

Date of Hearing: April 26, 2017

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Cecilia Aguiar-Curry, Chair

AB 1728 (Committee on Local Government) – As Introduced March 22, 2017

SUBJECT: Health care districts: board of directors.

SUMMARY: Requires a board of directors of a healthcare district to adopt an annual budget and grant funding policy, and to establish an Internet website. Specifically, **this bill:**

- 1) Requires the board of directors of a healthcare district to do all of the following:
 - a) Adopt an annual budget in a public meeting, on or before September 1 of each year, that conforms to generally accepted accounting and budgeting procedures for special districts;
 - b) Establish and maintain an Internet Web site that includes contact information for the healthcare district. Provides that the website may list any of the following:
 - i) The adopted budget;
 - ii) A list of current board members;
 - iii) Information regarding public meetings required, pursuant to the Ralph M. Brown Act (Brown Act);
 - iv) A municipal service review or special study conducted by a local agency formation commission (LAFCO), pursuant to existing law;
 - v) Recipients of grant funding or assistance provided by the district, if any;
 - vi) Audits of the district's accounts and records required by existing law;
 - vii) Annual financial reports submitted to the California State Controller, pursuant to existing law; and,
 - viii) Any other information the board deems relevant.
 - c) Adopt annual policies for providing assistance or grant funding. Requires the policy to include the following:
 - i) A nexus between the allocation of assistance and grant funding with health care and the mission of the district; and,
 - ii) A process for the district to ensure allocated grant funding spent consistently with the grant application and the mission and purpose of the district.
- 2) Finds and declares that Section 1 of the bill furthers, within the meaning of paragraph (7) of subdivision (b) of Section 3 of Article I of the California Constitution, the purposes of that constitutional section as it relates to the right of public access to the meetings of local public bodies or the writings of local public officials and local agencies, and declares, pursuant to

paragraph (7) of subdivision (b) of Section 3 of Article I of the California Constitution, that the Legislature makes the following findings: By requiring healthcare districts to post specified information on their Internet Website, this bill increases access to public records and furthers the purpose of Section 3 of Article I of the California Constitution.

- 3) Provides that no reimbursement is required by this bill because the only costs that may be incurred by a local agency or school district under this act would result from a legislative mandate that is within the scope of paragraph (7) of subdivision (b) of Section 3 of Article I of the California Constitution. Requires if the Commission on State Mandates determines that this bill contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made, pursuant to current laws governing state mandated costs.

FISCAL EFFECT: This bill is keyed fiscal.

COMMENTS:

- 1) **History.** Near the end of World War II, California faced a severe shortage of hospital beds. To respond to the inadequacy of acute care services in rural areas, the Legislature enacted the Local Hospital District Law, to provide medically underserved areas without access to hospital facilities a source of tax dollars that could be used to construct and operate community hospitals. SB 1169 (Maddy) of 1994, changed the name of the principal act to 'The Local Healthcare District Law' to better reflect the shift in the provision of healthcare services outside hospital settings.

The powers and duties granted to healthcare districts under existing law have remained largely unchanged while the demographics of areas being served by the districts, access and provision of healthcare services, and the districts themselves have vastly changed. For example, following the change in law in 1994, 14 healthcare districts have filed for bankruptcy, and over one-third of the healthcare districts in California have either closed or sold their hospital, thus moving away from the original legislative intent of 'hospital districts.'

There are currently 79 healthcare districts in California. Of the total, 38 healthcare districts own and operate a hospital, five districts own, but do not operate a hospital, and 36 healthcare districts do not own or operate a hospital. Of the 36 districts that do not own or operate a hospital, 19 districts provide direct services (like ambulance or clinic services), and 17 districts do not provide direct services, and instead, administer grant funding as their sole purpose.

- 2) **Recent Controversy.** Recent controversies have brought greater statewide attention to healthcare districts in the following areas: overall fiscal management, compliance with the Brown Act and conflict of interest laws, executive compensation policies, lack of provision of direct healthcare services, and overall accountability and transparency issues for healthcare districts.

The Committee on Accountability and Administrative Review conducted several hearings in 2012 regarding healthcare districts, and focused specifically on healthcare districts that do not operate hospitals, but were maintaining reserve balances in the tens of millions of dollars. Additionally, the Legislative Analyst's Office (LAO) produced a report entitled, "Overview

of Health Care Districts" in April 2012 in response to several healthcare districts that have declared bankruptcy since 2000.

The Committee is aware of 14 healthcare districts that have filed for bankruptcy: Los Medanos Hospital District, Contra Costa County (1994); Heffernan Memorial Hospital District, Imperial County (1996); Corcoran Hospital District, Kings County (1996); Kingsburg Hospital District, Fresno County (1997); Southern Humboldt Community Healthcare District, Humboldt County (1999); Chowchilla Memorial Hospital District, Madera County (2000); Sierra Valley District Hospital, Sierra County (2000); Alta Healthcare District, Tulare County (2001); Coalinga Regional Medical Center, Fresno County (2003); Indian Valley Healthcare District, Plumas County (2003); Valley Health System, Riverside County (2008); Sierra Kings Healthcare District, Fresno County (2009); Mendocino Coast Healthcare District, Mendocino County (2012); Palm Drive Hospital District, Sonoma County (2007 and 2014); and, West Contra Costa Healthcare District, Contra Costa County (2006 and 2016).

Additionally, according to the LAO report, several LAFCOs have considered dissolving districts. Five districts have been dissolved or otherwise reorganized since 2000. Since that time, the Contra Costa County LAFCO consolidated Mount Diablo Healthcare District into the City of Concord. The Mount Diablo Healthcare District did not operate a hospital and concerns were expressed about the amount of revenue spent on administrative costs, instead of on grant funding for community health needs.

A 2012 Bureau of State Audits' report on Salinas Valley Memorial Health Care System found that the District's board violated open meeting laws to grant overly generous compensation, retirement, and benefits to the chief executive officer. This Committee heard several bills addressing the employment contract between a healthcare district and hospital administrator.

Most recently the discussion in the Legislature has focused on healthcare districts that no longer operate hospitals, and no longer provide any direct healthcare services to the community.

- 3) **Oversight Hearing.** The Local Government Committee held an oversight hearing on healthcare districts on March 8, 2017. This bill addresses several issues identified in the oversight hearing.

Websites. The Committee extended invitations to several healthcare districts that do have websites and whose contact information was difficult to obtain. A number of these districts no longer administer any services. The Committee is aware of 10 healthcare districts that do not have a website.

Grant Policies. Not all healthcare districts administer grant funding, but for some districts that is their main purpose following the closure of a hospital or clinic. One participant at the hearing discussed a robust grant program in which the governing board has established grant policies. This policy requires the grant applicant to demonstrate how their innovations, provision of patient service improvement, or operational improvements would contribute to the expansion of the mission of the healthcare district. Additionally, the district's adopted policy prohibits the allocation of funding to other government agencies, unless it is for the

education or scholarship program for the training of health works and professionals. Grant recipients must also agree to the fiscal and programmatic monitoring and requirements established by the district. On the other hand, a municipal service review for one healthcare district detailed that majority of grants funds went to high school sports and dance programs and for a sober grad night. The municipal service review did question if this was the best use of property tax dollars given the physician shortage and medically underserved population within the district. While local healthcare needs may differ from one district to another, the requirement that funding should be allocated to support the mission of the district in a transparent and fiscally responsible manner should apply evenly to all districts.

Budget. There is no explicit requirement in the principal act for healthcare districts to adopt a budget. Under existing law, a number of special act-special districts as well as principal acts for community services districts, county air pollution control districts, fire protection districts, municipal water districts, transit districts, recreation and park districts, and mosquito abatement and vector control districts contain a requirement to adopt a budget.

- 4) **Bill Summary.** This bill requires healthcare districts to do the following: 1) Establish and maintain an internet website, which must include contact information for the district; 2) Adopt an annual budget; and, 3) Adopt annual policies for providing assistance or grant funding to ensure funding is spent on healthcare services consistent with the mission and purpose of the district. Not all healthcare districts face the same challenges and many already comply with some of these requirements. This bill is a modest approach to establish a minimum level of transparency and accountability yet retains local control.
- 5) **Arguments in Support.** The California Association of Local Agency Formation Commissions argues, "Effective governance is increased by requiring all healthcare districts to adopt annual budget in an open, public and time specific process. District transparency and public awareness is enhanced through the website requirements outlined in the bill, which increases access to information for the public, especially those whom the district is serving. Developing and adopting grant funding policies create an increased level of accountability for districts providing those services. We view all of these governance, transparency, and accountability enhancements positively and as additional tools to help LAFCoS in their role of ensuring oversight of healthcare districts."
- 6) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

Association of California Healthcare Districts
California Special Districts Association
California Association of Local Agency Formation Commissions

Opposition

None on file

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