as it is the District’s responsibility to approve the consolidated budget.



Major Assumptions

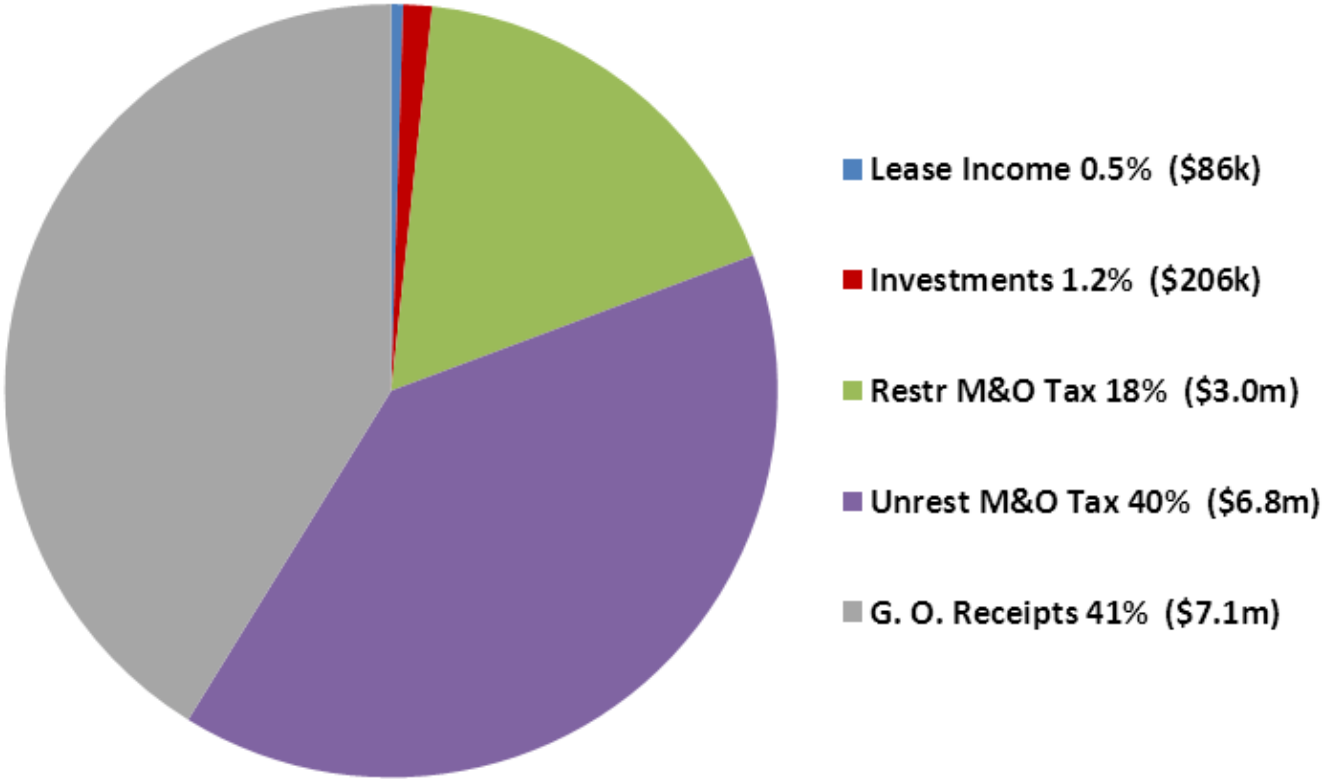
Information excludes El Camino Hospital and its affiliates

- Other Operating Revenue based on existing ground lease agreement.
- All Operating Expenses based on trending two-year District history, with adjustments made for non-recurring events.
- New items budgeted in Fiscal Year 2014 include \$248,000 additional expense to cover the cost of the District's administration of its Community Benefit program and \$17,500 for board member stipends.
- Depreciation is based on assets currently in service, as there is no capital spending expected at the District level.
- Tax receipts are based on the current year's experience.
- Expenses related to the G.O. bonds are based on history and required payment schedules.
- Community Benefit expenditures are based on the draft Community Benefit plan.
- Investment income is based on the expected long-term rate of return for those funds.



District Income by Source - \$17.2 Million

Information excludes El Camino Hospital and its affiliates

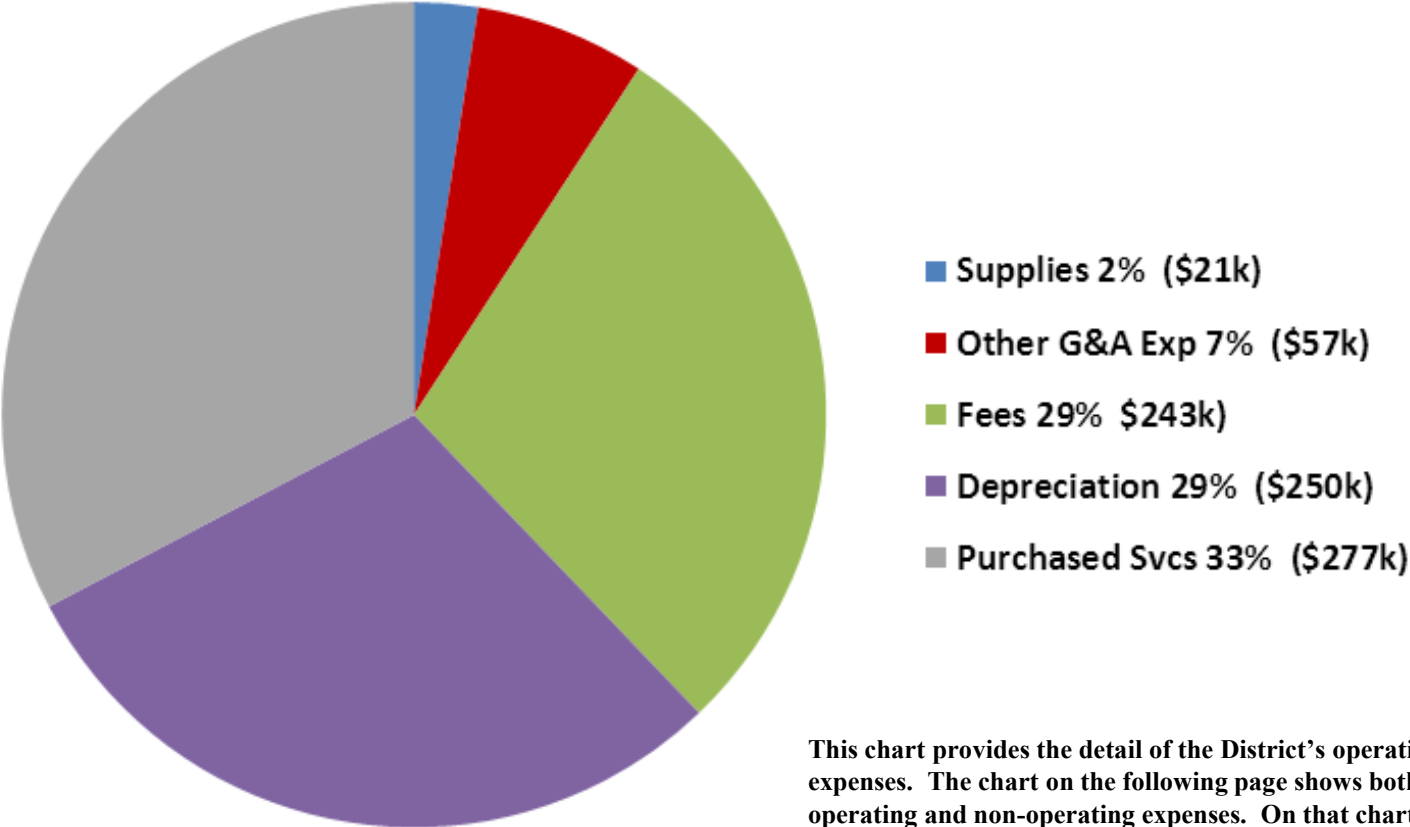


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District **Operating** Expense by Category – **\$849 thousand**

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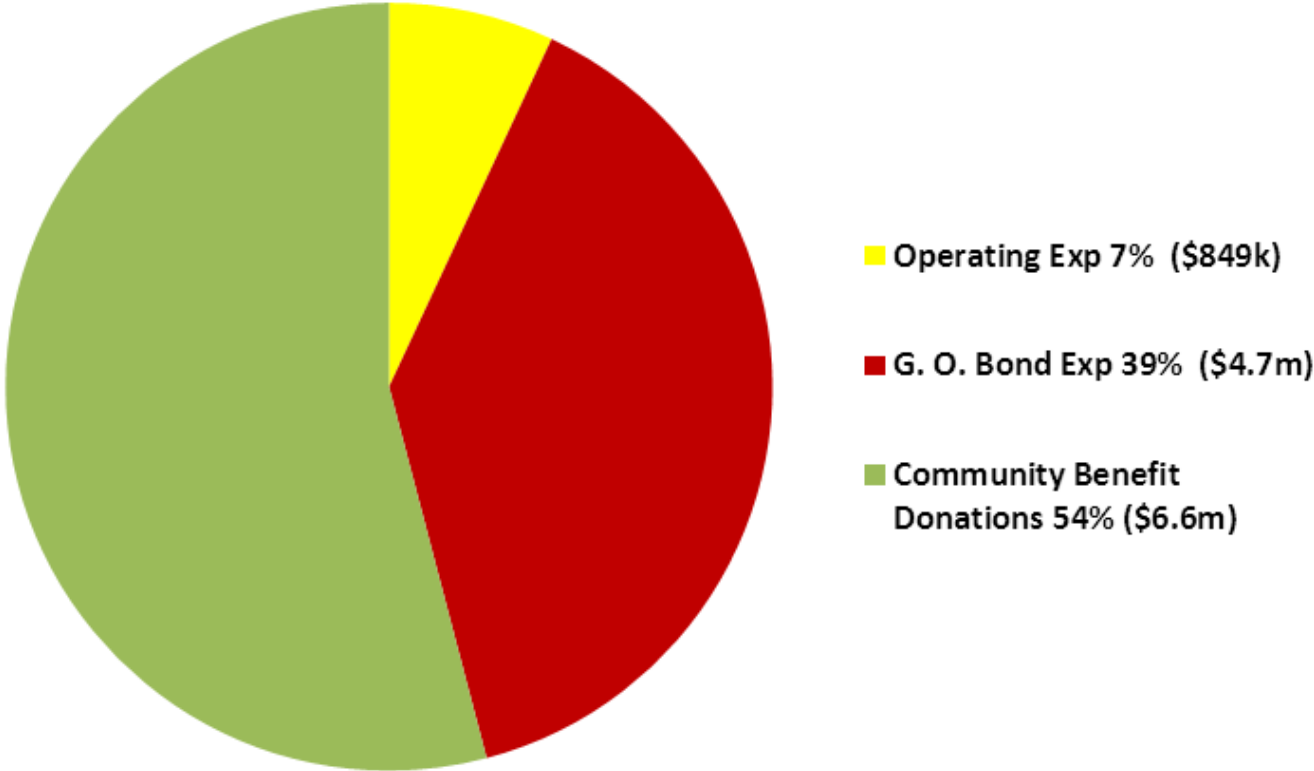


This chart provides the detail of the District’s operating expenses. The chart on the following page shows both operating and non-operating expenses. On that chart, the yellow slice is equal to this entire chart.



District Total Expense by Category – \$12.2 Million

Information excludes El Camino Hospital and its affiliates



Yellow “slice” represents entire pie from previous page



The Total Income from slide 4 (\$17.2m) less the Total Expense from this slide (\$12.2m) equals Total Budgeted Income shown on slide 8 (\$5m)

El Camino Healthcare District

Statement of Fund Balance Activity for Budget 2014

(In Thousands)

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El Camino Healthcare District Consolidated Capital Budget

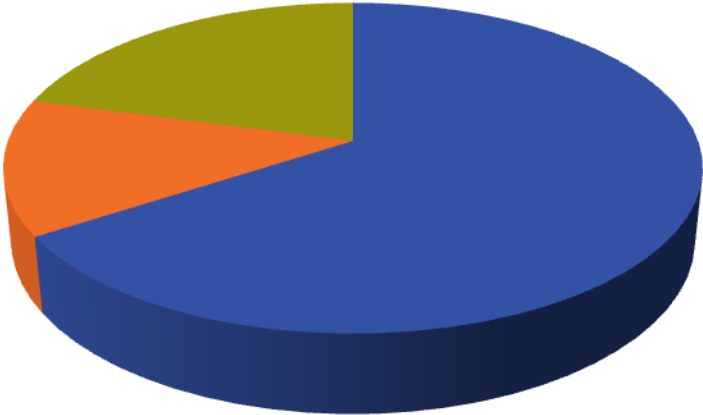
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Consolidated Capital Spending

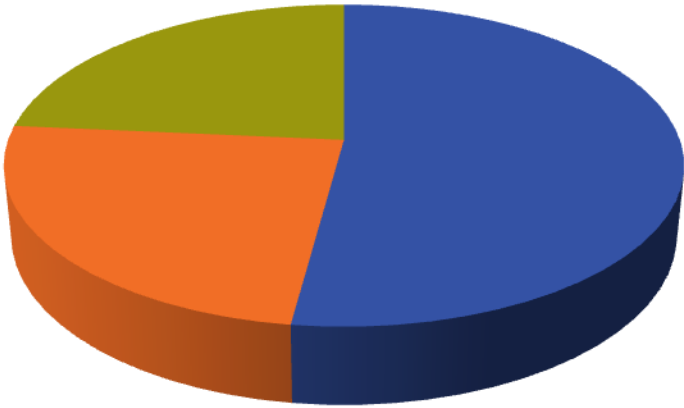
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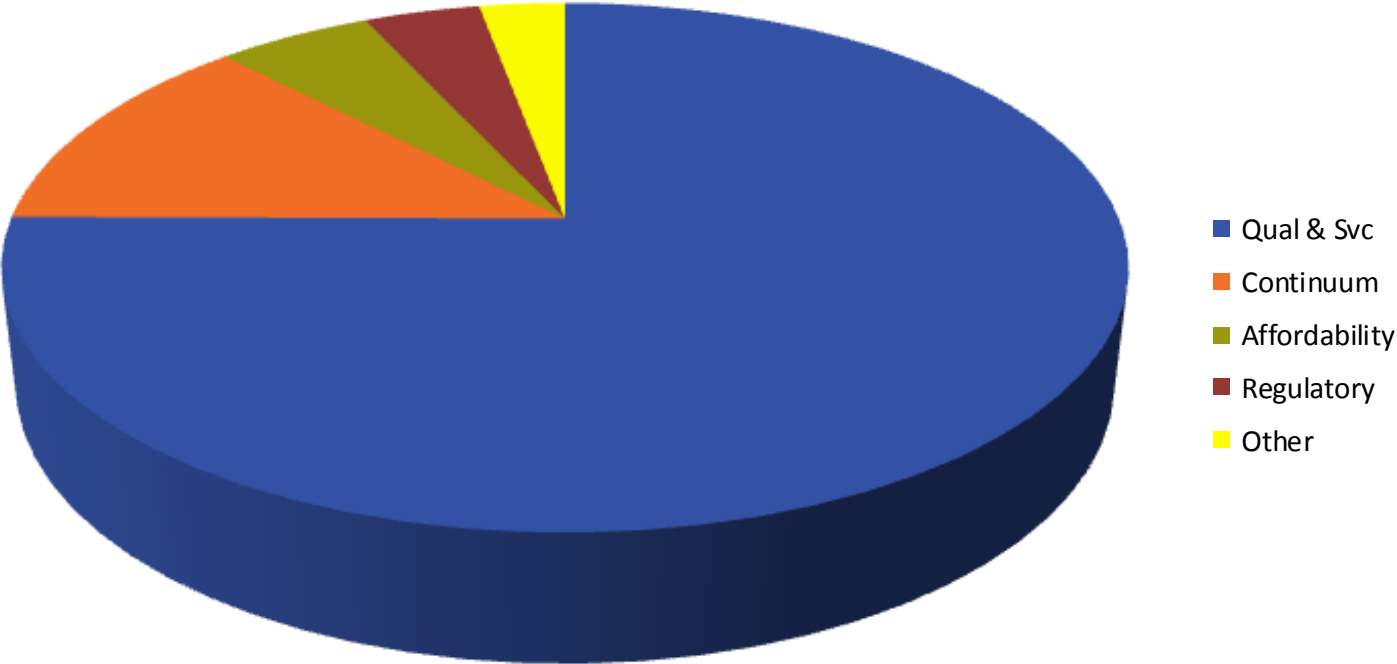


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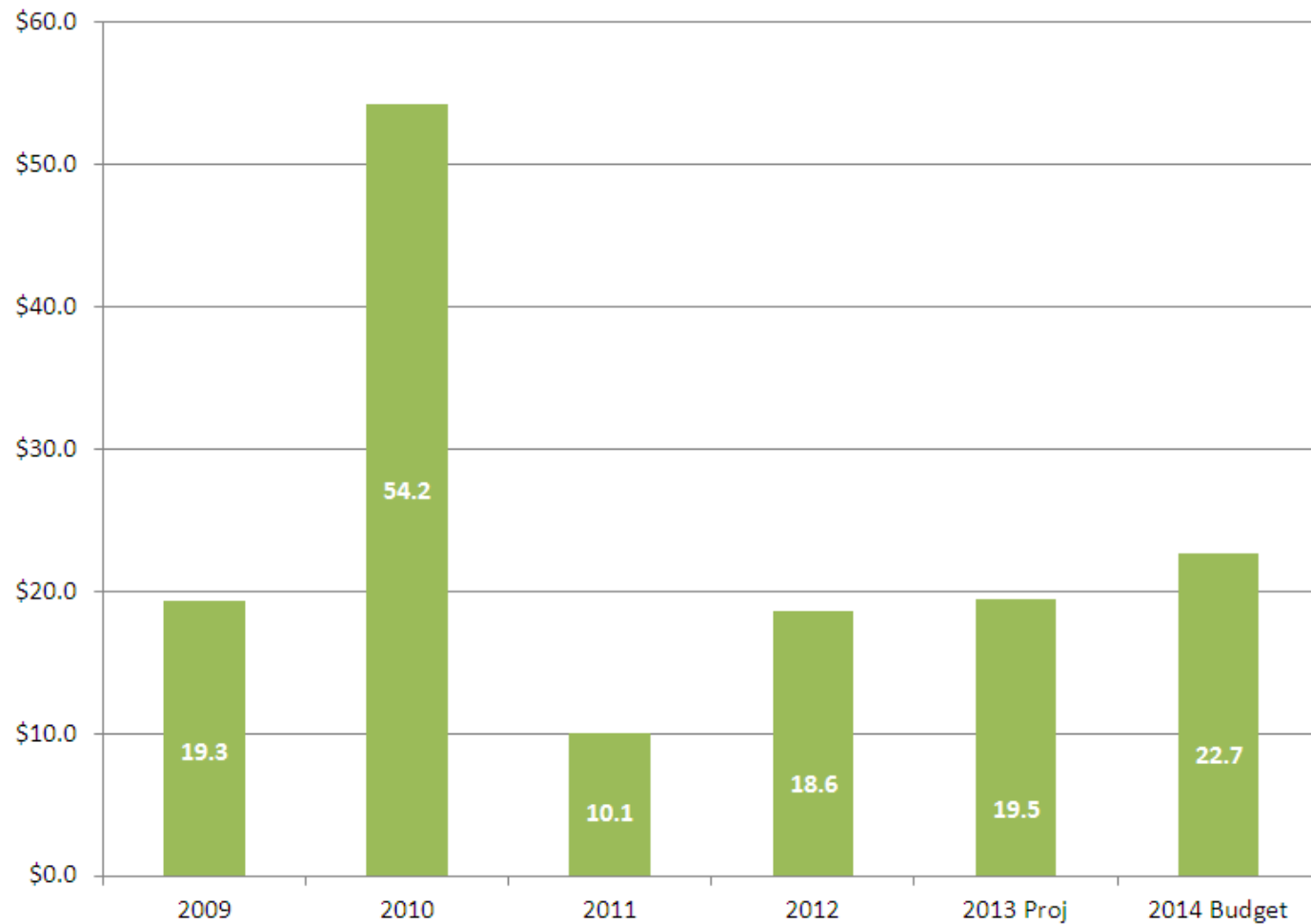


Consolidated Capital Spending

Fiscal 2014 Budget Spending on items over \$250K by Category



Capital Equipment Spending Trend (\$ in Millions)



Excludes land improvements and building additions



El Camino Healthcare District
2014 Budget
Supplementary Schedule



El Camino Healthcare District 2014 Budget

Summary of Operating & Non-Operating Items

(\$000s)

OPERATIONS

Lease Income	86	
Supplies	(21)	
Admin & Consulting Fees	(243)	
Purchased Services	(277)	
Depreciation	(250)	
Other General & Admin Expenses	(57)	
		(763)

NON-OPERATING ITEMS

G. O. Tax Receipts	7,100	
G. O. Bond Expenses	(4,739)	
Unrestricted M. & O. Receipts	6,809	
Restricted M. & O. Receipts	2,914	
Investment Income	206	
Redevelopment Agency Tax Receipts	120	
Community Benefit Donations	(6,586)	
		5,825
		5,062

