

Date of Hearing: June 8, 2022

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Cecilia Aguiar-Curry, Chair

SB 969 (Laird) – As Amended March 2, 2022

**SENATE VOTE:** 39-0

**SUBJECT:** Pajaro Valley Health Care District.

**SUMMARY:** Requires the Pajaro Valley Health Care District (PVHCD) to report certain information to the Santa Cruz Local Agency Formation Commission (LAFCO) and places specified requirements on the Santa Cruz LAFCO in regards to PVHCD. Specifically, **this bill:**

- 1) Requires, within one year of PVHCD's date of formation, the Santa Cruz LAFCO to develop and determine a sphere of influence (SOI) for PVHCD unless PVHCD is dissolved before that date.
- 2) Requires, by December 31, 2025, and by December 31 every five years thereafter, the Santa Cruz LAFCO to conduct a municipal service review (MSR) regarding health care service provision within the boundaries of PVHCD unless PVHCD is dissolved before the date the MSR is required.
- 3) Requires PVHCD to make annual reports to the Santa Cruz LAFCO, by December 31, 2023, and December 31, 2024, regarding health care service provision within the boundaries of PVHCD, using specified indices, unless PVHCD is dissolved before the date the report is required.

**EXISTING LAW:**

- 1) Provides for local healthcare districts, which govern certain health care facilities and services. Each healthcare district has specific duties and powers respecting the creation, administration, and maintenance of the healthcare district, including the authority to purchase, receive, take, hold, lease, use, and enjoy property of every kind and description within and without the boundaries of the healthcare district.
- 2) Requires the board of directors of healthcare districts 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 lists contact information for the district. The Internet Web site shall also list any of the following:
    - i) The district's adopted budget.
    - ii) A list of the district's current board members.
    - iii) Information regarding public meetings required pursuant to the Local Health Care District Law or the Ralph M. Brown Act (Brown Act).

- iv) A MSR or special study conducted by a LAFCO pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act), if any.
  - v) Recipients of grant funding or assistance provided by the district, if any.
  - vi) Audits of the district's accounts and records prepared pursuant to existing law.
  - vii) Annual financial reports to the Controller, submitted pursuant to existing law.
  - viii) District's policy for providing assistance or grant funding.
  - ix) Any other information the board deems relevant.
- c) Adopt annual policies for providing assistance or grant funding, as specified.
- 3) Requires, upon filing a petition under federal bankruptcy law, the board of directors of a healthcare district to provide written notice within 10 business days to the LAFCO of the principal county in which it is located.

**FISCAL EFFECT:** None.

**COMMENTS:**

- 1) **Bill Summary and Author's Statement.** This bill requires the Santa Cruz LAFCO, within one year of PVHCD's formation, to develop and determine an SOI and conduct a MSR of PVHCD by December 31, 2025, and every five years thereafter. This bill also requires PVHCD to make annual reports to the LAFCO containing specified information by December 31, 2023, and December 31, 2024. Lastly, this bill specifies that if the LAFCO orders PVHCD's dissolution before the specified dates, these reports are not required. This bill is sponsored by the Pajaro Valley Healthcare District Project (PVHDP).

According to the author, "Since the enactment of SB 418 in early February, which immediately created the Pajaro Valley Health Care District, the community has rolled up its sleeves to ensure the doors, jobs, and services at the Watsonville Community Hospital remain open, filled, and available for the community. This facility provides our community with so much; it is crucial to ensure it remains and is in good financial standing.

"When SB 418 was going through the legislative process earlier this year, I committed to authoring a follow-up piece of legislation to provide additional oversight of the Pajaro Valley Healthcare District in its initial years post-formation. Senate Bill 969 does just that. These additional requirements will provide appropriate LAFCO oversight of the administration of the new district during its formative years to help facilitate an orderly transition of health services in the region transparently. SB 969 represents our commitment to meaningful community engagement."

- 2) **LAFCO.** The CKH Act creates a LAFCO in each county to control the boundaries of cities, county service areas, and most special districts. The courts repeatedly refer to LAFCOs as the Legislature's watchdog over boundary changes. To plan for the future boundaries and

service areas of the cities and special districts, a LAFCO must adopt a policy document for each city and district called a SOI. LAFCOs' boundary decisions must generally be consistent with SOIs that LAFCOs adopt to show the future boundaries and service areas of the cities and special districts. LAFCOs must update these SOIs every five years. When adopting the SOI, the LAFCO must consider and prepare a written statement with respect to:

- a) Present and planned land uses in the area, including agricultural and open-space lands.
- b) Present and probable need for public facilities and services in the area.
- c) Present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.
- d) Existence of any social or economic communities of interest in the area if the LAFCO determines that they are relevant to the agency.

Before LAFCOs can adopt their SOIs, they must prepare MSRs. MSRs are comprehensive studies to determine the adequacy of governmental services being provided by the local agencies under LAFCO jurisdiction and must include the following:

- a) Growth and population projections for the affected area.
- b) The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the SOI.
- c) Present and planned capacity and adequacy of public facilities, adequacy of public services and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the SOI.
- d) Financial ability of agencies to provide services.
- e) Status of, and opportunities for, shared facilities.
- f) Accountability for community service needs, including governmental structure and operational efficiencies.
- g) Any other matter related to effective or efficient service delivery, as required by LAFCO policy.

An MSR may also assess various alternatives for improving efficiency and affordability of infrastructure and services in the area in and around a SOI. LAFCO law also allows LAFCOs to perform special studies of existing government agencies to determine their maximum service area and service capacities.

- 3) **Healthcare Districts.** 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), Chapter 696, Statutes 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, approximately 14 healthcare districts have filed for bankruptcy, and over one-third of the healthcare districts in California have either closed or sold their hospital.

State law allows healthcare districts to exercise various powers, including to lease or own property; build and operate healthcare facilities and services, including emergency services, free clinics, diagnostic and testing centers, health education programs, wellness and prevention programs, rehabilitation, and aftercare; provide assistance to other entities to carry out those services; and sell their assets.

Healthcare districts, like other special districts, are subject to review in a MSR or special study by a LAFCO to examine the efficiency and effectiveness of the services they provide. Similarly, healthcare districts must also receive approval from LAFCO to exercise their powers or change their boundaries.

Most healthcare districts receive a share of local property taxes; some levy special parcel taxes, and some charge for services. Some healthcare districts generate revenues from district resources, such as property lease income; and some districts receive grants from public and private sources.

- 4) **Watsonville Community Hospital (WCH).** According to the findings and declarations contained in SB 418 (Laird), Chapter 1, Statutes of 2022, “WCH is a 106-bed hospital located in the Pajaro Valley, which straddles southern County of Santa Cruz and northern County of Monterey on California’s central coast. The hospital provides important acute care and emergency services in a culturally diverse community where the nearest alternative hospital can be up to an hour away during regularly congested commutes.

“WCH employs 620 people and has a medical staff of over 200 physicians. It provides a range of quality medical services, including pediatrics, obstetrics and gynecology, internal medicine, family medicine, anesthesiology, wound care, gastroenterology, orthopedics, cardiovascular disease, dermatology, and more. In 2020, the hospital delivered more babies than any other hospital in the County of Santa Cruz. Serving a significant immigrant population, the hospital provides care to those without English language proficiency in their preferred language.

“The community of Watsonville has historically faced many health and economic disparities. The pandemic has resulted in the loss of employment and school closures, and has caused nonessential workers and at-risk populations to stay home. Overcrowded and substandard housing conditions, food insecurity, lack of transportation, and the high cost of housing have intensified disparities overnight. The Pajaro Valley saw dramatic and disproportionate rates of COVID-19 infections, hospitalizations, and death as compared to the rest of the County of Santa Cruz.

“Over the last 21 years of for-profit ownership, WCH administration has changed 20 times. Due to this history, partners of the Pajaro Valley Healthcare District Project all believe community ownership will provide more consistent management, oversight, and stability for the patients, staff, and community. Public ownership through a local hospital district also creates financing and funding opportunities not otherwise available to a for-profit or nonprofit entity.”

- 5) **Bankruptcy Proceedings.** WCH filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code on December 5, 2021, as part of a plan to sell the hospital. According to WCH, “WCH has reached a preliminary agreement to sell its operations to a new healthcare district sponsored by the Pajaro Valley Healthcare District Project (PVHDP) to secure the hospital’s future and continue its role as a critical healthcare provider. The PVHDP is a not-for-profit organization created by the County of Santa Cruz, the City of Watsonville, the Community Health Trust of Pajaro Valley and Salud Para La Gente.

“The sale will likely be completed through a Chapter 11 reorganization, which will give the hospital the financial breathing room needed to focus on patient care and operations while the sale is conducted. As part of the Chapter 11 process, the hospital intends to file a motion asking the bankruptcy court to approve the PVHDP as the lead buyer or stalking horse bidder and approve the sale of its operations through a court-supervised auction. The hospital plans to ask the court to schedule a hearing to consider the sale in February 2022. The hospital has received sufficient funding to fund its operations and the sale process through the end of March 2022.”

PVHDP formed so they could combine financial resources and enter into a “stalking horse” bid agreement with WCH, which means the court can designate the stalking horse bidder, in this case PVHDP, as the winner without holding the court-supervised auction if it does not receive any other qualified bids. On February 15, 2022, the debtors notified the bankruptcy court that they: (1) determined that PVHDP satisfied the requirements in the stalking horse bid agreement, (2) received no other qualified bids, and (3) cancelled the auction scheduled for February 17, 2022. On February 23, 2022, a court order approved the sale of the hospital to PVHDP.

- 6) **PVHCD.** Senate Bill 418 (Laird), Chapter 1, Statutes of 2022, formed PVHCD within the Counties of Santa Cruz and Monterey and allowed it to exercise the powers of a healthcare district once the Santa Cruz County board of supervisors appoints an initial board of directors. The bill outlined the PVHCD’s territory and specified that, following the formation of PVHCD, LAFCO law governs any change of organization.

The bill required PVHCD’s board of directors to adopt a resolution to divide PVHCD into zones that provide for representation in accordance with demographic and geographic factors of the PVHCD area within five years of the first board meeting. The board must hold a public hearing on the proposed zones to allow PVHCD electors to present their views in relation to the proposed zoning, but does not have to incorporate those views into the resolution. The zones must go into effect for the next PVHCD election after enactment of the resolution for which there is time to implement the zones and elections within the zones.

SB 418 required PVHCD to notify the Santa Cruz County LAFCO when PVHCD, or any other entity, acquires WCH. If PVHCD does not acquire the hospital, the LAFCO must

order its dissolution. Additionally, PVHCD must notify the LAFCO if it subsequently sells the hospital or stops providing healthcare services at the facility. If either occurs, the LAFCO must order PVHCD's dissolution. If the LAFCO orders PVHCD's dissolution in these cases, the dissolution does not require: (1) a protest process, (2) any additional findings to justify the dissolution, (3) a study beforehand, or (4) a property tax sharing agreement.

The Santa Clara County board of supervisors opened up applications for the PVHCD board in mid-February with applications due on March 4, 2022. The board appointed five members to the PVHCD's board at its March 22 hearing.

- 7) **Arguments in Support.** According to the Santa Cruz LAFCO, "As you know, SB 418 established the Pajaro Valley Health Care District for the purpose of taking ownership of the Watsonville Community Hospital, which remains in Chapter 11 bankruptcy proceedings. Governor Newsom signed SB 418 into law on February 2, 2022 and the Santa Cruz County Board of Supervisors recently took action to appoint the District's initial board of directors.

"In order to address the imminent closure of the Watsonville Community Hospital and comply with the deadlines of the Chapter 11 federal bankruptcy proceedings, the Pajaro Valley Health Care District was formed on an urgency basis and necessarily bypassed what could have been a lengthy LAFCO process. As a result, SB 969 includes statutory direction to LAFCO to provide additional reporting and oversight to the District during the initial years of its existence.

"Specifically, SB 969 requires that LAFCO develop and determine a sphere of influence for the District within one year of district formation and conduct a municipal service review regarding healthcare service provision within the district's boundaries by December 31, 2025. Additionally, the Pajaro Valley Health Care District must report annually to the Santa Cruz County LAFCO regarding health care service provision by December 31, 2023 and December 31, 2024. SB 969 helps insure that the Cortese-Knox-Hertzberg Act remains a vital and practical law that oversees the service provisions of the Pajaro Valley Health Care District now and in the future."

- 8) **Arguments in Opposition.** None on file.

#### **REGISTERED SUPPORT / OPPOSITION:**

##### **Support**

Pajaro Valley Healthcare District Project [SPONSOR]  
 Association for California Healthcare Districts  
 California Teamsters Public Affairs Council  
 Santa Cruz LAFCO

##### **Opposition**

None of file

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