

Date of Hearing: April 13, 2016

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Susan Talamantes Eggman, Chair
AB 2414 (Eduardo Garcia) – As Introduced February 19, 2016

SUBJECT: Desert Healthcare District.

SUMMARY: Establishes an annexation process for the Desert Healthcare District (District). Specifically, **this bill:**

- 1) Establishes an annexation process for the District to include the East Coachella Valley region, and provides a new governance structure for the District's Board of Directors (Board) if the District is expanded pursuant to the process established by this bill.
- 2) Requires the Riverside County Board of Supervisors (Board of Supervisors), on or before 15 days after the effective date of this bill, to file a resolution of application with Riverside County Local Agency Formation Commission (Riverside LAFCO), to initiate a comprehensive review and recommendation by Riverside LAFCO for the expansion of the District to include the East Coachella Valley region, as specified pursuant to 7), below.
- 3) Requires the Board of Supervisors to pay any fees associated with the resolution of application.
- 4) Requires Riverside LAFCO, in consultation with the Board of Supervisors, the Board, Riverside County Auditor-Controller, local entities affected by the expansion, and other relevant stakeholders, to conduct and complete an analysis of the funding sources available to the expanded District.
- 5) Provides that the financial analysis completed pursuant to this bill is not binding with respect to the final funding allocated to the District, if it is expanded pursuant to this bill.
- 6) Requires the review and recommendation of Riverside LAFCO to include a recommendation of the boundaries of the expanded District.
- 7) Requires the expanded District to include all communities currently served by the District as of the date the resolution of application is filed. Requires the expanded District to also include, but not be limited to, the communities of Indian Wells, La Quinta, Indio, and Coachella, and the unincorporated areas of Bermuda Dunes, Mecca, Thermal, Oasis, North Shore, and Vista Santa Rosa.
- 8) Requires Riverside LAFCO to complete the review on or before August 1, 2016.
- 9) Prohibits the resolution of application, filed by the Board of Supervisors, from being subject to any protest proceedings.
- 10) Prohibits Riverside LAFCO from disapproving the resolution of application.
- 11) Requires Riverside LAFCO, if a funding source sufficient to support the operations of the expanded District is identified, to order the expansion of the District subject to a vote of the

registered voters residing within the boundaries of the proposed expanded District at an election following the completion of their review.

- 12) Requires Riverside LAFCO to direct the Board of Supervisors to direct county officials to conduct the election for the District's expansion and any necessary funding source that requires voter approval on the ballot at the next countywide election.
- 13) Requires the District to be expanded in accordance with this bill, if the following occur:
 - a) A majority of the voters within the boundaries of the expanded district vote in favor of the expansion; and,
 - b) A number of voters required under applicable law to approve any necessary funding source that requires voter approval vote in favor of that funding source.
- 14) Requires the Board, no later than December 1, 2016, to adopt a resolution to increase the number of board members from five to seven without the petition or approval of the voters residing within the District.
- 15) Requires the Board's resolution to be effective on the date of, and subject to any conditions specified in the resolution.
- 16) Requires the Board to appoint two additional Board members that are registered voters and residents of the territory annexed pursuant to this bill.
- 17) Requires the Board, upon appointment, to designate by lot one appointed member to leave office when their successor takes office, pursuant to the Uniform District Election Law, and one appointed member to leave office two years thereafter.
- 18) Requires a vacancy to be filled pursuant to existing law which provides an appointment process for the Board.
- 19) Provides that the increase to the membership of the Board and appointment of two new members only becomes operative if the District is expanded in accordance with the annexation process established by this bill.
- 20) Exempts the expansion of the District from the Cortese-Knox-Hertzberg Local Government Reorganization Act (Act), except as specified in this bill. Provides that the Act applies to any other change of organization or reorganization, following the reorganization of the District pursuant to this bill.
- 21) Exempts the District from the formation process established in the Local Healthcare District Law and authorizes the District to be expanded in accordance with this bill. Provides that all other provisions of the Local Healthcare District Law apply to the District following its reorganization, except as specified in this bill.
- 22) Contains an urgency clause in order to improve the provision of healthcare services and access to healthcare services by the residents of the Coachella Valley region as soon as possible.

- 23) Finds and declares that a special law is necessary and general law cannot be made applicable because of the unique community needs in Riverside County that would be served by the expansion of the District to include the entire Coachella Valley region, including the limited access in the eastern Coachella Valley to healthcare services by an underserved population that suffers from a higher than average prevalence of preventable disease.
- 24) Provides that, 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 local costs.

FISCAL EFFECT: This bill is keyed fiscal.

COMMENTS:

- 1) **LAFCO Law.** LAFCOs are responsible for coordinating logical and timely changes in local governmental boundaries, conducting special studies that review ways to reorganize, simplify, and streamline governmental structures, and preparing a sphere of influence for each city and special district within each county. The courts refer to LAFCOs as the Legislature's "watchdog" over local boundary changes. The Act establishes procedures for local government changes of organization, including city incorporations, disincorporations, city and special district consolidations, and annexations to a city or special district. LAFCOs regulate boundary changes through the approval or denial of proposals by other public agencies or individuals for these procedures.

The Act prescribes a process for the inclusion or addition of territory to a district (district annexation), which is similar to most boundary changes that requires numerous steps:

- a) application to LAFCO, by petition or resolution;
- b) noticed public hearing, testimony, and approval or disapproval by LAFCO in which they can impose terms and conditions;
- c) additional public hearing for protests (if more than 25% of voters file protest, the LAFCO must order an election on the proposed annexation, and if more than 50% of voters protest then the LAFCO must terminate the proceedings);
- d) an election, if there were significant protests; and,
- e) LAFCO staff files documents to complete the annexation.

In the past several years the Legislature has established a modified LAFCO process or exempted specified requirements in the LAFCO process for the formation of several special districts following a history of failed attempts at the local level including AB 2453 (Achadjian), Chapter 350, Statutes of 2014, for the creation of the Paso Robles Water District, and AB 3 (Williams), Chapter 548, Statutes of 2015, for the formation of the Isla Vista Community Services District.

- 2) **Bill Summary.** This bill establishes an annexation process for the District to include the East Coachella Valley region that is exempt from the statutes that govern the usual process under LAFCO for district annexations. This bill requires the Riverside County Board of Supervisors, within 15 days after the effective date of this bill, to submit to Riverside LAFCO a resolution of application to initiate a comprehensive review and recommendation of LAFCO to expand the District's boundaries to include the East Coachella Valley region. This bill requires Riverside LAFCO, by August 1, 2016, to complete an analysis of the funding available to the expanded District and to recommend the boundaries of the expanded District.

Under this bill, the expanded District must include all communities current served by the District and the communities of Indian Wells, La Quinta, Indio, Coachella, and the unincorporated area of Bermuda Dunes, Mecca, Thermal Oasis, North Shore, and Vista Santa Rosa. Riverside LAFCO would not have the usual power to disapprove the application and protest provision would not apply to the proposed annexation. The District would only be expanded if supported by a majority of voters within the boundaries of the expanded district and the number of voters required by existing law for any necessary funding. If the District is expanded, this bill requires the five-member Board to appoint two new Board members who are residents and registered voters in the area annexed to the District. This bill is author-sponsored.

- 3) **Author's Statement.** According to the author, "Currently, there are significant barriers preventing Eastern Coachella Valley residents' access to health care providers and services. This has been well-documented by numerous stakeholders in the region. Some of the barriers include shortages in the number of primary care providers, shortages in various medical and surgical specialties, a lack of urgent care services, and a lack of transportation. Solving the persistent barriers has proven to be challenging. Even with expanded Medicaid or commercial insurance coverage for eligible residents through the Affordable Care Act, industry analysts remain concerned that the number and capacity of providers will prove inadequate to meet demand. Eastern Coachella Valley stakeholders and I believe that expanding the current healthcare district is best to address these persistent needs. Pointing to the impact and success of the Desert Healthcare District in addressing the health needs of its current constituency."
- 4) **Desert Healthcare District.** The District was created in 1948 to provide healthcare services to residents in the Coachella Valley within a 457 square mile area that includes Palm Springs, Desert Hot Springs, Cathedral City, Thousand Palms, Rancho Mirage, Mountain Center, San Geronio, and the area of Palm Desert west of Cook Street. The District built and began operating Desert Hospital, which is now known as Desert Regional Medical Center. Since 1986, the District's Board had leased hospital operations to medical facility providers. In 1997, the Board voted to lease the hospital to Tenet Health Systems for a 30-year period. The District continues to own the lease and other assets includes the Las Palmas Medical Plaza, while Tenant runs the operations of the 387-bed acute care hospital.

According to the District, with an operating budget of roughly \$9 million, the District allocates more than \$3 million each year on grants and other programs. The District has adopted a grant program to invest in non-profits and public agencies whose activities and programs improve the health and wellbeing of District residents. The District is funded by property tax paid by the residents of the District, revenue for working capital for the hospital in the event the lease with Tenet is terminated, and rental income from the medical plaza. The District is governed by a five-member Board elected at-large.

- 5) **Committee Amendments.** The Committee may wish to consider the following:
 - a) **Timeline.** In order to provide more time at the local level for the annexation process established by this bill, the Committee may wish to ask the author to remove the urgency clause from this bill. Additionally, the Committee may wish to ask the author to provide more time for Riverside County to submit the resolution of application and to Riverside

LAFCO to produce the review required by this bill. The author may wish to consider further examining the timelines once a funding source is identified in the bill.

- b) **Election.** This bill requires that an election be held on both the expansion of the District's boundaries and on the necessary funding. Current law for district annexations provides discretion to LAFCOs to order the election only within the territory ordered to be annexed *or* both within the territory ordered to be annexed and within the existing district. In order to ensure that the voters in the area proposed for annexation who will be paying for the proposed funding are the ones voting, the Committee may wish to require the election to be held *only* within the territory proposed for annexation.
- c) **LAFCO Requirements.** Under this bill, Riverside LAFCO would need to propose the boundaries of the expanded district and identify a funding source. The Committee may wish to remove these requirements on LAFCO, and instead, require the resolution of application for the proposed annexation to identify a source of funding and include the proposed area for annexation consistent with the expanded boundaries identified by this bill. Riverside LAFCO may include additional areas to the proposed territory for annexation.

The Committee may also wish to ask the author to include in the annexation process a LAFCO hearing to receive objections or evidence regarding the resolution of application. These changes would more closely align the annexation process established by this bill with the process under LAFCO law.

6) **Policy Considerations.** The Committee may wish to consider the following:

- a) **Limiting LAFCO Powers.** The Legislature has delegated the power to control local boundaries to the 58 LAFCOs. This bill places several requirements on LAFCO, but does not allow for the usual annexation process to occur. This Committee has seen an increasing number of bills seeking to bypass the LAFCO process, therefore, the Committee may wish to consider if prohibiting LAFCO from disapproving the application is taking away one of the fundamental powers the Legislature has tasked LAFCOs with.

The author may wish to consider allowing LAFCO to disapprove the application based on findings by the LAFCO that there is an insufficient source of funding, which would be consistent with the author's goal of ensuring adequate funding for the expanded District.

- b) **Healthcare Districts and LAFCO.** The relationship between LAFCOs and healthcare districts is unique in comparison to other special districts. The Local Hospital District Law (now called the Local Healthcare District Law) and the formation of some healthcare districts predate the Knox Nisbet Act, which created LAFCOs and formalized the process for establishing a hospital district. As a consequence of the ambiguity in current law, the District has experienced past issues with allegations of grant recipients providing service outside of the boundaries of the District and within the communities identified for potential annexation by this bill. Due to the unique nature of healthcare services and the long history of healthcare district's principal act, the Committee may wish to consider, beyond the scope of this individual bill, if there is a need to more clearly define the relationship between LAFCOs and healthcare districts, and undertake a closer examination of healthcare district's service boundaries.

- c) **Applicant.** The Committee may wish to consider if Riverside County is the best applicant to begin the annexation process established by this bill. The District may have a better sense of the services and funding necessary to support the expanded District and may therefore be the best applicant.
- 7) **Arguments in Support.** The Borrego Community Health Foundation argues, "The [District] has a long history of acknowledged success in serving [their] residents. [The District's] leaders are acutely aware of and are sympathetic to health disparities in the East Coachella Valley and have collaborated with other agencies to provide services within the limitation of their fiduciary obligations to the District's residents. Expanding the current District will take away their limitation to help end the healthcare disparities that currently exist."
- 8) **Arguments in Opposition.** Riverside LAFCO argues, "Annexation of the eastern Coachella Valley communities has been a topic of discussion at times over the past two decades, but has not been pursued, likely since no existing revenues would be available to fund services to the expanded area. Annexation under the normal process could have been initiated at any time and still can be. In addition to the elimination of virtually all LAFCO discretionary authority, the timeframes set out in the bill are unrealistic and carry unfunded mandates for local agencies."
- 9) **Urgency Clause.** This bill contains an urgency clause and requires a two-thirds vote on the Assembly floor.

REGISTERED SUPPORT / OPPOSITION:

Support

Borrego Community Health Foundation
Clinicas De Salud Del Pueblo
Comite Civico del Valle
Inland Congregations United for Change
La Union Hace La Fuerza

Opposition

California Association of Local Agency Formation Commissions
Riverside County Local Agency Formation Commission

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