



**LAFCO MEETING
AGENDA
Wednesday, May 30, 2012
1:15 PM**

**Isaac Newton Senter Auditorium
70 West Hedding Street, First Floor, San Jose, CA 95110**

**CHAIRPERSON: Pete Constant • VICE-CHAIRPERSON: Mike Wasserman
COMMISSIONERS: Margaret Abe-Koga, Liz Kniss, Susan Vicklund-Wilson
ALTERNATES: Sam Liccardo, George Shirakawa, Terry Trumbull, Cat Tucker**

The items marked with an asterisk (*) are included on the Consent Agenda and will be taken in one motion. At the beginning of the meeting, anyone who wants to discuss a consent item should make a request to remove that item from the Consent Agenda.

Disclosure Requirements

1. Disclosure of Campaign Contributions

If you wish to participate in the following proceedings, you are prohibited from making a campaign contribution of more than \$250 to any commissioner or alternate. This prohibition begins on the date you begin to actively support or oppose an application before LAFCO and continues until three months after a final decision is rendered by LAFCO. No commissioner or alternate may solicit or accept a campaign contribution of more than \$250 from you or your agent during this period if the commissioner or alternate knows, or has reason to know, that you will participate in the proceedings.

If you or your agent have made a contribution of more than \$250 to any commissioner or alternate during the twelve (12) months preceding the decision, that commissioner or alternate must disqualify himself or herself from the decision. However, disqualification is not required if the commissioner or alternate returns the campaign contribution within thirty (30) days of learning both about the contribution and the fact that you are a participant in the proceedings. For disclosure forms and additional information see:

<http://www.santaclara.lafco.ca.gov/annexations&Reorg/PartyDisclForm.pdf>

2. Lobbying Disclosure

Any person or group lobbying the Commission or the Executive Officer in regard to an application before LAFCO must file a declaration prior to the hearing on the LAFCO application or at the time of the hearing if that is the initial contact. Any lobbyist speaking at the LAFCO hearing must so identify themselves as lobbyists and identify on the record the name of the person or entity making payment to them. For disclosure forms and additional information see:

<http://www.santaclara.lafco.ca.gov/annexations&Reorg/LobbyDisclForm.pdf>

3. Disclosure of Political Expenditures and Contributions Regarding LAFCO Proceedings

If the proponents or opponents of a LAFCO proposal spend \$1,000 with respect to that proposal, they must report their contributions of \$100 or more and all of their expenditures under the rules of the Political Reform Act for local initiative measures to the LAFCO office. For additional information and for disclosure forms see:

http://www.santaclara.lafco.ca.gov/sclafcopolicies_annex&reorg_home.html

1. **ROLL CALL**
2. **WELCOME NEW ALTERNATE COMMISSIONER CAT TUCKER**
3. **PUBLIC COMMENTS**

This portion of the meeting is reserved for persons desiring to address the Commission on any matter not on this agenda. Speakers are limited to THREE minutes. All statements that require a response will be referred to staff for reply in writing.
4. **APPROVE MINUTES OF APRIL 4, 2012 LAFCO MEETING**

PUBLIC HEARING

5. **WEST VALLEY SANITATION DISTRICT SPHERE OF INFLUENCE AMENDMENT 2012, WEST VALLEY SANITATION DISTRICT 2012-01 (CENTRAL PARK), AND COUNTY LIBRARY SERVICES AREA 2012-01 (CENTRAL PARK)**

A request by the City of Campbell for inclusion of the Central Park neighborhood and the Cambrian #36 island in the sphere of influence of the West Valley Sanitation District and for annexation of the Central Park neighborhood to the West Valley Sanitation District and to the Santa Clara County Library Service Area.

Possible Action:

- a. Open public hearing and receive public comments.
- b. Close public hearing.
- c. Consider the request for SOI amendment and annexation, and the staff recommendation.

6. **FINAL LAFCO BUDGET FOR FISCAL YEAR 2012-2013**

Possible Action:

- a. Open public hearing and receive public comments.
- b. Close public hearing.
- c. Adopt the Final LAFCO Budget for Fiscal Year 2012-2013.
- d. Find that the Final LAFCO Budget for Fiscal Year 2013 is expected to be adequate to allow the Commission to fulfill its statutory responsibilities.
- e. Authorize staff to transmit the Final LAFCO Budget adopted by the Commission including the estimated agency costs to each of the cities, to the County and to the Cities Association.

- f. Direct the County Auditor-Controller to apportion LAFCO costs to cities and the County using the most recent edition of the Cities Annual Report published by the State Controller, and to collect payment pursuant to Government Code §56381.

7. AUDIT AND SERVICE REVIEW OF THE EL CAMINO HOSPITAL DISTRICT DRAFT REPORT

Possible Action:

- a. Consider the Draft Report for the Audit and Service Review of the El Camino Hospital District.
- b. Accept public comments.

No final action on the Report will be taken at the meeting.

ITEMS FOR ACTION / DISCUSSION

8. SPECIAL DISTRICTS SERVICE REVIEW: DRAFT REQUEST FOR PROPOSALS

Possible Action:

- a. Authorize staff to issue a Request for Proposals (RFP) for a professional service firm to prepare a service review of special districts in Santa Clara County.
- b. Delegate authority to the LAFCO Executive Officer to enter into an agreement with the most qualified consultant in an amount not to exceed \$70,000 and to execute any necessary amendments subject to LAFCO Counsel's review and approval.
- c. Appoint a LAFCO Commissioner to serve on the Special Districts Service Review Technical Advisory Committee.

9. DRAFT REQUEST FOR PROPOSALS: SPECIAL STUDY ON IMPACTS OF THE POTENTIAL DISSOLUTION OF THE SARATOGA FIRE PROTECTION DISTRICT AND ANNEXATION OF ITS TERRITORY TO THE SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT

Possible Action: In order to inform LAFCO's decision on whether or not to initiate dissolution of the Saratoga Fire Protection District (SFD) and annex its territory to the Santa Clara County Central Fire Protection District (CCFD), authorize staff to issue the Request for Proposals for a professional service firm to prepare a special study on the impacts of the potential dissolution/annexation.

10. SPECIAL DISTRICTS REPRESENTATION ON LAFCO

Possible Action: Accept report and provide direction as necessary.

11. LEGISLATIVE REPORT

Possible Action: Accept report and consider staff recommendation.

12. EXECUTIVE OFFICER'S REPORT

12.1 LAFCO STRATEGIC WORKSHOP

Possible Action: Accept report and provide direction as necessary.

12.2 LAFCO COMMISSIONERS TERMS AND APPOINTMENTS

For Information Only.

12.3 REPORT ON THE 2012 CALAFCO STAFF WORKSHOP

For Information Only.

12.4 UPDATE ON LAFCO WEBSITE REDESIGN

For Information Only.

12.5 CALAFCO ANNUAL CONFERENCE IN MONTEREY ON OCTOBER 3-5, 2012

Possible Action: Authorize commissioners and staff to attend the CALAFCO Annual Conference and authorize travel expenses funded by LAFCO budget.

13. PENDING APPLICATIONS / UPCOMING PROJECTS

14. COMMISSIONER REPORTS

15. NEWSPAPER ARTICLES / NEWSLETTERS

16. WRITTEN CORRESPONDENCE

17. ADJOURN

Adjourn to regular LAFCO meeting on Wednesday, August 1, 2012, at 1:15 PM in the Isaac Newton Senter Auditorium, 70 West Hedding Street, San Jose.

Any disclosable public records related to an open session item on the agenda and distributed to all or a majority of the Commission less than 72 hours prior to that meeting are available for public inspection at the LAFCO Office at the address listed at the bottom of the first page of the agenda during normal business hours. In compliance with the Americans with Disabilities Act, those requiring accommodation for this meeting should notify the LAFCO Clerk 24 hours prior to the meeting at (408) 299-6415, or at TDD (408) 993-8272, indicating that the message is for the LAFCO Clerk.

**LOCAL AGENCY FORMATION COMMISSION OF
SANTA CLARA COUNTY
MINUTES
WEDNESDAY, APRIL 4, 2012**

CALL TO ORDER

Chairperson Pete Constant called the meeting to order at 1:15 p.m.

1. ROLL CALL

The following Commissioners were present:

- **Chairperson Pete Constant**
- **Commissioner Margaret Abe-Koga**
- **Commissioner Mike Wasserman**
- **Commissioner Liz Kniss** (*arrived at 1:24 p.m.*)
- **Alternate Commissioner Terry Trumbull**

The following were absent:

- **Commissioner Susan Vicklund-Wilson**
- **Alternate Commissioner Sam Liccardo**
- **Alternate Commissioner Al Pinheiro**
- **Alternate Commissioner George Shirakawa**

The following staff members were present:

- **LAFCO Executive Officer Neelima Palacherla**
- **LAFCO Analyst Dunia Noel**
- **LAFCO Counsel Mala Subramanian**

2. PUBLIC COMMENT

There was no public comment.

Doug Muirhead, a resident of Morgan Hill, thanked staff for the presentation on LAFCO at the Changemaker Training in December 2012.

3. APPROVE MINUTES OF FEBRUARY 8, 2012 LAFCO MEETING

The Commission approved the minutes of February 8, 2012 LAFCO meeting.

Motion: Terry Trumbull

Second: Mike Wasserman

MOTION PASSED

AYES: Pete Constant, Margaret Abe-Koga, Terry Trumbull, Mike Wasserman

NOES: None

ABSTAIN: None

ABSENT: Liz Kniss

4. **CAMPBELL URBAN SERVICE AREA (USA) / SPHERE OF INFLUENCE (SOI)
AMENDMENT 2012 AND CENTRAL PARK REORGANIZATION**

Neelima Palacherla, LAFCO Executive Officer, presented the staff report. **Chairperson Constant** directed attention to correspondence expressing support for the application.

This being the time and place for the public hearing, **Chairperson Constant** declared the public hearing open.

Mike Krisman, President, Campbell Village Neighborhood Association, thanked the Commission, LAFCO staff, and the cities of Campbell and San Jose for working together towards the annexation of Cambrian #36 to Campbell. Mr. Krisman stated that residents of Cambrian #36 and Central Park neighborhood overwhelmingly support the annexation to Campbell.

Paul Kermoyan, Planning Director, City of Campbell, indicated that he is available to answer any questions.

Chairperson Constant determined that there are no members of the public who wished to speak on the item and ordered the public hearing closed. He commended the Campbell Village Neighborhood Association for working hard towards this annexation goal. **Commissioner Kniss** expressed support for the proposal.

The Commission adopted **Resolution No. 2012-02** approving the USA and SOI amendment for the City of Campbell and Reorganization of Central Park Neighborhood, which includes detachment of Central Park from San Jose and annexation to Campbell. Said Resolution, by reference hereto, is made part of these minutes.

Motion: Mike Wasserman

Second: Liz Kniss

MOTION PASSED

AYES: Pete Constant, Liz Kniss, Margaret Abe-Koga, Terry Trumbull, Mike Wasserman

NOES: None

ABSTAIN: None

ABSENT: None

5. **PROPOSED LAFCO BUDGET FOR FISCAL YEAR 2013**

Ms. Palacherla presented the staff report.

This being the time and place for the public hearing, **Chairperson Constant** declared the public hearing open.

Commissioner Wasserman noted that the proposed FY2013 budget is lower than the previous year's budget. **Commissioner Kniss** expressed support for the proposed budget.

The Chairperson determined that there are no members of the public who wished to speak on the item and ordered the public hearing closed.

The Commission adopted the Proposed LAFCO Budget for Fiscal Year 2012-2013; found that the Proposed LAFCO Budget for Fiscal Year 2013 is expected to be adequate to allow the Commission to fulfill its statutory responsibilities; and authorized staff to

transmit the Proposed LAFCO Budget including the estimated agency cost as well as final budget public hearing notice to each of the cities, the County and the Cities Association.

Motion: Liz Kniss

Second: Margaret Abe-Koga

MOTION PASSED

AYES: Pete Constant, Liz Kniss, Margaret Abe-Koga, Terry Trumbull, Mike Wasserman

NOES: None

ABSTAIN: None

ABSENT: None

6. PROPOSED WORK PLAN FOR REMAINING SERVICE REVIEWS

Ms. Palacherla presented the staff report.

In response to an inquiry by **Commissioner Wasserman**, Mala Subramanian, LAFCO Counsel, stated that she would report back to the Commission on whether or not LAFCO commissioners who concurrently serve on governing bodies of special districts would need to recuse themselves on LAFCO service review actions involving those special districts. **Chairperson Constant** stated that it is a service to the community to provide information on what the special districts are doing and the service reviews are a useful tool in that.

The Commission approved the proposed Service Review Work Plan for the remaining special districts to be conducted in two phases followed by the Cities Service Review; and directed staff to prepare a draft RFP for consultants to conduct the Special Districts Service Review and distribute to affected agencies for their review and comment.

Motion: Margaret Abe-Koga

Second: Terry Trumbull

MOTION PASSED

AYES: Pete Constant, Liz Kniss, Margaret Abe-Koga, Terry Trumbull, Mike Wasserman

NOES: None

ABSTAIN: None

ABSENT: None

7. AGENCY RESPONSES TO RECOMMENDATIONS IN THE 2011 COUNTYWIDE WATER SERVICE REVIEW REPORT

Ms. Palacherla presented the staff report. The Commission accepted the report.

Motion: Mike Wasserman

Second: Liz Kniss

MOTION PASSED

AYES: Pete Constant, Liz Kniss, Margaret Abe-Koga, Terry Trumbull, Mike Wasserman

NOES: None

ABSTAIN: None

ABSENT: None

8. LAFCO WEBSITE REDESIGN: DRAFT REQUEST FOR PROPOSALS

Ms. Palacherla presented the staff report.

In response to an inquiry by **Chairperson Constant**, Ms. Palacherla stated that the redesigned website would include additional content on special districts and new features like the search function. In response to a follow-up question by **Chairperson**

Constant, Ms. Palacherla advised that LAFCO's website redesign would not integrate with the electronic data management system at this time. **Chairperson Constant** stated that he would prefer for more information to be made available on the website.

Commissioner Wasserman noted that the proposed cost is reasonable. In response to the inquiries by **Commissioner Wasserman**, Ms. Palacherla reported that the project is funded in the FY2012 budget and the Commission roster provides only the public contact information of LAFCO members. In response to another inquiry by **Commissioner Wasserman**, Ms. Palacherla advised that the site would record the number of site visits and record which pages are more frequently accessed.

Commissioner Wasserman suggested that visitors to the website maybe invited to complete a short survey. **Chairperson Constant** stated that it is important that the site analytics do not violate the privacy rights of visitors. In response to an inquiry by **Commissioner Abe-Koga**, Ms. Palacherla informed that the Finance Committee has directed staff to do further research on converting to paperless agenda packets.

Commissioner Abe-Koga stated that the City of Mountain View and the Valley Transportation Authority currently distribute agenda packets to mobile devices.

The Commission authorized staff to issue a Request for Proposals (RFP) for a professional service firm to redesign the LAFCO website; and delegated authority to the LAFCO Executive Officer to enter into an agreement with the most qualified consultant in an amount not to exceed \$17,000 and to execute any necessary amendments subject to LAFCO Counsel's review and approval.

Motion: Terry Trumbull

Second: Liz Kniss

MOTION PASSED

AYES: Pete Constant, Liz Kniss, Margaret Abe-Koga, Terry Trumbull, Mike Wasserman

NOES: None

ABSTAIN: None

ABSENT: None

9. UPDATE ON LAFCO'S EFFORTS TO PROMOTE TRANSPARENCY AND ACCOUNTABILITY AMONG SPECIAL DISTRICTS

Chairperson Constant announced that the Finance Committee discussed the importance of transparency and public accountability as part of LAFCO's oversight role over special districts.

Ms. Palacherla presented the staff report.

Chairperson Constant stated that LAFCO has an obligation to make information on special districts easily accessible and added that LAFCO must encourage special districts to include this information on their websites. **Commissioner Wasserman** thanked staff for adding information about availability of special districts' financial reports and policies on the LAFCO website. He added that special districts are entrusted with tax dollars and must be publicly accountable and transparent by making their policies and audit reports available on their websites.

The Commission accepted the report.

Motion: Mike Wasserman

Second: Liz Kniss

MOTION PASSED

AYES: Pete Constant, Liz Kniss, Margaret Abe-Koga, Terry Trumbull, Mike Wasserman

NOES: None

ABSTAIN: None

ABSENT: None

10. EXECUTIVE OFFICER'S REPORT

10.1 UPDATE ON 2012 AUDIT AND SERVICE REVIEW OF THE EL CAMINO HOSPITAL DISTRICT

Ms. Palacherla presented the staff report.

Monique Kane, Executive Director, Community Health Awareness Council, stated that her organization is providing mental health counseling to public schools in Mountain View, Los Altos and Los Altos Hills. She added that the program was expanded to include Sunnyvale with funding from the El Camino Hospital. She then provided details on the services that her organization provides.

Maureen Wadiak, Director, Community Services Agency, provided information on the intensive senior case management program in Mountain View and Los Altos funded by El Camino Hospital. She described the different services provided such as chronic disease management, fall prevention and hospital-to-home care transition in order to shorten hospital stay, minimize hospital readmission and to save on healthcare cost.

Commissioner Kniss stated that their work was commendable. In response to an inquiry by **Commissioner Kniss**, Ms. Wadiak informed that she and Ms. Kane have been asked to speak on the impact of funding from the El Camino Program to the community.

The Commission accepted the report.

Motion: Liz Kniss

Second: Margaret Abe-Koga

MOTION PASSED

AYES: Pete Constant, Liz Kniss, Margaret Abe-Koga, Terry Trumbull, Mike Wasserman

NOES: None

ABSTAIN: None

ABSENT: None

10.2 LAFCO STRATEGIC PLANNING WORKSHOP

Ms. Palacherla presented the staff report and requested Commissioners to provide input on topics for the workshop.

Commissioner Kniss informed that she has a schedule conflict and not would be able to attend.

The Commission accepted the report.

Motion: Liz Kniss

Second: Margaret Abe-Koga

MOTION PASSED

AYES: Pete Constant, Liz Kniss, Margaret Abe-Koga, Terry Trumbull, Mike Wasserman

NOES: None

ABSTAIN: None

ABSENT: None

10.3 SPECIAL DISTRICTS REPRESENTATION ON LAFCO

Ms. Palacherla presented the staff report.

In response to an inquiry by **Commissioner Kniss**, Ms. Palacherla advised that the CKH Act allows two representatives from special districts and specifies the process for their selection and appointment. **Commissioner Wasserman** stated that it is understandable for the Santa Clara Valley Water District to be represented on LAFCO because it would provide over 70 percent of special districts share of LAFCO cost; however, he questioned the appointment of small special districts. **Commissioner Kniss** expressed agreement and stated that this mode of representation lacks a balance. **Chairperson Constant** informed that Santa Clara LAFCO is one of the few commissions in the State without special districts representation. He requested staff to report back with information on CKH Act provisions relating to special districts representation and the manner of their selection. **Chairperson Constant** reiterated the importance of the CKH Act provision requiring LAFCO members to represent the interest of LAFCO as a whole and not that of their individual appointing authorities.

The Commission accepted the report and directed staff to provide a report on CKH Act provisions on special districts representation and the process for selection.

Motion: Liz Kniss

Second: Margaret Abe-Koga

MOTION PASSED

AYES: Pete Constant, Liz Kniss, Margaret Abe-Koga, Terry Trumbull, Mike Wasserman

NOES: None

ABSTAIN: None

ABSENT: None

11. PENDING APPLICATIONS / UPCOMING PROJECTS

There were none.

12. COMMISSIONER REPORTS

There were none.

13. NEWSPAPER ARTICLES / NEWSLETTERS

CALAFCO's The Sphere - March 2012.

14. WRITTEN CORRESPONDENCE

There were none.

15. ADJOURN

The meeting was adjourned at 2:11 p.m. to the next meeting on Wednesday, May 30, 2012 in Isaac Newton Senter Auditorium, County Government Center, 70 West Hedding Street, San Jose, California.

Approved:

Pete Constant, Chairperson
Local Agency Formation Commission of Santa Clara County

By: _____
Emmanuel Abello, LAFCO Clerk

LAFCO MEETING: May 30, 2012

TO: LAFCO

FROM: Neelima Palacherla, Executive Officer
Dunia Noel, LAFCO Analyst

**SUBJECT: WEST VALLEY SANITATION DISTRICT SPHERE OF INFLUENCE
AMENDMENT 2012
WEST VALLEY SANITATION DISTRICT 2012-01 (Central Park)
COUNTY LIBRARY SERVICES AREA 2012-01 (Central Park)**

STAFF RECOMMENDATION

1. CEQA Action

- a. As a Responsible Agency under CEQA, determine that the proposal is exempt from the provisions of CEQA pursuant to CEQA Guidelines §15061(b)(3) because it can be seen with certainty that there is no possibility that the proposal has the potential for causing a significant adverse effect on the environment.

2. Proposal

- a. Approve the sphere of influence (SOI) amendment for the West Valley Sanitation District (WVSD) to include the Central Park neighborhood and the Cambrian #36 island as depicted in Attachment A. The SOI boundary shall revert to the current location if the annexation of the Central Park neighborhood to the City of Campbell does not occur by December 31, 2012:
- b. Approve annexation of the Central Park neighborhood to the West Valley Sanitation District as depicted in Exhibit A and Exhibit B of Attachment B, conditioned on annexation of the Central Park neighborhood to the City of Campbell.
- c. Approve annexation of the Central Park neighborhood to the Santa Clara County Library Services Area as depicted in Exhibit A and Exhibit B of Attachment C, conditioned on annexation of the Central Park neighborhood to the City of Campbell.
- d. Find that the annexation proposal area is inhabited, has less than 100% consent of the affected landowners, and direct the LAFCO Executive Officer to conduct protest proceedings in accordance with LAFCO Policies and the Cortese Knox Hertzberg Local Government Reorganization Act. The Commission, on June 13, 2001, delegated all responsibilities of holding protest proceedings to the LAFCO Executive Officer, as authorized under Government Code §57000.
- e. The Certificate of Completion for the two annexations shall be recorded along with the Certificate of Completion for the Central Park Reorganization in order

to ensure that the effective date of the annexations shall be the same as the effective date of annexation of the Central Park neighborhood to the City of Campbell.

PROJECT DESCRIPTION

The City of Campbell is requesting annexation of the Central Park neighborhood to the West Valley Sanitation District in order for the District to provide sewer service to the neighborhood upon detachment of the neighborhood from San Jose and annexation to Campbell. The proposal also includes a sphere of influence amendment for the West Valley Sanitation District to include the Central Park neighborhood and the Cambrian #36 island within the District's sphere of influence. The City of Campbell is also requesting annexation of the Central Park neighborhood to the Santa Clara County Library Service Area in order for the area to receive library services from the County Library system.

BACKGROUND

At its April 4 meeting, LAFCO conditionally approved detachment of the Central Park neighborhood from San Jose and its concurrent annexation to the City of Campbell in order for the City of Campbell to annex the Cambrian #36 unincorporated island. Please see staff report for Agenda Item #4 from the April 4th LAFCO meeting for further details of the proposal mentioned above. One of the conditions of approval was that the City of Campbell would seek LAFCO approval for annexation of the Central Park neighborhood to the West Valley Sanitation District and to the Santa Clara County Library Services Area.

The Central Park neighborhood currently receives sewer service from the City of San Jose. LAFCO approved the detachment of the Central Park neighborhood from San Jose and its annexation to Campbell. West Valley Sanitation District provides sewer service to properties within the City of Campbell. The Central Park neighborhood is currently not within the West Valley Sanitation District boundaries or its SOI.

The Central Park neighborhood currently receives library service from the City of San Jose which is not within the County Library Service Area. The City of Campbell receives library service from the Santa Clara County Library and is within the County Library Service Area boundary. Although the County Library Service Area currently does not serve any function since it has not been levying assessments since 2005 when its benefit assessment expired, the County Controller's Office uses the County Library Service Area to define the boundaries of the County Library's property taxing authority. The Central Park neighborhood is currently not within the County Library Service Area.

ENVIRONMENTAL ASSESSMENT

The City of Campbell is the Lead Agency under CEQA for the proposed SOI amendment and annexation proposals. Per Resolution No. 11382, adopted by the Campbell City Council on April 3, 2012, the City determined that the proposed project

is exempt under CEQA Guidelines Section 15305 which applies to minor alterations in land use limitations and Section 15319 which allows annexations to a city of areas containing existing public and private structures developed to allowed densities and currently served with utility services.

LAFCO is a Responsible Agency under CEQA for the SOI amendment proposal and for the annexation proposals. LAFCO has determined that LAFCO's approval of the proposal, which is in part based on the City's statements in its application that no new development is proposed as part of this project and that there would be no significant change in current uses, would be exempt from the provisions of CEQA pursuant to State CEQA Guidelines Section 15061(b)(3) because it can be seen with certainty that there is no possibility that the proposed project has the potential for causing a significant effect on the environment.

CONSISTENCY WITH LAFCO POLICIES

Conversion of / Impacts to Prime Agricultural Lands and Open Space

The proposal area does not contain open space or prime agricultural lands as defined in the Cortese Knox Hertzberg Act. Therefore the SOI amendment and the annexation proposals will not impact agricultural or open space land.

Logical, Orderly and Efficient Boundaries

The County Surveyor has determined that the boundaries of the annexation proposals are definite and certain and in compliance with LAFCO's road annexation policies. The proposal does not split lines of assessment or ownership. The proposal does not create islands or areas in which it would be difficult to provide municipal services. The annexations will facilitate the annexation of an unincorporated island - Cambrian #36 to the City of Campbell.

Ability of the District to Provide Sewer Services

The WVSD supports annexation of the Central Park neighborhood and has indicated that it is willing and able to provide service to the Central Park neighborhood.

SOI DETERMINATIONS

Pursuant to Government Code Section 56425, in amending a SOI for an agency, LAFCO is required to make written findings regarding the following:

1. Present and planned land uses in the area, including agricultural and open space lands.

Present land uses in the area include predominantly single family residential uses with some commercial uses. The area is fully developed with urban uses and services and there are no agricultural or open space lands within the proposal area.

2. Present and probable need for public services and facilities in the area

The area currently receives sewer service and library services from the City of San Jose. There is no expected change in the need for public services or facilities in the area.

3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide

The present capacity of sewer and library facilities appears to be adequate for the area. No new facilities are required to serve this area upon annexation to the West Valley Sanitation District and the County Library Service Area.

4. Existence of any social or economic communities of interest in the area, if LAFCO determines they are relevant to the agency

The City of Campbell receives sewer service from the West Valley Sanitation District.

CONCLUSION

In order to ensure logical boundaries and a clean transition of services, staff recommends conditional approval of the SOI amendment and the annexation proposals. Annexation to the West Valley Sanitation District and the County Library Service Area will ensure that the Central Park neighborhood, upon annexation to the City of Campbell, receives services similar to the rest of the City.

NEXT STEPS

LAFCO Protest Proceeding for Annexation of Central Park Neighborhood to the West Valley Sanitation District and to the County Library Service Area

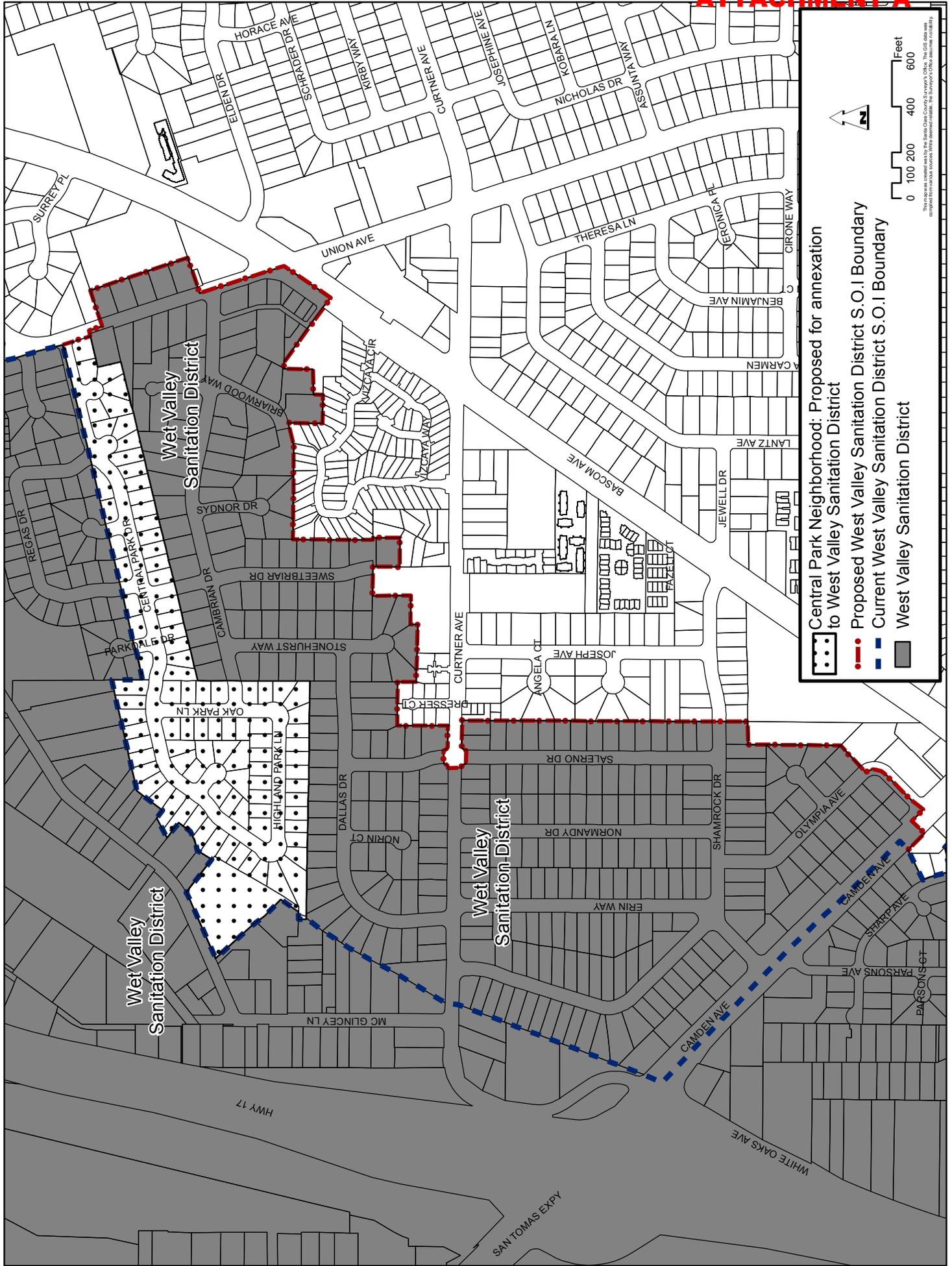
Since this proposal does not have consent from all property owners in the annexation area, state law requires that following LAFCO approval of such proposals, LAFCO must hold protest proceedings pursuant to the provisions in the CKH Act. A date will be set for the protest proceedings and a public notice will be sent out in accordance with the law. See Attachment C for information on protest proceedings. The LAFCO Executive Officer will conduct the protest proceedings.

ATTACHMENTS

- | | |
|---------------|---|
| Attachment A: | Map of the West Valley Sanitation District SOI Amendment |
| Attachment B: | Legal description (Exhibit A) and Map (Exhibit B) of proposed annexation to the West Valley Sanitation District |
| Attachment C: | Legal description (Exhibit A) and Map (Exhibit B) of proposed annexation to the County Library Service Area |
| Attachment D: | Overview of LAFCO Protest Proceedings |

West Valley Sanitation District S.O.I. Amendment 2012

**ITEM # 5
ATTACHMENT A**



Central Park Neighborhood: Proposed for annexation to West Valley Sanitation District

Proposed West Valley Sanitation District S.O.I. Boundary

Current West Valley Sanitation District S.O.I. Boundary

West Valley Sanitation District

0 100 200 400 600 Feet

This map was prepared by the State Office of Planning & Information Systems, State of California, Department of Public Works, and the State Office of Planning & Information Systems, State of California, Department of Public Works.

**SANTA CLARA COUNTY LIBRARY SERVICE AREA 2012-01
(CENTRAL PARK)
GEOGRAPHIC DESCRIPTION**

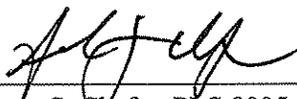
All that certain Real Property, situate in the South 1/2 of Section 35, Township 7 South, Range 1 West, Mount Diablo Base and Meridian, being all of Tract No. 3401, recorded April 3, 1963 in Book 159 of Maps, at Page 14; all of the lands described in the deed to the Santa Clara Valley Water Conservation District recorded August 8, 1958 in Book 4144 of Official Records, Page 362; and all of Tract No. 2663, recorded August 3, 1961 in Book 136 of Maps, at Pages 2 and 3, Records of Santa Clara County, California.

Beginning at the southeast corner of said Tract No. 2663, said corner being on the existing boundary line of the Santa Clara County Library Service Area, distant thereon South 00°18'47" East a distance of 330.06 feet from the intersection of the east line of said Tract No. 2663 with the centerline of Cambrian Drive; thence

- (1) North 89°57'05" West, a distance of 1,056.51 feet to the east line of Campbell Annexation 1958-16 to the City of Campbell; thence along said line
- (2) North 00°10'41" West, a distance of 35.56 feet; thence
- (3) South 82°04'53" East, a distance of 25.66 feet to the west line of the lands described in the deed to the Santa Clara Valley Water Conservation District recorded August 8, 1958 in Book 4144 of Official Records, Page 362; thence
- (4) North 33°53'58" East, a distance of 98.31 feet; thence
- (5) North 45°36'02" West, a distance of 100.15 feet; thence
- (6) North 38°20'02" West, a distance of 76.70 feet; thence
- (7) North 42°27'02" West, a distance of 203.85 feet to the east line of East McGlincey Lane and the south line of Cambell Annexation 1959-14A to the City of Campbell; thence along said line
- (8) North 65°52'00" East, a distance of 340.14 feet; thence
- (9) South 52°51'02" East, a distance of 189.07 feet to the west line of said Tract No. 2663; thence
- (10) North 29°28'00" East, a distance of 69.75 feet; thence
- (11) North 70°26'00" East, a distance of 50.85 feet; thence
- (12) North 55°13'00" East, a distance of 35.06 feet; thence
- (13) North 39°54'00" East, a distance of 62.41 feet; thence
- (14) North 52°51'00" West, a distance of 86.00 feet; thence
- (15) North 63°39'40" East, a distance of 94.99 feet; thence
- (16) South 52°51'00" East, a distance of 41.29 feet; thence
- (17) North 35°36'54" East, a distance of 140.40 feet; thence

- (18) North 76°41'58" East, a distance of 498.34 feet to the west line of McGlincey Annexation 1965-4 to the City of Campbell; thence along said line
- (19) South 00°18'47" East, a distance of 135.89 feet to the north line of said Tract No. 3401 and the south line of said McGlincey Annexation 1965-4; thence along said line and the south line of McGlincey Neighborhood Annexation 79-2 to the City of Campbell
- (20) North 75°53'09" East, a distance of 1,507.14 feet to the northwesterly prolongation of the easterly line of Lot 25 of said Tract No. 3401; thence along said line
- (21) South 18°48'35" East, a distance of 126.47 feet to the south line of Leigh No. 4 Annexation to the City of San Jose; thence along said line
- (22) South 76°21'09" West, a distance of 142.98 feet; thence
- (23) South 13°38'51" East, a distance of 106.36 feet; thence
- (24) South 75°52'47" West, a distance of 1,430.49 feet to the east line of said Tract No. 2663; thence
- (25) South 00°18'47" East, a distance of 489.49 feet to the **Point of Beginning**, containing an area of **24.29 acres**, more or less.

For assessment purposes only. This description of land is not a legal property description as defined in the Subdivision Map Act and may not be used as the basis for an offer for sale of the land described.


Andrew S. Chafer, PLS 8005

4/25/12
Date



Date: April 25, 2012

DESCRIPTION

24.29 ACRES, SITUATE IN THE SOUTH 1/2 OF SECTION 35, TOWNSHIP 7 SOUTH, RANGE 1 WEST, MOUNT DIABLO BASE AND MERIDIAN, BEING ALL OF TRACT NO. 3401, RECORDED APRIL 3, 1963 IN BOOK 159 OF MAPS, AT PAGE 14; ALL OF THE LANDS DESCRIBED IN THE DEED TO THE SANTA CLARA VALLEY WATER CONSERVATION DISTRICT RECORDED AUGUST 8, 1958 IN BOOK 4144 OF OFFICIAL RECORDS, PAGE 362; AND ALL OF TRACT NO. 2663, RECORDED AUGUST 3, 1961 IN BOOK 136 OF MAPS, AT PAGES 2 AND 3, RECORDS OF SANTA CLARA COUNTY, CALIFORNIA.

DISCLAIMER

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SURVEYOR'S STATEMENT

PREPARED BY OR UNDER THE DIRECTION OF



AS/td
 ANDREW S. CHAVER, PLS 8005
 DATE 4/25/12

LEGEND

- POB POINT OF BEGINNING
- EXISTING CITY BOUNDARY/ANNEXATION LINE
- PARCEL LINE
- PROPOSED ANNEXATION LINE
- ① COURSE NUMBER
- (R1) TRACT NO. 2663, 136-M-3
- (R2) TRACT NO. 3401, 159-M-14
- (R3) GRANT DEED, 4144-OR-362

SANTA CLARA COUNTY
 LIBRARY SERVICE AREA 2012-01
 (CENTRAL PARK)

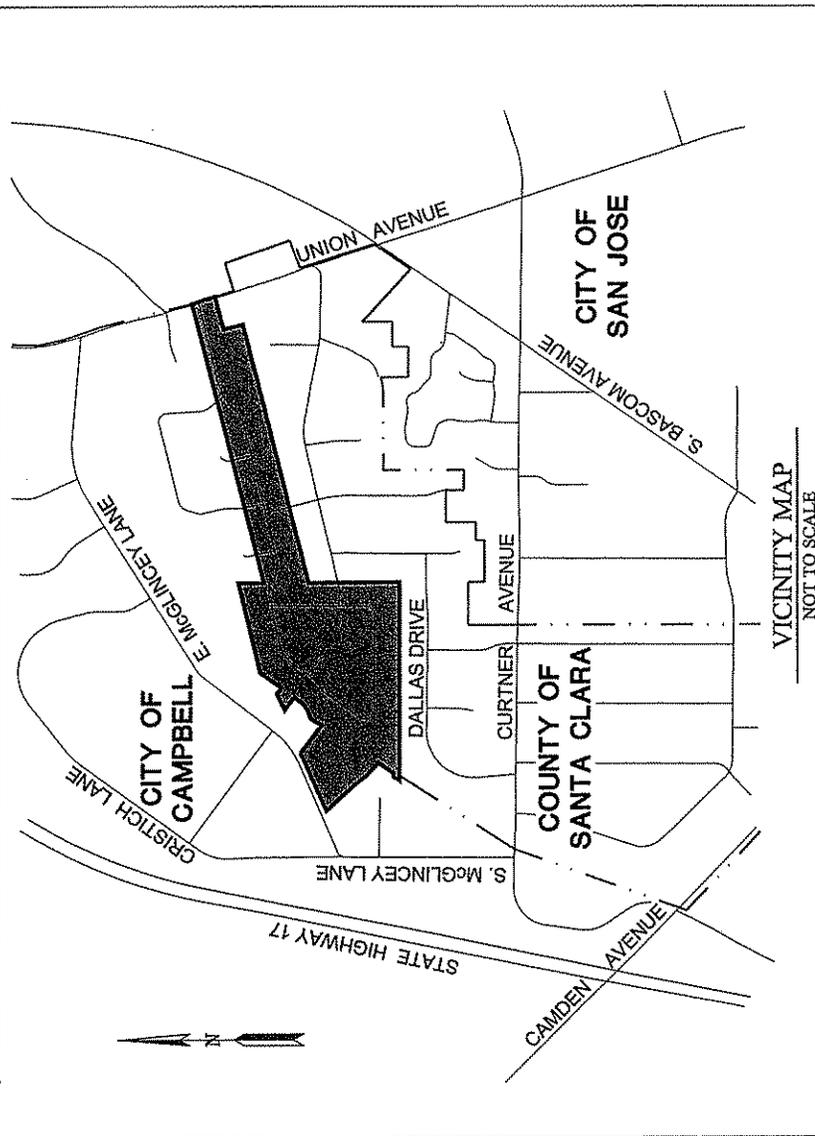
DATE: APRIL 25, 2012

Prepared By:

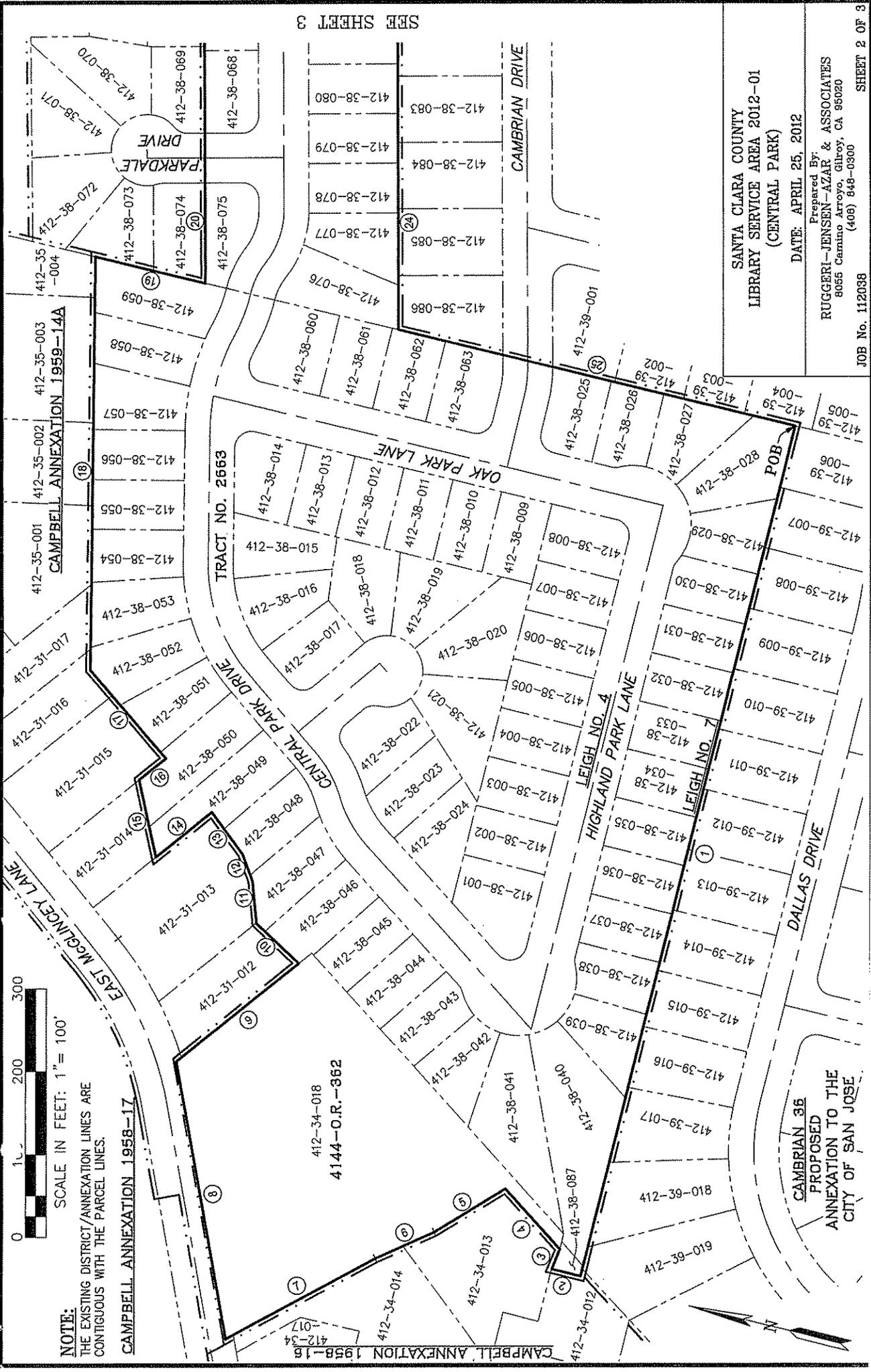
RUGGERI-JENSEN-AZAR & ASSOCIATES
 8055 Camino Arroyo, Gilroy, CA 95020
 (408) 848-0300

JOB No. 112038

SHEET 1 OF 3



COURSE	BEARING	DISTANCE	RECORD REFERENCE	COURSE	BEARING	DISTANCE	RECORD REFERENCE
1	N89°57'05"W	1056.51'	(R1)	14	N52°51'00"W	86.00'	(R1)
2	N00°10'41"W	35.56'	(R1)	15	N63°39'40"E	94.99'	(R1)
3	S82°04'53"E	25.66'	(R1)	16	S52°51'00"E	41.29'	(R1)
4	N33°53'58"E	98.31'	(N33°54'E)(R3)	17	N35°36'54"E	140.40'	(R1)
5	N45°36'02"W	100.15'	(N45°36'W)(R3)	18	N76°41'58"E	498.34'	(R1)
6	N38°20'02"W	76.70'	(N38°20'W)(R3)	19	S00°18'47"E	135.89'	(R1)
7	N42°27'02"W	203.85'	(N42°27'W 203.87')(R3)	20	N75°53'09"E	1507.14'	(N75°32'44"E)(R2)
8	N65°52'00"E	340.14'	(N65°52'W 340.00')(R3)	21	S18°48'35"E	126.47'	(S19°09'00'E)(R2)
9	S52°51'02"E	189.07'	(S52°51'E)(R3)	22	S76°21'09"W	142.98'	(S76°00'44"W)(R2)
10	N29°28'00"E	69.75'	(R1)	23	S13°38'51"E	106.36'	(S13°59'16"E)(R2)
11	N70°26'00"E	50.85'	(R1)	24	S75°52'47"W	1430.49'	(S75°32'22"W)(R2)
12	N55°13'00"E	35.06'	(R1)	25	S00°18'47"E	489.49'	(R1)
13	N39°54'00"E	62.41'	(R1)				



NOTE:
 THE EXISTING DISTRICT/ANNEXATION LINES ARE
 CONTIGUOUS WITH THE PARCEL LINES.



CAMPBELL ANNEXATION 1958-17

CAMPBELL ANNEXATION 1959-14A

CAMPBELL ANNEXATION 1958-16

SEE SHEET 3

SANTA CLARA COUNTY
 LIBRARY SERVICE AREA 2012-01
 (CENTRAL PARK)

DATE: APRIL 25, 2012

Prepared By:
 RUGGERI-JENSEN-AZAR & ASSOCIATES
 8055 Camino Arroyo, Gilroy, CA 95020
 (408) 848-0300

JOB No. 112038

SHEET 2 OF 3

CAMBRIAN 36
 PROPOSED
 ANNEXATION TO THE
 CITY OF SAN JOSE

LEIGH NO. 22
ANNEXATION
TO THE CITY OF
SAN JOSE

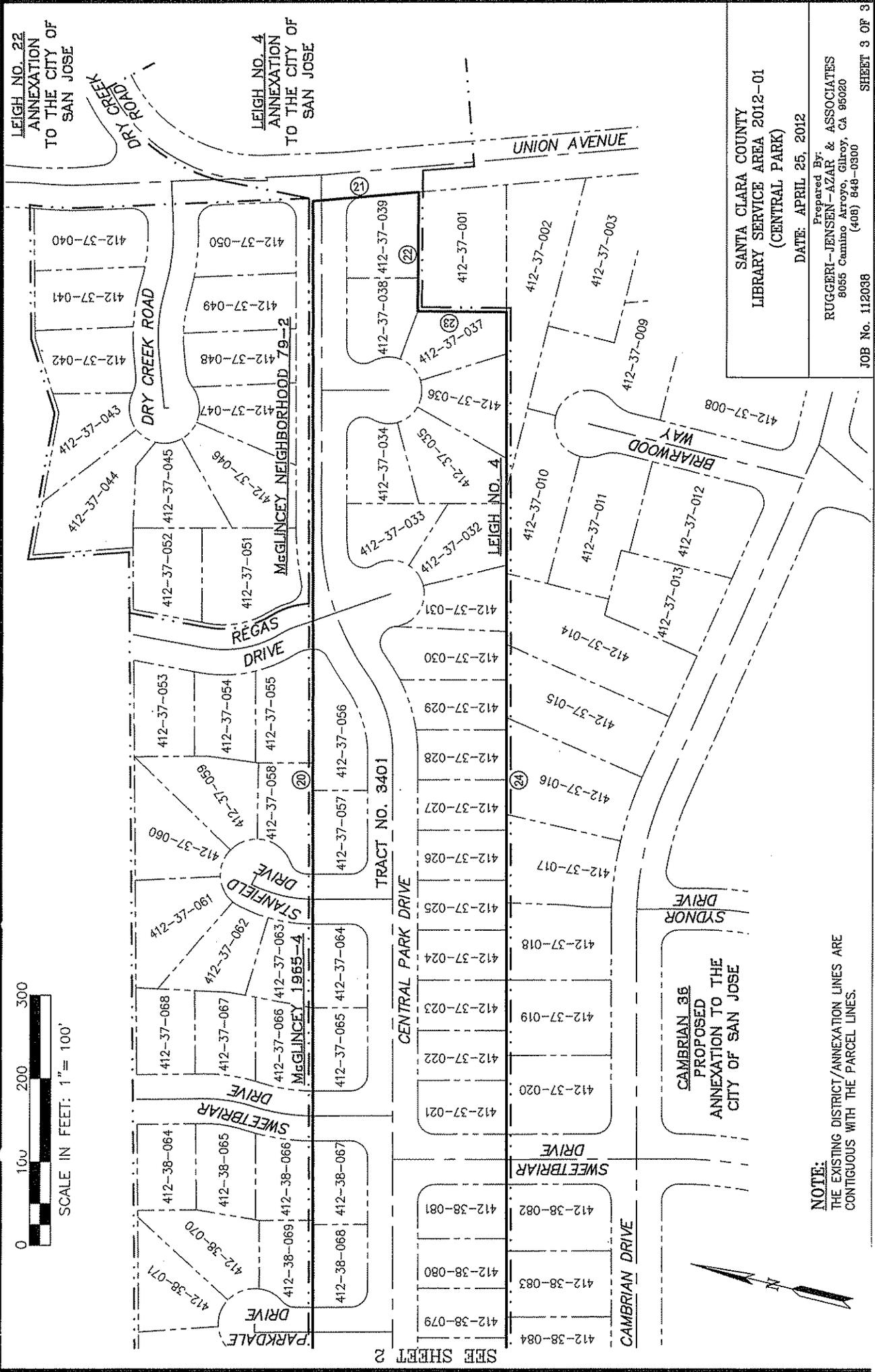
LEIGH NO. 4
ANNEXATION
TO THE CITY OF
SAN JOSE

SANTA CLARA COUNTY
LIBRARY SERVICE AREA 2012-01
(CENTRAL PARK)

DATE: APRIL 25, 2012

Prepared By:
RUGGERI-JENSEN-AZAR & ASSOCIATES
8055 Camino Arroyo, Gilroy, CA 95020
(408) 848-0300

JOB No. 112038 SHEET 3 OF 3



SEE SHEET 2

**WEST VALLEY SANITATION DISTRICT 2012-01
(CENTRAL PARK)
GEOGRAPHIC DESCRIPTION**

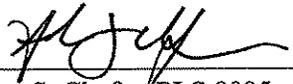
All that certain Real Property, situate in the South 1/2 of Section 35, Township 7 South, Range 1 West, Mount Diablo Base and Meridian, being all of Tract No. 3401, recorded April 3, 1963 in Book 159 of Maps, at Page 14; all of the lands described in the deed to the Santa Clara Valley Water Conservation District recorded August 8, 1958 in Book 4144 of Official Records, Page 362; and all of Tract No. 2663, recorded August 3, 1961 in Book 136 of Maps, at Pages 2 and 3, Records of Santa Clara County, California.

Beginning at the southeast corner of said Tract No. 2663, said corner being on the existing boundary line of the West Valley Sanitation District, distant thereon South 00°18'47" East a distance of 330.06 feet from the intersection of the east line of said Tract No. 2663 with the centerline of Cambrian Drive; thence

- (1) North 89°57'05" West, a distance of 1,056.51 feet to the east line of Campbell Annexation 1958-16 to the City of Campbell; thence along said line
- (2) North 00°10'41" West, a distance of 35.56 feet; thence
- (3) South 82°04'53" East, a distance of 25.66 feet to the west line of the lands described in the deed to the Santa Clara Valley Water Conservation District recorded August 8, 1958 in Book 4144 of Official Records, Page 362; thence
- (4) North 33°53'58" East, a distance of 98.31 feet; thence
- (5) North 45°36'02" West, a distance of 100.15 feet; thence
- (6) North 38°20'02" West, a distance of 76.70 feet; thence
- (7) North 42°27'02" West, a distance of 203.85 feet to the east line of East McGlincey Lane and the south line of Cambell Annexation 1959-14A to the City of Campbell; thence along said line
- (8) North 65°52'00" East, a distance of 340.14 feet; thence
- (9) South 52°51'02" East, a distance of 189.07 feet to the west line of said Tract No. 2663; thence
- (10) North 29°28'00" East, a distance of 69.75 feet; thence
- (11) North 70°26'00" East, a distance of 50.85 feet; thence
- (12) North 55°13'00" East, a distance of 35.06 feet; thence
- (13) North 39°54'00" East, a distance of 62.41 feet; thence
- (14) North 52°51'00" West, a distance of 86.00 feet; thence
- (15) North 63°39'40" East, a distance of 94.99 feet; thence
- (16) South 52°51'00" East, a distance of 41.29 feet; thence
- (17) North 35°36'54" East, a distance of 140.40 feet; thence

- (18) North 76°41'58" East, a distance of 498.34 feet to the west line of McGlincey Annexation 1965-4 to the City of Campbell; thence along said line
- (19) South 00°18'47" East, a distance of 135.89 feet to the north line of said Tract No. 3401 and the south line of said McGlincey Annexation 1965-4; thence along said line and the south line of McGlincey Neighborhood Annexation 79-2 to the City of Campbell
- (20) North 75°53'09" East, a distance of 1,507.14 feet to the northwesterly prolongation of the easterly line of Lot 25 of said Tract No. 3401; thence along said line
- (21) South 18°48'35" East, a distance of 126.47 feet to the south line of Leigh No. 4 Annexation to the City of San Jose; thence along said line
- (22) South 76°21'09" West, a distance of 142.98 feet; thence
- (23) South 13°38'51" East, a distance of 106.36 feet; thence
- (24) South 75°52'47" West, a distance of 1,430.49 feet to the east line of said Tract No. 2663; thence
- (25) South 00°18'47" East, a distance of 489.49 feet to the **Point of Beginning**, containing an area of **24.29 acres**, more or less.

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Andrew S. Chafer, PLS 8005

4/25/12
Date



Date: April 25, 2012

DESCRIPTION

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SURVEYOR'S STATEMENT

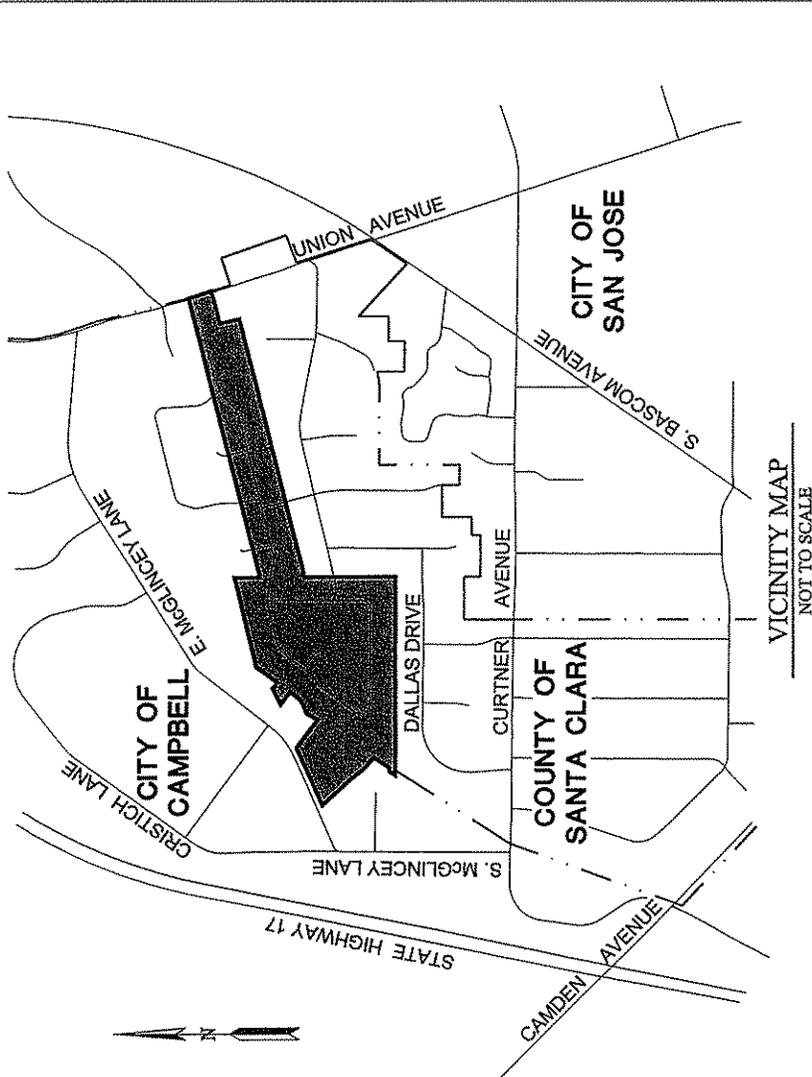
PREPARED BY OR UNDER THE DIRECTION OF



Andrew S. Chaffer
 ANDREW S. CHAFER, PLS 8005
 4/25/12 DATE

LEGEND

- POB POINT OF BEGINNING
- EXISTING CITY BOUNDARY/ANNEXATION LINE
- PARCEL LINE
- PROPOSED ANNEXATION LINE
- ① COURSE NUMBER
- (R1) TRACT NO. 2663, 136-M-3
- (R2) TRACT NO. 3401, 159-M-14
- (R3) GRANT DEED, 4144-OR-362



VICINITY MAP
 NOT TO SCALE

COURSE TABLE

COURSE	BEARING	DISTANCE	RECORD REFERENCE	COURSE	BEARING	DISTANCE	RECORD REFERENCE
1	N89°57'05"W	1056.51'	(R1)	14	N52°51'00"W	86.00'	(R1)
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13	N39°54'00"E	62.41'	(R1)				

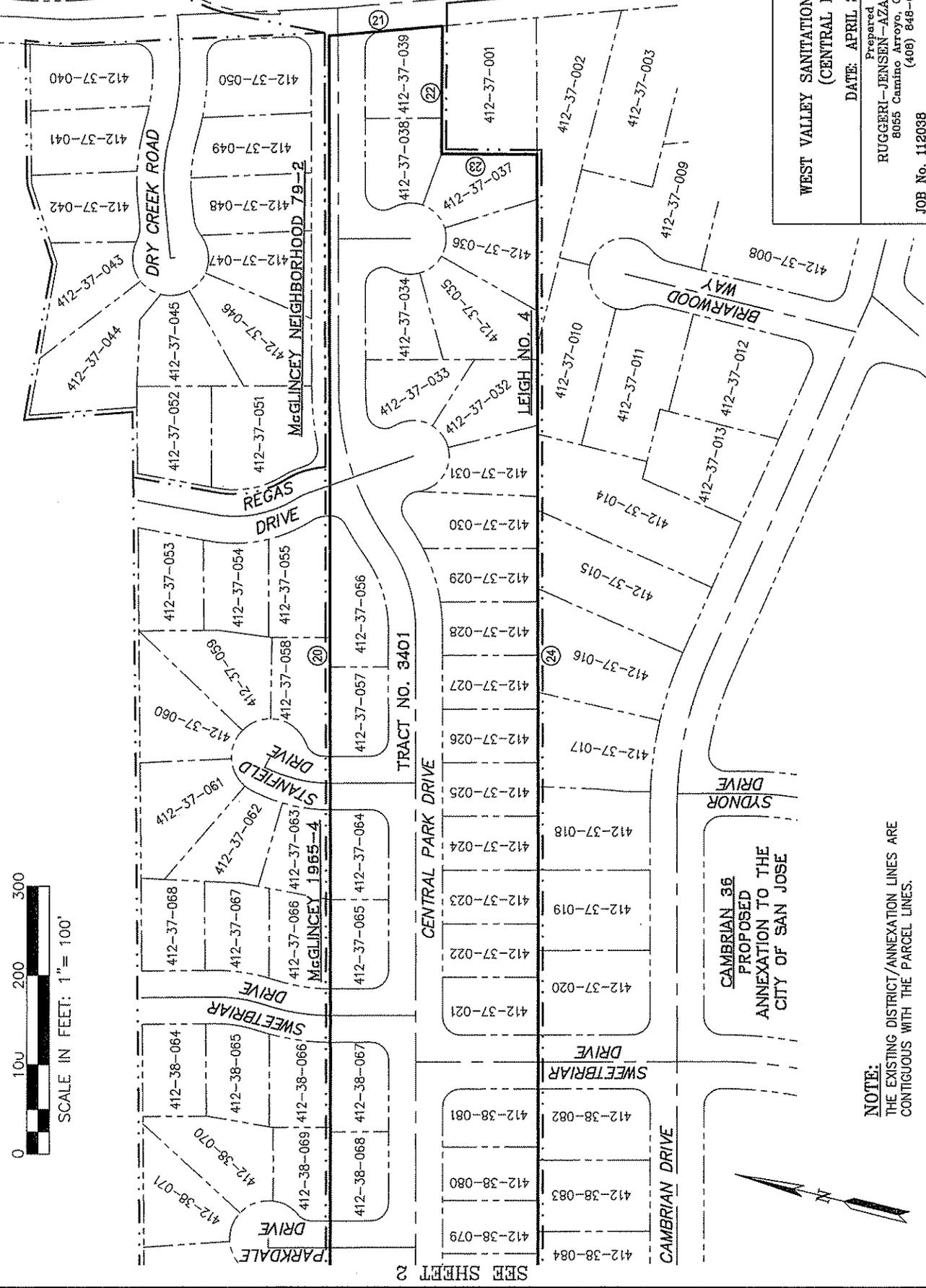
WEST VALLEY SANITATION DISTRICT 2012-01
 (CENTRAL PARK)

DATE: APRIL 25, 2012

Prepared By:
 RUGGERI-JENSEN-AZAR & ASSOCIATES
 8055 Camino Arroyo, Gilroy, CA 95020
 (408) 848-0300

LEIGH NO. 22
ANNEXATION
TO THE CITY OF
SAN JOSE

LEIGH NO. 4
ANNEXATION
TO THE CITY OF
SAN JOSE



CAMBRIAN 36
PROPOSED
ANNEXATION TO THE
CITY OF SAN JOSE



NOTE:
THE EXISTING DISTRICT/ANNEXATION LINES ARE
CONTIGUOUS WITH THE PARCEL LINES.

WEST VALLEY SANITATION DISTRICT 2012-01
(CENTRAL PARK)

DATE: APRIL 25, 2012

Prepared By:
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8055 Camino Arroyo, Gilroy, CA 95020
(408) 848-0300

JOB NO. 112038

SHEET 3 OF 3

SEE SHEET 2

OVERVIEW OF LAFCO PROTEST PROCEEDINGS PROCEDURES

This application is a Non-100% Consent annexation proposal because it does not have consent from all of the property owners in the proposed annexation area. Therefore, following LAFCO approval of a Non-100% Consent annexation proposal, the LAFCO Executive Officer must hold protest proceedings (Government Code Section 57000(c)) as follows:

1. Within 35 days of the adoption of the resolution by the Commission, and not prior to the 30-day reconsideration period for a Commission decision, the Executive Officer shall notice the proposal for protest hearing (Government Code Section 57002(a)).
2. Notices are required to be posted and published 21 days prior to the hearing. Notices are required to be sent to each affected city, district or county, all landowners owning land within the subject area, all registered voters within the subject area, and to anyone requesting special notice (Government Code Section 57025(b), (c), and (d)). As part of the protest hearing notice, landowners and registered voters in the affected area will receive a written protest form which they may mail or deliver to the LAFCO office. Protest may be filed with LAFCO from the date of the notice until the conclusion of the protest hearing.
3. The hearing date should be between 21 to 60 days from the date of the notice (Government Code Section 57002(a)).
4. At the protest hearing, the Commission's resolution is summarized and any oral or written protests are heard or received. Protests may be filed with LAFCO from the date of the notice until the conclusion of the protest hearing. Written protests may be withdrawn anytime prior to conclusion of the protest hearing. The law specifies rules for a valid protest. (Government Code Section 57050(b))
5. Within 30 days after the hearing, a finding is made on the value of written protests filed and not withdrawn (Government Code Section 57052), and based on that value ((Government Code Section 57075(a)) a resolution is adopted that:
 - a. Terminates proceedings (Government Code Section 57075(a)(1))
 - b. Orders the proposal without an election (Government Code Section 57075 (a)(3)), or
 - c. Orders the proposal subject to confirmation by the registered voters, i.e., an election must be conducted (Government Code Section 57075 (a)(2)).
6. The finding is based solely on the percentage of valid written protests that were submitted prior to the close of hearing.
7. If an election must be conducted, LAFCO is required to inform the Board of Supervisors of the Commission's determination and request them to direct the elections official to conduct the election.

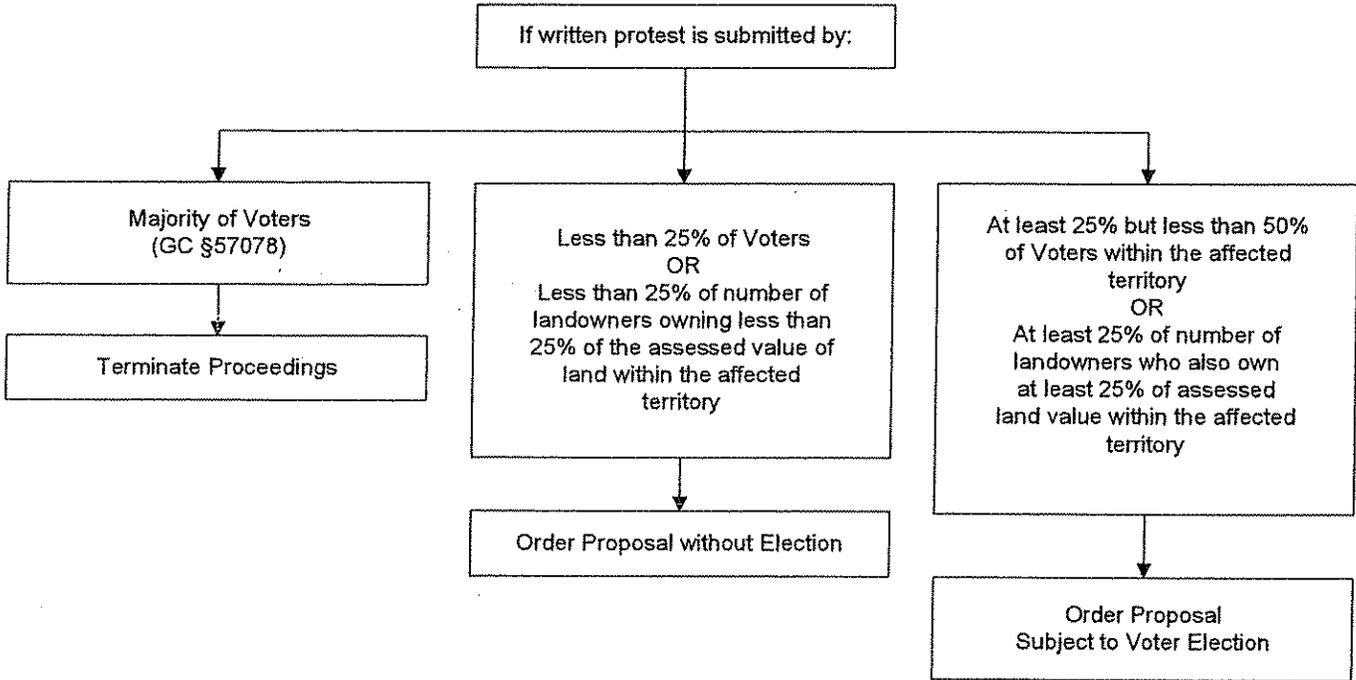
PROTEST THRESHOLDS

GC §57075

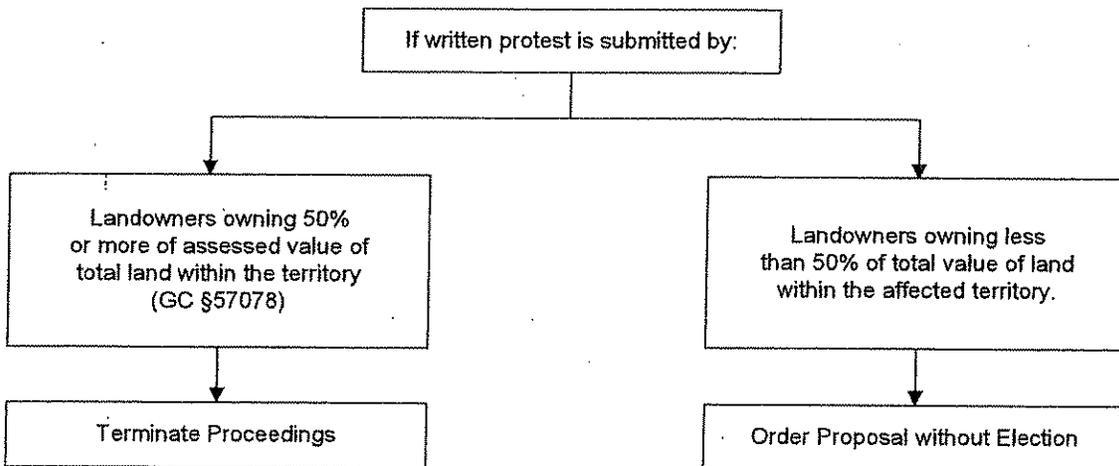
For change of organizations or reorganizations involving annexations and/or detachments

Inhabited* Proposals (GC §57075[a])

*Areas in which 12 or more registered voters reside (GC §56046)



Uninhabited Proposals (GC §57075[b])



LAFCO MEETING: May 30, 2012
TO: LAFCO
FROM: Neelima Palacherla, Executive Officer
SUBJECT: FINAL LAFCO BUDGET FOR FISCAL YEAR 2013

STAFF RECOMMENDATION

1. Adopt the Final LAFCO Budget for Fiscal Year 2012-2013. (Attachment A)
2. Find that the Final LAFCO Budget for Fiscal Year 2013 is expected to be adequate to allow the Commission to fulfill its statutory responsibilities.
3. Authorize staff to transmit the Final LAFCO Budget adopted by the Commission including the estimated agency costs to each of the cities, to the County and to the Cities Association.
4. Direct the County Auditor-Controller to apportion LAFCO costs to cities and the County using the most recent edition of the Cities Annual Report published by the State Controller, and to collect payment pursuant to Government Code §56381.

BACKGROUND

LAFCO Budget and Adoption Process

The Cortese Knox Hertzberg Local Government Reorganization Act of 2000 (CKH Act) which became effective on January 1, 2001, requires LAFCO to annually adopt a draft budget by May 1 and a final budget by June 15 at noticed public hearings. Both the draft and the final budgets are required to be transmitted to the cities and the County. Government Code §56381 establishes that at a minimum, the budget must be equal to that of the previous year unless the Commission finds that reduced staffing or program costs will nevertheless allow it to fulfill its statutory responsibilities. Any unspent funds at the end of the year may be rolled over into the next fiscal year budget. After adoption of the final budget by LAFCO, the County Auditor is required to apportion the net operating expenses of the Commission to the agencies represented on LAFCO.

NO CHANGE TO THE DRAFT / PRELIMINARY BUDGET

The Commission on April 4, 2012, adopted LAFCO's preliminary budget for Fiscal Year 2012-2013. No change is proposed to the preliminary budget.

COST APPORTIONMENT TO CITIES AND COUNTY

The CKH Act requires LAFCO costs to be split in proportion to the percentage of an agency's representation (excluding the public member) on the Commission. The LAFCO of Santa Clara County is composed of two County board members and two city council members. Since the City of San Jose has permanent membership on LAFCO,

Government Code §56381.6 requires costs to be split between the County, the City of San Jose and the remaining cities. Hence the County pays half the LAFCO cost, the City of San Jose - a quarter and the remaining cities - the other quarter.

Government Code §56381(c) requires the County Auditor to request payment from the cities and the County no later than July 1 of each year for the amount each agency owes based on the net operating expenses of the Commission and the actual administrative costs incurred by the Auditor in apportioning costs and requesting payment. LAFCO's net operating expenses for Fiscal Year 2012 is \$563,560.

Cost to Agencies

County of Santa Clara	\$281,780
<hr/>	
City of San Jose	\$140,890
<hr/>	
Remaining 14 cities in the County	\$140,890

The cities' share (other than San Jose's) is apportioned in proportion to each city's total revenue as a percentage of the combined city revenues within a county, as reported in the most recent edition of the Cities Annual Report published by the Controller. The most recent edition of the Controllers Report currently available is the 2009/2010 Report. A draft of the estimated apportionment to the cities is included as Attachment B, to provide the cities a general indication of the costs. The final costs will be calculated by the County Controller's Office after LAFCO adopts the final budget.

ATTACHMENTS

- Attachment A: Proposed Final LAFCO Budget for Fiscal Year 2013
- Attachment B: Estimated Costs to Agencies Based on the Proposed Final Budget

**FINAL LAFCO BUDGET
FISCAL YEAR 2012 - 2013**

ITEM #	TITLE	APPROVED FY 2012 BUDGET	ACTUALS Year to Date 2/16/2012	YEAR END PROJECTIONS 2012	FINAL FY 2013 BUDGET
EXPENDITURES					
Object 1:	Salary and Benefits	\$418,342	\$242,014	\$403,698	\$392,182
Object 2:	Services and Supplies				
5258200	Intra-County Professional	\$55,000	\$1,238	\$5,000	\$55,000
5255800	Legal Counsel	\$55,000	\$31,017	\$55,000	\$55,000
5255500	Consultant Services	\$80,000	\$64,237	\$80,000	\$120,000
5285700	Meal Claims	\$750	\$88	\$400	\$750
5220200	Insurance	\$5,600	\$4,188	\$5,600	\$5,600
5250100	Office Expenses	\$2,000	\$50	\$2,000	\$2,000
5255650	Data Processing Services	\$22,255	\$3,229	\$22,255	\$2,700
5225500	Commissioners' Fee	\$7,000	\$2,700	\$5,000	\$7,000
5260100	Publications and Legal Notices	\$2,500	\$126	\$1,000	\$2,500
5245100	Membership Dues	\$7,000	\$7,000	\$7,000	\$7,154
5250750	Printing and Reproduction	\$1,500	\$126	\$500	\$1,500
5285800	Business Travel	\$11,000	\$1,533	\$8,000	\$11,000
5285300	Private Automobile Mileage	\$2,000	\$601	\$2,000	\$2,000
5285200	Transportation&Travel (County Car Usage	\$629	\$178	\$600	\$1,088
5281600	Overhead	\$60,647	\$30,324	\$60,647	\$43,133
5275200	Computer Hardware	\$2,000	\$2,934	\$2,934	\$2,000
5250800	Computer Software	\$2,000	\$579	\$1,000	\$2,000
5250250	Postage	\$2,000	\$54	\$500	\$2,000
5252100	Staff/Commissioner Training Programs	\$2,000	\$300	\$1,000	\$2,000
5701000	Reserves	\$0	\$0	\$0	\$50,000
TOTAL EXPENDITURES		\$739,223	\$392,516	\$664,134	\$766,607
REVENUES					
4103400	Application Fees	\$25,000	\$15,036	\$25,000	\$25,000
4301100	Interest: Deposits and Investments	\$5,000	\$2,672	\$5,000	\$5,000
	Savings/Fund Balance from previous FY	\$112,028	\$209,987	\$209,987	\$173,047
TOTAL REVENUE		\$142,028	\$227,695	\$239,987	\$203,047
NET LAFCO OPERATING EXPENSES		\$597,195	\$164,821	\$424,147	\$563,560
3400800	RESERVES	\$100,000	\$100,000	\$100,000	\$150,000
COSTS TO AGENCIES					
4600100	Cities (San Jose 50% + Other Cities 50%)	\$298,597	\$298,597	\$298,597	\$281,780
5440200	County	\$298,597	\$298,597	\$298,597	\$281,780

2012/2013 LAFCO COST APPORTIONMENT

Estimated Costs to Agencies Based on the Final LAFCO Budget for Fiscal Year 2013

LAFCO Net Operating Expenses for 2012/2013				\$563,560
Jurisdictions	Revenue per 2009/2010 Report	Percentage of Total Revenue	Allocation Percentages	Allocated Costs
County	N/A	N/A	50.0000000%	\$281,780.00
San Jose	N/A	N/A	25.0000000%	\$140,890.00
Campbell	\$37,199,184	2.0182051%	0.5045513%	\$2,843.45
Cupertino	\$51,593,772	2.7991693%	0.6997923%	\$3,943.75
Gilroy	\$65,499,455	3.5536085%	0.8884021%	\$5,006.68
Los Altos	\$37,223,642	2.0195321%	0.5048830%	\$2,845.32
Los Altos Hills	\$10,074,345	0.5465737%	0.1366434%	\$770.07
Los Gatos	\$50,773,160	2.7546478%	0.6886620%	\$3,881.02
Milpitas	\$94,121,506	5.1064697%	1.2766174%	\$7,194.51
Monte Sereno	\$2,604,662	0.1413134%	0.0353283%	\$199.10
Morgan Hill	\$47,513,050	2.5777738%	0.6444434%	\$3,631.83
Mountain View	\$163,494,125	8.8702129%	2.2175532%	\$12,497.24
Palo Alto	\$491,995,000	26.6927047%	6.6731762%	\$37,607.35
Santa Clara	\$478,854,381	25.9797733%	6.4949433%	\$36,602.90
Saratoga	\$18,947,298	1.0279670%	0.2569918%	\$1,448.30
Sunnyvale	\$293,287,941	15.9120487%	3.9780122%	\$22,418.49
Total	\$1,843,181,521	100.0000000%	100.0000000%	\$563,560.00
Total Cities (excluding San Jose)				\$140,890.00

LAFCO MEETING: May 30, 2012
TO: LAFCO
FROM: Neelima Palacherla, Executive Officer
Dunia Noel, Analyst
SUBJECT: **AUDIT AND SERVICE REVIEW OF THE EL CAMINO HOSPITAL DISTRICT DRAFT REPORT**

STAFF RECOMMENDATIONS

1. Consider the Draft Report for the Audit and Service Review of the El Camino Hospital District.
2. Accept public comments.

BACKGROUND

Public Hearing

The purpose of this public hearing is to consider and accept public comments on the "Audit and Service Review of the El Camino Hospital District Draft Report." No final action on the Draft Report will be taken at this hearing. Interested parties and the public may continue to provide comments on the Draft Report. All comments received by Friday, June 22nd will be considered in the preparation of a Revised Draft Report which will be made available on the LAFCO website in mid July.

Ad-Hoc Committee

An Ad-Hoc Committee consisting of Commissioners Abe-Koga and Wilson was established by LAFCO to assist in selecting the consultant to conduct the audit and service review of the El Camino Hospital District and to review and advise as needed on the project. To date, two Ad-Hoc Committee meetings have been held in order to discuss the project's progress and provide input on the audit and service review.

Preparation of the Draft Report

Harvey M. Rose Associates prepared the Audit and Service Review of the El Camino Hospital District Draft Report for LAFCO of Santa Clara County. This audit and service review was conducted under authorities granted to LAFCO of Santa Clara County that are contained in California Government Code Section 56000, et seq., known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act), other relevant sections of State law, LAFCO Policies, and LAFCO's Service Review Guidelines as published by the Governor's Office of Planning and Research. In addition, the audit portion of the project was conducted in accordance with *United*

States Government Auditing Standards, 2011 Revision, by the Comptroller General of the United States.

The scope of the Service Review was designed to provide LAFCO of Santa Clara County with determinations required in the CKH Act. The Audit was designed to answer specific questions related to the El Camino Hospital District's governance structure; its financial relationship to the El Camino Hospital Corporation and affiliated non-profit organizations; the financial condition of the District and Corporation; the availability of reserves; the source and use of taxpayer funds used for hospital operations, capital improvements and the acquisition of the Los Gatos Hospital campus; and other related topics.

Release of the Draft Report for Public Review and Comment

The "Audit and Service Review of the El Camino Hospital District Draft Report" was made available on the LAFCO website (www.santaclara.lafcoa.gov) on May 24, 2012 and staff sent a Notice of Availability (Attachment A) to all affected agencies, LAFCO Commissioners, and other interested parties announcing the release of the (Attachment B) for public review and comment.

NEXT STEPS

Release of Revised Draft Report for Public Review and Comment

Based on the comments received by June 22nd, the Draft Report will be revised as necessary. The Revised Draft Report with tracked changes will be available on the LAFCO Website in mid July and a hard copy will also be available in the LAFCO Office for public review. A Notice of Availability will be sent to all affected agencies and interested parties in order to announce the availability of the Revised Draft Report. LAFCO will hold a Final Public Hearing to consider adoption of the Report and its recommendations on August 1, 2012.

ATTACHMENTS

Attachment A: Notice of Availability of LAFCO's Audit and Service Review of the El Camino Hospital District Draft Report

Attachment B: Audit and Service Review of the El Camino Hospital District dated May 24, 2012 is available on the LAFCO website (www.santaclara.ca.gov) under "What's New."

DATE: May 24, 2012
TO: Special District Managers
City Managers and County Executive
City Council Members and County Board of Supervisors
LAFCO Members
Interested Parties
FROM: Neelima Palacherla, Executive Officer
SUBJECT: **LAFCO's AUDIT AND SERVICE REVIEW OF THE EL CAMINO HOSPITAL DISTRICT DRAFT REPORT**
Notice of Availability

LAFCO's Audit & Service Review of the El Camino Hospital District Draft Report is Available for Public Review and Comment

LAFCO's Audit & Service Review of the El Camino Hospital District Draft Report is now available for public review and comment on the LAFCO Website (www.santaclara.lafco.ca.gov) under "What's New." The Report includes an audit of the El Camino Hospital District in order to resolve certain issues related to the District and also includes a service review, sphere of influence update, and recommendations related to improving the transparency, accountability, and governance of the District.

LAFCO will hold a public hearing in order to consider and accept comments on the Draft Report. No final action on the Draft Report will be taken at this public hearing.

LAFCO Public Hearing: May 30, 2012
Time: 1:15 P.M. or soon thereafter
Location: Isaac Newton Senter Auditorium
70 W. Hedding Street, San Jose, CA 95110

You may provide written comments on the Draft Report by mail to: LAFCO of Santa Clara County, 70 West Hedding Street, 11th Floor, East Wing, San Jose, CA 95110 OR you may email your comments to: dunia.noel@ceo.sccgov.org. Written comments received by Friday, June 22nd will be considered and addressed in a Revised Draft Report that will be available in mid July for public review and comment on the LAFCO Website. A second LAFCO public hearing to consider adopting the Report is scheduled for August 1, 2012.

Please feel free to contact me at (408) 299-5127 or Dunia Noel, LAFCO Analyst, at (408) 299-5148 if you have any questions or concerns. Thank you.

Audit and Service Review of the El Camino Hospital District

**Prepared for the
Local Agency Formation Commission of
Santa Clara County**

**Harvey M. Rose Associates, LLC
1390 Market Street, Suite 1150
San Francisco, CA 94102**

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May 23, 2012



May 23, 2012

Neelima Palacherla
Executive Director
Santa Clara County Local Agency Formation Commission
70 West Hedding Street, East Wing, 11th Floor
San Jose, CA 95110

Dear Ms. Palacherla:

Harvey M. Rose Associates, LLC is pleased to present this *Audit and Service Review of the El Camino Hospital District*. This report provides responds to questions posed by the Santa Clara County Local Agency Formation Commission (LAFCo) regarding the finances and operations of the El Camino Hospital District, and fulfills requirements of California State Law pertaining to LAFCo's Service Review responsibilities.

The Audit was conducted in accordance with *Government Auditing Standards, December 2011 Revision*, by the U.S. Government Accountability Office, Comptroller General of the United States. The Service Review was conducted in accordance with California Government Code Section 56000, et seq., known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act). The report includes an Executive Summary and six sections with our findings, conclusions, determinations, and recommendations to the LAFCo Board.

We appreciate being provided with this opportunity to serve Santa Clara County LAFCo. We will remain available to make presentations to the LAFCo Board and respond to public comment, as necessary and requested by your organization.

Please call me at (415) 552-9292 if you have questions or additional requests.

Sincerely,

A handwritten signature in black ink that reads 'Stephen Foti'. The signature is written in a cursive, flowing style.

Stephen Foti
Principal

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Executive Summary

Harvey M. Rose Associates, LLC is pleased to present this *Audit and Service Review of the El Camino Hospital District* prepared for the Santa Clara County Local Agency Formation Commission (LAFCo). This audit and service review was conducted under authorities granted to the Santa Clara County LAFCo that are contained in California Government Code Section 56000, et seq., known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act) other relevant sections of State law, LAFCo policies, and LAFCo's Service Review Guidelines, published by the Governor's Office of Planning and Research. In addition, the audit portion of the project was conducted in accordance with *United States Government Auditing Standards, 2011 Revision*, by the Comptroller General of the United States.

Project Scope

The scope of the Service Review was designed to provide the Santa Clara County LAFCo with determinations required in the CKH Act. The Audit was designed to answer specific questions related to the El Camino Hospital District's governance structure; its financial relationship to the El Camino Hospital Corporation and affiliated non-profit organizations; the financial condition of the District and Corporation; the availability of reserves; the source and use of taxpayer funds used for hospital operations, capital improvements and the acquisition of the Los Gatos Hospital campus; and other related topics.

Project Objectives

Established in 1956 to provide healthcare services to a more rural community, the El Camino Hospital District grew to become a major healthcare and hospital service provider in suburban Northern Santa Clara County. Over the years, methods of providing services evolved. In 1992, the El Camino Hospital Corporation was created and major assets of the District were transferred, leased or sold to the Corporation. Thereafter, the District designated the Corporation as the entity responsible for providing direct services to District residents. Beginning in 1997, the District assumed control of the Corporation as its "sole member".

In 2009, the Corporation expanded operations by purchasing the Los Gatos Hospital campus, which is located outside of the District and the Sphere of Influence (SOI). This action precipitated the questions that are the subject of this audit and service review. Accordingly, the primary objectives of the proposed Audit and Service Review were to provide answers to the following two questions:

1. Is the El Camino Hospital District providing services outside of its boundaries?
2. Should the District continue to exist and/or continue to receive public funds or could another entity provide the District's services more efficiently?

The Audit and Service Review respond to these questions and provide recommendations to guide Santa Clara County LAFCo as it makes decisions regarding the El Camino Hospital District.

Description of the El Camino Hospital District and Affiliates

The El Camino Hospital District is a political subdivision of the State of California, formed pursuant to the Local Hospital District Law, now known as the Local Health Care District Law, which is codified in Health and Safety Code Sections 32000-32492. According to the California Healthcare Foundation,¹ the intent of the 1945 law was “to give rural, low income areas without ready access to hospital facilities a source of tax dollars that could be used to construct and operate community hospitals and health care institutions, and, in medically underserved areas, to recruit physicians and support their practices.”² As discussed in the body of this report, since first codified in 1945, California law has been periodically modified and healthcare district authority and mandates have been broadened.

Today, the El Camino Hospital District is comprised of six legal entities, including the District and five affiliated organizations.

- The El Camino Hospital Corporation and three of its four affiliated entities are non-profit organizations, created pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC). The fourth affiliated entity, CONCERN Employee Assistance Center, was created pursuant to IRC Section 501(c)(4).
- The District is the “sole member” of the Hospital Corporation.
- The Hospital Corporation is the “sole member” of the El Camino Hospital Foundation and CONCERN.
- The El Camino Surgery Center, LLC (ECSC) was established with the Hospital and a group of physicians as members. However, the Hospital purchased all physician shares of ECSC on August 31, 2011 and is now the sole owner.
- Silicon Valley Medical Development, LLC (SVMD) was formed in 2008 as a wholly owned subsidiary of the Hospital.

Even though these organizations are recognized as separate legal entities by the State of California, the thread of ownership and control over the activities and finances of these organizations lead directly back to the El Camino Hospital District.

Notably, when the Corporation was created in 1992, its Board of Directors consisted of a mix of community members as well as District Board members. In 1996, the District prevailed in a lawsuit to regain public control of Corporation activities. Pursuant to the settlement agreement derived from that lawsuit, the District was then established as the Corporation’s sole member, the District’s elected Board members were installed as the Corporation’s Board, and the Hospital’s

¹ According to the *Financial Statements of the California Health Care Foundation and Subsidiary, February 28 2011 and 2010*, the “California Healthcare Foundation . . . is a philanthropic organization established as a tax exempt, nonprofit corporation under Section 501(c)(4) of the Internal Revenue Code and the California Tax Code. The Foundation’s primary purpose is to promote the availability of, and access to, quality and affordable health care and related services to the people of California . . .”

² April 2006, California Healthcare Foundation by Margaret Taylor, “California’s Health Care Districts”

Chief Executive Officer (CEO) was added to the Corporation Board as a director. The fact the CEO is hired and may be terminated by the Corporation Board, ensures that the elected District Board of Directors maintains complete control over the Corporation.

Therefore, as the sole member of the Corporation, the District Board has the ability to alter the Corporation's Board membership and, therefore, maintains control of, and is accountable for, the Hospital Corporation. Even if the boards were not the same, there are other characteristics, such as the District's ability to impose its will, financial benefit and financial burden on the Corporation, which link the boards together and create fiscal dependency.

California Healthcare Districts and ECHD Community Benefits

As of February 2012, there were 73 healthcare districts in California³. Of the 73 districts, 43 directly operate a hospital; four directly operate ambulance services; and 15 directly operate other "community-based services", which are typically ambulatory care clinics. The remaining 11 districts, including El Camino Hospital District, have sold or leased their hospitals to non-profit or for-profit organizations. ECHD is unique among these districts because the other ten sold or leased their hospitals to larger multi-hospital systems⁴.

ECHD receives the second highest amount of property taxes of any healthcare district in the State, two-thirds of which is spent on capital contributions and debt service and one-third of which is spent on community benefits. According to the most recent information published by the Office of the State Controller⁵, 54 healthcare districts received an apportionment of property taxes during the fiscal year that ended June 30, 2010. These apportionments ranged from a low of \$102,094 for Muroc Hospital District in Kern County, to a maximum of \$27,608,967 for Palomar Pomerado Hospital District in San Diego County.⁶ The average property tax apportionment was \$2,575,545, while the median property tax apportionment was \$908,941. El Camino Hospital District received \$16,016,747 in property tax apportionment monies in FY 2009-10, second only to Palomar Pomerado Hospital District and twice as much as the third highest allocation in California.

Despite the significant taxpayer support provided by District residents, the El Camino Hospital community benefit contributions are merely within the range reported by other hospital district service providers throughout the State, including major, multi-hospital organizations. The following table shows the combined community benefit contributions made by the El Camino Hospital District and Corporation in 2011.

³ According to the Association of California Healthcare Districts, an additional four organizations are currently registered as a healthcare district with the Secretary of State's Office, but either do not self-identify as a healthcare district (Lindsay Local Hospital District, Sierra Valley Hospital District and Selma Community Hospital) or have filed for bankruptcy and closed but have not yet dissolved as a district (Alta Hospital District).

⁴ In 2010, Marin Healthcare District regained full control of Marin General Hospital.

⁵ Special Districts Annual Report, California State Controller, December 13, 2011.

⁶ Five districts serve multiple counties and, therefore, receive property tax apportionments from multiple counties. The analysis provided here is based on the aggregate property tax allocations received by each district.

Table 1
Total Community Benefit Provided by El Camino Hospital in FY 2011

Government-sponsored health care (unreimbursed Medi-Cal care)	\$23,639,790
Subsidized health services funded through hospital operations	\$20,616,112
Financial and in-kind contributions	\$4,002,154
Traditional charity care funded through hospital operations	\$2,772,576
Community Health Improvement Services	\$1,857,998
Health professions education funded through hospital operations	\$1,171,764
Clinical research funded through hospital operations	\$402,216
Community benefit operations funded through hospital operations	\$185,830
Government-sponsored health care (means-tested programs)	\$150,000
Total Community Benefit, FY 2011	\$54,798,440

Source: El Camino Hospital 2011 Community Benefit Report, unaudited financial data

Of the \$54.8 million contributed in 2010, the El Camino Hospital District contributed \$5,039,698 from its property tax apportionment, as shown in the table, below:

Table 2
Portion of Community Benefits Funded by the District in FY 2011

Community health improvement services (community health education, community-based clinical services, health care support services) provided at Mountain view location – includes Partners for Community Health (PCH) programs	\$1,603,074
Financial and in-kind contributions (cash donations, grants, sponsorships) provided at Mountain View location – includes PCH programs	\$3,361,624
Government-sponsored health care (means-tested programs) provided at Mountain View location – includes Healthy Kids, a PCH program	\$75,000
Total District-funded Community Benefit in FY 2011	\$5,039,698

Source: El Camino Hospital 2011 Community Benefit Report unaudited financial data available on website.

When analyzing a significant surrogate measure of community benefit provided by hospitals within the County, ECHD provides a lower percentage of Medi-Cal patient days than all but the Kaiser Foundation hospitals in the County and only one-half to one-third of the services that are provided to this population by Stanford University Hospital and O'Connor Hospital.

Audit of the El Camino Hospital District

The District, the Corporation and its affiliated entities are one consolidated organization from both a governance and financial perspective. Generally Accepted Accounting Principles (GAAP) require the consolidation for financial reporting because the District, Corporation and other affiliated entities meet very specific criteria. According to GAAP, when establishing whether an entity is a component unit of a primary government, the entity must meet one of the three criteria shown below:

- The entity’s governing board is appointed or controlled by the primary government;
- The entity is fiscally dependent on the primary government; or,
- The exclusion of the entity would lead to misleading financial reporting.

The Corporation also meets very specific criteria defined in State law requiring compliance with public disclosure laws, which makes the Corporation subject to the open meeting practices that are required of California governmental organizations.

A 1996 restructuring that resulted from a lawsuit defined the District as the “sole member” of the Corporation and effectively ensured public control of Corporation net assets and activities going forward. While the District and Corporation have strived in recent years to make a greater delineation between the two organizations, ultimately the authority and accountability of both the District and Corporation Boards of Directors stems from the members serving as elected public officials presiding over a political subdivision of the State of California.

The Corporation is well served by this relationship, accruing benefits typically reserved for public agencies, including the levying and use of property tax, as well as access to municipal financing. Further, at its initiation in 1992, the Corporation received approximately \$175.5 million in net assets from the District. Subsequently, the Corporation’s strong financial health is better than it would otherwise be and is strengthening, with \$440 million in unrestricted net assets as of June 30, 2011. The Corporation continues to receive financial support from the District, exceeding \$15.5 million annually that is used for the Community Benefits Program and for debt service on the Corporation’s Mountain View Hospital.

The following two tables provide details regarding property tax collections and uses for the most recent five-year period.

Table 3
Property Tax Revenues (In thousands)
For the Five Fiscal Years Ending June 30, 2011

	Fiscal Year					Five Year
	2010-11	2009-10	2008-09	2007-08	2006-07	Total
One Percent Ad Valorem						
Restricted for Capital Use	\$ 3,368	\$ 2,830	\$ 3,510	\$ 3,207	\$ 3,046	\$ 15,961
Unrestricted	5,782	5,858	5,732	5,403	4,935	27,710
General Obligation Bonds Debt Service	6,643	6,920	6,658	6,181	5,041	31,443
Totals	\$ 15,793	\$ 15,608	\$ 15,900	\$ 14,792	\$ 13,022	\$ 75,115

Source: Report of Independent Auditors and Consolidated Financial Statements with Supplemental Information for El Camino Hospital District for fiscal year 2008-09 through 2010-11 and reports and records provided by management for FY 2006-07 and FY 2007-08.

Table 4
Property Tax Uses (In thousands)
For the Five Fiscal Years Ending June 30, 2011

	Fiscal Year					Five Year
	2010-11	2009-10	2008-09	2007-08	2006-07	Total
Debt Service						
Interest Payments	\$ 4,897	\$ 4,859	\$ 4,655	\$ 98	\$ 3,205	\$ 17,714
Principal Reduction	1,384	1,223	726	1,813	-	5,146
Community Benefits Transfer	2,025	5,731	5,403	-	500	13,659
Capital Expense Transfer	-	12,458	6,253	-	2,479	21,190
Surplus Cash Transfer	-	-	12,000	-	40,468	52,468
Totals	\$ 8,306	\$ 24,271	\$ 29,037	\$ 1,911	\$ 46,652	\$ 110,177

Source: Various reports and records provided by District and Hospital management for all fiscal years.

It is clear that the activities of each entity are directly linked to the resources of the other. Accordingly, the assignment of community benefits, through the provision of services to the underserved and District residents, is fundamental to the mission of both the District and the Hospital. While providing services to the underserved as a measure of community benefits are similar to other hospital districts in the State, it appears to be lower than many hospitals within Santa Clara County based on a review of Medi-Cal inpatient days. Further, significant hospital services, including 40 percent of emergency services and 50 percent of inpatient services, are provided to residents outside of the District's sphere of influence. Since there are no stated standards, ultimately, the Local Agency Formation Commission will decide if this service level and associated community benefits are acceptable.

The following findings respond to the specific questions posed by the Santa Clara County LAFCo for the Audit portion of the study:

1. Did/does ECHD fund the purchase, operations, or maintenance of the Los Gatos Hospital or other facilities located outside of the District boundaries?

The ECHD did not directly fund the purchase, operations or maintenance of the \$53.7 million Los Gatos Hospital. However, the Corporation was able to generate sufficient net assets and cash balances to fund the Los Gatos Hospital acquisition due, in part, to: (a) the funding of debt service for a portion of the Mountain View campus rebuild, as well as capital improvements at the Mountain View campus, with annual property tax contributions from the District; (b) the transfer of excess property taxes from the District to the Corporation, amounting to approximately \$52.5 million over the last five fiscal years; and, (c) access to and the use of tax exempt debt financing through the District and the County of Santa Clara as a 501(c)(3) non-profit Corporation.

- 2. Does ECHD contribute revenue to El Camino Hospital Corporation, which in turn purchased the hospital in Los Gatos or other facilities located outside of the District? If so, what is the purpose of the contributions and how are the funds accounted for?**

The ECHD contributes revenue to the Corporation each fiscal year, amounting to approximately \$110.2 million between FY 2006-07 and FY 2010-11. Of this amount, (a) \$21.2 million (19.2%) was used to fund capital improvements at the Mountain View campus; (b) \$17.7 million (16.1%) was used to pay principal and interest on debt used to fund renovations at the Mountain View campus; (c) \$13.7 million (12.4%) was used to fund community benefits; and, (d) \$52.5 million (47.6%) in surplus cash was transferred to the Corporation for renovations at the Mountain View campus. These surplus cash transfers may have exceeded the 50 percent threshold established by law, and contributed to the \$440.1 million in Unrestricted Net Assets being held by the District, Corporation and affiliated non-profit entities as of June 30, 2011. The funds are accounted for separately in the consolidated financial accounting system maintained by the Corporation.

- 3. Is there a contractual relationship between the District and the El Camino Hospital Corporation? Does the District have an equity interest in the assets of the Corporation? If so, how much? If not, who owns the assets of the Corporation?**

The contractual relationship between the District and the Corporation is defined by:

- The 1992 Asset Transfer Agreement;
- The 1992 Building Sale Agreement;
- The 1992 Ground Lease and First Amendment; and,
- The 1992 Management Services Agreement.

Per the Articles of Organization for the Corporation, and subsequent amendments, the net assets of the Corporation revert back to the District upon corporate dissolution or termination of the lease. However, asset disposition is unclear should the District dissolve and the Corporation continues prior to lease termination.

- 4. Does the District separately account for the receipt and expenditure of property tax revenues in a separate fund, or are such revenues commingled with other ECHD revenues?**

All of the District's revenues, including property tax, interest earnings, and lease payments are separately accounted for in the financial system and reported in the annual financial report. With the exception of debt service, the District's resources are transferred to the Corporation for expenditure, but are tracked and monitored through the use of separate accounts.

- 5. Are the ECHD's funds commingled with the Corporation's Funds?**

No. While District funds are generally transferred to the Corporation for expenditure, they are separately tracked and monitored using separate account coding in the financial system. Therefore, District funds are not "commingled" with the Corporation's funds.

6. What measures should ECHD take to establish transparency in the relationship between the ECHD and the El Camino Hospital Corporation?

The District and the Corporation should establish enhanced budgetary reporting and controls on a cash or accrual basis in order to better reflect the use of District resources. This should include detailed reporting of transfers between entities as well as debt service requirements.

7. What measures should ECHD take to be more accountable to the public/community that it serves?

Budgetary and financial information should be reported on a component unit level (i.e., separate budgets and financial reports for the District, Corporation and each of the five non-profit entities). These budgets should provide character level detail and be reviewed, discussed and adopted by the respective boards at public hearings.

8. What are ECHD's current revenue sources and amounts, including proceeds from various bonds and for what purpose are the revenues and bond proceeds used?

Primary District revenues include property taxes, interest revenue and lease revenue on the Mountain View land. Proceeds from the sale of the bonds were transferred to the Corporation in prior years for expenditure on the Mountain View expansion and renovation. The District's revenues are used for debt service, transfers to the Corporation for capital acquisition and community benefit grants. See response to Question 1, above; tables 4.3 and 4.4; and, Exhibit 4.1 for a fuller explanation.

9. What is the extent and purpose of ECHD's reserves?

The District maintains reserves for (a) restricted property tax revenues received but not expended for capital acquisition; and, (b) capital asset replacement, based on accumulated depreciation of existing assets. The Corporation, as the primary operating entity, maintains additional reserves, including a reserve of District funds transferred for community benefit grant programs that have not been expended.

10. What is an appropriate/adequate amount of reserves? Does the District have any policies on amount and use of reserves?

All reserves presently maintained by the District and the Corporation are conservative and not excessive. While the District and the Corporation have established limited policies and procedures on reserves, including an operating reserve and capital assets replacement reserves, a number of reserves that are maintained do not have formal policies and procedures and do not appear to be reviewed or authorized by either of the Boards in a systematic manner. The District should seek guidance from the Government Finance Officers' Association (GFOA) and the Corporation should seek guidance from industry groups to develop reserve policies based on best practices.

11. Does ECHD have a role in governance/monitoring of hospital services provided by the El Camino Hospital Corporation?

Yes. The District and Corporation maintain almost identical governing boards, which include identical voting members, so that decision-making is almost indistinguishable between entities. In addition, pursuant to the Corporation Articles of Organization and subsequent amendments, the District is the “sole member” of the Corporation. Essentially, from a governance standpoint, the District and the Corporation are the same entity.

12. What is ECHD's role and responsibility at the end of the lease agreement between the ECHD and the El Camino Hospital Corporation, as it relates to the assumption of assets and liabilities of the Corporation?

At the end of the lease agreement in the year 2044, the Amended Agreement states that the related buildings, fixtures, and improvements revert back to the District. Unstated is the disposition of any retained earnings or the transfer of other assets and liabilities. However, per the Articles of Incorporation and subsequent amendments, upon dissolution of the Corporation, all assets and liabilities (i.e., net assets, including retained earnings) would revert back to the District.

Service Review of the El Camino Hospital District

Service reviews are intended to provide a tool to help LAFCo, the public and other agencies better understand the public service structure and evaluate options for the provision of efficient and effective public services. The Service Review conducted of the El Camino Hospital District revealed the following information for consideration by the Santa Clara County LAFCo Board.

- An emphasis in the law on populations or communities “served” by a healthcare district, rather than populations residing within district boundaries, have generally been interpreted to allow health care districts to extend their influence well beyond jurisdictional territory.

Excess Capacity Even with Projected Population Growth

- The County of Santa Clara has excess capacity for many services, estimated to be over 291 Medical/Surgical, 80 ICU/CCU, 188 Obstetrics and 72 NICU beds, based on 2010 discharge and licensure data at a target utilization rate of 85 percent.
- El Camino Hospital has a general acute care inpatient utilization rate of 61.0 percent. Although utilization varies by service, the ECH has substantial excess capacity in the Hospital’s Medical/Surgical and Neonatal ICU units.
- On a Countywide basis, El Camino Hospital provides about 9.4 percent of total inpatient services. While ECH has 8.9 percent of all licensed beds in the County, it has 8.1 percent of excess capacity.

- Given the population profile of Santa Clara County and hospital utilization rates by age cohort, Countywide inpatient hospital demand is expected to increase by between 9.0 percent and 13.0 percent over the next five to seven years. For El Camino Hospital, this growth is expected to increase by between 5.8 percent and 8.3 percent over the same period.
- With the exception of ICU beds, it is unlikely that growth in local demand will lead to capacity concerns at the Mountain View hospital. Excess capacity is likely to remain in most services, since the Hospital is considering a project to relocate physician offices in the Women's Hospital to make approximately 40,000 square feet available for inpatient use.

Large Proportion of Services Provided to Person Residing Outside of the SOI

- Unlike water or sewer districts, which are restricted to providing services at permanent physical addresses, Healthcare District law does not restrict services to a specific territory and, instead, allows health care districts to serve individuals who reside outside of the district boundaries and in other areas. With the exception of the Los Gatos Hospital campus and two dialysis centers located in San Jose, all El Camino Hospital District facilities are located within jurisdictional boundaries.
- Approximately 43 percent of inpatient services provided by El Camino Hospital are for persons who reside within the District. Approximately 50 percent are for persons who reside within the SOI that includes all zip code territory within Sunnyvale and Cupertino. Another 38 percent originates from the rest of the County and an additional 12 percent originates from locations outside of the County.
- Approximately 54 percent of El Camino Hospital emergency department services are provided to persons who reside within the District. Approximately 60 percent are for persons who reside within the SOI that includes all zip code territory within Sunnyvale and Cupertino. Another 29 percent of service volume is provided to patients who originate from the rest of the County and an additional 11 percent to those who originate from locations outside of the County.

Market Share Consistent Across District Boundaries and SOI

- El Camino Hospital Mountain View captures approximately 40% of the market share within the District and the SOI that includes all zip code territory within Sunnyvale and Cupertino.
- Patients in these catchment areas seek about 90% of their inpatient care from within the County, predominantly from El Camino Hospital Mountain View, Stanford, and the two Kaiser facilities.
- The El Camino Hospital in Mountain View receives some “in-migration” of inpatient volume from the Los Gatos area. This in-migration volume totaled 1,971 cases in FY 2010, or about 5.6 percent of the area's total cases in that year. This share grew slightly from 5.4 percent of the area's volume in FY2008.

The following findings respond to the specific questions posed by the Santa Clara County LAFCo as part of the Service Review:

1. *Separate and apart from the review of ECHD’s role in relation to the Los Gatos Hospital campus, does the ECHD provide any services outside of its boundaries? What is the District’s role in the various El Camino Hospital dialysis centers throughout the County?*

Although the Corporation is a separate legal entity, as discussed in Section 4, the ECHD is the “sole member” of the El Camino Hospital Corporation. As structured, the elected District Board members sit as a quorum of the voting members of the Corporation Board. Therefore, any activities of the Corporation are, by extension, activities of the District.

The acquisition and opening of the Los Gatos Hospital extends the range of District services beyond its current boundaries and sphere of influence. In addition, even when viewing the activities of El Camino Hospital Mountain View in isolation, it is clear that a major portion of services are provided to persons who reside outside of the District boundaries and the sphere of influence (see Statement 2, below).

Providing dialysis services outside of the physical boundaries of the District is consistent with State law [Health and Safety Code § 32121(j)] and with the broader mission of the District and Hospital. However, the location of these centers in East San Jose (2230 Tully Road) and Central San Jose (999 West Taylor Street) presents similar concerns as the acquisition of the Los Gatos Hospital.

2. *Do the ECHD’s current boundaries reflect the population it serves?*

No. As demonstrated in this report, only 43 percent of the inpatient services provided to residents of zip code areas that are wholly or partially contained within District boundaries. When considering zip code areas that are outside of the District but within the SOI, the proportion of inpatient services received by residents increases to 50 percent. Therefore, approximately half of the services provided by El Camino Hospital Mountain View are provided to residents of neither the District nor the District’s SOI. Although a greater proportion of emergency services are provided to residents of the District and SOI, approximately 40 percent of such services are provided to non-residents from areas throughout the County, State and beyond.

3. *If the ECHD is providing services outside of its boundaries, should its boundaries be extended to include its service area? If so, how would the affected agencies be impacted by such expansion?*

No. As demonstrated in the report, the El Camino Hospital Mountain View facility consistently has a market share of approximately 40 percent of all inpatient services within the District and sphere of influence. Beyond the SOI, the Hospital’s market share drops to only four percent in the rest of the County.

In addition, as demonstrated in Section 4, the District, Corporation and five affiliated non-profit entities have been able to accumulate approximately \$440 million in Unrestricted Net

Assets as of June 30, 2011. In part, this accumulation of Unrestricted Net Assets and the Corporation's ability to acquire the Los Gatos Hospital have occurred as a result of the significant property tax contributions being made by residents of the current District. By expanding the District boundaries to include the SOI, the property tax base and resulting revenues would increase, adding to the Corporation's ability to either expand deeper into the community or accumulate additional Unrestricted Net Assets. Other local government jurisdictions would lose a portion of their 1% levy, and an additional tax would be imposed on residents within the SOI for ECHD debt service. There would be no clear benefit to residents of an expanded District if the District boundaries were to be expanded.

4. *What services is the ECHD currently providing? Is El Camino Hospital District currently providing the services for which it was created? Is there a change in ECHD's mission since its creation?*

The ECHD provides services to its residents through the El Camino Hospital Corporation and its affiliates, using an array of contracts with the Corporation that include a ground lease for the Mountain View Hospital, and the transfer and sale of assets to the Corporation in exchange for providing services to the ECHD community. As discussed in Section 4 and restated above, although the Corporation is a separate legal entity, the ECHD is the "sole member" of the El Camino Hospital Corporation. As structured, the elected District Board members sit as voting members of the Corporation Board. Therefore, any activities of the Corporation are, by extension, activities of the District.

Given this interpretation of the governance and financial relationship between the District and the Corporation, the decision of the Corporation to acquire Los Gatos Hospital and expand services (including operation of dialysis centers) well beyond the established boundaries of the District represents a significant departure from the original intent of the voters when forming the District in 1956. Further, expanding the Corporation reach in this manner is inconsistent with the intent of California Health and Safety Code § 32121(j), which allows healthcare districts, "to establish, maintain, and operate, or provide assistance in the operation of one or more health facilities or health services...at any location within or without the district *for the benefit of the district and the people served by the district.*" Given the geographical distance of the Los Gatos Hospital to the District, the extent to which the acquisition meets the voters' original intent or the purpose of the State law is questionable.

The following Statements of Determination respond to the requirements of California **Government Code Section 56430:**

1. *Growth and population projections for the affected area.*

The District and SOI are expected to experience a five-year population growth rate of 2.8 percent compared with a Countywide population growth rate of approximately 5.0 percent. Also, because of the differences in the populations by age cohort, the District and SOI will experience a lower 5.8 percent inpatient volume increase compared with a 9.0 percent inpatient volume increase for the County overall.

2. *Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.*

With the exception of ICU beds, it is unlikely that growth in local demand will lead to capacity concerns at the Mountain View hospital in the next five years. In addition, current facility plans under consideration for the Mountain View campus include the possibility of relocating physician offices in the Women's Hospital to make approximately 40,000 square feet available for inpatient use in 2013-14

3. *Financial ability of agency to provide services.*

The District, Corporation and five affiliated non-profit entities collectively held Unrestricted Net Assets of approximately \$440 million as of June 30, 2011, which was 76.3% of annual operating expenses in that year. Of this amount, \$408 million was reportedly held in cash and investments. Other financial indicators suggest that the combined organization is in a strong position compared with Standard and Poors (S&P) A+ rated hospitals: (a) the Hospital operating margin is 9.4% vs. 3.8% for the S&P group; (b) the Hospital profit margin is 8.3% vs. 6.0% for the S&P group; and, (c) the Hospital debt to capitalization ratio is 17.0% vs. 30.9% for the S&P group (i.e., for this indicator, a lower percentage suggests better performance). Therefore, the District's financial ability to provide services is strong.

4. *Status of, and opportunities for, shared facilities.*

No opportunities for shared facilities were identified during the service review.

5. *Accountability for community service needs, including governmental structure and operational deficiencies.*

To improve accountability, the District and the Corporation should establish enhanced budgetary reporting and controls on an accrual basis in order to better reflect the use of District resources. This should include detailed reporting of transfers between entities as well as debt service requirements. In addition, budgetary and financial information should be reported on a component unit level (i.e., separate budgets and financial reports for the District, Corporation and each of the five non-profit entities). These budgets should provide character level detail and be reviewed, discussed and adopted by the respective boards at public hearings.

The governance structure of the District, the Corporation and the five affiliated non-profit entities blurs the distinctions between the organizations. As the "sole member" of the Corporation, the District is able to directly impose its will, financial benefit and financial burden on the Corporation, which link the boards together and creates fiscal dependency. In addition, the Corporation serves as the manager and administrator, not only for the Hospital as a nonprofit public benefit corporation, but also for the District, the Foundation, and the affiliated entities. Accordingly, all financial transactions and activities occur through the accounts and records of the Hospital, further blurring distinctions between the entities.

The District should consider changes that would clearly distinguish between the entities for governance and management purposes. This is discussed more fully in Section 6 of this report. In addition, the District should enhance processes for monitoring expenditures for capital improvements and community benefits, through improved budgeting and more transparent financial reporting.

6. Any other matter related to effective or efficient service delivery, as required by commission policy.

None identified as part of the service review.

The following Statements of Determination respond to the requirements of California Government Code Section 56425:

1. The present and planned land uses in the area, including agricultural and open space lands.

The ECHD has well-developed suburban land use designations without plans for significant changes that would affect the purpose and mission of the District.

2. The present and probable need for public facilities and services in the area.

The El Camino Hospital Mountain View campus provides a vital healthcare service in the community. A review of population projections for the District and the County, as well as analysis and capacity by major service, indicates that additional healthcare capacity is not required at this time. Overall, the County is using only 58.9 percent of its licensed beds and El Camino Hospital Mountain View is using only 47.1 percent of its licensed beds, suggesting sufficient medical facility capacity in the District and County.

3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.

See Statement Number 2.

4. The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.

The commission did not identify any social or economic communities of interest in the area and none were identified as part of the Service Review.

5. The nature, location, and extent of any functions or classes of services provided by the existing district.

Although the District does not directly operate El Camino Hospital, it leases the land, transferred and sold assets, and entered into various agreements with the El Camino Hospital Corporation to operate a hospital on property that it owns in Mountain View. In addition, the District has contributed approximately \$110 million to the Corporation in the past five years

to pay for debt service related to the rebuilding of the Mountain View hospital, other capital improvements and community benefits.

El Camino Hospital is a full service acute care hospital located on a 41-acre campus in Mountain View, California. The campus in Mountain View includes the main hospital, the Women's Hospital, the El Camino Surgery Center, the Breast Health Center, the Oak Dialysis Center, the CyberKnife Center, the Cancer Center in the Melchor Pavilion, the Taft Center for Clinical Research, and the Genomic Medicine Institute. El Camino Hospital Corporation (EHC) also owns the El Camino Surgery Center, LLC, and Silicon Valley Medical Development, LLC, and has 50 percent ownership of Pathways HomeCare and Hospice.

El Camino Hospital is licensed for 374 General Acute Care beds and 25 Psychiatric beds, for a total of 399 beds, based on data available from the California Office of Statewide Health Planning and Development (OSHPD). In 2012, the number of medical-surgical beds at the Hospital will be reduced by 99 beds in the old hospital, from 279 to 180 licensed beds. The total inpatient bed capacity of the Hospital will be reduced to 310, including 285 Acute Care and 25 Acute Psychiatric beds.

Recommendations

There are six governance structure options identified in the report:

1. Maintain the District's boundaries and take measures to improve governance, transparency and accountability;
2. Modify the District's boundaries and/or SOI;
3. Consolidate the District with another special district;
4. Merge the District with a city;
5. Create a subsidiary District, where a city acts as the ex-officio board of the district; or
6. Dissolve the District, naming a successor agency for the purpose of either "winding up" the affairs of the District or continuing the services of the District.

Only options 1, 2, and 6 are viable alternatives for the El Camino Hospital District. Option 2, modifying the District boundaries and/or SOI is not recommended. If District boundaries were expanded, the District would receive more in property tax but would not necessarily provide a greater level of service to District residents. In addition, other local government jurisdictions would lose a portion of their 1% levy, and an additional tax would be imposed on residents within the SOI for ECHD debt service. If the SOI were expanded, there would still not be a greater level of service. Accordingly, *there would be no practical benefit from modifying the sphere of influence to better reflect the Hospital's reach.*

Therefore, the Santa Clara County LAFCo should request:

1. The District to implement improvements in governance, transparency and public accountability, consistent with the suggestions made in this report. These improvements should include the following:

- a. The El Camino Hospital District should limit its financial contributions to El Camino Hospital Corporation to payments for principal and interest on debt incurred by the District for the El Camino Hospital Mountain View Rebuild (i.e., a balance of \$143.8 million in General Obligation Bonds, discussed in Section 4). In addition, the District should cease all automatic contributions to the El Camino Hospital Corporation to support the Hospital capital improvement program or be used as a general revenue source. Instead, LAFCo should seek a legal interpretation of the applicability of GAL to the District and, if permitted by law, the District should divert these funds to community benefit programs that more directly benefit the residents of the District. Had this been the practice over the past five years, additional community benefit dollars amounting to approximately \$73.7 million would have been available to directly benefit District residents. Should contributions exceed the 50% threshold pursuant to 32121 (p)(1), a vote may be required.
- b. Cease all automatic payments to the El Camino Hospital Corporation or its affiliates to support the Corporation's community benefit program and divert these funds to other programs that more directly benefit the residents of the District. Under this approach, 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. While the Corporation and its affiliates should not be barred from receiving community benefit grants from the District, the organizations should be required to compete for dollars along with other providers that might offer services.⁷
- c. 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, such as 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 (for example, the district should adopt a capital improvement plan), staffing and operations (including compensation paid to District Board members and/or employees and consultants, if any), and community benefit programs by grant category and recipient. In addition, the District Board should routinely appropriate all property taxes and non-operating revenues each fiscal year to prevent accumulation of resources,

⁷ Of the \$73.7 million, \$21.2 million was restricted for capital use in accordance with the Gann Appropriations Limit. As previously noted, there is debate as to the applicability of the Limit to health care districts. In any event, whether for services or for capital use, the expenditure of property tax revenues should be more directly aligned with property tax payers and residents of the District.

except in designated reserves or trust funds. A strengthened budget monitoring and reporting system should be established to ensure funds, such as community benefit grants, are being spent in accordance with Board policy.

- d. 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 to differentiate between the two entities. 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.
2. If the improvements described in Recommendation 1 cannot be accomplished by the District within 12 to 18 months of acceptance of this report, or if the Corporation continues to purchase property outside of the District boundaries, request that the District Board initiate changes to the governance structure. If such changes are not initiated within six months of the request for the governance change, begin actions toward dissolution of the El Camino Hospital District.

If the District is not able to implement the suggested reforms within 12 to 18-months, acting as the El Camino Hospital Corporation Board of Directors, the Board should remove the District as the "sole member" of the Corporation and change the membership of the Corporation Board to include majority representation by individuals other than members of the ECHD Board of Directors. This action would result in full control of the Corporation by its Board of Directors and remove the District from its current role in corporate governance. Further, by changing the composition of the Corporation Board, the separation and independence of the two Boards would be complete and the actions of the separate boards would be distinct, allowing for greater accountability and transparency.

We believe the separation and independence of the two Boards is an appropriate action due to the purchase and operation of the Los Gatos Hospital campus, which is located outside of the District boundaries and SOI. This fundamental shift in operating and business strategy has moved the Corporation (and by extension, due to Board's role governing both the Corporation and the District) the District away from its principal role as a public entity serving and benefiting District residents. Nonetheless, although we believe separate governance would be the best approach under this alternative, it may be prudent to initially allow the District to attempt reforms referred to in Recommendation 1, before taking the step of requiring modifications to the governance of the two entities.

If satisfactory reforms are not accomplished within the periods suggested, Santa Clara County LAFCo should consider dissolution of the District and make findings in accordance with Government Code Section 56881(b), as follows:

- (1) Public service costs . . . are likely to be **less than or substantially similar** to the costs of alternative means of providing service.

- (2) A change of organization or reorganization that is authorized by the commission **promotes public access and accountability** for community services needs and financial resources. (Emphasis added).

In addition, Santa Clara County LAFCo would need to identify a successor agency to implement the wind-up of the District, in accordance with Government Code Section 57451.

GC Section 56881(b)(1) Determination – Public Service Cost

During the past five years, \$110.2 million in property taxes collected by the El Camino Hospital District and other non-operating revenue (e.g., investment income) have been used very specifically to support El Camino Hospital Mountain View. Under this scenario, the District would be dissolved, the successor agency would assume the remaining debt on the General Obligation bonds, and it is assumed the Corporation would continue to operate the hospital. Therefore, the public service cost would be “substantially the same” for these expenses as currently.

Contributions toward community benefits and the transfer of surplus District funds, representing nearly 60 percent of total contributions to the Corporation during the past five years, would clearly represent a decline in hospital income going forward and community benefits could potentially decline, unless the Corporation chose to continue contributing at current or increased levels from other sources of funds. Two other factors related to these transfers should also be recognized by LAFCo:

1. The contributions to community benefits, amounting to 19.2% of the total contributions made by the District, have generally gone toward programs that support the Hospital’s general mission of providing healthcare services to the broader region. With dissolution, District residents would no longer be paying taxes to support community benefit services that are presently available to residents and non-residents alike.
2. Similarly, a substantial portion of the transfers (47.6%) have been used for capital improvements at the Hospital, due to factors related to the Gann Appropriation Limit, and have allowed the Corporation to accumulate surplus net assets sufficient to purchase Los Gatos Hospital and expand the Corporation service territory, well outside of the District boundaries and Sphere of Influence. Based on the service review, at most, 43 percent of inpatient services and 54 percent of emergency services are provided to District residents. As with community benefits, District residents would no longer be paying taxes to support the cost of Hospital services that are presently available to residents and non-residents alike.

Based on these factors, in accordance with Government Code Section 56881(b)(1), public service costs are likely to be **less than or substantially similar to** the costs of alternative means of providing service under a dissolution alternative. Although the total property tax burden would not be reduced for District residents, property tax receipts would be reapportioned to other jurisdictions within the District’s tax rate areas, resulting in additional resources for police, fire, schools and other services provided to District residents.

GC Section 56881(b)(2) Determination – Promoting Public Access and Accountability

This report has identified several weaknesses in governance, transparency and public accountability due to the present relationship between ECHD and the Corporation. The audit found that, although they are legally separate entities, there is no functional distinction between District and Corporation governance, management and finances. The audit was unable to draw a clear distinction between Corporation income and District funds that allowed the Corporation to accumulate surplus net assets sufficient to acquire Los Gatos Hospital. Without distinct governance and full transparency, public accountability is weakened. With the dissolution of the District, public access and accountability would no longer be a concern.

GC Section 57451 Identifying a Successor Agency for Purposes of Winding Up the District

In the event of dissolution, Government Code Section 57451 would require Santa Clara County LAFCo to identify a successor agency for purposes of winding up the affairs of the District. The city that contains the greater assessed value of all taxable property within the territory of the dissolved district will be the successor agency pursuant to Government Code § 57451.

Implementing Dissolution

Under the Dissolution alternative, Santa Clara County LAFCo would dissolve the District and initiate steps to wind-up the organization. To achieve dissolution, the following issues would need to be resolved:

1. A successor agency would need to be identified.
2. The financial relationship between the District and the Corporation would need to be wound-up, including an equitable settlement for various leases and agreements, and asset and liability disposition.

While dissolution could be justified in accordance with Government Code §56881(b)(1) and §56881(b)(2), these issues should be considered and resolved prior to initiating the dissolution.

1. Introduction

Harvey M. Rose Associates, LLC is pleased to present this *Audit and Service Review of the El Camino Hospital District* prepared for the Santa Clara County Local Agency Formation Commission (LAFCo). This audit and service review was conducted under authorities granted to the Santa Clara County LAFCo that are contained in California Government Code Section 56000, et seq., known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act).

Methodology

The audit portion of the project was conducted in accordance with *United States Government Auditing Standards, 2011 Revision*, as promulgated by the Comptroller General of the United States. The Service Review component was conducted in accordance with the CKH Act and other relevant sections of State law, LAFCo policies, and LAFCo's Service Review Guidelines, as promulgated by the Governor's Office of Planning and Research.

Scope and Objectives

The scope of the project was designed to provide information to the Santa Clara County LAFCo on required objectives described in the CKH Act, including analysis of the following:

1. Growth and population projections for the affected area.
2. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.
3. Financial ability of agencies to provide services.
4. Status of, and opportunities for, shared facilities.
5. Accountability for community service needs, including governmental structure and operational efficiencies.
6. Any other matter related to efficient or effective service delivery, as required by commission policy.

The audit was designed to answer specific questions related to the El Camino Hospital District's governance structure; its financial relationship to the El Camino Hospital Corporation and affiliated non-profit organizations; the financial condition of the District and Corporation; the availability of reserves; the source and use of taxpayer funds used for hospital operations, capital improvements and the acquisition of the Los Gatos Hospital campus; and other related topics. A full listing of these questions can be obtained from the Santa Clara County LAFCo Request for Proposals related to this project.

Harvey M. Rose Associates, LLC

The Audit and Service Review was conducted between December 12, 2011 and April 30, 2012. At the conclusion of the field work phase of the project, a draft report was produced and exit conferences were held with responsible Santa Clara County LAFCo and District officials for quality assurance purposes and to obtain comments on the report analysis, conclusions and recommendations. A final report was submitted to Santa Clara County LAFCo on May 23, 2012 for public review and comment.

Project Objectives

Established in 1956 to provide healthcare services to rural populations, the El Camino Hospital District grew to become a major healthcare and hospital service provider in Northern Santa Clara County. Over the years, methods of providing services evolved. In 1992, the El Camino Hospital Corporation was created and major assets of the District were transferred, leased or sold to the Corporation. Thereafter, the District designated the Corporation as the entity responsible for providing direct services to District residents. Beginning in 1997, the District assumed control of the Corporation as its “sole member”.

In 2009, the Corporation expanded operations by purchasing the Los Gatos Hospital campus, which is located outside of the District and Sphere of Influence (SOI). This action precipitated the questions that are the subject of this audit and service review. In addition, in 2011, the Santa Clara County Civil Grand Jury criticized the District and Corporation for unclear accountability, lack of financial and organizational transparency, and actions it had independently undertaken to acquire the Los Gatos Hospital campus without first seeking approval from Santa Clara County LAFCo. In light of these concerns, the Santa Clara County LAFCo decided that it wanted to do its own evaluation of these questions.

As a result, the primary objective of the proposed Audit and Service Review was to provide answers to the following two questions:

1. Is the El Camino Hospital District providing services outside of its boundaries?
2. Should the District continue to exist and/or continue to receive public funds or could another entity provide the District’s services more efficiently?

This Audit and Service review responds to these questions and provides recommendations to help guide Santa Clara County LAFCo as it makes decisions regarding the El Camino Hospital District.

2. El Camino Hospital District and Its Affiliates

The El Camino Hospital District is a political subdivision of the State of California, formed pursuant to the Local Hospital District Law, now known as the Local Health Care District Law, which is codified in Health and Safety Code Sections 32000-32492. According to the California Healthcare Foundation,¹ the intent of the 1945 law was “to give rural, low income areas without ready access to hospital facilities a source of tax dollars that could be used to construct and operate community hospitals and health care institutions, and, in medically underserved areas, to recruit physicians and support their practices.”²

Today, the El Camino Hospital District is comprised of six legal entities, including the District and five non-profit organizations. The District’s financial statements for the Years Ended June 30, 2011, 2010 and 2009, describe the District and its affiliates, as follows:

El Camino Hospital District is comprised of six (6) entities: El Camino Hospital District (the “District”), El Camino Hospital (the “Hospital”), El Camino Hospital Foundation (the “Foundation”), CONCERN: Employee Assistance Center (CONCERN), El Camino Surgery Center (“ECSC”), and Silicon Valley Medical Development, LLC (“SVMD”).

According to the financial statements and other miscellaneous documents reviewed for this Audit and Service review:

- The Corporation and three of its four affiliated entities are non-profit organizations, created pursuant to Section 501(c)(3) of the Internal Revenue Code. The fourth affiliated entity, CONCERN, was created pursuant to IRC Section 501(c)(4).
- The District is the “sole member” of the Hospital Corporation.
- The Hospital is the “sole member” of the Foundation and CONCERN.
- ECSC was established as an LLC with the Hospital and a group of physicians as members. However, the Hospital purchased all physician shares of ECSC, LLC on August 31, 2011 and is now the sole owner.
- SVMD was formed in 2008 as a wholly owned subsidiary of the Hospital.

Even though these organizations are recognized as separate legal entities by the State of California, the thread of ownership and control over the activities and finances of these organizations lead directly back to the El Camino Hospital District.

¹ According to the *Financial Statements of the California Health Care Foundation and Subsidiary, February 28 2011 and 2010*, the “California Healthcare Foundation . . . is a philanthropic organization established as a tax exempt, nonprofit corporation under Section 501(c)(4) of the Internal Revenue Code and the California Tax Code. The Foundation’s primary purpose is to promote the availability of, and access to, quality and affordable health care and related services to the people of California . . .”

² April 2006, California Healthcare Foundation by Margaret Taylor, “California’s Health Care Districts”

The governance and financial relationships of these organizations are explored more fully in Section 4 of this report. As described in that section, although each of these organizations have been established as separate legal entities, from a financial perspective and when applying various sections of State law that govern the behavior of public entities, the District and the Corporation are considered to be indistinguishable from one another.

Most notably, when the Corporation was created in 1992, its Board of Directors consisted of a mix of community members as well as District Board members. In 1996, the District prevailed in a lawsuit to regain public control of Corporation activities. Pursuant to the settlement agreement derived from that lawsuit, the District was then established as the Corporation's sole member, all of the District's elected Board members were installed as the Corporation's Board, and the Hospital's Chief Executive Officer (CEO) was added to the Corporation Board as a director. The fact the CEO is hired and may be terminated by the Corporation Board, ensures that the elected District Board of Directors maintains complete control over the Corporation.

As the sole member of the Corporation, the District Board has the ability to alter the Corporation's Board membership and, therefore, maintains control of, and is accountable for, the Hospital Corporation. Even if the boards were not the same, there are other characteristics, such as the District's ability to impose its will, financial benefit and financial burden on the Corporation, which link the boards together and create fiscal dependency.

Timeline of Key Events

Throughout this report, certain key events help to describe and explain the current relationship between the El Camino Hospital District and the Corporation. Explained more fully in the body of the report, the timeline on the next page provides a visual depiction of the evolving relationship between the two organizations, since the passage of the California Healthcare District Law in 1945 and the creation of the ECHD in 1956, through the term of the Amended Ground Lease through 2044.

Exhibit 2.1
100-Year Timeline of Key Events Affecting El Camino Hospital District and Corporation

Healthcare District Law (HCDL) Enacted	El Camino Healthcare District (ECHD) Created by Vote of the Area Residents											HCDL Amended/ Expands & Clarifies Healthcare District Function and Powers	SB 1169 allows healthcare districts "to do any and all things that are necessary for . . . promoting health service"	CA SB 697 requires non-profit hospitals to plan for and report on community benefits											Voters Approve Measure D, Authorizing \$148 M in General Obligation Bonds for ECHD	Grand Jury Criticizes ECHD for Los Gatos Campus Acquisition	Santa Clara County LAFCo Initiates Service Review and Audit																	
1945	1956											1994											2003											2011	2012									
1956 to 1992		1992			1992 to 1996				1998				2004	2006	2007	2008		2009												2022	2044													
ECHD Develops and Operates Mountain View Hospital		El Camino Healthcare System (ECHS) Created to Operate the Hospital			30-Year Ground Lease, Building Sale and Asset Transfer Executed Between ECHD and ECHS				ECHS Operates Mountain View Hospital, which Is Governed By Separate Board.		ECHD Sues to Regain Control of the Hospital.		Lawsuit Settlement Agreement Establishes District as "sole member" of the ECHS. The ECHD Board Regains Control.		ECHS Corporation Name Is Changed to El Camino Hospital Corporation (ECHC)		Ground Lease Term Extended by 20-Years to 2044		ECHD Borrows \$148 M in General Obligation Bonds		ECHC Borrows \$150M in Tax Exempt Revenue Bonds		ECHC Establishes Community Benefit Advisory Council		ECHC Publishes Its First Community Benefit Report		ECHC Purchases Los Gatos Campus		ECHC Borrows \$50M in Tax Exempt Revenue Bonds												Original 30-Year Ground Lease Term Expires		Extended Ground Lease Term Expires	

Key:

Above the Timeline: Law changes, elections and other external events.

Below the Timeline: Key events and actions taken by the ECHD and/or ECHC.

3. Hospital Districts in California

In 1945, in response to the shortage of acute care services in rural areas of the state, the California legislature enacted the Local Hospital District Law, now known as the Local Health Care District Law, which is codified in Health and Safety Code Sections 32000-32492. According to the California Healthcare Foundation, the intent of the law was “to give rural, low income areas without ready access to hospital facilities a source of tax dollars that could be used to construct and operate community hospitals and health care institutions, and, in medically underserved areas, to recruit physicians and support their practices.”¹

The health care district authorizing law has been amended multiple times since its original passage, largely for the purpose of expanding the powers and discretion of the healthcare districts. The law today allows districts wide discretion in how they choose to deliver services. The following key subsections of Health and Safety Code Section 32121 (Powers of local hospital districts), delineate these powers.

(c) To purchase, receive, have, take, hold, lease, use, and enjoy property of every kind and description within and without the limits of the district, and to control, dispose of, convey, and encumber the same and create a leasehold interest in the same for the benefit of the district.

(i) To do any and all things that an individual might do that are necessary for, and to the advantage of, a health care facility and a nurses’ training school, or a child care facility for the benefit of employees of the health care facility or residents of the district.

(j) To establish, maintain, and operate, or provide assistance in the operation of, one or more health facilities or health services, including, but not limited to, outpatient programs, services, and facilities; retirement programs, services, and facilities; chemical dependency programs, services, and facilities; or other health care programs, services, and facilities and activities at any location within or without the district for the benefit of the district and the people served by the district.

(k) To do any and all other acts and things necessary to carry out this division.

(m) To establish, maintain, and operate, or provide assistance in the operation of, free clinics, diagnostic and testing centers, health education programs, wellness and prevention programs, rehabilitation, aftercare, and any other health care services provider, groups, and organizations that are necessary for the maintenance of good physical and mental health in the communities served by the district.

(o) To establish, maintain and carry on its activities through one or more corporations, joint ventures or partnerships for the benefit of the health care district.

As these subsections illustrate, health care districts are authorized to engage in essentially any lawful activity, as long as the activity supports the health care mission in the communities served by the district. Additionally, health care districts may carry out these activities at any location in or outside the district boundaries, as long as the activity is for “the benefit of the district or the people served by the district.”

Further, healthcare districts may carry out their missions through a wide variety of organizational structures. Beginning in 1994, with the passage of Senate Bill (SB) 1169, healthcare districts were allowed to sell, lease and transfer assets and establish alternative operational structures for the furtherance of their missions. These changes are described in more detail later in this section.

¹ Margaret Taylor, “California’s Health Care Districts,” California Healthcare Foundation, April 2006.

As a result of the passage of SB 697 in 1994², health care districts are required to prepare and submit community benefit reports to the Office of Statewide Health Planning and Development (OSHPD) annually. According to the declaration of the law, the intent of the requirement is for health care districts to demonstrate how they meet their “social obligation to provide community benefits in the public interest” as a public entity with taxing authority.

Characteristics of Health Care Districts

As of February, 2012, there were 73 healthcare districts in California³. As shown in Table 3.1, of the 73 districts, 43 directly operate a hospital; four directly operate ambulance services; and 15 directly operate other “community-based services”, which are typically ambulatory care clinics. The remaining 11 districts, including El Camino Hospital District, have sold or leased their hospitals to non-profit or for-profit organizations, as discussed in more detail in the next section.

Table 3.1
Summary of Healthcare Districts by Type

Total Healthcare Districts in California	73
Healthcare Districts directly operating:	62
<i>Hospital</i>	43
<i>Ambulance services</i>	4
<i>Other “community-based services”</i>	15
Healthcare Districts that sold or leased a hospital to another organization	11

Source: Association of California Healthcare Districts

Of the 73 districts, 31 are designated as rural by the State of California and the remaining 42 are located in more populated areas. The districts are geographically distributed throughout the state, across 38 counties.

According to the most recent information published by the Office of the State Controller⁴, 54 healthcare districts received an apportionment of property taxes during the fiscal year that ended June 30, 2010, as shown below in Figure 3.1. These apportionments ranged from a minimum of \$102,094 for Muroc Hospital District in Kern County, to a maximum of \$27,608,967 for Palomar Pomerado Hospital District in San Diego County.⁵ The average property tax

² California Health and Safety Code, Sections 127340-127365

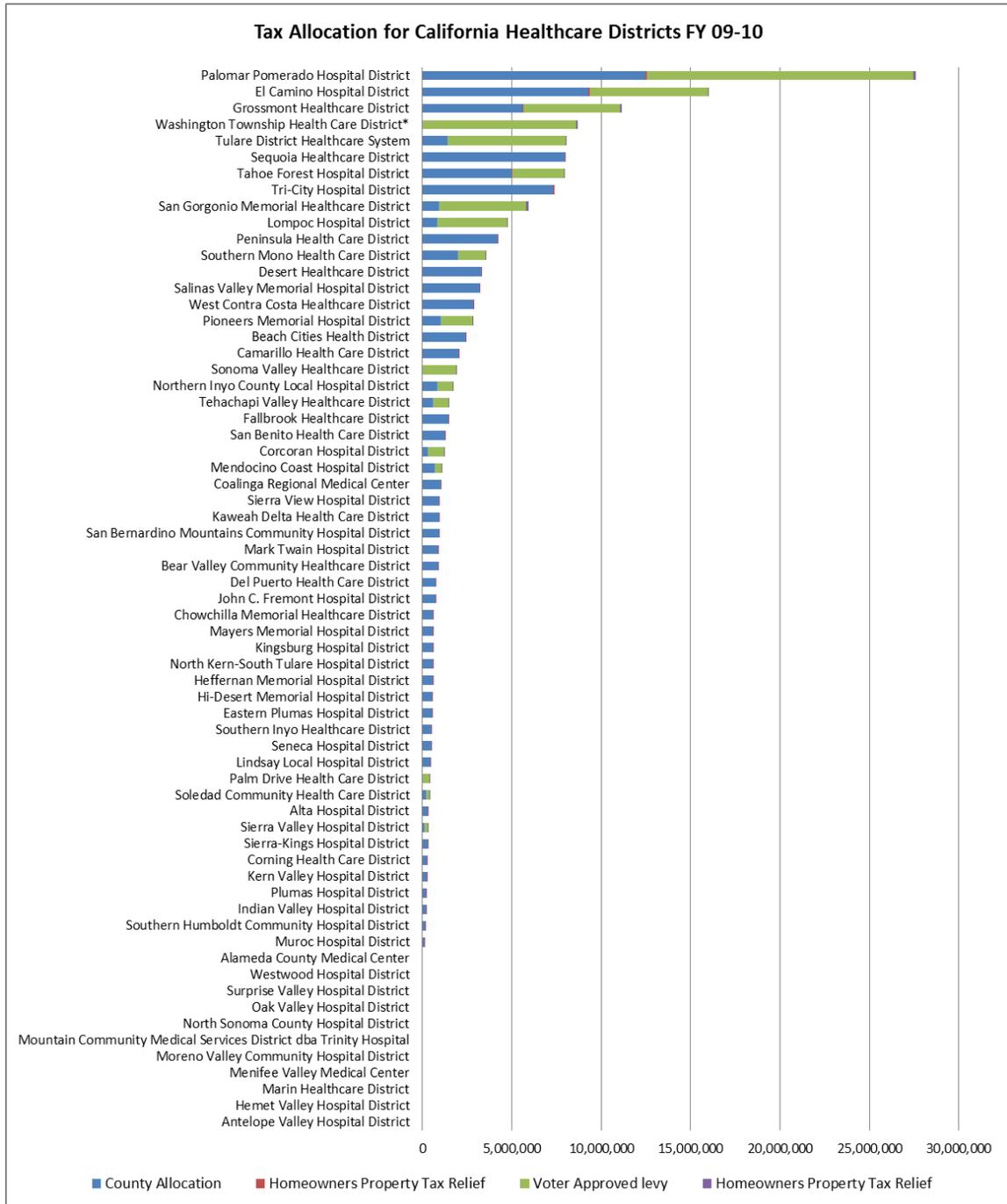
³ According to the Association of California Healthcare Districts, an additional four organizations are currently registered as a healthcare district with the Secretary of State’s Office, but either do not self-identify as a healthcare district (Lindsay Local Hospital District, Sierra Valley Hospital District and Selma Community Hospital) or have filed for bankruptcy and closed but have not yet dissolved as a district (Alta Hospital District).

⁴ Special Districts Annual Report, California State Controller, December 13, 2011.

⁵ Five districts serve multiple counties and, therefore, receive property tax apportionments from multiple counties. The analysis provided here is based on the aggregate property tax allocations received by each district.

apportionment was \$2,575,545, while the median property tax apportionment was \$908,941, reflecting the small number of districts receiving a high dollar value property tax apportionment. El Camino Hospital District received \$16,016,747 in property tax apportionment monies in FY 2009-10, second only to Palomar Pomerado Hospital District and twice as much as the third highest allocation in California.

Figure 3.1



Source: California State Controller Special Districts Annual Report, FY 2009-10

According to the Association of California Healthcare Districts, 11 of the 73 healthcare districts operating in California as of February 2012, including El Camino Hospital District, had sold or leased their hospitals to another non-profit or for-profit organization.⁶ These arrangements were allowed under state law enacted in 1994, with the passage of California Senate Bill 1169, which amended the Local Healthcare District Law. This legislation changed regulations governing transfers of property, conflicts of interest, health care trade secrets and the public meeting act, lease agreements, and sales of property and assets.⁷ Most significantly, SB 1169 authorized healthcare districts to sell or lease their hospitals, property and operations to private organizations. Subsequently, many healthcare districts chose to reorganize by selling or leasing their hospitals in order to take advantage of the features of the amended law that allowed them to compete with private hospitals and, in some respects, behave more like private hospitals.

ECHD is unique, however, because each of the other ten districts sold or leased their hospitals to well-established, multi-hospital systems, including Sutter Health, St. Joseph Health System, and Catholic Healthcare West. On the other hand, ECHD participated in the creation of a non-profit hospital corporation that was established for the sole purpose of providing the health care services previously provided directly by the District. Although this mission has changed with the purchase of the Los Gatos facility, as discussed in other sections of this report, the governance structure and shared financial management of ECHD and the El Camino Hospital Corporation blur distinctions between the two organizations. In those districts where assets were sold to multi-hospital systems, hospital and district organizations are distinct, with separate governance and financial management structures.

The only exception of the ten other districts that sold or leased their hospitals is Marin Healthcare District. In 1985, Marin Healthcare District leased its hospital to Marin General Hospital Corporation, a private non-profit organization, which soon thereafter entered into an affiliation with California Healthcare Systems. In 1995, California Healthcare Systems merged with Sutter Health, which operated Marin General Hospital for several years. In 2006, a transfer agreement was executed between the District and Sutter Health, beginning the process of transferring control of the Hospital back to the District. In 2010, the District regained full control of the Hospital. However, unlike ECHD, the District board and the non-profit corporation board are composed of entirely different individuals.

Affiliations with Non-Profit Entities

Many health care districts and hospitals in California are affiliated with non-profit entities, such as charitable foundations or physician employee groups. In addition to the hospital corporation, ECHD includes the El Camino Hospital Foundation, the CONCERN Employee Assistance Program, the El Camino Surgery Center, LLC, and the Silicon Valley Medical Development, LLC as component units in its financial statements, meaning that these entities are financially

⁶ This does not include Redbud Healthcare District, which sold its hospital to Adventist Health in 1997. The hospital currently has no connection to the District.

⁷ "California's Health Care Districts," prepared for the California Healthcare Foundation by Margaret Taylor, April 2006.

linked or dependent upon the hospital.⁸ The financial relationships between these affiliated organizations are described in more detail in Sections 3 and 5 of this report.

Each of the eight health care districts in California that received more than \$5 million in property tax allocations in FY10⁹ were affiliated with a non-profit charitable foundation. By contrast, only half of the ten health care districts that had leased or sold their hospitals to a private entity appear to operate a foundation. However, most of those districts offer grant programs directly to the community and not through a third party entity, such as a foundation.

Community Benefit Comparisons

California Health and Safety Code Sections 127340-127365 require private not-for-profit hospitals to plan for and report on the actual provision of community benefits. Each year, hospitals must submit a community benefits report to the Office of Statewide Health Planning and Development (OSHPD), delineating the actual resources contributed toward community benefits programs during the previous year, and presenting the hospital’s plan for community benefits programs in the upcoming fiscal year.

As discussed in Section 5, in 2008 the El Camino Hospital Corporation established a Community Benefit Advisory Council as part of an effort to increase community benefits that it provides. According to its 2011 Community Benefit Report¹⁰, the El Camino Hospital provided a total of \$54,798,440 of community benefit in FY 2011, \$5,039,698 of which was funded directly with District resources, as shown below in Tables 3.2 and 3.3.

**Table 3.2
Total Community Benefit Provided by El Camino Hospital in FY 2011**

Government-sponsored health care (unreimbursed Medi-Cal care)	\$23,639,790
Subsidized health services funded through hospital operations	\$20,616,112
Financial and in-kind contributions	\$4,002,154
Traditional charity care funded through hospital operations	\$2,772,576
Community Health Improvement Services	\$1,857,998
Health professions education funded through hospital operations	\$1,171,764
Clinical research funded through hospital operations	\$402,216
Community benefit operations funded through hospital operations	\$185,830
Government-sponsored health care (means-tested programs)	\$150,000
Total Community Benefit, FY 2011	\$54,798,440

Source: El Camino Hospital 2011 Community Benefit Report, unaudited financial data

⁸ The Governmental Accounting Standards Board (GASB) Statement No. 14 technical summary states, “The definition of the reporting entity is based primarily on the notion of financial accountability” and describes the conditions under which financial accountability may be established.

⁹ The FY 2009-10 data is the most recent available from the California State Controller.

¹⁰ El Camino Community Benefit Report, July 2010 – June 2011.

As shown in Table 3.2, the vast majority of El Camino Hospital’s reported community benefit represents the unreimbursed portion of costs for care provided to Medi-Cal and other uninsured or underinsured recipients, other subsidized health services and charity care (shaded rows in Table 3.2), all of which are quantified using an industry standard ratios of costs to charges. While the provision of unreimbursed care is considered a community benefit by State and federal guidelines, these costs are usually accounted for by expected net revenue formulas that result from payer contracts, and are part of the hospital budgeting of revenue (total charges less contractual adjustments) for their expected payer mix. In other words, anticipated losses from providing unreimbursed care are typically recovered from other payers. The remaining categories of community benefit, including financial and in-kind contributions, community health improvement services, education and research, amounted to less than \$8 million in 2011.

The portion of the Hospital’s FY 2011 total community benefit of \$5,039,698 that was funded by the District, is delineated by category in Table 3.3, below.

**Table 3.3
Portion of Community Benefits Funded by the District in FY 2011**

Community health improvement services (community health education, community-based clinical services, health care support services) provided at Mountain view location – includes Partners for Community Health (PCH) programs	\$1,603,074
Financial and in-kind contributions (cash donations, grants, sponsorships) provided at Mountain View location – includes PCH programs	\$3,361,624
Government-sponsored health care (means-tested programs) provided at Mountain View location – includes Healthy Kids, a PCH program	\$75,000
Total District-funded Community Benefit in FY 2011	\$5,039,698

Source: El Camino Hospital 2011 Community Benefit Report unaudited financial data available on website. Report includes detailed as well as summary data.

According the District’s financial statements, this contribution is funded entirely by the District’s property tax revenue apportionment (see Section 5). In total, the District received \$15,793,000 in property taxes during FY 2011, \$6,643,000 of which was levied for debt service used to finance improvements to the Mountain View Hospital, \$3,368,000 of which was designated to support unspecified capital projects, and the remainder which was designated to support the community benefit program¹¹.

Due to the following factors, it is not possible to provide a comprehensive State-wide comparison of community benefits provided by healthcare districts. First, small, rural and non-acute hospitals are exempt from the community benefit reporting requirement, which means that a sizable portion of healthcare district hospitals are exempt and do not produce a report. Second, according to OSHPD, several hospitals are delinquent in meeting the reporting requirement. In

¹¹ The amount of District funded community benefit shown in the Hospital’s Community Benefit Report (\$5,039,698) differs from that reported in the District’s audited financial statements (\$5,782,000). The difference is attributable to financial reporting and timing differences.

addition, while some hospitals that are operated by larger health systems provide community benefit reports, data is not disaggregated by individual hospital.

Accordingly, four of the ten healthcare districts that have sold or leased their hospitals to other entities do not produce a community benefit report¹². Of the remaining six that produce a community benefit report, five do not produce annual financial reports of their own and are instead included on a combined basis in their “parent” health system’s financial statements. Therefore, precise comparisons with El Camino Hospital District cannot be made.

Nonetheless, Table 3.4 below shows the community benefit expenses as a percentage of total operating expenses reported by El Camino Hospital and each of the six other district hospitals that produce a community benefit report and are operated by a non-district entity. The most recent available financial statements were used for each hospital (either 2010 or 2011). Three categories of community benefits are presented: (1) the subtotal of uncompensated care, charity care, and other subsidized health care services, (2) the subtotal of all other reported community benefits, including cash and in-kind donations, education, and research, and (3) the total reported community benefit¹³. The operating organization’s system-wide community benefit information is shown below each “subsidiary” hospital.

For example, Mark Twain Hospital and Sequoia Hospital are operated by Catholic Healthcare West (CHW) and while each hospital has its own community benefit report, neither hospital has its own financial report. The table shows the individual hospitals’ reported community benefit expense, but not overall expense. In order to understand its community benefit investment as a percentage of overall expenses, the Catholic Healthcare West system-wide data is shown below Mark Twain and Sequoia Hospitals. As Table 3.4 on the next page shows, El Camino Hospital’s reported proportional community benefit expense is within the range of community benefit investment made by the other five hospital district organizations that report such information. El Camino Hospital reports that 8.2 percent of total operating expenses represent uncompensated/charity care community benefits, while the other five hospitals report uncompensated/charity care community benefits that range between 6.7 percent to 9.3 percent of total operating expenses. For all other types of community benefits (including cash, in-kind donations, education and research), El Camino spends 1.3 percent of total operating expenses, while the other five range from 0.7 percent to 2.4 percent. On an aggregate basis, El Camino Hospital reports a slightly higher proportion of community benefit at 9.5 percent of total operating expenses, with the other five ranging from 7.9 to 9.3 percent.

In addition to comparisons with other hospitals performing services for health care districts, an analysis was conducted to compare El Camino Hospital with other hospitals within the County. However, many of these hospitals do not produce community benefit reports. Therefore, since the major portion of reported community benefits are comprised of contributions to Government Sponsored Health Care and Charity Care, this analysis compared total Medi-Cal Inpatient Days as a percentage of Total Inpatient Days for El Camino and other area hospitals.

¹² Fallbrook, Desert, Mt. Diablo, and Peninsula.

¹³ Not including unreimbursed Medicare, which was not consistently reported.

**Table 3.4
Community Benefits Reported by Healthcare District Hospitals
That Have Sold or Leased Hospitals to Another Entity**

Healthcare District Name	Hospital Name (affiliations shown in parentheses)	Fiscal Year	Operating Expenses	Uncompensated/ Charity Care	Uncompensated/ Charity Care as % of Operating Expenses	Other Community Benefits	Other Community Benefits as % of Operating Expenses	Total Community Benefit*	Total Community Benefit* as % of Operating Expenses
El Camino	El Camino Hospital	2011	577,102,000	47,178,478	8.2%	7,619,962	1.3%	54,798,440	9.5%
Marin	Marin General Hospital	2010	318,900,333	25,673,633	9.3%	3,984,098	1.2%	29,657,731	9.3%
Eden Township	Eden Medical Center (Sutter)	2010	(see Sutter)	25,730,000	(see Sutter)	2,295,000	(see Sutter)	28,025,000	(see Sutter)
	Sutter	2010	8,431,000,000	625,000,000	7.4%	126,000,000	1.5%	751,000,000	8.9%
Mark Twain	Mark Twain Hospital (CHW)	2010	(see CHW)	2,933,195	(see CHW)	159,806	(see CHW)	3,093,001	(see CHW)
Sequoia	Sequoia Hospital (CHW)	2010	(see CHW)	6,433,824	(see CHW)	1,794,795	(see CHW)	8,228,619	(see CHW)
	Catholic Healthcare West "CHW"	2011	10,367,804,000	698,902,000	6.7%	248,150,000	2.4%	947,052,000	9.1%
Petaluma	Petaluma Valley Hospital (St. Joseph)	2010	(see St. Joseph)	9,065,000	(see St. Joseph)	15,000	(see St. Joseph)	9,080,000	(see St. Joseph)
	St. Joseph	2011	4,031,603,000	288,834,000	7.2%	30,088,000	0.7%	318,922,000	7.9%
Grossmont	Grossmont Hospital (Sharp)	2010	unavailable	81,625,224	unknown	2,369,048	unknown	83,994,272	unknown
Mount Diablo	John Muir Medical Center (John Muir Health)	2010	unavailable	24,212,000	unknown	15,025,000	unknown	39,237,000	unknown
Fallbrook	Fallbrook Hospital	No Community Benefit Report Produced							
Desert	Desert Regional Medical Center (Tenet)	No Community Benefit Report Produced							
Peninsula	Mills-Peninsula (Sutter)	No Community Benefit Report Produced							

Source: Community benefit reports filed with OSHPD and hospital financial statements.

As shown in Table 3.5 on the next page, approximately six percent of ECH inpatient hospital days represented Medi-Cal days at El Camino Hospital, while other area hospitals reported between two percent and 21 percent of inpatient hospital days as Medi-Cal days (excluding Santa Clara Valley Medical Center, which is the County hospital).

Table 3.5
Medi-Cal Inpatient Days as a Percentage of Total Days
Santa Clara County Hospitals

Facility	Medi-Cal Days	Total Days	% Medi-Cal Days
KAISER FOUNDATION HOSPITAL - SANTA CLARA	1,778	88,874	2%
KAISER FOUNDATION HOSPITAL - SAN JOSE	1,446	50,285	3%
EL CAMINO HOSPITAL	4,832	79,939	6%
GOOD SAMARITAN HOSPITAL- SAN JOSE	6,783	82,942	8%
STANFORD UNIVERSITY HOSPITAL	18,200	134,394	14%
O'CONNOR HOSPITAL	11,463	59,098	19%
REGIONAL MEDICAL CENTER OF SAN JOSE	11,608	56,433	21%
ST. LOUISE REGIONAL HOSPITAL	2,617	12,496	21%
SANTA CLARA VALLEY MEDICAL CENTER	62,801	123,551	51%
Grand Total	121,528	688,712	18%

Source: OSHPD "Hospital Summary Individual Disclosure Report", Financial and Utilization Data by Payer

Therefore, when analyzing a significant surrogate measure of community benefit provided by hospitals within the County, ECHD provides a lower percentage of Medi-Cal patient days than all but the Kaiser Foundation hospitals in the County and only one-half to one-third of the services that are provided to this population by Stanford University Hospital and O'Connor Hospital.

Findings and Conclusions

El Camino Healthcare District (ECHD) is one of eleven healthcare districts that have sold or leased a hospital to a private corporation. ECHD is unique among these districts because the other ten sold or leased their hospitals to larger multi-hospital systems¹⁴.

ECHD receives the second highest amount of property taxes of any healthcare district in the State, two-thirds of which is spent on capital contributions and debt service and one-third of which is spent on community benefits. The El Camino Hospital community benefit contributions are within the range reported by other hospital district service providers throughout the State, including major, multi-hospital organizations. Within Santa Clara County, El Camino Hospital provides a lower percentage of Medi-Cal Inpatient Days than many area hospitals at six percent, while others provide as much as 21 percent (excluding Santa Clara Valley Medical Center, which is a public hospital).

Overall, although receiving more property taxes than all but one other healthcare district in the State, community benefit contributions of ECHD do not distinguish it from other healthcare districts in the State or hospital operations within the County.

¹⁴ In 2010, Marin Healthcare District regained full control of Marin General Hospital.

4. Audit of the El Camino Hospital District

El Camino Hospital District and Its Component Units

The El Camino Hospital District (ECHD) is one entity from a financial perspective. In the District's financial statements, the reporting entity is comprised of the primary government ("District"); as well as several non-profit organizations, including the El Camino Hospital Corporation ("Corporation"), the El Camino Hospital Foundation ("Foundation"), and other smaller entities. In other words, for financial reporting purposes, the El Camino Hospital District is a single consolidated organization that includes multiple component units.

Government structure in California is complex, varying in services that are provided, the manner in which services are provided, the relationships with other governmental and non-governmental entities, and legal structure. However, Generally Accepted Accounting Principles (GAAP) provide authoritative guidelines that are used by certified public accountants (CPAs) and other finance professionals when defining governments as financial reporting entities. In essence, substance over legal form is paramount to ensure that an entity is fairly and accurately presenting financial information in accordance with GAAP.

The Government Finance Officers Association (GFOA) of the United States and Canada publishes practical guidance for use by accounting and auditing professionals regarding the implementation of GAAP. GFOA's principal guidance document, known in the CPA profession as the "Blue Book", states:

"GAAP direct those who prepare financial statements to look beyond the legal barriers that separate these various units to define each government's financial reporting entity in a way that fully reflects the *financial accountability* of the government's elected officials."¹

Thus, in addition to the primary government, additional entities should be incorporated into financial reports, if established criteria are met, as discussed in detail below. These additional entities are referred to as component units.

Regardless of legal status, the financial activities and balances of component units are either "blended" with the primary government, if their activities are an integral part of the primary government; or presented "discretely" (e.g. separately) from, but with the primary government, if the component unit functions independently of the primary government. For ECHD, the District's independent financial auditors have consolidated the financial data and information of five blended component units with the primary government (i.e., the El Camino Hospital District). Thus, the activities and balances of the Corporation, the Foundation, and the other affiliated entities are construed to be an integral part of the activities and balances of ECHD and are thus reported in the District's financial statements, as required by GAAP.

¹ Gauthier, Stephen J., Government Finance Officers Association, *Governmental Accounting, Auditing, and Financial Reporting*, 2001, page 51.

Component Unit Criteria

By definition, component units are separate legal entities from the primary government entity. If they were not separate entities, their activities and balances would be indistinguishable from the primary government. According to GAAP, when establishing whether an entity is a component unit of a primary government, the entity must meet one of the three criteria shown below:

- The entity's governing board is appointed or controlled by the primary government;
- The entity is fiscally dependent on the primary government; or,
- The exclusion of the entity would lead to misleading financial reporting.

Because the El Camino Hospital District Board members all serve as Board members of the El Camino Hospital Corporation and comprise a voting majority of the Corporation's Board², the Corporation meets the definition of a component unit. As the GFOA notes, "membership on dual boards is considered to be the functional equivalent of board appointment."³

Of historical note, when the Corporation was initially created in 1992, its Board of Directors consisted of a mix of community members as well as District Board members. As of December 31, 1992, the District transferred or sold \$256.6 million in assets and \$81.1 million in liabilities to the Corporation, totaling \$175.5 million in net assets. However, in 1996, the District prevailed in a lawsuit to regain public control of Corporation activities.

Pursuant to the subsequent settlement agreement, the District was established as the Corporation's sole member, which then reinstated the District's elected Board members as the Corporation's Board and added the Hospital's Chief Executive Officer (CEO) as an "ex officio" director. The CEO is hired, and may be terminated by the Hospital Board. As the sole member of the Corporation, the District Board retains the ability to alter the Corporation's Board membership and, therefore, maintains control of, and is accountable for, the Hospital Corporation.

Even if the boards were not the same, there are other characteristics, such as the District's ability to impose its will, financial benefit and financial burden on the Corporation, which link the boards together and create fiscal dependency. Further, the original Articles of Organization for the Hospital Corporation and subsequent amendments stipulate that net assets of the Corporation revert back to the District upon dissolution of the Corporation or termination of the ground lease between the two organizations.

While financial reporting presumes that entities continue indefinitely, and therefore such a reversion clause does not necessarily indicate financial benefit from a financial reporting standpoint, in the context of the larger discussion of authority and accountability, the financial

² As described in this section, the Corporation Chief Executive Officer (CEO) serves as an ex officio member of the Corporation Board but does not have voting rights.

³ Gauthier, Stephen J., Government Finance Officers Association, *Governmental Accounting, Auditing, and Financial Reporting*, 2001, page 56.

benefits and burdens of this relationship are clear. Further, it is these characteristics of financial benefit and burden that link the other, smaller affiliated entities to the District, albeit indirectly through the Corporation.

Importance of Fair Presentation

The purpose of GAAP is to provide a framework to ensure that users of financial statements are provided consistent, accurate and complete financial data and information. To this end, it is critical that financial statements provide a fair presentation of an entity's financial activities and status. Circumstances can arise wherein the failure to report a legally separate entity's activities would result in incomplete, if not misleading, financial statements.

For El Camino Hospital District, the District sold or transferred almost all of its assets and liabilities to the Corporation in 1992. Subsequently, a portion of the financing and debt of the new Hospital during the last decade is also accounted for and reported in the District's discrete financial records and accounts, while the assets are accounted for and reported in the Corporation's discrete financial records and accounts, pursuant to the First Amendment to the Ground Lease Agreement effective November 3, 2004. Accordingly, the District reflects a significant liability of \$144.9 million in bonds payable in its financial statements as of June 30, 2011, but no correlated assets. Because there are no assets recorded to offset the debt, net assets for the District, as a discrete entity, are negative \$110.4 million. Clearly, to fully understand the finances of the District, users of the financial statements must be presented with the data and information that brings these two components together. Further, to fully communicate the financial accountability structure, it is necessary for the financial statements to disclose that the District and its elected Board of Directors are accountable for the District and its entities, including the construction and financing of the new hospital. The El Camino Hospital District and the El Camino Hospital Corporation, in compliance with this generally accepted accounting principle, have consolidated financial statements.

Financial Accounting System and Segregation of Funds

While the consolidated financial statements combine the financial activities and balances of the El Camino Hospital District and its component units, the individual activities and balances of these affiliated entities are segregated in supplemental schedules that are included in the annual financial report. These audited financial schedules for the fiscal year ending June 30, 2011 are appended to this Section as Exhibit 4.1.

The El Camino Hospital District uses a proprietary financial accounting system to account for the financial activities and balances of all of its entities, rather than a traditional government accounting system that is based on fund accounting. The financial accounting system uses a series of accounts to capture data and information and is used to segregate the different entities and their respective financial activities and balances.

As can be seen in Exhibit 4.1, a separate balance sheet, as well as income statement, or statement of revenues, expenses, and changes in net assets, is presented for the El Camino Hospital District as the primary government, as well as for each of the other five affiliated entities, including the El Camino Hospital Corporation, the El Camino Hospital Foundation, CONCERN (employee assistance program), the El Camino Surgery Center, and Silicon Valley Medical Development, LLC. These schedules provide a significant amount of disaggregated data and information for these entities. From these schedules, a user of financial information can determine that, while operating revenues derived from patient services are earned primarily by the Corporation and the Surgery Center, property tax revenues are accounted for separately in the primary government's income statement. However, this data and information is presented at a high-level. Obtaining financial data and information that is typically reflected in governmental environments is not readily available in the District's or the Corporations public documents. Financial data and information at a more granular level, such as the line-item use of property tax revenues and budget variances, assists in ensuring that public funds are appropriately accounted for and used.

The Corporation serves as the manager and administrator, not only for the Hospital as a nonprofit public benefit corporation, but also for the District, the Foundation, and the additional affiliated entities. Accordingly, all financial transactions and activities occur through the accounts and records of the Hospital. Thus, as will be seen below, the District's resources predominately are transferred to the Hospital for expenditure rather than being reflected directly in the District's discrete financial statements. Thus, it is difficult to discern the details of the transfers and ensure whether the funds were spent on intended purposes from the audited financial statements alone. For this data and information, one must review individual transactions and accounts provided by internal system reports, which is discussed in more detail later in this Section.

District Governance Structure and Public Accountability

The District is governed by a five member elected Board of Directors. As a government entity in California, the District Board is subject to disclosure laws that require open meetings, except in matters involving personnel, public security, pending litigation, labor negotiations or real property negotiations.⁴

Known as the Ralph M. Brown Act, Section 54950 et seq. of the California Government Code extends these requirements to private or non-profit corporations or entities if:

- a. It is created by a legislative body to exercise authority that may be delegated to the private corporation or entity §54952(c)(1)(A);

⁴ California Government Code § 54956.6, § 54956.8, § 54956.9 and § 54957.

- b. If a legislative body provides some funding to the private corporation or entity and appoints one of its members to serve as a voting member of the entity's board of directors §54952(c)(1)(B).⁵

The Hospital Corporation meets all three of the tests included in the two citations, as follows.

- The Ground Lease between the District and the Corporation stipulates that the Corporation, “shall occupy and use the properties and the improvements thereon for operating and maintaining a community hospital, for providing related health care services, or for the provision of such ancillary or other health care uses as may benefit the communities served by the Tenant and the *Landlord* (emphasis added).”⁶ The Management Services Agreement between the District and the Corporation, effective January 1, 1993, describe specific responsibilities of the Corporation in Article 1, *Corporation's Duties*, requiring, “1.1(a) Performance of those activities that are relevant to the operations of the District and directed by the District's Board.” Accordingly, the District has delegated a substantial portion of its responsibilities to the Corporation, meeting the test described in Government Code §54952(c)(1)(A).
- As discussed in detail, above, the District transferred or sold approximately \$256.6 million in assets and \$81.1 million in liabilities to the Corporation in 1992, totaling net assets of \$175.5 million, and received cash compensation of \$31.6 million. In addition, the District contributes approximately \$15.8 million in property taxes annually to pay debt service for the Mountain View campus and support the Hospital's capital expenditures and community benefit program. Thus, providing substantial funding and meeting the first of the two tests required by Government Code §54952(c)(1)(B).
- The Corporation Bylaws state that “The Corporation shall have one voting Member: El Camino Hospital District, a political subdivision of the State of California (the “Member”). The Corporation shall have no other voting members.”⁷ This meets the second test under Government Code §54952(c)(1)(B).

Therefore, in addition to meeting the tests for being a consolidated financial reporting entity, described previously, the Corporation also appears to meet all three tests described in the two citations from the Brown Act. Since the ECHD Board also serves as the Corporation Board, these two separate legal entities have the same requirements and effectively function identically for purposes of public disclosure and open meetings.

⁵ Ibid.

⁶ Ground Lease Agreement Between El Camino Hospital District and El Camino Healthcare System Dated: December 17, 1992, Article I, Section 1.2, *Guidelines for Use*

⁷ Amended and Restated Bylaws of El Camino Hospital Adopted December 7, 2005, Article II, Section 2.3

Financial Assessment and Condition

The financial condition of the El Camino Hospital District, the Corporation and the five non-profit affiliated entities (“District and its entities”) is good to excellent, as well as stable. Overall, key financial indicators demonstrate that the District and its entities are performing well and were in a relatively strong financial position as of June 30, 2011. For FY 2011-12, the financial condition of the District and its entities is expected to strengthen based on a detailed financial status update presented to the Corporation Board of Directors on February 8, 2012.

Financial Status as of June 30, 2011

Net assets for the District and its entities totaled \$805.4 million as of June 30, 2011, which is an \$83.3 million, or 11.5 percent increase from net assets held as of June 30, 2010 and a \$335.8 million, or 71.5 percent increase from June 30, 2006. Interestingly, despite the significant asset acquisition over this five year period and an increase in investment in capital assets of 71.9 percent, unrestricted net assets have also significantly increased by 71.6 percent.

Table 4.1
Consolidated Financial Metrics (In thousands)
For the Five Fiscal Years Ending June 30, 2011

	June 30,					July 1,
	2011	2010	2009	2008	2007	2006
Net Assets:						
Invested in Capital Assets	\$ 355,469	\$ 374,598	\$ 314,571	\$ 198,162	\$ 282,667	\$ 206,837
Restricted	9,812	5,302	8,166	7,001	201,812	6,173
Unrestricted	440,070	342,178	362,670	424,342	63,879	256,492
Total Net Assets	805,351	722,078	685,407	629,505	548,358	469,502
Available Cash and Investments*	408,703	285,317	396,526	500,733	356,306	252,797
Annual Operating Revenues	622,640	554,793	508,846	460,952	409,960	
Annual Operating Expenses	577,102	550,991	461,351	407,817	364,268	
Net Non-Operating Revenue (Expenses)	37,735	32,869	8,407	28,012	33,164	

* As reported by the District in the Management Discussion and Analysis section (unaudited).

Source: *Report of Independent Auditors and Consolidated Financial Statements with Supplemental Information for El Camino Hospital District for the respective fiscal years.*

As can be seen in Table 4.1, both revenues and expenses have increased over the last five years. Operating revenues have increased \$212.7 million, or 51.8 percent, whereas operating expenses have increase \$212.8 million or 58.4 percent since FY 2006-07. However, the increase in operating revenues in the last year was 12.2 percent as compared to 4.7 percent increase in

operating expenses, showing an ability to contain costs and improved financial performance. Non-operating revenues are comprised of various components as detailed in Exhibit 4.1. These revenues and expenses include, but are not limited to, property tax revenues, interest expense, and restricted gifts, grants, and bequests from donors. In total, non-operating revenues and expenses are significant, comprising \$37.7 million, or 45.3 percent of the \$83.3 million increase in net assets in FY 2010-11. Property taxes and investment income (on idle cash balances) represent the major portions of this non-operating revenue, amounting to \$15.8 million and \$18.6 million (net of interest expense), respectively.

Further, the District and its entities maintain a substantial amount of cash and short-term investments, ensuring a high degree of liquidity. Best practices according to the GFOA prescribe, and Bond covenants require the Hospital enterprise to maintain at least 60 days of cash on hand to meet on-going operating requirements. However, the Corporation had approximately 291 days of cash on-hand as of December 31, 2011 and averaged 250 days last fiscal year, which is substantially greater than the Hospital's benchmarks. These average days of cash on hand do not reflect cash and short-term investments held by the District's other entities, which was approximately \$26.1 million as of June 30, 2011.

Moody's Investors Service Downgrade

Moody's Investors Service downgraded the Corporation's revenue bond rating from A1 to A2 in May 2011 and cited two primary reasons for the downgrade. Moody's noted significant turnover in executive management along with a significant deterioration in FY 2009-10 operating performance and cash balances due to the Mountain View Hospital rebuild and the Los Gatos Hospital purchase. Moody's noted that it viewed the Los Gatos Hospital purchase as "a fundamental modification of the *District's* core operating strategy" (emphasis added), but also added that the District and its entities FY 2010-11 financial performance was projected to improve. Moody's therefore classified the District and its entities as stable.

In its rating of the Corporation' revenue bonds, Moody's assesses the District and its entities' financial status, not just the financial accounts and records of the Corporation. Indeed, Moody's noted in its notice of the downgrade that, while property tax revenues used for general obligation bonds and for capital expenditures are excluded from operating revenues, property tax revenues available for operations are considered operating revenues of the Hospital.

Outlook for Fiscal Year 2011-12

District management uses a variety of financial indicators to report on financial status to the Boards of Directors of both the District and the Corporation. These indicators include measures of earnings and operating profitability, liquidity, and debt coverage capacity. For the first six months of FY 2011-12, management reports that all of their key indicators are positive and reflect a strong financial position relative to targets, except for accounts receivable collections. The following Table 4.2 contains these key indicators as of December 31, 2011 as reported to the Boards of Directors by management.

As can be seen in Table 4.2, key financial indicators with the exception of Days in Accounts Receivable are positive relative to Corporation targets as well as the benchmark of Standard and Poor's A+ rating for nonprofit hospitals. The Debt Service Coverage Ratio and Debt to Capitalization Ratio targets are required to be met pursuant to the Corporation's bond covenants and, as shown in the table, these targets are greatly exceeded. As compared to the prior fiscal year, Total Profit Margin has decreased from 10.6 percent to 8.3 percent, still a strong performance and greater than the Hospital's targets.

Table 4.2
Key Financial Indicators
For the Six Months Ending December 31, 2011

	Year		S&P A+	Fiscal Year
	To Date	Target	Hospitals	2010-11
Operating Margin	9.4%	7.6%	3.8%	7.9%
Total Profit Margin	8.3%	7.5%	6.0%	10.6%
EBITDA*	18.8%	17.3%	12.9%	16.6%
Days of Cash	291	260	229	250
Debt Service Coverage Ratio	7.4	1.2	n/a	7.0
Debt to Capitalization	17.0%	37.5%	30.9%	18.9%
Days in Accounts Receivable	51.3	50.0	45.3	50.1
* Earnings Before Interest, Taxes, Depreciation and Ammortization.				

Source: *Summary of Financial Operations, Fiscal Year 2012 – Period 6, 7/1/2011 to 12/31/2011, as presented to the Board of Directors on February 8, 2012.*

Days in Accounts Receivable are a measure of an entity's ability to collect receivables and directly impacts cash flow. Given the Corporation's strong cash position, this measure is not signifying financial distress, but rather a measure of internal administrative performance. Management believes that 51.3 days is within a normal range and not an area of concern.

While the District and the Corporation maintains some reserve policies, they are not comprehensive. It should also be noted that in the FY 2011-12 budget, additional funds were set aside for contingencies totaling \$8.3 million. This is in addition to modest reserves being maintained for the following:

District

- Capital outlay reserve funded by restricted property tax revenues and totaling \$6.2 million as of June 30, 2011;

- Capital asset replacement reserve funded at 130 percent of annual depreciation expense totaling approximately \$3.1 million as of June 30, 2011;

Corporation

- Operating reserve equal to 60 days of operating expenses totaling \$101.6 million as of June 30, 2011;
- Capital asset replacement reserve funded at 130 percent of annual depreciation expense totaling approximately \$37.4 million as of June 30, 2011;
- Catastrophic loss reserve funded from the Federal Emergency Management Agency reimbursements received after the Loma Prieta earthquake in 1989 totaling \$11.8 million as of June 30, 2011;
- Community benefit reserve funded by unrestricted property tax revenues transferred to the Corporation and totaling \$4.7 million as of June 30, 2011;
- Malpractice reserve funded based on annual actuarial studies totaling \$2.3 million, as of June 30, 2011;

Other Reserves

- Board-designated reserve held by the Foundation totaling \$13.3 million as of June 30, 2011; and
- Board-designated reserve held by CONCERN: Employee Assistance Program totaling \$1.0 million as of June 30, 2011.

Financial Benefits Related to Standing as a Public Sector Entity

Property Tax Share

The El Camino Hospital District, as a political subdivision of the State of California, receives property taxes levied upon property owners within District boundaries. The levying and apportionment of these taxes are governed by California Revenue and Taxation Code and conducted by the Santa Clara County Assessor, Tax Collector, and Controller. Property tax revenues received by the District are as follows:

One Percent Ad Valorem Property Tax – The District receives a portion of the one percent ad valorem property tax that is levied in Santa Clara County and within District boundaries. Pursuant to Proposition 13 in 1978 and subsequent modifications to the California Revenue and Taxation Code and Government Code, this revenue source is allocated in an amount that is restricted for capital expenditure and an amount that is unrestricted and may be used to meet the general goals and objectives of the District. The District calculates the restricted and unrestricted

property tax allocations pursuant to the Gann Appropriations Limit (GAL) and supporting law, which limits appropriations, but excludes qualifying capital expenditures from the limit.⁸

Debt Service on General Obligation Bonds – Voters in the District approved Measure D in November 2003 which authorized \$148.0 million in general obligation bonds to assist in financing the construction of the new Mountain View Hospital pursuant to the Hospital Seismic Safety Act of 1994. The annual debt service requirements of the general obligation bonds are met by an additional property tax levied on the property owners within District boundaries.

The District accounts for these property tax revenues using its chart of accounts described in the previous section and which allows for the District to segregate not only the revenues and expenses of the District, but also the assets and liabilities of the District. Table 4.3 details \$75.1 million in property tax revenues received over the last five years.

Table 4.3
Property Tax Revenues (In thousands)
For the Five Fiscal Years Ending June 30, 2011

	Fiscal Year					Five Year
	2010-11	2009-10	2008-09	2007-08	2006-07	Total
One Percent Ad Valorem						
Restricted for Capital Use	\$ 3,368	\$ 2,830	\$ 3,510	\$ 3,207	\$ 3,046	\$ 15,961
Unrestricted	5,782	5,858	5,732	5,403	4,935	27,710
General Obligation Bonds Debt Service	6,643	6,920	6,658	6,181	5,041	31,443
Totals	\$ 15,793	\$ 15,608	\$ 15,900	\$ 14,792	\$ 13,022	\$ 75,115

Source: Report of Independent Auditors and Consolidated Financial Statements with Supplemental Information for El Camino Hospital District for fiscal year 2008-09 through 2010-11 and reports and records provided by management for FY 2006-07 and FY 2007-08.

As noted in the District’s Consolidated Financial Statements, property taxes which are levied annually are intended to finance the District’s activities within the fiscal year of the levy. However, historically, the District Board has not routinely appropriated available property tax revenues as part of the budget process. Rather, the funds accumulated over time and then were transferred to the Corporation as needed. Table 4.4 presents the use of District revenues, primarily property tax revenues and related interest earnings, for the last five fiscal years.⁹

⁸ There is a legal debate as to whether the GAL applies to California healthcare districts, due to conflicting California State code sections. Some healthcare districts apply the Limit while others do not. Ultimately, an opinion from the State Attorney General will be required or the Legislature will need to clarify the law.

⁹ In addition to property tax revenues and associated uses, the District also records miscellaneous revenues and expenses, including approximately \$80,000 ground lease revenue from the Corporation and funded depreciation expense on assets maintained on the District’s books such as the YMCA facility.

Analysis of data available for this report, suggests that the District may have violated sections of the California Health and Safety Code that require voter approval in the event 50 percent or more of the net assets are transferred to a non-profit hospital. During this period, \$40.5 million was transferred to the Corporation, which exceeded the threshold of \$29.6 million based on total net assets of \$59.1 million in that period. When adjusting for the portion of the net assets that may have represented bond proceeds, approximately 63.9 percent of net assets were transferred, far exceeding the 50 percent threshold established in the law.

The District maintains that it is exempt from the Health and Safety Code provision that requires voter approval prior to transferring more than 50% of net assets to the Corporation, due to actions taken in 1992. It is the District's opinion that by adopting a resolution of intent to develop a business plan for an integrated delivery system, prior to the date the law requiring voter approval was enacted, the District is exempt from the Health and Safety Code provisions that require voter approval prior to any asset transfer. Without the legislative history it is unclear why the Legislature would exempt the District from such an important provision.

As can be seen in the table, the District transferred surplus cash to the Corporation of nearly \$40.5 million in FY 2006-07 and \$12.5 million in FY 2008-09 to assist in financing the construction of the new Mountain View Hospital. Additional transfers for capital expenditures were made in three of the last five fiscal years and totaled approximately \$21.2 million. The District also had approximately \$6.2 million in funds earmarked for capital expenditures as of June 30, 2011, which had accumulated from restricted property tax revenues over the last two years (not reflected in Table 4.4). These funds are held as a reserve by the District and not transferred to the Corporation until the capital expenditure is approved by the District Board.

Table 4.4
Property Tax Uses (In thousands)
For the Five Fiscal Years Ending June 30, 2011

	Fiscal Year					Five Year
	2010-11	2009-10	2008-09	2007-08	2006-07	Total
Debt Service						
Interest Payments	\$ 4,897	\$ 4,859	\$ 4,655	\$ 98	\$ 3,205	\$ 17,714
Principal Reduction	1,384	1,223	726	1,813	-	5,146
Community Benefits Transfer	2,025	5,731	5,403	-	500	13,659
Capital Expense Transfer	-	12,458	6,253	-	2,479	21,190
Surplus Cash Transfer	-	-	12,000	-	40,468	52,468
Totals	\$ 8,306	\$ 24,271	\$ 29,037	\$ 1,911	\$ 46,652	\$ 110,177

Source: Various reports and records provided by District and Hospital management for all fiscal years.

In 2008, the Corporation Board established the Community Benefits Advisory Council which was tasked with developing a community grants program to expend property tax revenues and other hospital resources to benefit the community. As can be seen in the table, transfers to the Corporation in amounts commensurate with annual unrestricted property tax revenues began in FY 2008-09. These funds are held by the Corporation on reserve and accrue interest earnings until expended.

It does not appear that these funds are appropriated during the annual budget process. Rather, the enabling Board resolution requires the transfer of these funds to the Corporation at year end. The legislation states:

“On an annual basis, the Community Benefits Advisory Council will provide to the District a recap of expenditures from the transfers made by the District to support the unmet health care needs of the community. Monies remaining in the fund will be available for subsequent years.”¹⁰

Thus, it appears that the District Board of Directors does not directly appropriate these funds to specific community benefit programs, but rather delegates that authority to the *Corporation's* Community Benefits Advisory Council and only receives a report-back of the different programs funded. There is no systematic reporting to the District Board of Directors of expenditure status by the programs or achievement of any performance metrics to ensure effective oversight of these funds or the purposes for which they were appropriated. However, management tracks and monitors these funds internally by using its chart of accounts and, as of June 30, 2011, approximately \$4.7 million of these funds, while earmarked, had not been expended by the Corporation.

As previously noted, the Corporation maintains an accounting system that tracks and monitors the receipt and use of property tax revenues. However, historically, those resources have not been systematically appropriated in a public forum or at a level of detail that is appropriate for holding the District and/or the Corporation's Board accountable for its use. Table 4.4 above was developed using a variety of internal and public documents, including (1) the audited annual financial report, (2) internal operating statements, statements of cash flow, and system reports of transaction detail, (3) fiscal policy, and (4) additional documentation and explanations from management.

Further, in FY 2008-09, the District and Corporation boards made considerable policy decisions to fund both the rebuild of Mountain View Hospital and the purchase of the Los Gatos Hospital. To achieve these objectives, the boards also made policy decisions regarding the financing of these acquisitions with a combination of cash and debt issuance. If the Los Gatos Hospital purchase totaling \$53.7 million had not occurred, the Corporation would have had additional cash resources available and would have not necessarily needed to use District resources or the issuance of an additional \$50.0 million in revenue bonds. As already noted, the Moody's

¹⁰ Resolution of the Board of Directors of the El Camino Hospital District to Establish Annual Funding of El Camino Hospital's Community Benefit Programs and Services, Resolution 2008-2.

downgrade resulted in part from concern regarding the district and its entities' cash position. Thus, while there is not a direct expenditure of District funds on the Los Gatos Hospital purchase, there is certainly a direct impact on Corporation resources available for the purchase.

Public Debt Financing

The District and its entities have used public debt financing to pay for the construction of the Mountain View Hospital. Public debt financing through the issuance of municipal bonds is advantageous to governmental agencies and not-for-profit organizations because the tax-exempt status makes the cost of borrowing less by reducing interest expense.

The District and its entities used two different mechanisms to obtain financing for the project:

- General obligation bonds totaling \$148.0 million issued by the District, as a political subdivision of the State of California, and approved by more than two-thirds of District voters. The principal and interest on these bonds are to be repaid from property taxes levied within District boundaries.
- Revenue bonds totaling \$200.0 million issued by the Corporation as a nonprofit public benefit corporation with tax-exempt status pursuant to Internal Revenue Service (IRS) code section 501(c)(3), of which \$150.0 million was issued in 2007 and \$50.0 million was issued in 2009.

The details regarding each debt issuance are shown in the table on the next page.

The revenue bonds were issued on behalf of the Corporation by the Santa Clara County Financing Authority, which benefits the Corporation due to ease of access to public financing. However, other than the El Camino Hospital issuances in 2007 and 2009, the Santa Clara County Financing Authority typically does not serve as such a conduit to financing for nonprofit public benefit corporations.

As noted previously, the capital assets, e.g. the Hospital facility and related equipment, have been transferred to the accounts and records of the Corporation pursuant to the First Amendment to Ground Lease Agreement effective November 3, 2004. Upon termination of the lease or dissolution of the Corporation, the related assets and liabilities will revert to the District. While the District is not liable for payment of principal and interest on the revenue bonds, if the Corporation were dissolved prior to 2044, when the final payments are due, presumably the District would assume or resolve any outstanding debt liabilities pursuant to the reversion clause in the Articles of Organization for Hospital Corporation.

Table 4.5
Summary of El Camino Hospital District and Corporation Debt

Borrowing Entity	Type and Purpose		Original Issue	6/30/2011 Balance	2012			Last Payment Due
					Principal Due	Interest Due	Total Due	
ECH District	2006 General Obligation Bonds	MV Hospital Replacement	148,000,000	143,805,000	1,525,000	5,014,000	6,539,000	8/1/2040
ECH Corp.	2007 Revenue Bonds	MV Hospital Replacement (Note 1)	147,525,000					2/1/2041
ECH Corp.	2009 Revenue Bonds	MV Hospital Replacement (Note 1)	50,000,000					2/1/2044
(Note 2)	Total Revenue Bonds		197,525,000	189,675,000	52,725,000	9,208,000	61,933,000	

Note 1: Although the 2007 and 2009 Revenue Bonds were designated for the Mountain View Hospital Replacement project, other major capital projects during this time period included the purchase of Los Gatos Hospital, renovations to surgery recovery areas at the Los Gatos Hospital and the acquisition of a physician office building adjacent to the Mountain View campus.

Note 2: The Principal Due on the Corporation Revenue Bonds declines from \$52.7M in 2012 to \$2.9M in 2013 because the Hospital's Letter of Credit on the \$50,000,000 in 2009 Revenue Bonds expires on April 1, 2012. In this situation, accounting rules require the entire amount to of the debt to be shown as a current liability.

Computation and Assignment of Community Benefits

An underlying question regarding the mission of the District and the Corporation is the degree to which they provide benefits to the taxpayers of ECHD. Certainly, having hospital and health care services located in the community is the primary benefit, discussed extensively in the Service Review section of this report. However, in addition to these services, public and non-profit hospitals are also expected to contribute to the community in other ways.

California Law Requirements

California's Local Health Care District Law does not contain specific requirements for the provision or reporting of community benefits beyond the broad mandate to provide services for the "maintenance of good physical and mental health in the communities served by the district."¹¹

However, legislation passed by the California legislature in 1994, Senate Bill 697¹², requires private not-for-profit hospitals to plan for and report on the provision of community benefits. The primary reason for establishing the community benefit reporting requirement is provided in the text of the law itself:

"Private not-for-profit hospitals meet certain needs of their communities through the provision of essential health care and other services. Public recognition of their unique status has led to favorable tax treatment by the government. In exchange, nonprofit hospitals assume a social obligation to provide community benefits in the public interest."¹³

The community benefit law requires private not-for-profit hospitals in California to:

- a) Conduct a community needs assessment every three years;
- b) Develop a community benefit plan in consultation with the community; and
- c) Annually submit a copy of its plan to the Office of Statewide Health Planning and Development (OSHPD).

SB 697 defines "community benefit" as "a hospital's activities that are intended to address community needs and priorities primarily through disease prevention and improvement of health status, including, but not limited to, any of the following:

- Health care services, rendered to vulnerable populations, including, but not limited to, charity care and the unreimbursed cost of providing services to the uninsured, underinsured, and those eligible for Medi-Cal, Medicare, California Children's Services Program, or county indigent programs.

¹¹ California Health and Safety Code, Section 32121 (m)

¹² California Health and Safety Code, Sections 127340-127365

¹³ California Health and Safety Code, Section 127340 (a)

- The unreimbursed cost of services included in subdivision (d) of Section 127340.
- Financial or in-kind support of public health programs.
- Donation of funds, property, or other resources that contribute to a community priority.
- Health care cost containment.
- Enhancement of access to health care or related services that contribute to a healthier community.
- Services offered without regard to financial return because they meet a community need in the service area of the hospital, and other services including health promotion, health education, prevention, and social services.
- Food, shelter, clothing, education, transportation, and other goods or services that help maintain a person's health.

Based on these qualifying community benefit activities, OSHPD requires hospitals to describe in their community benefit plans the activities that the hospital has undertaken in order to address community needs within its mission and financial capacity. SB 697 requires hospitals, “to the extent practicable, assign and report the economic value of community benefits provided in furtherance of its plan.” Plans must include (a) mechanisms to evaluate the plan’s effectiveness, (b) measurable objectives to be achieved within specified timeframes, and (c) community benefits categorized into the following framework¹⁴:

- (1) Medical care services;
- (2) Other benefits for vulnerable populations;
- (3) Other benefits for the broader community;
- (4) Health research, education, and training programs; and
- (5) Non-quantifiable benefits.

Community benefit plans are due to OSHPD 150 days after the end of the hospital’s fiscal year. Hospitals under the common control of a single corporation or another entity may file a consolidated report. Certain types of hospitals are exempt from the community benefit reporting requirement, including children’s hospitals that do not receive direct payment for services, designated small and rural hospitals, public hospitals including county, district, and the University of California, and other specific hospitals.¹⁵

¹⁴ Sections 127350 (d), 127355 (a)-(c)

¹⁵ OSHPD website: <http://www.oshpd.ca.gov/HID/SubmitData/CommunityBenefit/FAQ.html>

Non-Profit 501(c)(3) Requirements

The Internal Revenue Service (IRS) does not specifically list hospitals as organizations that are exempt under section 501(c)(3) or specially define exempt purposes to include the promotion of health¹⁶. However, the IRS recognizes that non-profit hospitals may qualify for exemption as a charitable organization. IRS code section 501(c)(3) identifies the qualifying purposes of tax exempt organizations, as follows:

“charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals. The term *charitable* is used in its generally accepted legal sense and includes relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency.”¹⁷

The IRS requirements for obtaining 501(c)(3) charitable status appear to provide substantial latitude in the manner in which an organization may demonstrate its charitable purpose. The application for exemption (Form 1023) requires applicants to identify their charitable status by type (i.e., church, school, hospital, etc.) and complete a separate schedule specific to that type of organization. Schedule C, for hospitals and medical research organizations, asks several yes or no questions, including whether the organization serves Medicaid and Medicare patients; operates an emergency room; maintains a policy regarding service to patients without an ability to pay; allocates a portion of services for charity patients; and several other questions. However, none of the questions require reporting of number or proportions of “charity” cases.

The questions in Schedule C of the application for tax exempt status reflect the “Community Benefit Standard” established in the IRS Revenue Rulings for the determination of charitable status of hospitals. According to Revenue Rulings 69-545 and 83-157, the Community Benefit Standard includes the following five factors:

- a) Whether the governing body of the hospital is composed of independent members of the community;
- b) Whether medical staff privileges in the hospital are available to all qualified physicians in the area, consistent with the size and nature of the facilities;
- c) Whether the hospital operates a full-time emergency room open to all regardless of ability to pay;

¹⁶ “Hospital Compliance Project Interim Report,” Internal Revenue Service, July 19, 2007.

¹⁷ Internal Revenue Service website, *Exempt Purposes - Internal Revenue Code Section 501(c)(3)*, found at <http://www.irs.gov/charities/charitable/article/0,,id=175418,00.html>

- d) Whether the hospital otherwise admits as patients those able to pay for care, either themselves or through third-party payers such as private health insurance or government programs such as Medicare; and
- e) Whether the hospital's excess funds are generally applied to expansion and replacement of existing facilities and equipment, amortization of indebtedness, improvement in patient care, and medical training, education, and research.

The IRS states that “the absence of these factors or the presence of other factors will not necessarily be determinative. Likewise, the courts have held in numerous cases that community benefit is a flexible standard based on the totality of the circumstances and that a hospital need not demonstrate every factor to be exempt.”¹⁸

In remarks summarizing the Community Benefit Standard, IRS Commissioner for Tax Exempt and Government Entities Steven T. Miller stated “a hospital must demonstrate that it provides benefits to a class of persons broad enough to benefit the community, and it must show that it is operated to serve a public rather than private interest. In a nutshell, that is the standard – a hospital must show that it benefits the community and the public by promoting the health of that community.”¹⁹

Rationale for Community Benefit Assignment

While the provision and reporting of community benefits for health care districts is broadly defined in State law, the requirements for non-profit corporations are more explicit. However, even these requirements leave non-profit corporations with broad discretion regarding the components of community benefits and how they are defined.

As discussed in Section 3, the El Camino Hospital District and the El Camino Hospital Corporation comply with these broadly defined requirements, and reported approximately \$54.8 million in community benefits in its 2011 Community Benefit Report. As explained in that section, \$5.1 million of this amount is funded directly by the District with property taxes with the remainder funded from other sources through the Corporation and affiliated non-profit entities.

In addition, of the total \$54.8 million community benefit contribution, \$47.2 million, or 86.1 percent represents the unreimbursed portion of the cost of care provided to Medi-Cal recipients, other subsidized health services and charity care. While classified as allowable community benefits within both federal and State law, it is important to recognize that the unreimbursed cost of services provided to vulnerable populations is a typical expense of hospitals generally and

¹⁸ “Hospital Compliance Project Interim Report,” Internal Revenue Service, July 19, 2007.

¹⁹ “Charitable Hospitals: Modern Trends, Obligations and Challenges,” Full Text of Remarks of Steven T. Miller, Commissioner, Tax Exempt and Government Entities, Internal Revenue Service, Before the Office of the Attorney General of Texas, January 12, 2009.

non-profit hospitals specifically, and is considered when such hospitals develop their rate structures and reimbursement strategies.

Further, as discussed in Section 3, El Camino Hospital does not distinguish itself as providing extraordinary levels of unsubsidized medical care to vulnerable populations in the County. We make this assertion based on (1) a comparison with other hospital districts in the State, which shows that El Camino hospital falls within the range of community benefit contributions made by hospitals that provide services in other districts; and (2) the amount of care provided to Medi-Cal patients relative to other hospitals within the County of Santa Clara, which shows that El Camino Hospital is the third lowest provider of such services in the County.

LAFCo should seriously consider these factors, in light of the financial data and analysis presented in this section. This data and analysis demonstrates the strong financial position of the Corporation, which held approximately \$440 million in net unrestricted assets as of June 30, 2011, built from substantial annual operating surpluses; and, the significant ongoing contributions which the Corporation receives from the District, including over \$110 million in property taxes over the last five years.

The District and the Corporation are one consolidated entity that generally combine community benefit contributions. However, the District was unable to demonstrate that District taxpayers receive a substantially greater share of community benefits than non-District residents, despite the fact that the taxpayers of the District have underwritten the operations of the Corporation and affiliated non-profit organizations through the initial transfer of hospital assets, property tax contributions, access to low-cost debt financing and other mechanisms, such as below market rent on the ground lease.. As will be discussed in Section 6 of this report, an estimated 60 percent of emergency room services are provided to persons who reside within the District and SOI, and 40 percent are provided to persons who reside outside of the SOI. For inpatient services, no more than 50 percent of inpatient services are provided to persons who reside within the District and SOI. Although District residents provide 100% of the tax support provided to El Camino Hospital, they receive a disproportionately lower percentage of the community benefits that are provided by the District and Hospital.

Findings and Statements of Determination

The District and Corporation are one consolidated entity from a governance and financial perspective. Generally Accepted Accounting Principles (GAAP) direct the consolidation for financial reporting because the District, Corporation and other affiliated entities meet very specific criteria. The Corporation also meets very specific criteria detailed in State law which requires compliance with disclosure laws and open meetings, as if the Corporation were a public agency. Additionally, a 1996 restructuring that resulted from a lawsuit defined the District as the sole member of the Corporation and effectively ensured public control of Corporation net assets and activities going forward. While the District and Corporation have strived in recent years to make a greater delineation between the two organizations, ultimately the authority and

accountability of both District and Corporation Boards of Directors stem from members serving as elected public officials presiding over a political subdivision of the State of California.

The Corporation is well served by this relationship, accruing benefits typically reserved for public agencies, including the levying and use of property tax, as well as access to municipal financing. Further, at its initiation in 1992, the Corporation received approximately \$175.5 million in net assets from the District. Subsequently, the Corporation's strong financial health is better than it would otherwise be and is strengthening, with \$440 million in unrestricted net assets as of June 30, 2011. Further, the Corporation continues to receive financial support from the District, exceeding \$15.5 million annually for the Corporation's Community Benefits Program and for debt service on the Corporation's Mountain View Hospital.

It is clear that the activities of each entity are directly linked to the resources of the other. Accordingly, the assignment of community benefits, through provision of services to the underserved and through provision of services to District residents, is fundamental to the mission of both the District and the Hospital. While the provision of services to the underserved as community benefits are proportionate to other hospital districts in the State, it appears to be lower than many hospitals within Santa Clara County based on a review of Medi-Cal inpatient days. Further, significant hospital services including 40 percent of emergency services and 50 percent of inpatient services are provided to residents outside of the District's sphere of influence. Ultimately, the Local Agency Formation Commission will decide if this service level and associated community benefits are acceptable.

The following findings respond to the specific questions posed by the Santa Clara County LAFCo for the Audit portion of the study:

1. *Did/does ECHD fund the purchase, operations, or maintenance of the Los Gatos Hospital or other facilities located outside of the District boundaries?*

The ECHD did not directly fund the purchase, operations or maintenance of the \$53.7 million Los Gatos Hospital. However, the Corporation was able to generate sufficient net assets and cash balances to fund the Los Gatos Hospital acquisition due, in part, to: (a) the funding of debt service for a portion of the Mountain View campus rebuild, as well as capital improvements at the Mountain View campus, with annual property tax contributions from the District; (b) the transfer of excess property taxes from the District to the Corporation, amounting to approximately \$52.5 million over the last five fiscal years; and, (c) access to and the use of tax exempt debt financing through the District and the County of Santa Clara as a 501(c)(3) non-profit Corporation.

2. *Does ECHD contribute revenue to El Camino Hospital Corporation, which in turn purchased the hospital in Los Gatos or other facilities located outside of the District? If so, what is the purpose of the contributions and how are the funds accounted for?*

The ECHD contributes revenue to the Corporation each fiscal year, amounting to approximately \$110.2 million between FY 2006-07 and FY 2010-11. Of this amount, (a)

\$21.2 million (19.2%) was used to fund capital improvements at the Mountain View campus; (b) \$17.7 million (16.1%) was used to pay principal and interest on debt used to fund renovations at the Mountain View campus; (c) \$13.7 million (12.4%) was used to fund community benefits; and, (d) \$52.5 million (47.6%) in surplus cash was transferred to the Corporation for renovations at the Mountain View campus. These surplus cash transfers may have exceeded the 50 percent threshold established by law, and contributed to the \$440.1 million in Unrestricted Net Assets being held by the District, Corporation and affiliated non-profit entities as of June 30, 2011. The funds are accounted for separately in the consolidated financial accounting system maintained by the Corporation.

3. *Is there a contractual relationship between the District and the El Camino Hospital Corporation? Does the District have an equity interest in the assets of the Corporation? If so, how much? If not, who owns the assets of the Corporation?*

The contractual relationship between the District and the Corporation is defined by:

- The 1992 Asset Transfer Agreement;
- The 1992 Building Sale Agreement;
- The 1992 Ground Lease and First Amendment; and,
- The 1992 Management Services Agreement.

Per the Articles of Organization for the Corporation, and subsequent amendments, the net assets of the Corporation revert back to the District upon corporate dissolution or termination of the lease. However, asset disposition is unclear should the District dissolve and the Corporation continues prior to lease termination.

4. *Does the District separately account for the receipt and expenditure of property tax revenues in a separate fund, or are such revenues commingled with other ECHD revenues?*

All of the District's revenues, including property tax, interest earnings, and lease payments are separately accounted for in the financial system and reported in the annual financial report. With the exception of debt service, the District's resources are transferred to the Corporation for expenditure, but are tracked and monitored through the use of separate accounts.

5. *Are the ECHD's funds commingled with the Corporation's Funds?*

No. While District funds are generally transferred to the Corporation for expenditure, they are separately tracked and monitored using separate account coding in the financial system. Therefore, District funds are not "commingled" with the Corporation's funds.

6. What measures should ECHD take to establish transparency in the relationship between the ECHD and the El Camino Hospital Corporation?

The District and the Corporation should establish enhanced budgetary reporting and controls on a cash or accrual basis in order to better reflect the use of District resources. This should include detailed reporting of transfers between entities as well as debt service requirements.

7. What measures should ECHD take to be more accountable to the public/community that it serves?

Budgetary and financial information should be reported on a component unit level (i.e., separate budgets and financial reports for the District, Corporation and each of the five non-profit entities). These budgets should provide character level detail and be reviewed, discussed and adopted by the respective boards at public hearings.

8. What are ECHD's current revenue sources and amounts, including proceeds from various bonds and for what purpose are the revenues and bond proceeds used?

Primary District revenues include property taxes, interest revenue and lease revenue on the Mountain View land. Proceeds from the sale of the bonds were transferred to the Corporation in prior years for expenditure on the Mountain View expansion and renovation. The District's revenues are used for debt service, transfers to the Corporation for capital acquisition and community benefit grants. See response to Question 1, above; tables 4.3 and 4.4; and, Exhibit 4.1 for a fuller explanation.

9. What is the extent and purpose of ECHD's reserves?

The District maintains reserves for (a) restricted property tax revenues received but not expended for capital acquisition; and, (b) capital asset replacement, based on accumulated depreciation of existing assets. The Corporation, as the primary operating entity, maintains additional reserves, including a reserve of District funds transferred for community benefit grant programs that have not been expended.

10. What is an appropriate/adequate amount of reserves? Does the District have any policies on amount and use of reserves?

All reserves presently maintained by the District and the Corporation are conservative and not excessive. While the District and the Corporation have established limited policies and procedures on reserves, including an operating reserve and capital assets replacement reserves, a number of reserves that are maintained do not have formal policies and procedures or appear to reviewed or authorized by either of the Boards in a systematic manner. The District should seek guidance from the Government Finance Officers' Association (GFOA) and the Corporation should seek guidance from industry groups to develop reserve policies based on best practices.

11. Does ECHD have a role in governance/monitoring of hospital services provided by the El Camino Hospital Corporation?

Yes. The District and Corporation maintain almost identical governing boards, which include identical voting members, so that decision-making is almost indistinguishable between entities. In addition, pursuant to the Corporation Articles of Organization and subsequent amendments, the District is the “sole member” of the Corporation. Essentially, from a governance standpoint, the District and the Corporation are the same entity.

12. What is ECHD's role and responsibility at the end of the lease agreement between the ECHD and the El Camino Hospital Corporation, as it relates to the assumption of assets and liabilities of the Corporation?

At the end of the lease agreement in the year 2044, the Amended Agreement states that the related buildings, fixtures, and improvements revert back to the District. Unstated is the disposition of any retained earnings or the transfer of other assets and liabilities. However, per the Articles of Incorporation and subsequent amendments, upon dissolution of the Corporation, all assets and liabilities (i.e., net assets, including retained earnings) would revert back to the District.

**EL CAMINO HOSPITAL DISTRICT
CONSOLIDATING SCHEDULE - BALANCE SHEET
June 30, 2011
(In Thousands)**

	El Camino Hospital District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	Surgery Center	Silicon Valley Medical Development	Eliminations Increase (Decrease)	El Camino Hospital District and Affiliates
ASSETS								
Current assets								
Cash and cash equivalents	\$ 51	\$ 39,783	\$ 68	\$ 500	\$ 1,175	\$ 411	\$ -	\$ 41,988
Short-term investments	5,872	136,374	2,215	9,585	-	-	-	154,046
Current portion of board designated, restricted funds and trustee assets	6,199	2,675	-	-	-	-	-	8,874
Patient accounts receivable, net of allowances for doubtful accounts of \$8,021	-	80,398	-	422	695	-	-	81,515
Prepaid expenses and other current assets	-	19,174	-	189	514	47	(2,232)	17,692
Notes receivable, current	1,964	-	-	-	59	-	(10)	2,013
Total current assets	14,086	278,404	2,283	10,696	2,443	458	(2,242)	306,128
Non-current cash and investments - less current portion								
Board-designated funds	3,072	195,241	13,289	1,013	-	-	-	212,615
Restricted funds	-	4	-	50	-	-	-	54
Funds held by trustee	6,380	6,710	-	-	-	-	-	13,090
	9,452	201,955	13,289	1,063	-	-	-	225,759
Capital assets, net	12,024	678,576	-	286	615	-	(323)	691,178
Pledges receivable	-	-	3,756	-	-	-	-	3,756
Prepaid pension	-	24,239	-	-	-	-	-	24,239
Investment in health care affiliates	-	19,059	-	-	-	-	(575)	18,484
Other assets	1,512	5,205	-	-	-	-	-	6,717
Total assets	\$ 37,074	\$ 1,207,438	\$ 19,328	\$ 12,045	\$ 3,058	\$ 458	\$ (3,140)	\$ 1,276,261

EL CAMINO HOSPITAL DISTRICT
CONSOLIDATING SCHEDULE - BALANCE SHEET
June 30, 2011
(In Thousands)

	El Camino Hospital District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	Surgery Center	Silicon Valley Medical Development	Eliminations Increase (Decrease)	El Camino Hospital District and Affiliates
LIABILITIES AND NET ASSETS								
Current liabilities								
Current portion capital lease obligations	\$ -	\$ 5,663	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,663
Accounts payable and accrued expenses	-	18,867	-	498	574	239	(658)	19,520
Salaries, wages, and related liabilities	-	38,629	-	612	520	107	-	39,868
Other current liabilities	2,573	8,623	956	1,116	-	-	(1,584)	11,684
Estimated third-party payor settlements	-	10,476	-	-	-	-	-	10,476
Current portion of bonds payable	1,707	52,903	-	-	-	-	-	54,610
Total current liabilities	4,280	135,161	956	2,226	1,094	346	(2,242)	141,821
Capital lease obligations, net of current portion								
Bonds payable, net of current portion	-	10,190	-	-	-	-	-	10,190
Other long-term obligations	143,169	137,559	-	-	-	-	-	280,728
Workers' compensation, net of current portion	-	8,064	-	-	-	-	-	8,064
Postretirement medical benefits, net of current portion	-	15,572	-	-	-	-	-	15,572
	-	14,535	-	-	-	-	-	14,535
Total liabilities	147,449	321,081	956	2,226	1,094	346	(2,242)	470,910
Net assets								
Invested in capital assets, net of related debt	(120,273)	475,164	-	286	615	-	(323)	355,469
Restricted - expendable	-	-	5,250	-	-	-	-	5,250
Restricted - nonexpendable	-	-	1,941	50	-	-	2,571	4,562
Unrestricted	9,898	411,193	11,181	9,483	1,349	112	(3,146)	440,070
Total net assets	(110,375)	886,357	18,372	9,819	1,964	112	(898)	805,351
Total liabilities and net assets	\$ 37,074	\$ 1,207,438	\$ 19,328	\$ 12,045	\$ 3,058	\$ 458	\$ (3,140)	\$ 1,276,261

EL CAMINO HOSPITAL DISTRICT
CONSOLIDATING SCHEDULE - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended June 30, 2011
(In Thousands)

	El Camino Hospital District	El Camino Hospital	El Camino Hospital Foundation	CONCERN	Surgery Center	Silicon Valley Medical Development	Eliminations Increase (Decrease)	El Camino Hospital District and Affiliates
Operating revenues								
Net patient service revenue (net of provision for bad debts of \$31,400 in 2011)	\$ -	\$ 595,144	\$ -	\$ -	\$ 8,481	\$ -	\$ -	\$ 603,625
Other revenue	80	12,241	13	8,268	6	-	(1,593)	19,015
Total operating revenues	80	607,385	13	8,268	8,487	-	(1,593)	622,640
Operating expenses								
Salaries, wages and benefits	-	300,226	1,224	2,502	3,521	458	(224)	307,707
Professional fees and purchased services	13	95,044	1,702	3,329	1,109	442	(253)	101,386
Supplies	-	86,885	15	-	1,859	2	-	88,761
Depreciation and amortization	180	49,287	-	90	385	-	-	49,942
Rent and utilities	-	12,902	52	198	510	-	(633)	13,029
Other	-	15,509	228	212	328	-	-	16,277
Total operating expenses	193	559,853	3,221	6,331	7,712	902	(1,110)	577,102
Income (loss) from operations	(113)	47,532	(3,208)	1,937	775	(902)	(483)	45,538
Nonoperating revenues (expenses):								
Investment income, net	69	21,490	1,659	338	(12)	-	-	23,544
Property tax revenue	5,782	-	-	-	-	-	-	5,782
Designated for community benefit programs	3,368	-	-	-	-	-	-	3,368
Levied for debt service	6,643	-	-	-	-	-	-	6,643
General Obligation Bond interest expense	(4,897)	-	-	-	-	-	-	(4,897)
Restricted gifts, grants and bequests, and other	-	-	5,527	-	-	-	2,476	8,003
Unrealized gain (loss) on interest rate swap	-	1,364	-	-	-	-	-	1,364
Other, net	(11)	(5,357)	671	(1,167)	(1,314)	1,004	102	(6,072)
Total nonoperating revenues and (expenses)	10,954	17,497	7,857	(829)	(1,326)	1,004	2,578	37,735
Excess (deficit) of revenues over expenses before capital grants, contributions, and additions to permanent endowments	10,841	65,029	4,649	1,108	(551)	102	2,095	83,273
Capital transfers	(94)	506	(412)	-	-	-	-	-
Increase (decrease) in net assets	10,747	65,535	4,237	1,108	(551)	102	2,095	83,273
Total net assets, beginning of year	(124,122)	820,822	14,135	8,711	2,515	10	(2,993)	722,078
Total net assets, end of year	\$ (110,375)	\$ 886,357	\$ 18,372	\$ 9,819	\$ 1,964	\$ 112	\$ (898)	\$ 805,351

5. El Camino Hospital District Service Review

As stated in Santa Clara County LAFCo’s Service Review Policies, municipal service reviews “are intended to serve as a tool to help LAFCo, the public and other agencies better understand the public service structure and evaluate options for the provision of efficient and effective public services.” Based on the information provided through the Service Review process, LAFCo may choose to initiate boundary changes or take other actions to reorganize services based on the service profile, sphere of influence (SOI) and other considerations.

The Cortese Knox Hertzberg Local Government Reorganization Act of 2000¹ (CKH Act) requires LAFCo to conduct a municipal service review prior to defining a new SOI, updating an existing SOI or modifying boundaries. The CKH Act requires a LAFCo to “include in the area designated for service review the county, the region, the sub-region, or any other geographic area as is appropriate for an analysis of the service or services to be reviewed, and shall prepare a written statement of its determinations with respect to each of the following:

- (1) Growth and population projections for the affected area.
- (2) Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.
- (3) Financial ability of agencies to provide services.
- (4) Status of, and opportunities for, shared facilities.
- (5) Accountability for community service needs, including governmental structure and operational efficiencies.
- (6) Any other matter related to efficient or effective service delivery, as required by commission policy.

Service reviews must be conducted by LAFCo every five years. The last Service Review of the El Camino Hospital District was completed in October 2007 and the current service review must be completed prior to January 1, 2013. This section of the report provides a general discussion of the service area boundaries, sphere of influence and populations served by the El Camino Hospital District; as well as analysis of service review data that may be considered by the LAFCo Board in accordance with the objectives of the process.

¹ California Government Code Sections 56000-57550.

Health Care District Service Area Boundaries

Local health care districts are distinct from other types of special districts because they are permitted to serve individuals residing both inside and outside of the boundaries of the district. Throughout the Health and Safety Code sections that apply to health care districts,² broad service permissions are provided that allow activities for the “benefit of the employees of the health care facility or residents of the district”; “for the benefit of the district and the people served by the district”; and, “in the communities served by the district.” This emphasis on populations or communities “served” by a district, rather than populations residing within the boundaries of the district, have generally been interpreted to allow health care districts to extend their influence well beyond jurisdictional boundaries.

For example, Health and Safety Code Section 32121(j) allows health care districts “to establish, maintain, and operate, or provide assistance in the operation of one or more health facilities or health services...at any location within or without the district for the benefit of the district and the people served by the district.” Unlike water or sewer districts, which are restricted to providing services at permanent physical addresses, this broad language (i.e., “people served by the district”) does not restrict services to a specific territory and, instead, allows health care districts to serve individuals who reside outside of the district boundaries and in other parts of the region, state, or even nation.

Profile of El Camino Hospital Corporation Services

El Camino Hospital is a full service acute care hospital located on a 41-acre campus in Mountain View, California. The campus in Mountain View includes the main hospital, the Women’s Hospital, the El Camino Surgery Center, the Breast Health Center, the Oak Dialysis Center, the CyberKnife Center, the Cancer Center in the Melchor Pavilion, the Taft Center for Clinical Research, and the Genomic Medicine Institute. El Camino Hospital Corporation (ECHC) also owns the El Camino Surgery Center, LLC, and Silicon Valley Medical Development, LLC, and has 50 percent ownership of Pathways HomeCare and Hospice.

The El Camino Hospital Mountain View campus is licensed for 374 General Acute Care beds and 25 Psychiatric beds, for a total of 399 beds, based on data available from the California Office of Statewide Health Planning and Development (OSHPD). Ninety-nine of the licensed 374 general acute care beds of located in the old hospital tower and are not available for use and will be deleted from the license as of December 31, 2012, per Senate Bill 1953.

The table on the next page displays the number of licensed beds and patient days for the ECH Mountain View hospital, and calculates the average daily census and percent utilization by unit. As shown in the table, El Camino Hospital had an average daily census of approximately 193.8 patients in 2010, the year of the most recent available information. General Acute Care utilization (defined as percent occupancy of licensed beds) was 46.3 percent (or 60.8 percent without the unavailable 99 beds), with the highest utilization in Perinatal (Obstetric) at 65.2 percent and Intensive Care at 77.8 percent. The Hospital’s Acute Psychiatric unit had a utilization rate of 82.8 percent.

² California Health and Safety Code, Section 32000, et seq., also known as the Local Health Care District Law.

Table 5.1
El Camino Hospital Inpatient Capacity and Utilization by Unit - 2010

Unit	Licensed Beds	Patient Days	Average Daily Census	Percent Utilization
Medical/Surgical	180	41,490	113.7	63.2
Perinatal (Obstetric)	44	10,458	28.7	65.2
Pediatric	7	123	0.3	4.3
Intensive Care	24	6,836	18.7	77.9
Neonatal ICU	30	4,297	11.8	39.3
General Acute Care	285	63,204	173.2	60.8
Acute Psychiatric	25	7,542	20.7	82.8
Total Beds	310	70,746	193.8	62.5

Note: The table reflects a 99 licensed medical/surgical beds reduction, scheduled to take effect in 2012.

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

The El Camino Hospital Emergency Department has a “basic” level designation with 28 emergency medical treatment stations. In 2010, the ECH Emergency Department had a total of 40,877 patient visits. The Mountain View campus also has ten operating rooms, with two licensed for cardiac surgery. These operating rooms generated over 6,000 surgical procedures in 2010. Two cardiac catheterization laboratories provided 1,625 diagnostic and therapeutic catheterization procedures in that same year. The utilization data for each major service is provided in Table 5.2, below.

Table 5.2
El Camino Hospital Mountain View - General Utilization Statistics - 2010

Type	Volume
General Acute Discharges	15,244
Psychiatric Discharges	994
Total Inpatient Discharges	16,238
Total Emergency Department Visits	40,877
Inpatient Surgery	4,384
Outpatient Surgery	1,751
Total Live Births	4,139
Cardiac Surgery	231
Cardiac Catheterization (Diagnostic and Therapeutic)	1,625

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Present Utilization and Capacity by Service

Countywide and El Camino Hospital Medical-Surgical and ICU/CCU Beds

Within Santa Clara County there were a total of 2,041 Medical-Surgical and 379 Intensive care Unit/Cardiac Care Unit (ICU/CCU) beds in 2010, with a 65.0 percent and a 63.9 percent average occupancy rate in the year. While the intensive care beds at the Mountain View campus of ECH may have been near maximum capacity in that year, there is sufficient capacity in the County overall. Based on the 2010 data, at a target 85 percent occupancy rate, there are an additional 291 Medical-Surgical beds and 80 ICU/CCU beds available in Santa Clara County (including underutilized bed capacity at the El Camino Hospital Mountain View campus. Data for each hospital is shown in Table 5.3, below.

Table 5.3
Santa Clara County Medical-Surgical and ICU/CCU
Licensed Beds, Average Census and Occupancy by Hospital - 2010

Facility	IP Medical/Surgical				ICU/CCU Services			
	Licensed Beds	Patient Days	Avg Daily Census	Occupancy	Licensed Beds	Patient Days	Avg Daily Census	Occupancy
EL CAMINO HOSPITAL	180	41,490	113.7	63.2%	24	6,836	18.7	78.0%
EL CAMINO HOSPITAL LOS GATOS	82	7,863	21.5	26.3%	15	1,331	3.6	24.3%
GOOD SAMARITAN HOSPITAL-SAN JOSE	152	40,334	110.5	72.7%	43	9,868	27.0	62.9%
KAISER FND HOSP - SAN JOSE	175	39,776	109.0	62.3%	24	4,814	13.2	55.0%
KAISER FND HOSP - SANTA CLARA	185	57,825	158.4	85.6%	38	8,255	22.6	59.5%
LCP CHILDRENS HOSP. AT STANFORD	35	8,287	22.7	64.9%	44	11,896	32.6	74.1%
OCONNOR HOSPITAL - SAN JOSE	210	32,650	89.5	42.6%	22	5,047	13.8	62.9%
REGIONAL MEDICAL OF SAN JOSE	150	43,340	118.7	79.2%	34	9,084	24.9	73.2%
SANTA CLARA VALLEY MEDICAL CENTER	234	71,876	196.9	84.2%	52	10,943	30.0	57.7%
ST. LOUISE REGIONAL HOSPITAL	48	9,322	25.5	53.2%	8	1,624	4.4	55.6%
STANFORD HOSPITAL	491	107,936	295.7	60.2%	75	18,739	51.3	68.5%
Grand Total	1,942	460,699	1262.2	65.0%	379	88,437	242.3	63.9%

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Countywide and El Camino Hospital Obstetrics and Neonatal Intensive Care Unit Beds

Within Santa Clara County there were a total of 440 Obstetrics and 256 Neonatal Intensive Care Unit (NICU) beds in 2010, with a 42.3 percent and a 57.1 percent average occupancy rate in the year. At 65.1 percent occupancy, El Camino Hospital had a higher rate of utilization than all other hospitals in the County, which averaged 42.3 percent overall (including El Camino Hospital - Mountain View). NICU occupancy was near the average for the County. Based on the 2010 data, at a target 85 percent occupancy rate, there are an additional 188 Obstetrics beds and 72 NICU beds available in Santa Clara County (including underutilized bed capacity at the El Camino Hospital Mountain View campus). Data for each hospital is shown in Table 5.4, below.

Table 5.4
Santa Clara County Obstetrics and NICU
Licensed Beds, Average Census and Occupancy by Hospital - 2010

Facility	Obstetrics				NICU			
	Licensed Beds	Patient Days	Avg Daily Census	Avg Daily Occupancy	Licensed Beds	Patient Days	Avg Daily Census	Avg Daily Occupancy
EL CAMINO HOSPITAL	44	10,458	28.7	65.1%	20	4,297	11.8	58.9%
EL CAMINO HOSPITAL LOS GATOS	14	1,277	3.5	25.0%	2	404	1.1	55.3%
GOOD SAMARITAN HOSPITAL-SAN JOSE	69	8,937	24.5	35.5%	51	10,876	29.8	58.4%
KAISER FND HOSP - SAN JOSE	31	4,381	12.0	38.7%	12	1,314	3.6	30.0%
KAISER FND HOSP - SANTA CLARA	52	10,395	28.5	54.8%	26	6,002	16.4	63.2%
LCP / STANFORD	32	8,287	22.7	71.0%	89	22,359	61.3	68.8%
OCONNOR HOSPITAL - SAN JOSE	65	8,439	23.1	35.6%	10	1,665	4.6	45.6%
REGIONAL MEDICAL OF SAN JOSE	37	1,165	3.2	8.6%	6	264	0.7	12.1%
SANTA CLARA VALLEY MEDICAL CENTER	80	12,870	35.3	44.1%	40	6,146	16.8	42.1%
ST. LOUISE REGIONAL HOSPITAL	16	1,645	4.5	28.2%	-	-	0.0	0.0%
Grand Total	440	67,854	185.9	42.3%	256	53,327	146.1	57.1%

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

On a Countywide basis, El Camino Hospital provides about 9.4 percent of total inpatient services. For Medical/Surgical (9.0%), ICU/CCU (7.7%) and NICU (8.1%), the Hospital provides a lower proportion of services than the 9.4 percent overall. For Obstetrics, the Hospital provides 15.4 percent of the services in the County. While the Hospital has 8.9% of the total licensed beds in the County, ECH will have only 8.1 percent of excess capacity in the County after the new hospital construction. This is displayed in the table, below.

Table 5.5
Countywide Comparison of Capacity and Utilization

Hospital Unit	Average Daily Census		Percent
	County-wide	ECH-MV	
Medical /Surgical	1,262.2	113.7	9.0%
ICU / CCU	242.3	18.7	7.7%
Perinatal (Obstetric)	185.9	28.7	15.4%
NICU	146.1	11.8	8.1%
Total Acute ADC	1,836.5	172.9	9.4%
Licensed Acute Beds	3,017.0	268.0	8.9%
Excess Capacity / (Deficiency)	1,180.5	95.1	8.1%
Percent Utilization	60.9%	64.5%	

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Emergency Services

El Camino Hospital (Mountain View) has 28 Emergency Department stations, or about 12% of total available emergency department stations in Santa Clara County. In 2010, the Mountain View campus had 40,877 Emergency Department visits, equating to an average of 1,460 visits per station during the year. El Camino Hospital also publishes average estimated wait times at

their two emergency departments that range between eight and 40 minutes (based on random sampling conducted between 8AM and 10PM on various days in February 2012).

Emergency departments with lower average acuity visits, such as the Santa Clara Valley Medical Center (SCVMC) facility, tend to have significantly higher visit rates per station and also have lower admission rates to total visits.³ El Camino Hospital - Los Gatos and the St. Louis Regional Hospital had zero hours on diversion, which suggests some capacity remaining in the county’s emergency departments. Table 5.6 displays emergency room activity in the county.

**Table 5.6
Santa Clara County Emergency Department
Visits and Admissions by Hospital - 2010**

Facility	ED Level	Stations	Total ED Visits	Visits / Station	Hours on Diversion	Visits (No Admits)	Visits (Admitted)	% Admitted
EL CAMINO HOSPITAL	Basic	28	40,877	1,460	172	33,975	6,902	16.9%
EL CAMINO HOSPITAL LOS GATOS	Basic	10	11,398	1,140	-	10,206	1,192	10.5%
GOOD SAMARITAN HOSPITAL-SAN JOSE	Basic	25	51,447	2,058	109	42,408	9,039	17.6%
KAISER FND HOSP - SAN JOSE	Basic	28	47,319	1,690	5	40,108	7,211	15.2%
KAISER FND HOSP - SANTA CLARA	Basic	32	57,478	1,796	40	48,418	9,060	15.8%
OCONNOR HOSPITAL - SAN JOSE	Basic	23	43,507	1,892	235	36,108	7,399	17.0%
REGIONAL MEDICAL OF SAN JOSE	Basic	33	59,069	1,790	392	50,737	8,332	14.1%
SANTA CLARA VALLEY MEDICAL CENTER	Comprehensive	24	74,754	3,115	951	63,685	11,069	14.8%
ST. LOUISE REGIONAL HOSPITAL	Basic	8	28,077	3,510	-	25,678	2,399	8.5%
STANFORD HOSPITAL	Basic	31	49,038	1,582	202	39,129	9,909	20.2%
Grand Total		242	462,964	1,913	2,106	390,452	72,512	15.7%

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Growth and Population Projections

Using data from OSHPD on actual inpatient hospital utilization by age cohort for Santa Clara County, the projected demand for inpatient acute care can be estimated by multiplying population projections for each age cohort times the utilization rate. OSHPD 2010 discharge data indicates that:

- Children under the age of 18 are admitted for acute inpatient care at a rate of approximately 41 discharges per 1,000 population (excluding normal newborn cases);
- Adults between the ages of 18 and 64 are admitted for acute inpatient care at a rate of approximately 65 discharges per 1,000 population;
- Adults age 65 and above are admitted for acute inpatient care at a rate of approximately 216 discharges per 1,000 population, or approximately 3.3 times the rate of adults under the age of 65;

³ Acuity level is based on a distribution procedure codes for “minor”, “low”, “moderate” and “severe” classifications. The Santa Clara Valley Medical Center Emergency Department is the only comprehensive emergency department in the County, offering a full range of tertiary emergency care. However, because uninsured patients in the County tend to use the SCVMC Emergency Department for non-emergency urgent care, the average acuity level of the patients and rate of hospital admissions are lower.

- Overall, the rate of acute inpatient care for the entire County population is approximately 78 discharges per 1,000 population.

On an aggregate basis, the Santa Clara County population is expected to grow by approximately 5.0 percent over the next five-year horizon between 2012 and 2017; and, by approximately 7.1 percent over the next seven-year projection horizon between 2012 and 2019. However, these projection rates are not constant by age cohort and an examination of the segregated data illustrates that the rate of growth will differ by age cohort.

This is an important consideration when projecting the rate of growth in acute inpatient care, since persons over the age of 65 are admitted at a rate over three times as high as other adults and more than five times as high as children. This segregation of population projections by age cohort is displayed in the table, below.

Table 5.7
Santa Clara County 5-Year and 7-Year
Population Projections by Age Cohort

Age Group	2012	2013	2014	2015	2016	2017	2018	2019	5 yr % Change	7 yr % Change
0-17	436,535	432,100	427,710	423,365	419,064	414,806	410,592	406,421	-5.0%	-6.9%
18-64	1,174,723	1,189,807	1,205,084	1,220,557	1,236,230	1,252,103	1,268,180	1,284,464	6.6%	9.3%
65+	216,370	223,923	231,739	239,828	248,200	256,864	265,830	275,109	18.7%	27.1%
All Pop	1,828,573	1,846,466	1,864,533	1,882,777	1,901,200	1,919,803	1,938,588	1,957,556	5.0%	7.1%

Therefore, assuming constant utilization rates and population projections by age cohort, Santa Clara County is expected to generate approximately nine percent more inpatient care volume over the next five year period and 13.0 percent more inpatient care volume over the next seven year period. The basis for these projections are shown in the table, below.

Table 5.8
Santa Clara County 5-Year and 7-Year
Inpatient Volume Projections by Age Cohort

Age Group	2012	2013	2014	2015	2016	2017	2018	2019	5 yr % Change	7 yr % Change
0-17	17,776	17,596	17,417	17,240	17,065	16,891	16,720	16,550	-5.0%	-6.9%
18-64	76,773	77,759	78,757	79,769	80,793	81,830	82,881	83,945	6.6%	9.3%
65+	46,704	48,335	50,022	51,768	53,575	55,445	57,381	59,384	18.7%	27.1%
All Pop	143,266	145,702	148,210	150,792	153,449	156,184	159,000	161,898	9.0%	13.0%

Application of Countywide Projections to the El Camino Hospital District and SOI

The District and SOI contain about 1/6th of the population of Santa Clara County. Using available population data sorted by zip code, this analysis determined that the overall population growth rate for the District is slightly more than half of the growth rate for the rest of the county. The District and SOI also has a significantly smaller proportion of the population that are seniors aged 65 and above. The results of this analysis are provided in the tables, below.

Table 5.9
El Camino Hospital District and SOI 5-Year and 7-Year
Population Projections by Age Cohort

Age Group	2012	2013	2014	2015	2016	2017	2018	2019	5 yr % Change	7 yr % Change
0-17	67,890	68,359	68,832	69,308	69,788	70,270	70,756	71,246	3.5%	4.9%
18-64	198,587	198,703	198,819	198,935	199,051	199,168	199,284	199,401	0.3%	0.4%
65+	42,643	43,787	44,961	46,167	47,405	48,676	49,981	51,321	14.1%	20.3%
All Pop	309,190	310,896	312,612	314,337	316,072	317,816	319,569	321,333	2.8%	3.9%

As seen, using the same methodology as was used for the entire county, the District and SOI are expected to experience a five-year population growth rate of 2.8 percent compared with a Countywide population growth rate of approximately 5.0 percent. Also, as shown below, because of the differences in the populations by age cohort, the area will experience a lower 5.8 percent inpatient volume increase compared with a 9.0 percent inpatient volume increase for the County overall. Over seven years, the District and SOI inpatient volume is projected to increase by approximately 8.3 percent.

Table 5.10
El Camino Hospital District and SOI 5-Year and 7-Year
Inpatient Volume Projections by Age Cohort

Age Group	2012	2013	2014	2015	2016	2017	2018	2019	5 yr % Change	7 yr % Change
0-17	2,765	2,784	2,803	2,822	2,842	2,861	2,881	2,901	3.5%	4.9%
18-64	12,979	12,986	12,994	13,001	13,009	13,016	13,024	13,032	0.3%	0.4%
65+	9,205	9,452	9,705	9,965	10,233	10,507	10,789	11,078	14.1%	20.3%
All Pop	24,948	25,221	25,502	25,789	26,083	26,385	26,694	27,011	5.8%	8.3%

With the exception of ICU beds, it is unlikely that this growth in local demand will lead to capacity concerns at the Mountain View hospital in the next five years. In addition, current facility plans under consideration for the Mountain View campus include the possibility of relocating physician offices in the Women’s Hospital to make approximately 40,000 square feet available for inpatient use in 2013-2014⁴.

Services Provided by Geography

Nearly all of the El Camino Hospital Corporation services are provided at the two main campuses in Mountain View or Los Gatos. The services provided outside of the El Camino Hospital District and its sphere of influence are the Los Gatos operations and two off-campus dialysis centers located in San Jose. A listing of the facilities owned or leased by the Hospital Corporation; and, a map of the areas served by the two hospital campuses, including the location of the two hospitals and the off-site dialysis centers, are provided below and on the next page.

⁴ ECHC Exhibit XXII – “Land Uses and Facility Plans for El Camino Hospital, Nov. 19, 2010 with 2011 Updates”

Figure 5.1
Listing of Properties Used by El Camino Hospital Corporation⁵

Name	Street and/or Business Address	City	Land Owner	Building Owner	Leased By	Note
Main Campus						
El Camino Hospital	2500 Grant Road	Mountain View	ECHD	ECH		Main ECH Campus
New Main Hospital	2500 Grant Road	Mountain View	ECHD	ECH		
Old Main Hospital	2500 Grant Road	Mountain View	ECHD	ECH		
YMCA/Park Pavilion	2400 Grant Road	Mountain View	ECHD	ECHD		
Willow Pavilion	2480 Grant Road	Mountain View	ECHD	ECH		
ECH Women's Hospital	2485 Hospital Drive	Mountain View	ECHD	ECH		
Melchor Pavilion	2490 Hospital Drive	Mountain View	ECHD	ECH		
Oak Pavilion	2505 Hospital Drive	Mountain View	ECHD	ECH		
North Drive Parking Garage	North Drive	Mountain View	ECHD	ECH		
Higgins Property	530 South Drive	Mountain View	ECHD	ECHD		Road Runners Transportation Service
Radio Surgery Center	125 South Drive	Mountain View	ECH	ECH		Radiation Treatment Facility
Phyllis Property	111 El Camino Real	Mountain View	ECHD	N/A		Vacant Land
Hospital Drive MOB # 2	2500 Hospital Drive	Mountain View	ECH	ECH		Medical Office - Leased
Hospital Drive MOB # 10	2500 Hospital Drive	Mountain View	ECH	ECH		Medical Office - Leased
Hospital Drive MOB # 11	2500 Hospital Drive	Mountain View	ECH	ECH		Medical Office - Leased
Hospital Drive MOB # 12	2500 Hospital Drive	Mountain View	ECH	ECH		Medical Office - Leased
Hospital Drive MOB # 14	2500 Hospital Drive	Mountain View	ECH	ECH		Medical Office - Leased
Cook Property	2660 Grant Road	Mountain View	N/A	N/A	ECH	Senior Center / BHS Clinic
Concern Office	1503 Grant Road	Mountain View	N/A	N/A	ECH	Employee Assistance Program
Wolfe Properties	205 / 285 South Drive	Mountain View	N/A	N/A	ECH	Medical Offices Leased / ECH Facilities
Off-Campus from Main Mountain View Hospital						
El Camino Hospital Los Gatos	815 Pollard Dr	Los Gatos	ECH	ECH		Los Gatos Campus
In-Patient Rehab	355 Dardanelli Ln	Los Gatos	ECH	ECH		
Parking Structure		Los Gatos	ECH	ECH		
555 Knowles Building	555 Knowles	Los Gatos	N/A	N/A	ECH	OP Rehab / Offices
825 Pollard Building	825 Pollard Dr	Los Gatos	N/A	N/A	ECH	BHS Clinic
Evergreen Dialysis	2230 Tully Rd	San Jose	N/A	N/A	ECH	Dialysis Clinic
Rose Garden Dialysis	999 W Taylor St	San Jose	N/A	N/A	ECH	Dialysis Clinic

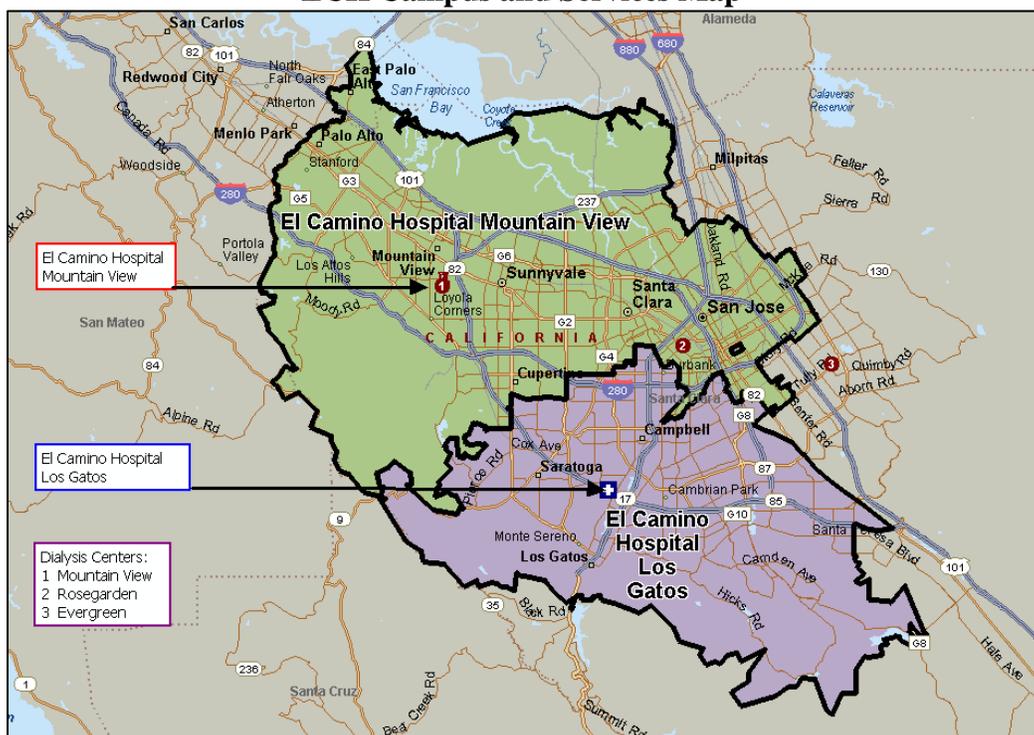
Source: ECHD Exhibit XII: El Camino Hospital Properties, Dec. 23, 2011

As shown, many of the facilities used by the El Camino Hospital Corporation are located outside of the District boundaries and sphere of influence. This creates a dilemma for the District. For example, Although the Corporation is a separate legal entity, as discussed in Section 4, the ECHD is the “sole member” of the El Camino Hospital Corporation. As structured, the elected District Board members sit as the majority of the voting members of the Corporation Board. Therefore, any activities of the Corporation are, by extension, activities of the District. Given this interpretation of the relationship between the two entities, the acquisition and opening of the Los Gatos Hospital extends the range of District services well beyond its current jurisdictional boundaries and sphere of influence.

Further, although providing dialysis services outside of the physical boundaries of the District is consistent with State law [Health and Safety Code § 32121(j)] and with the broader mission of the District and Hospital, the locations of these centers in East San Jose (2230 Tully Road) and Central San Jose (999 West Taylor Street) are notable. The District indicates that these facilities have been in operation for approximately 20-years.

⁵ El Camino Hospital District Exhibit XII: El Camino Hospital Properties, December 23, 2011

**Figure 5.1
ECH Campus and Services Map⁶**



District Boundaries and Patient Origin

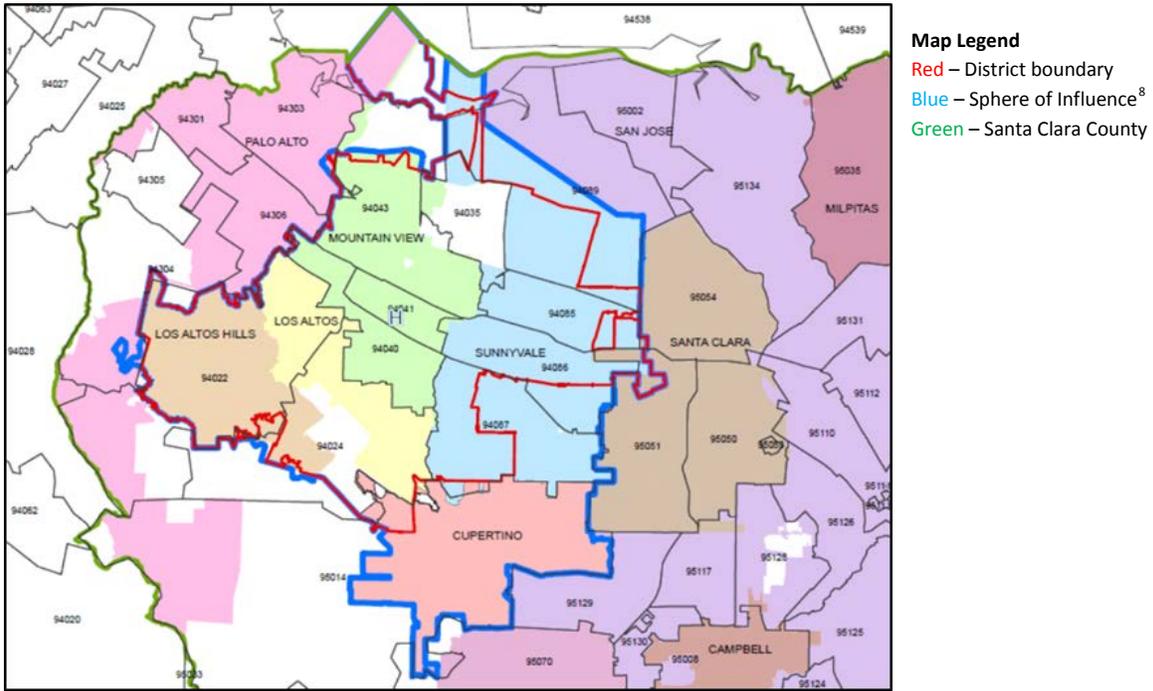
The map included as Figure 5.3 illustrates the boundaries of the El Camino Hospital District as presented by Santa Clara County LAFCo during the Service Review. As shown by the map, LAFCo has recognized that El Camino Hospital provides substantial services beyond its jurisdictional boundaries into areas of Cupertino and Sunnyvale.

As will be demonstrated later in this section, the Mountain View campus of El Camino Hospital draws about 43 percent of its inpatient volume from zip codes that are wholly within the SOI.⁷ Including zip codes for all of Cupertino and Sunnyvale yields a catchment of 50 percent of inpatient volume from these areas. Another 38 percent originates from the rest of Santa Clara County, and the remaining 12 percent originates from other counties and beyond. This analysis is displayed in the table on Page 5-12.

⁶ ECH Exhibit XXII – Land Uses and Facility Plans for El Camino Hospital, “Facilities Development and Real Estate Plan, Nov. 19, 2010 with 2011 Updates”

⁷ Two analyses were conducted to determine the percentage of patients that are drawn from the District and SOI. The first analysis only counted those patients who resided in zip codes areas that were entirely within the District and SOI, showing that 37.5 percent of the patient count resides in the SOI. However, this methodology results in an under-count. The methodology used in the report analysis showing a 50 percent rate includes zip code areas that are partially – but not entirely – in the SOI, which results in an over-count. To be conservative, this second methodology is used in the report and is consistent with the approach used by El Camino Hospital.

Figure 5.3
Santa Clara County LAFCo Map of
El Camino Hospital District and Sphere of Influence



As further illustrated in Table 5.11, and as discussed more fully later in this section, El Camino Hospital consistently captures about a 40 percent market share within its boundaries and throughout its sphere of influence. Beyond its SOI, market share declines significantly due to the strength of other hospitals in their own local markets.

⁸ Includes all of Cupertino and Sunnyvale within the Sphere of Influence, which is inconsistent with the physical description of the area, but which corresponds with recommendations made in the 2007 Service Review and definitions generally used by the El Camino Hospital District.

Table 5.11
El Camino Hospital District Inpatient Catchment⁹
Sorted by Zip Code – Calendar Year 2010

Catchment Areas	El Camino - Mt. View			
	Case Volume	% of ECH-MV	Cumulative %	Market Share
Within the District				
94040 Mountain View	960	6%		44%
94043 Mountain View	742	4%		35%
94024 Los Altos	693	4%		50%
94022 Los Altos & Hills	519	3%		37%
94085 Sunnyvale	488	3%		34%
94041 Mountain View	361	2%		40%
94042 Mountain View	10	0%		26%
94039 Mountain View	8	0%		44%
94023 Los Altos	6	0%		14%
94035 Moffett Field	2	0%		15%
Within the District	3,789	22%	22%	40%
Partially Outside the District but Within the Sphere of Influence				
94087 Sunnyvale	1,548	9%		43%
94086 Sunnyvale	1,371	8%		39%
94089 Sunnyvale	605	4%		38%
94088 Sunnyvale	18	0%		36%
Partially Outside the District but Within the Sphere of Influence	3,542	21%	43%	41%
Outside the District but Within the Sphere of Influence				
95014 Cupertino	1,189	7%		38%
95015 Cupertino	10	0%		20%
Outside the District but Within the Sphere of Influence	1,199	7%	50%	38%
Rest of Santa Clara county	6,339	37%	88%	4%
Rest of California	1,903	11%	99%	-
Out of state or unknown	176	1%	100%	-
Total	16,948			

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Inpatient catchment for all inpatient services provided by El Camino Hospital Mountain View is visually displayed in the Figure 5.4 map, shown below.

⁹ District geography and El Camino Hospital (Mtn View campus) IP discharges excluding normal newborns for CY2010 as provided by ECH, Dec 23, 2011.

Figure 5.4
Distribution and Saturation of Inpatient Services
El Camino Hospital Mountain View by Zip Code

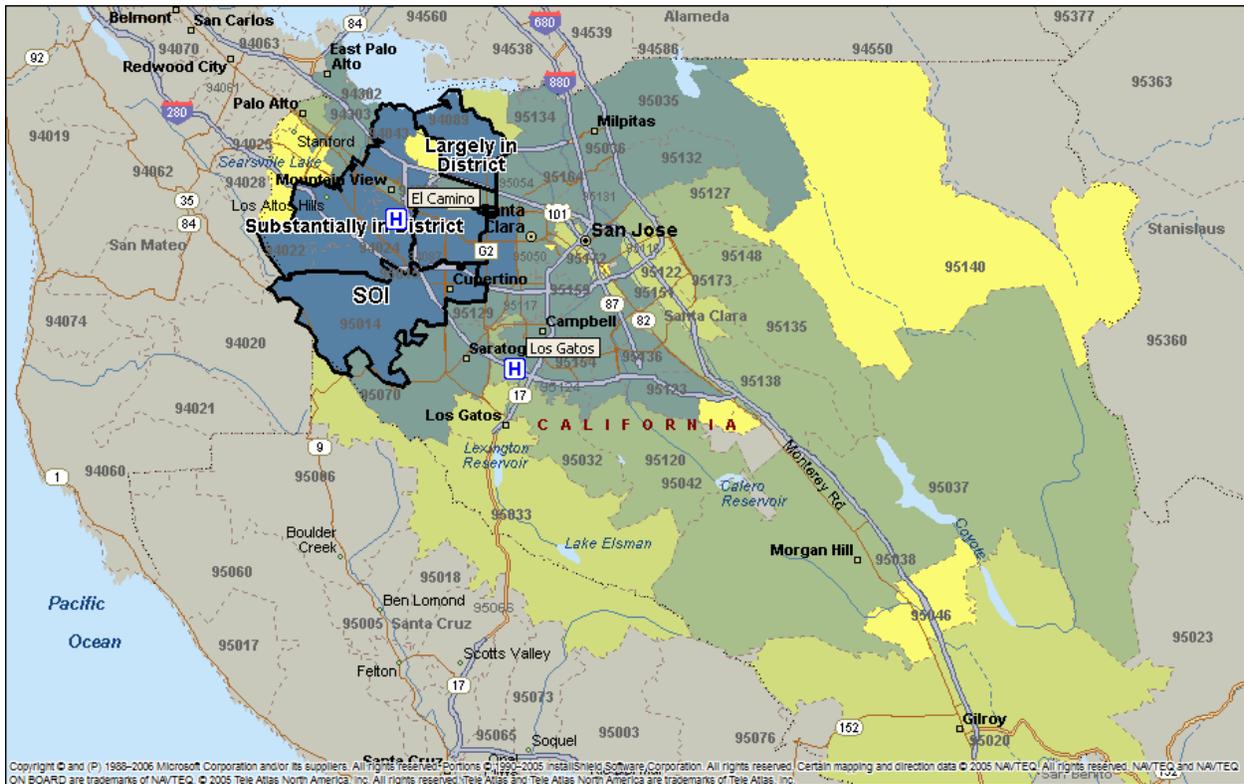


Table 5.12 on the next page provides similar data for emergency room visits. As shown, the Mountain View campus of El Camino Hospital draws about 54 percent of its Emergency Department volume from zip codes that are within the SOI. Expanding the SOI to include all of Cupertino and Sunnyvale yields a catchment of 60 percent of Emergency Department volume from these areas. Another 29 percent originates from the rest of Santa Clara County, and the remaining 11 percent originates from other counties and beyond.

Table 5.12
El Camino Hospital District Emergency Department Catchment¹⁰
Sorted by Zip Code – Calendar Year 2010

Catchment Areas	El Camino - Mt. View		
	Visits	% of ECH-MV	Cumulative %
Within the District			
94040 Mountain View	3,426	8%	
94043 Mountain View	2,905	7%	
94024 Los Altos	1,844	4%	
94085 Sunnyvale	1,815	4%	
94041 Mountain View	1,366	3%	
94022 Los Altos & Hills	1,270	3%	
94042 Mountain View	43	0%	
94039 Mountain View	30	0%	
94023 Los Altos	15	0%	
94035 Moffett Field	12	0%	
Within the District	12,726	30%	30%
Partially Outside the District but Within the Sphere of Influence			
94086 Sunnyvale	4,367	10%	
94087 Sunnyvale	3,752	9%	
94089 Sunnyvale	1,705	4%	
94088 Sunnyvale	36	0%	
Partially Outside the District but Within the Sphere of Influence	9,860	23%	54%
Outside the District but Within the Sphere of Influence			
95014 Cupertino	2,892	7%	
94015 Cupertino	38	0%	
Outside the District but Within the Sphere of Influence	2,930	7%	60%
Rest of Santa Clara County	12,005	29%	89%
Rest of California	4,655	11%	100%
Out of state or unknown	-	-	-
Total	42,176		

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Market Share and Patient Flow

The District residents have a high preference for El Camino Hospital (Mountain View campus), with a greater than 40 percent market share from each of the catchment areas within the District and the SOI. Patients in these catchment areas seek about 90% of their inpatient care from within the County, predominantly from El Camino, Stanford, and the two Kaiser facilities. A

¹⁰ District geography and El Camino Hospital (Mtn View campus) ER visits for CY2010 as provided by ECH, Dec 23, 2011.

clear preference for Stanford over Kaiser is apparent in the primary District zip codes, while the zip codes that are partially or wholly outside of the district, but within the SOI, prefer Kaiser over Stanford, as shown in the table, below.

Table 5.13
El Camino Hospital District Market Share
Sorted by Zip Code – Calendar Year 2010

2010 - All DRG By Hospital System	Volume		Market Share	
	District	SOI	District	SOI
El Camino (Mtn View)	4,396	5,760	41%	42%
El Camino (Los Gatos)	-	1	0%	0%
Kaiser (Peninsula/East Bay)	1,778	3,188	16%	23%
Stanford / LCPH	2,661	1,539	25%	11%
Santa Clara Valley MC	782	1,259	7%	9%
Sequoia (CHW)	255	147	2%	1%
Good Samaritan	175	618	2%	5%
O'Connor	135	422	1%	3%
UCSF	86	85	1%	1%
Sutter (CPMC, Mills-Peninsula)	97	73	1%	1%
Other Santa Clara/San Mateo/ So. Alameda County	183	251	2%	2%
Other Outmigration	285	334	3%	2%

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

While El Camino has lost some market share from the Sphere of Influence zip codes over the last two years (to Kaiser and Stanford), overall its market position has remained stable.

Patient Flow from Los Gatos

The El Camino Hospital in Mountain View receives some “in-migration” of inpatient volume from the Los Gatos area (defined here as the top 12 zip codes with highest inpatient volume reported from the Los Gatos Hospital in 2008). This in-migration volume totaled 1,972 inpatient cases in FY 2010 (excluding normal newborns, as reported by ECH), or about 5.6 percent of the area’s total cases in that year. This volume was the same as that in 2008, when 1,972 discharges was 5.4% share of the volume from the Los Gatos area patients, a slight increase of 0.2% market share points.

Part of this increase is likely due to the reduction in capacity during the change in ownership between 2008-2009, with temporary closure of the Los Gatos facility and the corresponding net decrease in available beds within that area of the County. Overall the El Camino Hospital system of both campuses had a net loss of 0.5 percent of the market share, comprised of a 0.2 percent gain at the Mountain View campus and a 0.5 percent loss at Los Gatos campus.

**Table 5.14
Market Share Impact On Area Hospitals from
El Camino Hospital Los Gatos Closure – 2008 to 2010**

Hospital System	Volume	Market Share	Market Share Change 2008-2010
Good Samaritan	10,444	26.6%	0.2%
Kaiser (Peninsula/East Bay)	9,916	25.2%	0.4%
Santa Clara Valley MC	5,713	14.5%	-0.1%
El Camino (Mt. View)	4,124	10.5%	4.8%
O'Connor	3,998	10.2%	-0.3%
Stanford/LCPH	2,248	5.7%	0.3%
Sequoia (CHW)	269	0.7%	0.0%
El Camino (Los Gatos)	28	0.1%	-5.5%
UCSF	221	0.6%	0.0%
Sutter (CPMC, Mills-Peninsula)	150	0.4%	-0.1%
Other Santa Clara/San Mateo/ So. Alameda County	1,121	2.9%	-0.1%
Other Outmigration	1,086	2.8%	0.4%
Total	39,318	100%	

Note: "Los Gatos Market" includes the top 12 zip codes with the highest inpatient volume in the Los Gatos hospital catchment area, comprising 56 percent of total volume at Los Gatos Hospital in 2008.

Source: OSHPD Patient Origin files from 2008 and 2010.

Findings and Statements of Determinations

Service reviews are intended to serve as a tool to help LAFCo, the public and other agencies better understand the public service structure and evaluate options for the provision of efficient and effective public services. The Service Review conducted of the El Camino Hospital District revealed the following information for consideration by the Santa Clara County LAFCo Board.

- An emphasis in the law on populations or communities “served” by a healthcare district, rather than populations residing within district boundaries, have generally been interpreted to allow health care districts to extend their influence well beyond jurisdictional territory.

Excess Capacity Even with Projected Population Growth

- The County of Santa Clara has excess capacity for many services, estimated to be over 291 Medical/Surgical, 80 ICU/CCU, 188 Obstetrics and 72 NICU beds, based on 2010 discharge and licensure data at a target utilization rate of 85 percent.
- El Camino Hospital has a general acute care inpatient utilization rate of 61.0 percent. Although utilization varies by service, the ECH has substantial excess capacity in the Hospital’s Medical/Surgical and Neonatal ICU units.

- On a Countywide basis, El Camino Hospital provides about 9.4 percent of total inpatient services. While ECH has 8.9 percent of all licensed beds in the County, it has 8.1 percent of excess capacity.
- Given the population profile of Santa Clara County and hospital utilization rates by age cohort, Countywide inpatient hospital demand is expected to increase by between 9.0 percent and 13.0 percent over the next five to seven years. For El Camino Hospital, this growth is expected to increase by between 5.8 percent and 8.3 percent over the same period.
- With the exception of ICU beds, it is unlikely that growth in local demand will lead to capacity concerns at the Mountain View hospital. Excess capacity is likely to remain in most services, since the Hospital is considering a project to relocate physician offices in the Women's Hospital to make approximately 40,000 square feet available for inpatient use.

Large Proportion of Services Provided to Person Residing Outside of the SOI

- Unlike water or sewer districts, which are restricted to providing services at permanent physical addresses, Healthcare District law does not restrict services to a specific territory and, instead, allows health care districts to serve individuals who reside outside of the district boundaries and in other areas. With the exception of the Los Gatos Hospital campus and two dialysis centers located in San Jose, all El Camino Hospital District facilities are located within jurisdictional boundaries.
- Approximately 43 percent of inpatient services provided by El Camino Hospital are for persons who reside within the District. Approximately 50 percent are for persons who reside within the SOI that includes all zip code territory within Sunnyvale and Cupertino. Another 38 percent originates from the rest of the County and an additional 12 percent originates from locations outside of the County.
- Approximately 54 percent of El Camino Hospital emergency department services are provided to persons who reside within the District. Approximately 60 percent are for persons who reside within the SOI that includes all zip code territory within Sunnyvale and Cupertino. Another 29 percent of service volume is provided to patients who originate from the rest of the County and an additional 11 percent to those who originate from locations outside of the County.

Market Share Consistent Across District Boundaries and SOI

- El Camino Hospital Mountain View captures approximately 40% of the market share within the District and the SOI that includes all zip code territory within Sunnyvale and Cupertino.
- Patients in these catchment areas seek about 90% of their inpatient care from within the County, predominantly from El Camino Hospital Mountain View, Stanford, and the two Kaiser facilities.

- The El Camino Hospital in Mountain View receives some “in-migration” of inpatient volume from the Los Gatos area . This in-migration volume totaled 1,971 cases in FY 2010, or about 5.6 percent of the area’s total cases in that year. This share grew slightly from 5.4 percent of the area’s volume in FY2008.

The following findings respond to the specific questions posed by the Santa Clara County LAFCo as part of the Service Review:

1. *Separate and apart from the review of ECHD’s role in relation to the Los Gatos Hospital campus, does the ECHD provide any services outside of its boundaries? What is the District’s role in the various El Camino Hospital dialysis centers throughout the County?*

Although the Corporation is a separate legal entity, as discussed in Section 4, the ECHD is the “sole member” of the El Camino Hospital Corporation. As structured, the elected District Board members sit as a quorum of the voting members of the Corporation Board. Therefore, any activities of the Corporation are, by extension, activities of the District.

The acquisition and opening of the Los Gatos Hospital extends the range of District services beyond its current boundaries and sphere of influence. In addition, even when viewing the activities of El Camino Hospital – Mountain View in isolation, it is clear that a major portion of services are provided to persons who reside outside of the District boundaries and the sphere of influence (see Statement 2, below).

Providing dialysis services outside of the physical boundaries of the District is consistent with State law [Health and Safety Code § 32121(j)] and with the broader mission of the District and Hospital. However, the location of these centers in East San Jose (2230 Tully Road) and Central San Jose (999 West Taylor Street) presents similar concerns as the acquisition of the Los Gatos Hospital.

2. *Do the ECHD’s current boundaries reflect the population it serves?*

No. As demonstrated in this report, only 43 percent of the inpatient services provided to residents of zip code areas that are wholly or partially contained within District boundaries. When considering zip code areas that are outside of the District but within the SOI, the proportion of inpatient services received by residents increases to 50 percent. Therefore, approximately half of the services provided by El Camino Hospital – Mountain View are provided to residents of neither the District nor the District’s SOI. Although a greater proportion of emergency services are provided to residents of the District and SOI, approximately 40 percent of such services are provided to non-residents that reside in areas throughout the County, State and beyond.

3. *If the ECHD is providing services outside of its boundaries, should its boundaries be extended to include its service area? If so, how would the affected agencies be impacted by such expansion?*

No. As demonstrated in the report, the El Camino Hospital Mountain View facility consistently has a market share of approximately 40 percent of all inpatient services within the District and sphere of influence. Beyond the SOI, the Hospital's market share drops to only four percent in the rest of the County.

In addition, as demonstrated in Section 4, the District, Corporation and five affiliated non-profit entities have been able to accumulate approximately \$440 million in Unrestricted Net Assets as of June 30, 2011. In part, this accumulation of Unrestricted Net Assets and the Corporation's ability to acquire the Los Gatos Hospital have occurred as a result of the significant property tax contributions being made by residents of the current District. By expanding the District boundaries to include the SOI, the property tax base and resulting revenues would increase, adding to the Corporation's ability to either expand deeper into the community or accumulate additional Unrestricted Net Assets. Other local government jurisdictions would lose a portion of their 1% levy, and an additional tax would be imposed on residents within the SOI for ECHD debt service. There would be no clear benefit to residents of an expanded District, if the District boundaries were to be expanded.

4. *What services is the ECHD currently providing? Is El Camino Hospital District currently providing the services for which it was created? Is there a change in ECHD's mission since its creation?*

The ECHD provides services to its residents through the El Camino Hospital Corporation and its affiliates through an array of contracts with the Corporation that include a ground lease for the Mountain View Hospital, and the transfer and sale of assets to the Corporation in exchange for providing services to the ECHD community. As discussed in Section 4 and restated above, although the Corporation is a separate legal entity, the ECHD is the "sole member" of the El Camino Hospital Corporation. As structured, the elected District Board members sit as voting members of the Corporation Board. Therefore, any activities of the Corporation are, by extension, activities of the District.

Given this interpretation of the governance and financial relationship between the District and the Corporation, the decision of the Corporation to acquire Los Gatos Hospital and expand services (including operation of dialysis centers) well beyond the established boundaries of the District represents a significant departure from the original intent of the voters when forming the District in 1956. Further, expanding the Corporation reach in this manner is inconsistent with the intent of California Health and Safety Code § 32121(j), which allows healthcare districts, "to establish, maintain, and operate, or provide assistance in the operation of one or more health facilities or health services...at any location within or without the district *for the benefit of the district and the people served by the district.*" Given the geographical distance of the Los Gatos Hospital to the District, the extent to which the acquisition meets the voters' original intent or the purpose of the State law is questionable.

The following Statements of Determination respond to the requirements of California Government Code Section 56430

1. Growth and population projections for the affected area.

The District and SOI are expected to experience a five-year population growth rate of 2.8 percent compared with a Countywide population growth rate of approximately 5.0 percent. Also, because of the differences in the populations by age cohort, the District and SOI will experience a lower 5.8 percent inpatient volume increase compared with a 9.0 percent inpatient volume increase for the County overall.

2. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.

With the exception of ICU beds, it is unlikely that growth in local demand will lead to capacity concerns at the Mountain View hospital in the next five years. In addition, current facility plans under consideration for the Mountain View campus include the possibility of relocating physician offices in the Women's Hospital to make approximately 40,000 square feet available for inpatient use in 2013-14

3. Financial ability of agency to provide services.

The District, Corporation and five affiliated non-profit entities collectively held Unrestricted Net Assets of approximately \$440 million as of June 30, 2011, which was 76.3% of annual operating expenses in that year. Of this amount, \$408 million was reportedly held in cash and investments. Other financial indicators suggest that the combined organization is in a strong position compared with Standard and Poors (S&P) A+ rated hospitals: (a) the Hospital operating margin is 9.4% vs. 3.8% for the S&P group; (b) the Hospital profit margin is 8.3% compared with 6.0% for the S&P group; and, (c) the Hospital debt to capitalization ratio is 17.0% compared with 30.9% for the S&P group (i.e., for this indicator, a lower percentage suggests better performance). Therefore, the District's financial ability to provide services is strong.

4. Status of, and opportunities for, shared facilities.

No opportunities for shared facilities were identified during the service review.

5. Accountability for community service needs, including governmental structure and operational deficiencies.

To improve accountability, the District and the Corporation should establish enhanced budgetary reporting and controls on an accrual basis in order to better reflect the use of District resources. This should include detailed reporting of transfers between entities as well as debt service requirements. In addition, budgetary and financial information should be reported on a component unit level (i.e., separate budgets and financial reports for the District, Corporation and each of the five non-profit entities). These budgets

should provide character level detail and be reviewed, discussed and adopted by the respective boards at public hearings.

The governance structure of the District, the Corporation and the five affiliated non-profit entities blurs the distinctions between the organizations. As the “sole member” of the Corporation, the District is able to directly impose its will, financial benefit and financial burden on the Corporation, which link the boards together and create fiscal dependency. In addition, the Corporation serves as the manager and administrator, not only for the Hospital as a nonprofit public benefit corporation, but also for the District, the Foundation, and the additional affiliated entities. Accordingly, all financial transactions and activities occur through the accounts and records of the Hospital, further blurring distinctions between the entities.

The District should consider changes that would clearly distinguish between the entities for governance and management purposes. This is discussed more fully in Section 6 of this report. In addition, the District should enhance processes for monitoring expenditures for capital improvements and community benefits, through improved budgeting and more transparent financial reporting.

6. Any other matter related to effective or efficient service delivery, as required by commission policy.

None identified as part of the service review.

The following Statements of Determination respond to the requirements of California Government Code Section 56425

1. The present and planned land uses in the area, including agricultural and open space lands.

The ECHD has well-developed suburban land use designations without plans for significant changes that would affect the purpose and mission of the District.

2. The present and probable need for public facilities and services in the area.

The El Camino Hospital Mountain View campus provides a vital healthcare service in the community. A review of population projections for the District and the County, as well as analysis and capacity by major service, indicates that additional healthcare capacity is not required at this time. Overall, the County is using only 58.9 percent of its licensed beds and El Camino Hospital Mountain View is using only 47.1 percent of its licensed beds, suggesting sufficient medical facility capacity in the District and County.

3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.

See Statement Number 2.

4. The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.

The commission did not identify any social or economic communities of interest in the area and none were identified as part of the Service Review.

5. The nature, location, and extent of any functions or classes of services provided by the existing district.

Although the District does not directly operate El Camino Hospital, it leases the land, transferred and sold assets, and entered into various agreements with the El Camino Hospital Corporation to operate a hospital on property that it owns in Mountain View. In addition, the District has contributed approximately \$110 million to the Corporation in the past five years to pay for debt service related to the rebuilding of the Mountain View hospital, other capital improvements and community benefits.

El Camino Hospital is a full service acute care hospital located on a 41-acre campus in Mountain View, California. The campus in Mountain View includes the main hospital, the Women's Hospital, the El Camino Surgery Center, the Breast Health Center, the Oak Dialysis Center, the CyberKnife Center, the Cancer Center in the Melchor Pavilion, the Taft Center for Clinical Research, and the Genomic Medicine Institute. El Camino Hospital Corporation (EHC) also owns the El Camino Surgery Center, LLC, and Silicon Valley Medical Development, LLC, and has 50 percent ownership of Pathways HomeCare and Hospice.

El Camino Hospital is licensed for 374 General Acute Care beds and 25 Psychiatric beds, for a total of 399 beds, based on data available from the California Office of Statewide Health Planning and Development (OSHPD). In 2012, the number of medical-surgical beds at the Hospital will be reduced by 99 beds in the old hospital, from 279 to 180 licensed beds. The total inpatient bed capacity of the Hospital will be reduced to 310, including 285 Acute Care and 25 Acute Psychiatric beds.

6. Governance and Reorganization Alternatives

As discussed in the Introduction to this report, Santa Clara County LAFCo posed two overriding questions to be answered as part of this service review and audit, as follows:

1. Is the El Camino Hospital District providing services outside of its boundaries?
2. Should the District continue to exist and/or continue to receive public funds or could another entity provide the District's services more efficiently?

Providing Services Outside of the District Boundaries

As discussed in Section 5 of this report, only about 50 percent of the inpatient services provided by El Camino Hospital Mountain View are performed for persons residing within the District and the SOI. The balance of services is provided to persons who reside outside of the SOI. This is anticipated in State law, which specifically allows hospital and healthcare districts to perform services outside of established jurisdictional boundaries. However, State law is also silent on the degree to which extra-territorial services are permitted or considered to be reasonable. While the reach of the District services provided through El Camino Hospital Mountain View do not appear to be in violation of the law, it is clear that services are provided in areas that are far outside of the boundaries recognized by Santa Clara County LAFCo.

The matter is further complicated by the El Camino Hospital Corporation's acquisition and opening of the El Camino Hospital Los Gatos campus in the last few years. As discussed extensively in Section 4 of this report, although the Corporation has been organized as a separate legal entity, its governance structure, financial relationship to the District and legal stature as a quasi-public entity conclusively show that the District and the Corporation function as one and the same entity. While the opening of the Los Gatos Hospital may make business sense for the Corporation, that action redefines the mission of the Corporation – and, indirectly, the District – in a manner that is wholly inconsistent with the intended purpose of the District.

Although the Service Review did not find that the El Camino Hospital District is providing services outside of the District in violation of State law, it is clear that the reach of the organization has gone well beyond the territorial boundaries and established sphere of influence (SOI) of the jurisdiction.

Continued Existence and Receipt of Taxpayer Funds

As discussed in Section 4, the combined financial statements for the District, the Corporation and other affiliated organizations demonstrate that the combined group of entities is financially strong. As of June 30, 2011, the financial statements indicated that these entities held total net assets of \$805 million, of which over \$440 million were unrestricted and included \$408 million in cash. These unrestricted net assets were equivalent to more than 76 percent of the combined annual operating expenses of the organization, which amounted to \$577 million in that year.

The Corporation itself held \$886 million in total net assets as of June 30, 2011, of which over \$411 million was unrestricted net assets and included \$371 million in cash. Notably, the Corporation experienced these significant balances after receiving surplus cash transfers from the District of \$52.5 million over the previous five years and spending \$53.7 million on the purchase of the Los Gatos Hospital. While the accounting records do not show that any District funds were directly used for the purchase of Los Gatos Hospital, it is clear that asset and cash transfers from the District, as well as access to low cost borrowing through the District and, as a non-profit entity, have contributed substantially to the financial success of the organization.

In addition, the combined organization does not distinguish itself by the amount of community benefits that it returns as a result of taxpayer contributions. Certainly, El Camino Hospital Mountain View offers a vital service to the region, providing approximately 9.4 percent of all inpatient services and controlling 15.8 percent of all excess inpatient service capacity within the County. However, the community benefits reported by the District and Corporation merely falls within the range of contributions reported by other California healthcare districts, even though the District receives the second highest apportionment of property taxes in the State. Of the \$54.8 million in total community benefit reported by El Camino Hospital in FY 2010-11, the District contributed only \$5.1 million. The balance of property taxes received by the District was used to make principal and interest payments on debt and contribute toward capital improvements at the Mountain View campus. In the last five years, the District spent \$110.2 million on El Camino Hospital activities, of which only \$21.2 million (or 19.2%) was spent on community benefit activities. The District asserts that the \$21.2 million expended on community benefits represents the maximum amount permitted by law, due to restrictions imposed by the Gann Appropriations Limit (GAL). However, the legal interpretation of the GAL and its applicability to the District is unsettled.

Further, other indicators of community benefit – such as the number of inpatient days provided to Medi-Cal patients – show that El Camino Hospital does not distinguish itself by providing high levels of service to low income residents. When compared with the eight other hospitals in the County that provide general medical services, El Camino Hospital Mountain View provides the third lowest number of days of service to this population, providing fewer Medi-Cal days of service than all but the two Kaiser Foundation hospitals in the County.

As discussed in Section 3, the original intent for the creation of healthcare districts in California was “to give rural, low income areas without ready access to hospital facilities a source of tax dollars that could be used to construct and operate community hospitals and health care institutions, and, in medically underserved areas, to recruit physicians and support their practices.”¹ Based on the organization’s status in the Santa Clara County healthcare community, its financial success and level of community benefit contributed to District residents, it is clear that the intent of the law is no longer applicable to the El Camino Hospital District. While the law has been amended several times to broaden the scope of health care services that may be provided, the findings of this report demonstrate that, the continued contribution of taxpayer

¹ “California’s Health Care Districts,” prepared for the California Healthcare Foundation by Margaret Taylor, April 2006.

resources to this function are no longer justified or required. Alternatives to be considered by the Santa Clara County LAFCo are provided in this section.

Analysis of Governance Structure Options for the El Camino Hospital District

The Cortese Knox Hertzberg (CKH) Act grants a LAFCo the right and responsibility to review, and approve or deny a district's official boundary and its Sphere of Influence (SOI). Boundary changes may be initiated by petition of residents / registered voters or by resolution of local affected agencies. LAFCO may also initiate some boundary changes under certain circumstances.

There were six governance structure options identified during this project:

1. Maintain the District's boundaries and take measures to improve governance, transparency and accountability;
2. Modify the District's boundaries and/or SOI;
3. Consolidate the District with another special district;
4. Merge the District with a city;
5. Create a subsidiary District, where a city acts as the ex-officio board of the district; or
6. Dissolve the District, naming a successor agency for the purpose of either "winding up" the affairs of the District or continuing the services of the District.

Maintain District Boundaries/Improve Governance, Transparency and Accountability

El Camino Hospital is a well-regarded and successful organization that provides important services to District residents and other persons within the County of Santa Clara. Nonetheless, throughout this report, opportunities that would improve the governance, transparency and accountability of the District have been identified and questions have been raised regarding the degree of community benefits being provided to District residents in exchange for substantial property tax dollars that have been contributed to the Corporation over the years.

Under this alternative, El Camino Hospital District would continue operations and receive its apportionment of property taxes for general use and debt service. There would be no change in District boundaries or sphere of influence. However, to avoid future difficulties and questions regarding the appropriateness of property tax contributions to a private Corporation that has extended its service reach well beyond the jurisdictional boundaries of the District, Santa Clara County LAFCo should encourage the El Camino Hospital District Board of Directors to consider the following.

1. The El Camino Hospital District should limit its financial contributions to El Camino Hospital Corporation to payments for principal and interest on debt incurred by the District for the El Camino Hospital Mountain View Rebuild (i.e., a balance of \$143.8 million in General Obligation Bonds, discussed in Section 4). In addition, the District should cease all automatic contributions to the El Camino Hospital Corporation to support the Hospital

capital improvement program or be used as a general revenue source. Instead, LAFCo should seek a legal interpretation of the applicability of GAL to the District and, if permitted by law, the District should divert these funds to community benefit programs that more directly benefit the residents of the District. Had this been the practice over the past five years, additional community benefit dollars amounting to approximately \$73.7 million would have been available to directly benefit District residents. Should contributions exceed the 50% threshold pursuant to 32121 (p)(1), a vote may be required.

2. Cease all automatic payments to the El Camino Hospital Corporation or its affiliates to support the Corporation's community benefit program and divert these funds to other programs that more directly benefit the residents of the District. Under this approach, 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. While the Corporation and its affiliates should not be barred from receiving community benefit grants from the District, the organizations should be required to compete for dollars along with other providers that might offer services.²
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 (for example, the district should adopt a capital improvement plan), staffing and operations (including compensation paid to District Board members and/or employees and consultants, if any), and community benefit programs by grant category and recipient. In addition, the District Board 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. A strengthened budget monitoring and reporting system should be established to ensure funds, such as community benefit grants, are being spent in accordance with Board policy.
4. 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 differentiates between the two entities. 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.

If the District is not able to implement the suggested reforms within 12 to 18-months, acting as the El Camino Hospital Corporation Board of Directors, the Board should remove the District as

² Of the \$73.7 million, \$21.2 million was restricted for capital use in accordance with the Gann Appropriations Limit. As previously noted, there is debate as to the applicability of the Limit to health care districts. In any event, whether for services or for capital use, the expenditure of property tax revenues should be more directly aligned with property tax payers and residents of the District.

the “sole member” of the Corporation and change the membership of the Corporation Board to include majority representation by individuals other than members of the ECHD Board of Directors. This action would result in full control of the Corporation by its Board of Directors and remove the District from its current role in corporate governance. Further, by changing the composition of the Corporation Board, the separation and independence of the two Boards would be complete and the actions of the separate boards would be distinct, allowing for greater accountability and transparency.

We believe the separation and independence of the two Boards is an appropriate action due to the purchase and operation of the Los Gatos Hospital campus, which is located outside of the District boundaries and SOI. This fundamental shift in operating and business strategy has moved the Corporation (and by extension, due to Board’s role governing both the Corporation and the District) the District away from its principal role as a public entity serving and benefiting District residents. Nonetheless, although we believe separate governance would be the best approach under this alternative, it may be prudent to initially allow the District to attempt reforms before taking the step of requiring modifications to the governance of the two entities.

Adopting these types of reforms would result in the following advantages and disadvantages:

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> • Medical services in the District and SOI would continue uninterrupted. 	<ul style="list-style-type: none"> • The Corporation would have the ability to continue expanding services beyond the District’s SOI, while using District tax dollars to support its operations.
<ul style="list-style-type: none"> • Taxpayer contributions to the Corporation would continue, ensuring that El Camino Hospital would sustain resources necessary to provide community benefit funds within the community. 	<ul style="list-style-type: none"> • The District and the Corporation could potentially become less distinct and revert to old practices over time, and community benefits could remain unremarkable or decline.
<ul style="list-style-type: none"> • The governance structures of the District and the Corporation would be strengthened and made distinct, and the interests of District residents would be less likely to be compromised by Corporate interests. 	
<ul style="list-style-type: none"> • District residents would likely receive increased levels of community benefits from providers other than the Corporation and its affiliates. Establishing a grant award process would ensure that community benefit dollars remain focused within the District. 	
<ul style="list-style-type: none"> • Financial and budgetary transparency and public accountability would be enhanced. Systems would be established to ensure that the residents of the District will be able to monitor and influence the use of taxpayer funds in their community. 	
<ul style="list-style-type: none"> • Circumstances of perceived or actual conflicts of interest would be lessened. 	

Modify Boundary and/or Sphere of Influence

If requested, a LAFCo may modify a district’s boundaries by either reducing the amount of assigned territory through detachment or increasing the amount of territory through annexation. When district territory is detached, taxpayers within the removed territory are no longer required to pay taxes to the district. When territory is annexed, the CKH Act, Section 57330 states that the annexed territory “shall be subject to levying or fixing and collection of any previously authorized taxes, benefit assessments, fees or charges of the ... district.”

State law requires LAFCo to define and maintain a “sphere of influence” (SOI) for every local government agency within a county. California Government Code Section 56076 defines sphere of influence to mean “a plan for the probable physical boundaries and service area of a local agency, as determined by the [local agency formation] commission.” Santa Clara County LAFCo defines “sphere of influence” as “the physical boundary and service area that a local governmental agency is expected to serve.”³ By expanding a SOI there is no financial impact on a district or requirement that taxpayers within the expanded territory pay additional taxes. For hospital districts, therefore, it appears a SOI expansion merely redefines the extraterritorial reach of the jurisdiction for purposes of understanding the size of the “affected area”.

Under this alternative, El Camino Hospital District would continue operations and receive its apportionment of property taxes for debt service, community benefits, capital improvements at the Mountain View campus, and general use. If boundaries were expanded, the District would receive more in property tax but would not necessarily provide a greater level of service to District residents. In addition, other local government jurisdictions would lose a portion of their 1% levy, and an additional tax would be imposed on residents within the SOI for ECHD debt service. If the SOI were expanded, there would still not be a greater level of service. Accordingly, *there would be no practical benefit from modifying the sphere of influence to better reflect the Hospital’s reach.*

<i>Advantages</i>	<i>Disadvantages</i>
<ul style="list-style-type: none"> • The boundaries of the District and the SOI would better reflect the Mountain View Hospital Corporation’s service reach into surrounding communities. 	<ul style="list-style-type: none"> • The Corporation potentially would have additional resources to locate services outside of the District’s SOI, further complicating distinctions between the District and the Corporation.
	<ul style="list-style-type: none"> • If the boundaries were expanded, the property tax base and resulting contributions to the District would increase, without necessarily providing significantly more in community benefits to District residents.
	<ul style="list-style-type: none"> • Additional taxpayers, who already have access to Mountain View Hospital services, would have a portion of their base property tax apportioned to the District and would be required to pay an additional levy for debt service, if the boundaries were expanded.

³ Santa Clara County LAFCo website, “Powers of LAFCO”

Consolidate with Another District

Consolidation of a district could occur when there is another district that provides the same or similar functions. Because there is no other district in the County, consolidation *is not a viable reorganization alternative*.

Merge with a City

Merging a district with a city requires that the boundaries of the district be entirely within the City.⁴ Since the El Camino Hospital District boundaries extend significantly beyond the boundaries of any single city within its jurisdiction, merger *is not a viable reorganization alternative*.

Create a Subsidiary District

To establish a district as a subsidiary of a city, the city must comprise 70% of the land or include 70% of the registered voters of the district.⁵ Therefore, establishing the District as a subsidiary of one of the cities within its jurisdictional boundaries *is not a viable reorganization alternative* since the District's boundaries cover several cities.

Dissolve the District

According to Section 56035 of the California Government Code, "Dissolution" means the dissolution, disincorporation, extinguishment, and termination of the existence of a district and the cessation of all its corporate powers . . . or for the purpose of winding up the affairs of the district.

If the El Camino Hospital District were to be dissolved, this analysis assumes that the Mountain View hospital would continue to be operated by the Corporation. To accomplish dissolution, Santa Clara County LAFCo would need to make findings regarding the District in accordance with Government Code Section 56881(b), as follows:

- (1) Public service costs . . . are likely to be less than or substantially similar to the costs of alternative means of providing service.
- (2) A change of organization or reorganization that is authorized by the commission promotes public access and accountability for community services needs and financial resources.

In addition, Santa Clara County LAFCo would need to identify a successor agency to implement the wind-up of the District, in accordance with Government Code Section 57451.

⁴ Government Code § 57104.

⁵ Government Code § 57105.

GC Section 56881(b)(1) Determination – Public Service Cost

During the past five years, \$110.2 million in property taxes collected by the El Camino Hospital District and other non-operating revenue (e.g., investment income) have been used very specifically to support El Camino Hospital – Mountain View, as follows:

- Approximately \$22.9 million, or 20.7%, has been used to repay debt incurred for the rebuild of the El Camino Hospital Mountain View campus.
- Approximately \$21.2 million, or 19.2%, has been used to fund miscellaneous capital improvements at the El Camino Hospital Mountain View campus.
- Approximately \$13.7 million, or 12.4%, has been contributed to El Camino Hospital Corporation and its affiliates to support its Community Benefit Program, used primarily for community health education, clinical services and clinical support services.
- Approximately \$52.5 million, or 47.6%, has been transferred to the El Camino Hospital Corporation as general surplus, contributing to the Corporation’s ability to accumulate over \$440 million in surplus net assets during this period and acquire Los Gatos Hospital.

Under this scenario, the District would be dissolved, the successor agency would assume the remaining debt on the General Obligation bonds, and it is assumed the Corporation would continue to operate the hospital. Therefore, the public service cost would be “substantially the same” for these expenses as currently.

Contributions toward community benefits and the transfer of surplus District funds, representing nearly 60 percent of total contributions to the Corporation during the past five years, would clearly represent a decline in hospital income going forward and community benefits could potentially decline, unless the Corporation chose to continue contributing at current or increased levels from other sources of funds. Two other factors related to these transfers should also be recognized by LAFCo:

1. The contributions to community benefits, amounting to 19.2% of the total contributions made by the District, have generally gone toward programs that support the Hospital’s general mission of providing healthcare services to the broader region. With dissolution, District residents would no longer be paying taxes to support community benefit services that are presently available to residents and non-residents alike.
2. Similarly, a substantial portion of the transfers (47.6%) have been used to support the general operations of the Hospital, and have allowed the Corporation to accumulate surplus net assets sufficient to purchase Los Gatos Hospital and expand the Corporation service territory, well outside of the District boundaries and Sphere of Influence. Based on the service review, at most, 43 percent of inpatient services and 54 percent of emergency services are provided to District residents. As with community benefits, District residents would no longer be paying taxes to support the general operations of the Hospital that are presently available to residents and non-residents alike.

Based on these factors, in accordance with Government Code Section 56881(b)(1), public service costs are likely to be less than or substantially similar to the costs of alternative means of providing service under a dissolution alternative. Although the total property tax burden would not be reduced for District residents, property tax receipts would be reapportioned to other jurisdictions within the District's tax rate areas, resulting in additional resources for police, fire, schools and other services provided to District residents.

GC Section 56881(b)(2) Determination – Promoting Public Access and Accountability

This report has identified several weaknesses in governance, transparency and public accountability due to the present relationship between ECHD and the Corporation. The audit found that, although they are legally separate entities, there is no functional distinction between District and Corporation governance, management and finances. The audit was unable to draw a clear distinction between Corporation income and District funds that allowed the Corporation to accumulate surplus net assets sufficient to acquire Los Gatos Hospital. Without distinct governance and full transparency, public accountability is weakened. With the dissolution of the District, public access and accountability would no longer be a concern.

GC Section 57451 Identifying a Successor Agency for Purposes of Winding Up the District

In the event of dissolution, Government Code Section 57451 would require Santa Clara County LAFCo to identify a successor agency for purposes of winding up the affairs of the District. The city that contains the greater assessed value of all taxable property within the territory of the dissolved district will be the successor agency pursuant to Government Code § 57451.

Implementing Dissolution

Under the Dissolution alternative, Santa Clara County LAFCo would dissolve the District and initiate steps to wind-up the organization. To achieve dissolution, the following issues would need to be resolved:

1. A successor agency would need to be identified.
2. The financial relationship between the District and the Corporation would need to be wound-up, including an equitable settlement for various leases and agreements, and asset and liability disposition.

While dissolution could be justified in accordance with Government Code §56881(b)(1) and §56881(b)(2), these issues should be considered and resolved prior to initiating the dissolution.

Recommendations

Therefore, the Santa Clara County LAFCo Board should:

1. Request the District to implement improvements in governance, transparency and public accountability, consistent with the suggestions made in the subsection of this report entitled, “Maintain District Boundaries/Improve Governance, Transparency and Accountability”.
2. If the improvements described in Recommendation 1 cannot be accomplished by the District within 12 to 18 months of acceptance of this report, or if the Corporation continues to purchase property outside of the District boundaries, request that the District Board initiate changes to the governance structure. If such changes are not initiated within six months of the request for the governance change, begin actions toward dissolution of the El Camino Hospital District.

The rationale for these recommendations is provided, below:

- El Camino Hospital is a successful organization in a thriving healthcare market, and is an important asset to the community.
- Maintaining the status quo without improvements in governance, transparency and public accountability would result in continued concerns regarding the need for District revenue contributions to go toward a non-profit public benefit corporation that no longer appears to be in need of taxpayer support.
- Continuation of taxpayer support, without broadening community benefit contributions beyond the Corporation and its affiliates, does not provide assurance that District residents receive an appropriate return on investment. In addition, it creates equity concerns, since approximately 57 percent of all inpatient services and 46 percent of all emergency services are provided to non-District residents, who are not taxed.
- Neither the District nor the Corporation provide remarkable levels of community benefits to District residents, when compared with other healthcare districts in the State and with other hospitals within Santa Clara County.
- Because the District serves as the “sole member” of the Corporation, the acquisition of the Los Gatos Hospital complicates the founding purpose of the District and, by extension, the Corporation. Further, the District made indirect monetary contributions to the Corporation that allowed it to use unrestricted net assets for the Los Gatos Hospital purchase. A more distinct separation of the two entities would ensure greater public accountability.
- The separation of the entities and disposition of assets and liabilities would be complex. Therefore, before embarking on a path toward dissolution, Santa Clara County LAFCo should make an effort to encourage the District to implement suggested reforms.

LAFCO MEETING: May 30, 2012
TO: LAFCO
FROM: Neelima Palacherla, Executive Officer
Dunia Noel, Analyst
SUBJECT: **SPECIAL DISTRICTS SERVICE REVIEW: DRAFT REQUEST FOR PROPOSALS**

STAFF RECOMMENDATIONS

1. Authorize staff to issue a Request for Proposals (RFP) for a professional service firm to prepare a service review of special districts in Santa Clara County.
2. Delegate authority to the LAFCO Executive Officer to enter into an agreement with the most qualified consultant in an amount not to exceed \$70,000 and to execute any necessary amendments subject to LAFCO Counsel's review and approval.
3. Appoint a LAFCO Commissioner to serve on the Special Districts Service Review Technical Advisory Committee.

BACKGROUND

LAFCO of Santa Clara County is responsible for establishing, reviewing and updating Spheres of Influence for 44 public agencies in Santa Clara County (15 cities and 29 special districts). LAFCOs are required to conduct service reviews prior to or in conjunction with Sphere of Influence updates. At the April 2012 LAFCO meeting, the Commission approved a service review work plan that calls for the completion of the remaining service reviews. The first is a service review of remaining special districts (i.e. excluding water and fire districts which were reviewed in the recently completed countywide fire and water service reviews and minus the El Camino Hospital District which is currently being reviewed separately), followed by a service review of cities. The Special Districts Service Review will be conducted in 2 phases. The first phase will include seven districts (mostly small districts that provide miscellaneous services in various parts of the County) and will begin in July 2012 and be completed by February 2013. The second phase of the service review will include the remaining 9 districts (all of the districts that provide sewer services and the two open space districts) and will begin in December 2012 and be completed by August 2013.

Additionally, at the April 2012 LAFCO meeting, Commissioner Wasserman inquired as to whether or not LAFCO Commissioners who currently serve on governing bodies of

special districts would need to recuse themselves on LAFCO service review actions involving those special districts. LAFCO Counsel Subramanian has provided a response (see Attachment A) to this inquiry which clarifies that “board members that serve on other regional boards are not required to recuse themselves from participating on matters that come before LAFCO regarding those boards based upon any income they may receive from sitting on that board. Such income is not considered as disqualifying income under the Act.”

PROPOSED BUDGET

The service review will be conducted by a professional service firm under the operational direction of the LAFCO Executive Officer. The LAFCO Budget for Fiscal Year 2013 includes funding for the Special Districts Service Review. LAFCO staff recommends an allocation of \$70,000 for this project. The LAFCO Executive Officer will negotiate the final project cost with the selected firm.

SPECIAL DISTRICTS SERVICE REVIEW

Distribution of Draft Request for Proposals (RFP) for Review and Comment

On April 24, 2012, LAFCO staff distributed a Draft RFP for the preparation of a Special Districts Service Review to the managers of special districts and cities in Santa Clara County, and interested parties for their review and comment. The deadline for providing written comments concerning the Draft RFP was May 15, 2012. To date, LAFCO staff has received only one comment. Specifically, the City of Santa Clara commented that they have reviewed the documents and found them acceptable and that they have no comments at this time. Therefore, no revisions were made to the Draft RFP and Scope of Services (see Attachment B).

Special Districts Service Review TAC and Consultant Selection Committee

LAFCO will establish a Technical Advisory Committee (TAC), the representatives of which will serve as a liaison between the LAFCO process and the various involved agencies and will provide technical advice and guidance throughout the project. Staff recommends that the TAC consist of the following representatives:

- One LAFCO Commissioner (to be determined)
- One representative from the Santa Clara County Special Districts’ Association (to be determined).

The TAC will participate on the consultant interview/selection committee.

Proposed Release of Final RFP for Special Districts Service Review

Upon LAFCO authorization, staff will send the Final RFP to the firms on LAFCO’s consultant list and will post the RFP on the LAFCO website and the CALAFCO website for other interested firms. Responses to the RFP are due on Wednesday, June 20, 2012.

SPECIAL DISTRICTS SERVICE REVIEW TIMELINE

- Release RFP: June 1, 2012
- Proposals Due: June 20, 2012
- Firm Interviews and Selection of Firm: late June/early July 2012
- Begin Service Review: July 2012
- LAFCO Public Hearings on Phase One of Special Districts Service Review: December 2012/February 2013
- LAFCO Public Hearings on Phase Two of Special Districts Service Review: June/August 2013

ATTACHMENTS

Attachment A: Memo from LAFCO Legal Counsel Subramanian dated May 14, 2012

Attachment B: Final Special Districts Service Review RFP including Scope of Services



May 14, 2012

MEMORANDUM

TO: LAFCO COMMISSIONERS
FROM: MALA SUBRAMANIAN, GENERAL COUNSEL
RE: POTENTIAL CONFLICT OF INTEREST UNDER THE POLITICAL REFORM ACT FOR SERVING ON OTHER REGIONAL BOARDS

Several Commissioners serve on various regional boards that are reviewed by LAFCO from time to time as part of the municipal service review process. You have asked whether there is a conflict of interest under the Political Reform Act¹ (“Act”) requiring such Commissioners to recuse themselves from participating in decisions related to the agencies for which they serve on the Board.

BACKGROUND

A. Basic Rule

The Act prohibits any public official from making, participating in making, or using his or her official position to influence a governmental decision in which the official has a financial interest. (§ 87100.²) A public official has a financial interest in a governmental decision if it is reasonably foreseeable that the decision will have a material financial effect on the public official’s economic interests. (§ 87103; Reg. 18700(a).)

In serving on regional boards and agencies, the Fair Political Practices Commission (“FPPC”) has identified two economic interests that could be impacted by an appointment to such a board. First, a public official has an economic interest in a source of income that totals \$500 or more within 12 months prior to the decision. (§87103(c); Reg. 18703.3.) A public official also has an economic interest in his or her personal finances. (§87103; Reg. 18703.5.)

B. Government Salary Exception

The Act’s definition of income expressly excludes salary, reimbursement for expenses and per diem received from a state, local, or federal government agency. As such, a governmental entity is not generally considered a source of income for purposes of the Act. The FPPC has agreed that any stipends, salary, per diem payments or expense reimbursements

¹ California Government Code section 81000 *et seq.*

² Unless otherwise cited all references to code sections (§) are to Government Code section 81000 *et seq.*; all regulatory references are to FPPC Regulations, 2 California Code of Regulations section 18100 *et seq.*



received from regional government agencies would not be considered disqualifying “income” within the meaning of the Act’s conflict of interest provisions. (*Bordsen* Advice Letter, No. A-95-347.)

An effect on an official’s governmental salary may still be disqualifying if there is a material and foreseeable financial effect on the official’s personal finances. For a financial effect on an official’s personal finances, Regulation 18705.5(a) provides that the financial effect of a decision is material if it is at least \$250 in any 12-month period. However, Regulation 18705.5(b) also includes an exception to the personal financial effects rule for certain governmental decisions that affect only the salary, per diem, or reimbursement of the public official.³

The Cortese-Knox-Hertzeberg Act also provides that “Any member appointed on behalf of local governments shall represent the interest of the public as a whole and not solely the interest of the appointing authority. This section does not require the abstention of any member on any matter . . . “ (Gov Code § 56325.1.)

CONCLUSION

Board members that serve on other regional boards are not required to recuse themselves from participating on matters that come before LAFCO regarding those boards based upon any income they may receive from sitting on that board. Such income is not considered as disqualifying income under the Act.

³ “(b) The financial effects of a decision which affects only the salary, per diem, or reimbursement for expenses the public official or a member of his or her immediate family receives from a federal, state, or local government agency shall not be deemed material, unless the decision is to appoint, hire, fire, promote, demote, suspend without pay or otherwise take disciplinary action with financial sanction against the official or a member of his or her immediate family, or to set a salary for the official or a member of his or her immediate family which is different from salaries paid to other employees of the government agency in the same job classification or position, or when the member of the public official's immediate family is the only person in the job classification or position.”

**DRAFT REQUEST FOR PROPOSALS
SERVICE REVIEW OF SPECIAL DISTRICTS IN SANTA CLARA COUNTY**

I. Objective

The Local Agency Formation Commission (LAFCO) of Santa Clara County is seeking proposals from professional service firms to prepare a Countywide Water Service Review. This work is to be completed in compliance with applicable California Government Code sections, local LAFCO policies and the latest available LAFCO Service Review Guidelines prepared by the Governor's Office of Planning and Research (OPR). The service reviews are intended to serve as a tool to help LAFCO, the public and other agencies better understand the public service structure and to develop information to update the spheres of influence of special districts and cities in the county. LAFCO is not required to initiate boundary changes based on service reviews. However, LAFCO, local agencies or the public may subsequently use the service reviews together with additional research and analysis where necessary, to pursue changes in jurisdictional boundaries or spheres of influence.

II. Background

The mandate for LAFCOs to conduct service reviews is part of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act), California Government Code §56000 et seq. LAFCOs are required to conduct service reviews prior to or in conjunction with Sphere of Influence updates and are required to review and update the Sphere of Influence for each city and special district as necessary, but not less than once every five years. LAFCO completed and adopted its first round of service reviews and sphere of influence updates for all cities and special districts in Santa Clara County prior to January 1, 2008, as required by State law.

LAFCO of Santa Clara County is responsible for establishing, reviewing and updating Spheres of Influence for 44 public agencies in Santa Clara County (15 cities and about 29 special districts). In April 2012, LAFCO approved a service review work plan that calls for the completion of the remaining service reviews. The first is a service review of remaining districts to be conducted in two phases, followed by a service review of cities. It is anticipated that these studies will be conducted by professional service firms under the operational direction of the LAFCO Executive Officer. LAFCO completed a Countywide Fire Protection Service Review in December 2010 and a Countywide Water Service Review in December 2011. LAFCO's Audit and Service Review of the El Camino Hospital District is underway. LAFCO's next priority, a service review of all special districts (minus water and fire districts which were reviewed in the recently completed countywide fire and water service reviews and minus the El Camino Hospital District which is currently being reviewed separately), is the subject of this Request for Proposal (RFP).

III. Scope of Services

A draft Scope of Services is enclosed with this RFP as Attachment 1. A final statement of services to be provided will be negotiated with the firm selected to conduct the service review and will be included as part of the professional services agreement.

IV. Budget

A final budget amount for this project will be negotiated with the firm selected for the work prior to reaching agreement. The anticipated project cost of the proposal should not exceed \$TBD.

V. Schedule

It is anticipated that the firm will start work in **July 2012**. The Special Districts Service Review and SOI Updates will be completed in two phases. Phase One will be completed and adopted by LAFCO by **mid February 2013** and Phase Two will be completed and adopted by LAFCO by **mid August 2013**. The final schedule for this project will be negotiated with the firm selected for the work prior to reaching an agreement.

VI. Proposal Requirements

Response to this RFP must include all of the following:

1. A statement about the firm that describes its history as well as the competencies and resumes of the principal and all professionals who will be involved in the work. This statement should describe the firm's level of expertise in the following areas:

General Expertise

- Familiarity with the CKH Act, the role and functions of LAFCO, and the service review process
- Ability to analyze and present information in an organized format
- Ability to quickly interpret varied budget and planning documents
- Ability to facilitate and synthesize input from a variety of stakeholders
- Familiarity with public input processes and experience in handling the presentation and dissemination of public information for review and comment
- Experience in fostering multi-agency partnerships and cooperative problem-solving
- Ability to provide flexible and creative alternatives where necessary to resolve service and policy issues

Service Expertise

- Management level understanding of how the full range of municipal services are financed and delivered
- Experience with the operational aspects of delivering public services in California (special districts, city departments, private companies)
- Experience in governance structure analysis, including evaluating government structure options (advantages and disadvantages of consolidation or reorganization of service providers)

- Experience in the financial analysis of municipal service delivery systems, including identifying financing constraints and opportunities and cost avoidance opportunities
 - Experience in evaluating the transparency and accountability in operations, management and administration of public agencies and identifying opportunities for increasing transparency and accountability
 - Experience in evaluating municipal service delivery systems, including performance measurements and benchmarking techniques
2. Identification of the lead professional responsible for the project and identification of the professional(s) who will be performing the day-to-day work.
 3. Identification of any associate consultant firms to be involved. If associate consultant firms are proposed, describe the work they will perform and include the same information for each as required for items 1 and 2 above.
 4. A statement of related experience accomplished in the last two years and references for each such project, including the contact name, address and telephone number.
 5. A statement regarding the anticipated approach for this project, explicitly discussing and identifying any suggested changes to the draft Scope of Services (*Attachment 1*).
 6. Identification of any information, materials and/or work assistance required from LAFCO and / or involved water service agencies or departments to complete the project. The expectation is that the consultant will use all available data sources to develop/update information for agency profiles in an effort to minimize the workload for affected agencies.
 7. An overall project schedule, including the timing of each work task.
 8. Information about the availability of all professionals who will be involved in the work, including any associate consultants.
 9. The anticipated project cost, including:
 - a. A not-to-exceed total budget amount.
 - b. The cost for each major sub-task identified in the draft Scope of Services.
 - c. The hourly rates for each person who will be involved in the work, including the rates of any associate consultants.
 10. Comments about the draft services agreement (*Attachment 2*) specifically including the ability of the firm to meet the insurance requirements and other provisions.

VII. Submission Requirements

DUE DATE AND TIME: Wednesday, June 20, 2012 at 5:00 PM

Proposals received after this time and date may be returned unopened.

NUMBER OF COPIES:

5 copies and 1 CD

DELIVER TO:

Neelima Palacherla
LAFCO of Santa Clara County
70 West Hedding Street, 11th Floor
San Jose, CA 95110

Note: If delivery is to be in person please first call the LAFCO office (408-299-6415 or 5148) to arrange delivery time.

VIII. Evaluation Criteria and Selection Process

Firms will be selected for further consideration and follow-up interviews based on the following criteria:

- relevant work experience
- the completeness of the responses
- overall project approaches identified
- proposed project budget

A consultant selection committee will conduct interviews and the most qualified firm will be selected based on the above evaluation criteria and reference checks. Interviews will be held in late June/early July 2012. The selection committee is expected to make a decision soon after. Following the selection of the most qualified firm, a final services agreement including budget, schedule, and final Scope of Services statement will be negotiated before executing the contract.

LAFCO reserves the right to reject any or all proposals, to issue addenda to the RFP, to modify the RFP or to cancel the RFP.

IX. LAFCO Contact

Neelima Palacherla, Executive Officer
LAFCO of Santa Clara County
Voice: (408) 299-5127
Fax: (408) 295-1613
Email: neelima.palacherla@ceo.sccgov.org

X. Attachments

1. Draft Scope of Services
2. Draft Professional Service Agreement and Insurance Requirements

XI. Reference Information

Please refer to the LAFCO website (www.santaclara.lafco.ca.gov) for general information about LAFCO of Santa Clara County and for the following information:

- LAFCO's Service Review Policies
(<http://www.santaclara.lafco.ca.gov/policies/SRPolicies2009.pdf>)
- South Central Santa Clara County Service Review and Sphere of Influence Recommendations (August 2006)
(http://www.santaclara.lafco.ca.gov/adptd_svce_reviews_southcentral.html)
- Northwest Santa Clara County Service Review and Sphere of Influence Recommendations (October 2007)
(http://www.santaclara.lafco.ca.gov/adptd_svce_reviews_northwest.html)

- 2011 Countywide Water Service Review
(http://www.santaclara.lafco.ca.gov/adptd_svce_reviews_water_2011.html)

For the Service Review Guidelines issued by the Governor's Office of Planning and Research, please refer to the following links:

(<http://opr.ca.gov/docs/MSRGuidelines.pdf>)

(<http://opr.ca.gov/docs/MSRAppendices.pdf>)

DRAFT

DRAFT SCOPE OF SERVICES
SERVICE REVIEW OF SPECIAL DISTRICTS IN
SANTA CLARA COUNTY

LAFCO of Santa Clara County will conduct a service review of all special districts (minus water and fire districts which were reviewed in the recently completed countywide fire and water service reviews and minus the El Camino Hospital District which is currently being reviewed separately) within Santa Clara County. California Government Code section 56430 requires LAFCO to conduct the review in order to develop information for updating spheres of influence. The statute requires LAFCO to prepare and adopt a written statement of determinations for each of the following considerations:

1. Growth and population projections for the affected area.
2. The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.
3. Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including infrastructure needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.
4. Financial ability of agencies to provide services.
5. Status of, and opportunities for, shared facilities.
6. Accountability for community service needs, including governmental structure and operational efficiencies.
7. Any other matter related to effective or efficient service delivery, as required by commission policy.

The report will include a recommendation regarding each district's sphere of influence boundary. California Government Code section 56425 requires LAFCO, when determining the sphere of influence of each local agency, to prepare and adopt a written statement of determination for each district regarding the following considerations:

1. The present and planned land uses in the area, including agricultural and open-space lands.
2. The present and probable need for public facilities and services in the area.

3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.
4. The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.
5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protections that occurs pursuant to subdivision (g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.
6. The nature, location, and extent of any functions or classes of services provided by existing districts.

SERVICE REVIEW TASKS OVERVIEW

The Special Districts Service Review will be conducted in accordance with LAFCO policies adopted by the Commission and the service review guidelines developed by the Governor's Office of Planning and Research (OPR) where feasible. Preparation of the service review will include the following steps, although other activities may be necessary:

1. Data Collection and Review

- Develop questionnaire relating to the evaluation categories for service reviews
- Identify appropriate criteria to be used for service evaluation, as necessary
- Review questionnaire with LAFCO staff and Technical Advisory Committee (TAC)
- Collect information through interviews, meetings, surveys and /or research
- Compile information in a database
- Verify compiled information with agencies

Work Products: Consultant must deliver to LAFCO staff complete information for each agency.

2. Data Analysis

- Analyze data and prepare preliminary findings based on standards, where appropriate
- Present and discuss the preliminary findings with TAC / LAFCO staff

Work Products: Consultant must deliver preliminary analysis and findings to LAFCO staff

3. Administrative Draft Service Review Report

- Prepare an Administrative Draft Report for LAFCO staff review, in accordance with the project schedule
- LAFCO staff will review and provide comments on the Administrative Draft Report, in accordance with the schedule

Work Products: Consultant must deliver Administrative Draft Report to LAFCO staff

4. Draft Service Review Report / LAFCO Public Hearing

- Address LAFCO staff's comments and prepare a Draft Service Review Report
- LAFCO staff will distribute the Draft Report for a 21-day public review and comment period
- Provide written responses to comments received during the public review period
- Present the Draft report at the LAFCO public hearing and / or LAFCO workshop

Work Products: Consultant must deliver a MS Word version, a PDF version and 9 hard copies of the Draft Report.

5. Revised Draft Report / LAFCO Public Hearing

- Revise the Draft Report to address comments and submit the Revised Draft Report
- LAFCO staff will distribute the Revised Draft Report for a 21-day public review and comment period
- Present the Revised Draft report at the LAFCO public hearing and /or LAFCO workshop

Work Products: Consultant must deliver a MS Word version, a PDF version

6. Final Service Review Report

- Following LAFCO adoption of the Service Review Report, prepare the Final Report.

Work Products: Consultant must deliver a MS Word version, a PDF version and 3 hard copies of the Final Report.

IDENTIFICATION OF SPECIAL DISTRICTS

The service review will be conducted in two phases. The first phase will include a review of the following districts:

1. South Santa Clara Valley Memorial District
2. Saratoga Cemetery District
3. Rancho Rinconada Recreation and Park District
4. County Lighting Services Area
5. County Library Services Area
6. Santa Clara County Vector Control District
7. Santa Clara Valley Transportation Authority

The second phase of the service review will include the following districts:

1. Burbank Sanitary District
2. County Sanitation District No. 2-3
3. Cupertino Sanitary District
4. West Valley Sanitation District
5. West Bay Sanitary District
6. Lake Canyon Community Services District
7. Lion's Gate Community Services District
8. Santa Clara County Open Space Authority
9. Midpeninsula Regional Open Space District

POTENTIAL ISSUES AND TOPICS

Based on issues raised in the past service reviews for the districts and more current issues raised in the communities, the service review report will address four key areas for each of the districts, as appropriate:

1. Purpose of the District

- a. What services is the district currently providing?
- b. Is the district currently providing the services for which it was originally created?
- c. Is there a change in the mission of the district or in the needs of the community since creation of the district?

- 2. Opportunities for Consolidation of Services**
 - a. Is a separate government agency necessary to perform the current functions of the district or could another existing public agency provide those services more efficiently?
 - b. Would a consolidation or other change in governance result in cost savings and/or in higher service levels?

- 3. Opportunities for Increased Transparency in Operations, Management and Administration and for Increased Public Accountability of the District**
 - a. What measures should the district take to establish transparency in the operation, administration and management of the district and in order to be more accountable to the public/community that it serves?

- 4. Opportunities for Increasing the Efficiency and Effectiveness of the District**
 - a. What benchmarks/standards are appropriate for measuring the efficiency and effectiveness of the district given the services it provides?
 - b. What measures should the district take to increase its efficiency and effectiveness?

LAFCO MEETING: May 30, 2012
TO: LAFCO
FROM: Neelima Palacherla, Executive Officer
Dunia Noel, Analyst
SUBJECT: **DRAFT REQUEST FOR PROPOSALS: SPECIAL STUDY ON IMPACTS OF THE POTENTIAL DISSOLUTION OF THE SARATOGA FIRE PROTECTION DISTRICT AND ANNEXATION OF ITS TERRITORY TO SANTA CLARA COUNTY CENTRAL FIRE PROTECTION DISTRICT**

STAFF RECOMMENDATION

In order to inform LAFCO's decision on whether or not to initiate dissolution of the Saratoga Fire Protection District (SFD) and annex its territory to the Santa Clara County Central Fire Protection District (CCFD), authorize staff to issue the Request for Proposals (Attachment A) for a professional service firm to prepare a special study on the impacts of the potential dissolution/annexation.

BACKGROUND

In December 2011, LAFCO authorized staff to seek a professional service firm to conduct a special study on the impacts of dissolution of the Saratoga Fire Protection District (SFD) and annexation of its territory to the Santa Clara County Central Fire Protection District (CCFD), including a detailed analysis of the cost savings and fiscal impacts. The study will be used to inform LAFCO's decision on whether or not to initiate dissolution of the SFD and annex its territory to CCFD.

LAFCO may initiate a dissolution or a reorganization which includes a dissolution only if the proposal is consistent with a conclusion or recommendation in the service review, sphere of influence update or special study and the Commission makes both the following determinations required in Government Code §56881. [GC §56375(a)(2)(F) & (a)(3)]:

1. Public service costs of the proposal is likely to be less than or substantially similar to the costs of alternative means of providing the service.
2. The proposal promotes public access and accountability for community services needs and financial resources.

The special study will include information and analysis necessary for the Commission to evaluate if it can make the above required determinations. A final statement of

services to be provided will be negotiated with the firm selected to conduct the special study and will be included as part of the professional services agreement.

REQUEST FOR PROPOSALS

Distribution of Draft Request for Proposals (RFP) for Review and Comment

On May 3, 2012, LAFCO staff distributed a Draft RFP for the preparation of a Special Study to special districts and cities in Santa Clara County, and interested parties for their review and comment. The deadline for providing written comments concerning the Draft RFP was May 17, 2012. To date, LAFCO staff has received only one comment. Specifically, Harold Toppel, Attorney for the Saratoga Fire Protection District, provided a comment letter (Attachment B) on behalf of the Board of the Saratoga Fire Protection District. The District's two main comments are summarized as follows:

- "The manner in which the objective of the study is stated suggests that a dissolution of SFPD is already an adopted goal on the part of LAFCO.... and all that needs to be considered is the resulting impacts from this intended action. The objective of the study should be to *determine* whether LAFCO should initiate action to dissolve SFPD and annex its territory to CCFD, which involves an analysis of existing conditions rather than future impacts from a course of action which has already been placed in motion."
- "The statement of background facts is incomplete at best, and misleading at worst."

LAFCO staff has revised the Draft RFP and Scope of Services to address these comments. Please see Attachment "A" for the Revised RFP and Revised Scope of Services (including the tracked changes).

Proposed Release of Final RFP for Special Study

Upon LAFCO authorization, staff will send the Revised RFP to the firms on LAFCO's consultant list and will post the RFP on the LAFCO website and the CALAFCO website for other interested firms. Responses to the RFP are due on Wednesday, June 20, 2012.

ATTACHMENTS

- | | |
|---------------|--|
| Attachment A: | Revised Special Study RFP including Scope of Services (with tracked changes shown) |
| Attachment B: | Letter from Harold S. Toppel, Legal Counsel for Saratoga Fire Protection District dated May 15, 2012 |

REQUEST FOR PROPOSALS

SPECIAL STUDY

Impacts of the Potential Dissolution of the Saratoga Fire Protection District and Annexation to the Santa Clara County Central Fire Protection District

I. Objective

The Local Agency Formation Commission (LAFCO) of Santa Clara County is seeking proposals from professional service firms to prepare a special study on the impacts of the potential dissolution of the Saratoga Fire Protection District (SFPD) and annexation of its territory to the Santa Clara County Central Fire Protection District (CCFD). The study will be used to inform LAFCO's decision on whether or not to initiate dissolution of the SFD and annex its territory to CCFD. This work is to be performed in accordance with the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code §56000 et seq.) and LAFCO of Santa Clara County policies and procedures.

II. Background

The Saratoga Fire Protection District (SFD) is an independent special district governed by a three-member elected board. The District covers a portion of the City of Saratoga and the adjacent unincorporated area. The Santa Clara County Central Fire Protection District (CCFD) completely surrounds the SFD. In 2008, following the success of a management agreement between CCFD and SFD, the two agencies entered into a full-service contract, whereby SFD employees were transferred to CCFD. Although almost all of SFD's budget is for the service contract with CCFD, the District remains an independent district with its own board of directors. SFD administers an early fire warning system (EWAS) on behalf of the City of Saratoga.

On December 15, 2010, LAFCO adopted the 2010 Countywide Fire Service Review and sphere of influence (SOI) updates for four fire districts, including the Saratoga Fire Protection District (SFD). The Service Review indicated that approximately \$118,000 in annual administrative costs could be reduced by dissolving the SFD and annexing its territory to the Santa Clara County Central Fire Protection District (CCFD). At that meeting, LAFCO also directed staff to pursue further research / analysis of this option and to report back to the Commission. In spring of 2011, staff began researching and developing materials on the dissolution process. In June 2011, staff met with the chairperson of the SFD to discuss this issue. As directed by LAFCO, staff provided a presentation to the Saratoga City Council in November 2011, regarding the potential dissolution of the SFD in order to solicit input on the issue.

In December 2011, LAFCO authorized staff to seek a professional service firm to conduct a special study on the impacts of the potential dissolution of SFD and annexation to

CCFD, including a detailed analysis of the cost savings and fiscal impacts. The study will be used to inform LAFCO's decision on whether or not to initiate dissolution of the SFD and annex its territory to CCFD.

[Please see Item 3 of Section XII of the RFP for specific links to LAFCO's staff reports which provide more detailed background information on this issue, including letters from the Saratoga Fire Protection District.](#)

III. Draft Scope of Services

LAFCO may initiate a dissolution or a reorganization which includes a dissolution only if the proposal is consistent with a conclusion or recommendation in the service review, sphere of influence update or special study and the Commission makes both the following determinations required in Government Code §56881. [GC §56375(a)(2)(F) & (a)(3)]:

1. Public service costs of the proposal is likely to be less than or substantially similar to the costs of alternative means of providing the service.
2. The proposal promotes public access and accountability for community services needs and financial resources.

The report will include information and analysis necessary for the Commission to evaluate if it can make the above required determinations. A final statement of services to be provided will be negotiated with the firm selected to conduct the special study and will be included as part of the professional services agreement.

IV. Key Steps

Key steps in the study will include the following:

- Consultant will attend a kick-off meeting with LAFCO staff to review Scope of Services and schedule.
- Consultant will collect, review and analyze information, including, but not limited to, the 2010 LAFCO Countywide Fire Service Review, the SFD and CCFD financial and budget reports, the CKH, the principal act (Health and Safety Code §13800, et seq.) of the Districts, LAFCO policies and procedures, and any other information relevant to the study.
- Consultant will prepare a Draft Report of their analysis and findings.
- LAFCO staff will distribute the Draft Report to the Commission and all affected agencies and interested parties for a 21-day public review and comment period.
- Consultant will respond in writing to comments received during the 21-day review period.
- LAFCO will hold a public hearing to receive final comments and to consider the Report.
- Consultant will present the Draft Report at the LAFCO public hearing and respond to any further comments received during the hearing.
- Consultant will attend up to two public meetings in conjunction with the Report.

V. Budget

A final budget amount for this project will be negotiated with the firm selected for the work prior to reaching agreement. The anticipated project cost of the proposal should not exceed \$8,000.

VI. Schedule

It is anticipated that the firm will start work in July 2012. The final schedule for this project will be negotiated with the firm selected for the work prior to reaching an agreement.

VII. Proposal Requirements

Response to this RFP must include all of the following:

1. A statement about the firm that describes its history as well as the competencies and resumes of the principal and all professionals who will be involved in the work. This statement should describe the firm's level of expertise in the following areas:

Expertise

- Familiarity with the CKH Act, the role and functions of LAFCO, and the dissolution process for special districts
 - Knowledge of fire protection service provision in California (fire departments, fire districts, and volunteer fire companies)
 - Management level understanding of how local governmental services are delivered and financed
 - Expertise in the financial analysis of local governmental service delivery systems, including identifying financing constraints / opportunities and cost avoidance opportunities
 - Expertise in governance structure analysis, including evaluating government structure options (advantages and disadvantages of the consolidation or reorganization of service providers)
 - Ability to analyze and present information in an organized format
 - Familiarity with public input processes and experience in handling the presentation and dissemination of public information for review and comment
 - Experience in fostering multi-agency partnerships and cooperative problem-solving
 - Ability to provide flexible and creative alternatives where necessary to resolve service and policy issues
2. Identification of the lead professional responsible for the project and identification of the professional(s) who will be performing the day-to-day work.

3. A statement of related experience accomplished in the last three years and references for each such project, including the contact name, address and telephone number.
4. A statement regarding the anticipated approach for this project, explicitly discussing and identifying any suggested changes to the Draft Scope of Services.
5. An overall project schedule, including a task plan and estimated hours for each task.
6. Information about the availability of all professionals who will be involved in the work, including any associate consultants.
7. The anticipated project cost, including:
 - a. A not-to-exceed total budget amount.
 - b. The cost for each major sub-task identified in the draft Scope of Services.
 - c. The hourly rates for each person who will be involved in the work, including the rates of any associate consultants.
 - d. The cost of any expenses in addition to professional staff hourly rates.
8. Comments about the draft services agreement (Attachment 1) specifically including the ability of the firm to meet the insurance requirements and other provisions.

VIII. Submission Requirements

DUE DATE AND TIME: Wednesday, June 20, 2012 at 5:00 PM. Proposals received after this time and date may be returned unopened.

NUMBER OF COPIES: 3 original copies and 1 fully reproducible copy

DELIVER TO: Neelima Palacherla
LAFCO of Santa Clara County
70 West Hedding Street, 11th Floor
San Jose, CA 95110

Note: If delivery is to be in person please first call the LAFCO office at 408/299-6415 or 5148 to arrange delivery time.

IX. Evaluation Criteria and Selection Process

Firms will be selected for further consideration and follow-up interviews based on the following criteria:

- relevant work experience
- the completeness of the responses
- overall project approaches identified
- proposed project budget

Following the interviews, the most qualified firm will be selected based on the above evaluation criteria and reference checks. **Interviews will be held in July 2012.** Following the selection of the most qualified firm, a final services agreement including budget,

schedule, and final Scope of Services statement will be negotiated before executing the contract.

LAFCO reserves the right to reject any or all proposals, to issue addenda to the RFP, to modify the RFP or to cancel the RFP.

X. LAFCO Contact

Neelima Palacherla, Executive Officer
LAFCO of Santa Clara County
Voice: (408) 299-5127
Fax: (408) 295-1613
Email: neelima.palacherla@ceo.sccgov.org

XI. Attachment

1. Draft Professional Service Agreement and Insurance Requirements

XII. Reference Information

Please refer to LAFCO's website (www.santaclara.lafco.ca.gov) for general information about LAFCO of Santa Clara County and the following links for further information on this issue:

1. 2010 Countywide Fire Service Review Report
www.santaclara.lafco.ca.gov/service_reviews/fire_2010/LAFCO%20Fire%20Service%20Review%20FINAL.pdf
2. Map of Cities and Fire Districts in Santa Clara County
http://www.santaclara.lafco.ca.gov/service_reviews/fire_2010/LAFCO_Fire_Districts_December2010.pdf
3. Relevant LAFCO Staff Reports
http://www.santaclara.lafco.ca.gov/agenda/Full_Packets/2011Packets/2011Jun01/Item13.pdf
http://www.santaclara.lafco.ca.gov/agenda/Full_Packets/2011Packets/2011Aug03/Item8.pdf
http://www.santaclara.lafco.ca.gov/agenda/Full_Packets/2011Packets/2011Oct05/Item8.pdf
http://www.santaclara.lafco.ca.gov/agenda/Full_Packets/2011Packets/2011Dec07/Item7.pdf

ATKINSON • FARASYN, LLP

ATTORNEYS AT LAW

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P.O. BOX 279

MOUNTAIN VIEW, CALIFORNIA 94042

TELEPHONE (650) 967-6941

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REPLY TO:

HAROLD S. TOPPEL

J.M. ATKINSON (1892-1982)

L.M. FARASYN (1915-1979)

May 15, 2012

LAFCO of Santa Clara County
70 West Hedding Street
11th Floor, East Wing
San Jose, CA 95110

Re: Draft Request For Proposals
Special Study of Impacts of Dissolution of
Saratoga Fire Protection District

Dear Commissioners:

The Board of Fire Commissioners of the Saratoga Fire Protection District ("SFPD" or "the District") has reviewed the Draft Request For Proposals ("the RFP") for a Special Study of the Impacts of Dissolution of the Saratoga Fire Protection District and Annexation to the Santa Clara County Central Fire Protection District ("CCFD"). I have been authorized by the Board to send you the following comments on the RFP:

Objective:

The manner in which the objective of the study is stated suggests that a dissolution of SFPD is already an adopted goal on the part of LAFCO (which we suspect is indeed the case) and all that needs to be considered is the resulting impacts from this intended action. The objective of the study should be to *determine* whether LAFCO should initiate action to dissolve SFPD and annex its territory to CCFD, which involves an analysis of existing conditions rather than future impacts from a course of action which has already been placed in motion.

Background:

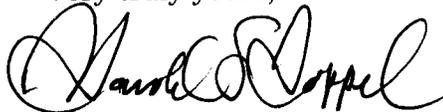
The statement of background facts is incomplete at best, and misleading at worst. At no point is it clearly stated that LAFCO has initiated the dissolution process and, from the start, the District's Board of Fire Commissioners has voiced its opposition to this process. The background statement refers to a meeting between LAFCO staff and the chairperson of SFPD "to discuss this issue" but there is no mention of the fact that during this meeting the chairperson indicated to staff that the SFPD had no interest in pursuing a dissolution and if such action was initiated by LAFCO, it would be opposed by the District. The LAFCO presentation to the Saratoga City Council is also noted, but again, no mention of the response by the Council members that they did not see any need for a dissolution of

SFPD and were satisfied with the manner in which fire protection services were being provided to the community.

The background statement also declares that approximately \$118,000 in cost savings would be achieved by dissolving SFPD but neglects to mention that this allegation has been disputed by the District. There is no discussion at all about other legal issues that are critical to any consideration of dissolution, such as public access and accountability of the governing board to the constituents of the District.

Although the District has no comments on the remainder of the RFP, we think the consultant should at least be alerted to the fact that neither the SFPD or the CCFD have requested LAFCO to conduct dissolution proceedings, and if such proceedings are initiated by LAFCO, they will be strongly opposed by SFPD. We would also expect opposition to be expressed by the residents of the District, who have historically supported the SFPD. As we have repeatedly stated in the past, we do not believe that substantial evidence exists to support the findings legally required for LAFCO to initiate dissolution proceedings. The RFP should impose upon the consultant the responsibility to either produce such evidence or recommend to LAFCO that no further consideration be given to this proposal.

Very truly yours,

A handwritten signature in black ink, appearing to read "Harold S. Toppel". The signature is fluid and cursive, with a large initial "H" and "T".

Harold S. Toppel
District Counsel

cc: SFD Board of Fire Commissioners
Chief Ken Kehmna
Dave Anderson
Trina Whitley

LAFCO MEETING: May 30, 2012
TO: LAFCO
FROM: Neelima Palacherla, Executive Officer
Dunia Noel, Analyst
SUBJECT: SPECIAL DISTRICTS REPRESENTATION ON LAFCO

STAFF RECOMMENDATION

Accept report and provide direction as necessary.

BACKGROUND

LAFCO currently has no special district representation on the Commission. In March 2012, the Santa Clara County Special Districts Association considered the issue of special districts having a seat on LAFCO and requested more information on the cost implication for individual districts. LAFCO staff, in coordination with the County Controllers' Office, prepared the requested information on potential costs for each independent special district should districts be represented on LAFCO. This information was provided to the Association for their consideration and also presented to LAFCO at its April 4, 2012 meeting. Subsequently, the Association provided this information to independent special districts and requested their input on this matter, specifically whether there is interest in seeking formal action to pursue representation on LAFCO. Interested independent special districts are to notify the Association of their intent. There are 17 independent special districts in Santa Clara County.

The Cortese Knox Hertzberg Act provides a process for seating independent special districts on LAFCO. In general, a majority of independent special districts must adopt resolutions in support of having representation on LAFCO before LAFCO can approve such a change. More specific information on this process including the relevant government code sections is provided below.

PROCESS FOR SEATING INDEPENDENT SPECIAL DISTRICTS ON LAFCO

LAFCO shall initiate the proceedings for seating independent special districts on LAFCO if requested by independent special districts, per Government Code §56332.5 of the Cortese Knox Hertzberg Act.

Key Steps for Seating Independent Special Districts on LAFCO

1. A majority of the independent special districts need to adopt resolutions proposing representation on LAFCO (§56332.5). In Santa Clara County, there are 17 independent special districts. Therefore, upon receipt of resolutions from 9

independent special districts, LAFCO is required to initiate proceedings for seating independent special districts on LAFCO.

2. Once LAFCO receives resolutions from a majority of special districts, LAFCO will adopt a Resolution of Intention at its next regular meeting. (§56332.5)
3. The LAFCO Executive Officer will give written notice and call a meeting of the Independent Special District Selection Committee to select independent special district representation on the LAFCO [§56332(b)]. The Independent Special District Selection Committee is composed of a presiding officer of each independent special district. This meeting must be held within 15 days after the adoption of LAFCO's Resolution of Intention. (§56332.5)

An alternate may be appointed by the legislative body of an independent special district if the presiding officer of that independent special district is unable to attend. These special districts include districts located wholly within the county and those containing territory within the county representing 50% or more of the assessed value of taxable property within the district, as shown on the last equalized county assessment roll. A quorum consists of a majority of the eligible districts. Each member of the selection committee shall have one vote. (§56332a)

4. The Independent Special District Selection Committee shall select their representatives to LAFCO, specifically 2 regular members and 1 alternate. The members appointed to LAFCO shall be elected or appointed special district officers residing within the county but shall not be members of the County Board of Supervisors or a city council [§56332(c)(5)(d)]. The term of office of each member is 4 years and until the appointment and qualification of his or her successor (§56334).
5. If the LAFCO Executive Officer determines that a meeting of the Independent Special District Selection Committee is not feasible, they may conduct the business of the Committee in writing. The LAFCO Executive Officer may call for nominations (for independent special district representation on LAFCO) to be submitted in writing within 30 days [§56332(c)(1)]. At the end of the nominating period, the LAFCO Executive Officer shall prepare and deliver, or send by certified mail, to each independent special district one ballot and voting instructions. Email may also be used with written evidence of receipt and prior concurrence of each district [§56332(c)(2)]. The ballot shall contain the names of all nominees. The independent special districts have at least 30 days to return the ballots by a specified date to the LAFCO Executive Officer. [§56332(c)(3)]
6. The LAFCO Executive Officer shall announce the results of the election within seven days of the specified date. [§56332(c)(5)]

INDEPENDENT SPECIAL DISTRICTS CONTRIBUTION TO LAFCO'S BUDGET IF SEATED

Independent special districts, if seated on LAFCO, shall pay one-third of the operational cost of LAFCO unless the independent special districts, the county and the cities approve an alternate method of apportionment [§56381(b)(1)(A)]. The independent

special districts' share shall be apportioned in proportion to each district's total revenues as a percentage of the combined total district revenues within a county as reported in the most recent edition of the "Special Districts Annual Report" published by the Controller [§56381(b)(1)(C)]. There are 17 independent special districts in Santa Clara County.

At the April 4, 2012 LAFCO meeting, staff presented an estimate of the apportionment of LAFCO costs (Attachment A) for the County, the City of San Jose, the remaining 14 cities, and the 17 independent special districts, were independent special districts seated on LAFCO based on the 2012 LAFCO Budget. Staff estimated that independent special districts would be apportioned a total of \$199,065 and that this amount would then be apportioned to each district. Please see Attachment "A" for a cost estimate for each independent special district.

An alternative method of apportionment of the net operating expenses of LAFCO may be used if approved by a majority vote of each of the following: the board of supervisors; a majority of the cities representing a majority of the total population of cities in the county; and independent special districts representing a majority of the combined total population of independent special districts in the county. [§56381(b)(4)]

NEXT STEPS

LAFCO staff will continue to monitor this issue and to be a resource on the process.

ATTACHMENT

Attachment A: LAFCO Cost Apportionment: Cities, County, and Special Districts

LAFCO C O S T A P P O R T I O N M E N T: County, Cities, Special Districts
Estimated Costs to Agencies Based on the 2012 LAFCO Budget

LAFCO Net Operating Expenses for 2012				\$597,195
Jurisdictions	Revenue per 2009/2010 Report	Percentage of Total Revenue	Allocation Percentages	Allocated Costs
County	N/A	N/A	33.3333333%	\$199,065.00
Cities Total Share			33.3333333%	\$199,065.00
San Jose	N/A	N/A	50.0000000%	\$99,532.50
Other cities share			50.0000000%	\$99,532.50
Campbell	\$37,199,184	2.0182051%		\$2,008.77
Cupertino	\$51,593,772	2.7991693%		\$2,786.08
Gilroy	\$65,499,455	3.5536085%		\$3,537.00
Los Altos	\$37,223,642	2.0195321%		\$2,010.09
Los Altos Hills	\$10,074,345	0.5465737%		\$544.02
Los Gatos	\$50,773,160	2.7546478%		\$2,741.77
Milpitas	\$94,121,506	5.1064697%		\$5,082.60
Monte Sereno	\$2,604,662	0.1413134%		\$140.65
Morgan Hill	\$47,513,050	2.5777738%		\$2,565.72
Mountain View	\$163,494,125	8.8702129%		\$8,828.74
Palo Alto	\$491,995,000	26.6927047%		\$26,567.92
Santa Clara	\$478,854,381	25.9797733%		\$25,858.32
Saratoga	\$18,947,298	1.0279670%		\$1,023.16
Sunnyvale	\$293,287,941	15.9120487%		\$15,837.66
Total Cities (excluding San Jose)	\$1,843,181,521	100.0000000%		\$99,532.50
Total Cities (including San Jose)				\$199,065.00
Special Districts Total Share			33.3333333%	\$199,065.00
Aldercroft Heights County Water District	\$201,129	0.0545415%		\$108.57
Burbank Sanitary District	\$503,197	0.1364553%		\$271.63
Cupertino Sanitary District	\$8,522,957	2.3112266%		\$4,600.84
El Camino Hospital District	\$15,836,355	4.2944492%		\$8,548.75
Guadalupe Coyote Resource Cons. District	\$156,831	0.0425289%		\$84.66
Lake Canyon Community Services District	\$71,203	0.0193086%		\$38.44
Lion's Gate Community Services District	\$711,675	0.1929896%		\$384.17
Loma Prieta Resource Cons. District	\$65,201	0.0176810%		\$35.20
Midpeninsula Regional Open Space District	\$30,831,223	8.3607067%		\$16,643.24
Purissima Hills County Water District	\$4,370,288	1.1851199%		\$2,359.16
Rancho Rinconada Rec. and Park District	\$515,955	0.1399149%		\$278.52
San Martin County Water District [1]	\$143,000	0.0387783%		\$77.19
Santa Clara County Open Space District	\$37,927,411	10.2850270%		\$20,473.89
Santa Clara Valley Water District	\$262,814,725	71.2692077%		\$141,872.05
Saratoga Cemetery District	\$1,035,169	0.2807136%		\$558.80
Saratoga Fire Protection District	\$4,935,972	1.3385202%		\$2,664.53
South Santa Clara Valley Memorial District	\$121,069	0.0328311%		\$65.36
Total Special Districts	\$368,763,360	100.0000000%		\$199,065.00
Total Allocated Costs				\$597,195.00

Notes:

[1] San Martin County Water District did not file Special Districts Financial Transactions Report for several years. Revenue data is from LAFCO of Santa Clara County's 2011 Countywide Water Service Review report.

LAFCO MEETING: May 30, 2012
TO: LAFCO
FROM: Neelima Palacherla, Executive Officer
Dunia Noel, LAFCO Analyst
SUBJECT: LEGISLATIVE REPORT

CURRENT BILLS OF PARTICULAR INTEREST TO SANTA CLARA LAFCO

This report includes a brief summary of the current bills that are of most interest to LAFCO of Santa Clara County. Detailed information and complete bill language is available at www.leginfo.ca.gov.

AB 2238 (PEREA) LAFCO MUNICIPAL SERVICE REVIEWS

Recommended Action

Support AB 2238 if CALAFCO proposed amendments are made, and authorize LAFCO staff to send a letter of support, as necessary.

Discussion

Existing law (effective in January 2012) permits LAFCOs to “assess alternatives for improving efficiency and affordability of infrastructure and service delivery within and contiguous to the sphere of influence, including, but not limited to, the consolidation of governmental agencies”. Sponsored by the California Rural Legal Assistance Foundation, this bill would require LAFCOs to conduct an alternative service delivery study in every service review that includes a water or wastewater agency. The Author and sponsor, at the urging of CALAFCO and CSDA, have recently agreed to amend the bill to remove the requirement and retain the existing permissive language.

In addition, the bill would require the Department of Public Health to consider the findings in LAFCO studies to assess the feasibility of consolidations and mergers of water systems which serve disadvantaged unincorporated communities, when they are determining grants, loans or other funding to local agency projects.

Status: Scheduled to be heard in Assembly Appropriations on May 25.

AB 2518 (GORDON) HEALTHCARE DISTRICTS

Recommended Action

Support AB 2518 upon clarification of LAFCO role and authorize LAFCO staff to send a letter of support, as necessary.

Discussion

This bill requires a health care district to expend 95% of its property tax revenue on “current community health care benefits” – defined to include costs for the operation and maintenance of a health care facility, for performance of the district’s powers, for reserves, for capital outlays and for any other item approved by LAFCO. Salaries and benefits of district staff are excluded from the definition of current community health care benefits. This bill is of particular interest to Santa Clara LAFCO in light of the Audit and Service Review of the El Camino Hospital District which, among other things, addresses whether the district should continue to exist and receive public funds, whether the district is providing the services it was created for, and whether another entity could provide its services more efficiently.

CALAFCO has adopted a Watch position and is working with the Author to clarify LAFCO’s role in determining community health care benefits. The California Special Districts Association and the Association of California Healthcare Districts are opposed.

Status: Scheduled to be heard in Assembly Appropriations on May 25.

AB 2624 (SMYTH) SUSTAINABLE COMMUNITY GRANTS

Recommended Action

Support AB 2624 and authorize staff to send a letter of support, as necessary.

Discussion

This bill makes LAFCO an eligible agency to apply for Strategic Growth Council grants for the purpose of developing and implementing a regional plan or other planning instrument to support the planning and development of sustainable communities.

Status: Passed Assembly without opposition. At Senate.

AB 2698 (ASSEMBLY LOCAL GOVERNMENT COMMITTEE) CKH OMNIBUS

Recommended Action

Support AB 2698 and authorize staff to send a letter of support, as necessary.

Discussion

AB 2698 is the CALAFCO sponsored annual CKH Omnibus bill. The bill makes a number of technical changes and reorganizes and clarifies the protest provisions and

the provisions for waiver of protest and notice in the CKH Act. The changes proposed in this bill would remove ambiguities and allow for more consistent interpretation of the provisions. Staff has spent a significant amount of time on this bill – leading a subcommittee of other LAFCO staff to craft the protest/notice waiver language.

Status: Passed Assembly without opposition. At Senate.

SB 1566 (NEGRETE MCLEOD) VLF ALLOCATION

Recommended Action

Support AB 1566 and authorize staff to send a letter of support, as necessary.

Discussion

AB 1566 would correct the Vehicle License Fee (VLF) allocation problem created by last year's budget bill SB 89, and restore VLF to recent incorporations and inhabited annexations. CALAFCO has adopted a support position.

Status: Scheduled to be heard in Senate Appropriations on May 24.

LAFCO MEETING: May 30, 2012
TO: LAFCO
FROM: Neelima Palacherla, Executive Officer
Dunia Noel, Analyst
SUBJECT: EXECUTIVE OFFICER'S REPORT

12.1 LAFCO STRATEGIC WORKSHOP

Recommendation:

Accept report and provide direction to staff, as necessary.

Discussion:

LAFCO's 2012 Strategic Workshop is scheduled for June 6th from 8:30 A.M. to Noon at San Jose City Hall in Conference Room T1446 (Rincon delos Esteros). The workshop will be facilitated by Bill Chiat, Executive Director of CALAFCO, and will include a discussion of the following:

1. Evolving Role of LAFCO
 - ◆ History of Land Use Planning and LAFCO in Santa Clara County
 - ◆ Changes in the Cortese Knox Hertzberg Act in 2000
 - ◆ LAFCO in "The New Normal"
2. Mission of LAFCO
 - ◆ Role of LAFCO in Santa Clara County's future
 - ◆ Role of LAFCO in discouraging urban sprawl and preserving agricultural and open space resources
 - ◆ Role of LAFCO in local agency oversight
3. Current/Challenging Issues for LAFCO
 - ◆ On the horizon towards 2015
 - ◆ Discuss and prioritize issues
 - ◆ Identify goals and outcomes for the next 2 to 3 years

A final agenda for the Strategic Workshop will be available on the LAFCO Website (www.santaclara.lafco.ca.gov) on Friday, June 1st and a notification of its availability will be emailed to LAFCO Commissioners, cities and special districts, and other interested parties.

12.2 LAFCO COMMISSIONERS TERMS AND APPOINTMENTS

For Information Only

In May 2012, the Santa Clara County Cities Association re-appointed Council Member Margaret Abe-Koga of Mountain View as the cities' representative on LAFCO. The Association also appointed Mayor Pro-Tem Cat Tucker of Gilroy as the cities' alternate representative on LAFCO. Mayor Pro-Tem Tucker replaces Alternate Commissioner Al Pinheiro, whose term ended in May 2012. Commissioners Abe-Koga and Tucker's terms on LAFCO will expire in May 2016.

12.3 REPORT ON THE 2012 CALAFCO STAFF WORKSHOP

For Information Only

LAFCO staff attended this year's CALAFCO Staff Workshop which was held in Murphys, California from April 25th through the 27th. In addition to being part of the Workshop Program Committee, Santa Clara LAFCO staff was responsible for planning and conducting two sessions at the Workshop.

The first day of the workshop included a general session entitled "The Pitfalls of Breaking Down Barriers" and roundtable discussions for each of the various staff roles (i.e. Executive Officers, Analysts, Clerks, and Attorneys).

The next day Emmanuel Abello moderated a session entitled "Technology for LAFCo Clerks," that focused on the elements to be considered in redesigning a LAFCO website and current trends in public agency websites. The session also included a demonstration of Prezi, a new presentation software. Also, Neelima Palacherla moderated a session entitled "Mapping Matters: Creating and Maintaining Boundaries in GIS" that included a presentation by Greg Bazhaw, Planner/GIS Administrator for Santa Clara County, on LAFCO's GIS Program and a presentation from Dunia Noel on best practices for managing map layers in GIS.

Thursday's program also included many interesting and timely sessions, including panel discussions on LAFCO's Role in Regional Planning; LAFCO Initiated Actions: Calaveras Sphere Success; Protesting the Protest Provisions; Records Management; New Normal: How the Economy is Affecting Service Provision; SB89 – Are Incorporations and Annexations Extinct?; Regional Collaboration Amongst LAFCOs, and a general session on Disadvantaged Unincorporated Communities.

Friday morning's program included a session on Leadership: Meeting Adaptive Challenges of Organizational Change, a panel discussion on Clerkin' Round the County: LAFCO Clerks and County Staff, and a Legislative and CALAFCO Update.

12.4 UPDATE ON LAFCO WEBSITE REDESIGN

For Information Only

Staff received four responses to LAFCO's Website Redesign RFP and reviewed the proposals based on the evaluation criteria. The most qualified firm will be selected through an interview process and a final services agreement, including budget, schedule, and final scope of services statement will be negotiated before executing the contract. The firm is expected to begin their work in late June 2012 and complete the project by the end of October 2012.

12.5 CALAFCO ANNUAL CONFERENCE IN MONTEREY, CALIFORNIA: OCTOBER 3 – 5, 2012

Recommendation:

Authorize commissioners and staff to attend the Annual Conference and direct that associated travel expenses be funded by the LAFCO Budget.

Discussion:

The upcoming CALAFCO Annual Conference will be held in Monterey, California from Wednesday, October 3rd through Friday, October 5th. The conference provides an annual opportunity for commissioners and staff to gain additional knowledge about changes in LAFCO legislation, LAFCO policies and practices, and issues facing LAFCOs, cities and special districts across the state. The LAFCO Budget for Fiscal Year 2013 includes funds for staff and commissioners to attend the Conference.