

Healthcare Districts: **An Evolving Role in Public Health**

Hospital Districts

In 1945, the Legislature enacted the Local Hospital District Act (Section 32000 et seq. of the Health and Safety Code) in response to a severe shortage of hospital beds. Soldiers returned from World War II in need of medical treatment and hospitalization and many rural and undeveloped areas of the state did not have basic hospital and health care services. The original intent was to provide these underserved areas with a source of tax dollars that could be used to construct and operate community hospitals and health care facilities and to recruit and support physicians' practices.

This Act enabled communities to create new local government agencies (independent special districts) with the ability to impose property taxes, enter into contracts and purchase or acquire property through eminent domain. The formation of a new hospital district was governed by numerous state and local laws and regulations until 1963 when Local Agency Formation Commissions (LAFCOs) were created and the process for establishing a district was standardized.

Proposition 13

In 1978, Proposition 13 reformed property tax law and allocated a portion of property taxes collected by counties to local government entities including hospital districts. If districts that do receive property tax revenues are dissolved, their share of property taxes do not cease to be collected but instead are reallocated to the home county and cities and special districts already receiving property tax within the county. Not all special districts receive property tax revenues and as such would not be eligible to receive any resulting from the dissolution of a health care district. Health care districts also have enterprise functions and charge user fees for customer services.

Health Care Districts

In 1994, the Association of California Hospital Districts sponsored legislation (SB 1169, Chapter 696, Statutes of 1994) to change the name of hospital districts to "health care districts" to better reflect the districts' efforts to provide health care services outside of the acute hospital setting. Other provisions allowed districts such as the Beach Cities Health Care District to reassign hospital leases without a vote of the electorate under specified circumstances. A number of other substantial changes addressed federal loan and mortgage eligibility, conflicts of interest, public meeting requirements and the sale of property and assets.

Health Care Districts are typically governed by boards of five elected directors who are required to serve without compensation except for payments of \$100 per meeting

not to exceed five meetings per month. Directors also may be reimbursed for travel and incidental expenses incurred in the performance of official business. Directors are required to file Statements of Economic Interest with the Fair Political Practices Commission and receive two hours of ethics training every two years.

Proposition 1A Protects Local Property Tax

In November 2004, California voters approved a constitutional amendment that prohibits the state from reducing the combined shares of cities, counties or special districts and transferring the funds to schools or any non-local government function. However, the Legislature may alter the allocation of property taxes among cities, counties and special districts within a county with two-thirds approval in each house. For example, by a super-majority vote of the Legislature the annual property tax revenues of a health care district could be transferred to a county but not to the school districts or the state.

A total of 85 hospital or health care districts have been formed since the middle 1940s. Although this number continues to change, it is estimated that only 73 remain and 47 still operate hospitals. According to the Association of California Health Care Districts, 12 districts operate clinics or ambulance services, but 14 do not directly operate any health care facilities. Many face public scrutiny for being nothing more than real estate holders and community grant-makers. Local grand juries, newspaper articles, concerned citizens and other elected bodies continue to question why these districts exist as public agencies receiving tax revenues. Allegations of administrative waste, wrong doing, and lack of appropriate spending priorities persist.

Health Care Districts now have broad discretion to serve the public

Currently, health care districts are legally authorized (Health and Safety Code Section 32121) to do just about anything that promotes good health within or without the district for the benefit of the people served by the district. Districts may establish or assist in a variety of health facilities and services including but not limited to outpatient, retirement and chemical dependency programs. Districts may purchase and hold property assets of every kind in and outside the district and may rent, sell or convey these properties. Districts may operate ambulance services, provide health care plans, establish nurse training programs and subsidize physician recruitment through reduced rental rates and other incentives.

Districts generally must competitively bid contracts exceeding \$25,000 but are given broad authority to operate community grant programs and fund health care research.

LAFCO Dissolution or Reorganization of a Special District

There is a LAFCO multi-step public process for dissolving or reorganizing special districts, cities and counties under the Cortese-Knox-Hertzberg Local Reorganization Act of 2000.

LAFCO initiates a statutorily required special study to determine if a district should be modified or dissolved. LAFCO may act to dissolve, consolidate or re-organize a district if that action is consistent with the finding and recommendations of the special study. The law (Government Code Section 56881(b)) requires LAFCO to make both of the following determinations:

- a. That the public service costs resulting from a dissolution or change of organization would be less than or substantially similar to the costs of alternative means of providing service
- b. That a dissolution or change of the organization would promote public access and accountability for the community services needs and financial resources.

AB 912 (Gordon)

Recent legislation (AB 912, Chapter 109, Statutes of 2011) provides an expedited dissolution process. If the dissolution is initiated by the district board, upon the public adoption of LAFCO special study determinations, the dissolution may be ordered without an election or public protest proceeding. If the dissolution is initiated by others, LAFCO must conduct a public protest hearing. If LAFCO determines that protests exceed 50 percent or more of the voters residing in the district, LAFCO must discontinue the dissolution. Absent a majority protest, LAFCO may order and begin the dissolution process without an election. The Mt. Diablo Health Care District is currently undergoing the LAFCO process for dissolution under the new provisions of the law.

This hearing will focus on health care districts that no longer operate hospitals. The intent is to explore the current role of such health care districts, the use of public funds and how these districts fit within broader, regional health care delivery priorities.

Three very different health care districts from San Mateo, Los Angeles and Contra Costa counties will be examined in depth. All three districts receive annual property tax allocations.

The Peninsula Health Care District of San Mateo County has recently been criticized for refusing to award a grant to the county to provide health care for 6,000 of the county's uninsured despite net assets of more than \$55 million.

The Beach Cities Health Care District (Los Angeles County) serves the coastal communities of Hermosa Beach, Manhattan Beach, Redondo Beach and nearby areas. This district focuses on wellness and preventative care by offering yoga and other wellness courses. The District also owns and operates a health and fitness center and "AdventurePlex," a children's fitness center.

The Mt. Diablo Health Care District (Contra Costa County) has drawn public scrutiny for many years. A LAFCO special report just completed revealed that over the last 10 years, only \$527,866 was spent on community action while \$3,088,126 went toward overhead, administrative costs, health insurance benefits, legal fees and election costs. This translates to only 17 percent of the district's expenditures used for health care purposes. The outcome of this LAFCO process is currently evolving and efforts are underway to provide a re-organization rather than dissolution.

Community Based Healthcare Districts as of 4.2.12

District	Services
Avenal Healthcare District	Ambulance
Beach Cities Health District	
Bloss Memorial Healthcare District	Clinics
Camarillo Health Care District	
Cambria Community Healthcare District	Ambulance
Cloverdale Health Care District	Ambulance
Corning Healthcare District	
Del Norte Healthcare District	Clinics
Del Puerto Health Care District	Clinics
Desert Healthcare District	
Eden Township Healthcare District	
Fallbrook Healthcare District	
Grossmont Healthcare District	
Heffrenan Memorial Hospital District	Clinics
Los Medonos Community Healthcare District	
Mark Twain Health Care District	Clinic
Mt Diablo Healthcare District	
Muroc Healthcare District	Ambulance
Peninsula Health Care District	
Petaluma Health Care District	
Redbud Healthcare District	
Sequoia Health Care District	
West Side Community Healthcare District (Newman)	Ambulance
West Side Healthcare District (Taft)	Ambulance & Urgent Care
Selma Healthcare District	
Coast Life Support District	Ambulance & Urgent Care

The Peninsula Health Care District

The Peninsula Health Care District in San Mateo County includes the cities of San Bruno, Millbrae, Burlingame, Hillsborough, San Mateo and parts of Foster City and South San Francisco.

This district was established in 1947 to create a tax base to build and operate the Peninsula Hospital, which was completed in 1954 with both public funds and private donations. The district board operated the hospital for over 30 years before leasing it in 1985 to Mills-Peninsula Health Services. At the time, the Mills Health Center in San Mateo was owned and operated by this same private non-profit group and the two hospitals were merged. Both Mills and Peninsula continue to operate as full service hospitals.

A new \$400 million not-for-profit community hospital was recently built on district-owned land by Mills-Peninsula Health Services. The voters approved the establishment of this hospital without any new taxes. The hospital was scheduled to be opened in early 2011.

Since 1985, Peninsula Health Care District has operated a community grant program and loan forgiveness programs for both doctors and nurses. The district continues to acquire and lease property, including six properties for which the district received \$1.9 million in rental income in 2011.

The district receives over \$4 million annually in property tax revenue and in 2010-11 had net assets exceeding \$55 million. According to the district's strategic plan, it must have at least \$500 million (in 2010 dollars) in assets before the contract to operate the hospital expires with Mills-Peninsula Health Services. The contract expires 50 years after the hospital is built.

In 2011, the district awarded community health investment grants totaling \$1,940,047 to twelve community groups. Awards ranged from \$15,000 (the African American Community Health Advisory Committee) to \$891,443 (Children's Health Initiative).

The district offers local nursing students loans of \$2,000 or \$5,000 per year depending on whether the student is seeking a two- or four-year nursing degree. The loan is forgiven if the nurses practice within the district for two or four years respectively.

According to the district's website, the district also offers a "\$50,000 lump sum loan to cover start-up practice expenses associated with new physicians establishing a practice in the community or a medical group's start-up costs associated with

recruiting the new practitioner. In order to receive 100 percent loan forgiveness, a physician must practice in the community for four years during which the practice is open to Medicare and Medi-Cal recipients.

Applying to the grant program is by invitation only following the submission of a letter of interest from the grant-seeker. The district recently has been criticized for denying a grant to the County of San Mateo for \$2 million to serve the uninsured. Financial summaries and the County's request letter are attached.

Issues the Committee May Wish to Pursue

- 1) What is the rationale for running the grant program in a non-competitive manner?
- 2) May the district CEO issue certain grants without Board approval?
- 3) How difficult is it to recruit physicians to San Mateo County?
- 4) Why is a medical group eligible to receive \$50,000 in forgivable loans for recruitment costs?
- 5) What is the default rate on loans to nurses and physicians?
- 6) Following the letter from San Mateo County, was the county invited to apply? Was this issue ever heard before the full district board?
- 7) What is the rationale for the current surplus?

Beach Cities Health District

Beach Cities Health District (BCHD) in Los Angeles County serves the communities of Hermosa Beach, Manhattan Beach and Redondo Beach.

The district was formed in 1955 to construct and operate South Bay Hospital. This hospital was leased to a private operator, American Medical International in 1984. American Medical International was acquired by Tenet Healthcare Corporation which closed South Bay Hospital in 1998, claiming it was unable to compete against other local hospitals.

Following the closure of South Bay Hospital, the mission of the district shifted to preventative care and wellness programming. The district offers a range of programs intended to keep people out of hospitals and address the wellness needs of the community.

The district receives nearly \$2.5 million annually in property tax revenue and in 2010-11 had net assets that exceeded \$72 million. The district employs 40 full-time and 140 part-time staff and instructors.

The district operates the Center for Health Connection, which provides information and referrals for uninsured and under-insured members of the community. The district also operates the Center for Health and Fitness, a gym with yoga, group exercise, mind and body, and weight management classes. All firefighters, police officers and full-time lifeguards in the beach cities are provided free memberships to the center.

The District also owns and operates "AdventurePlex," a 16,000-square-foot activity center for children and their families. Both facilities charge user fees.

In 2004, the Local Agency Formation Commission for Los Angeles completed a municipal review of services provided by the district. No issues were raised in this review.

According to the UCLA Center for Health Policy, in 2010 over 28 percent of Los Angeles County residents – about 2.7 million people – were uninsured for all or part of the year. L.A. County Department of Health Services estimates its public hospitals and clinics serve about 700,000 uninsured or underinsured per year spending over \$250 million on the public hospitals alone.

Issues the Committee May Wish to Pursue

- 1) How does the district determine which organizations receive grants?
- 2) How does the district prioritize rioritize between direct health services and other community activities such as spare the air days?
- 3) Are the Health and Fitness Center and AdventurePlex subsidized with public funding?
- 4) Do all employees of the district, including part-time yoga and fitness instructors, receive medical and retirement benefits?
- 5) What is the difference between restricted and unrestricted surplus funds?
- 6) What is the purpose of having a net surplus of over \$72 million?

Mt. Diablo Health Care District

The Mt. Diablo Health Care District in Contra Costa County was established in 1948 as the Concord Hospital District. The district serves the communities of Concord, Martinez, Pleasant Hill and portions of Walnut Creek, Clayton, Lafayette and some unincorporated areas.

The district built Mt. Diablo Community Hospital and continued to operate it for many years. In 1996, the district faced bankruptcy and transferred district assets to John Muir Health in exchange for specified assurances regarding health care services to be provided within the district. As required, the voters approved this transfer in 1996.

In exchange for the facilities and equipment, a Community Benefit Agreement (CBA) requires John Muir Health to:

- 1) Operate and maintain the district's health care facilities and its assets for the benefit of the communities served by the district;
- 2) Maintain basic emergency services at the hospital and medical center;
- 3) Maintain acute care hospital licenses for the hospital and medical center; and
- 4) Establish and operate a Community Benefit Corporation.

John Muir Health agreed to transfer \$1 million annually for health care services to the Community Health Fund (CHF) operated by the Community Benefit Corporation and up to \$200,000 for administrative expenses. The service area of the CHF is broader than the district boundaries. Five members of the 10-member Community Benefit Corporation Board, also called the Community Health Corporation, are appointed by the district. The district views its role as overseer of the CBA and monitor of district assets transferred to John Muir Health.

The district continues to receive about \$245,000 annually in property tax revenue and at the end of 2010 had about \$91,000 in net assets. The district's major sources of revenue are property taxes and support from John Muir health which represent 89 percent and 5 percent, respectively, of district revenue.

In 2007, the district was the subject of a Healthcare Municipal Services Report (MSR), which recommended a full LAFCO special study. In 2011, LAFCO initiated a special study in response to the MSR and ongoing community concerns about whether the district should continue as a special district.

One of the most significant findings in the LAFCO study reveals that between 2000 and 2011 \$527,866 was spent on community action while \$3,088,126 went toward overhead, administrative costs, health insurance benefits, legal fees and election costs. This translates to only 17 percent of the district's expenditures used for health care purposes. The outcome of this LAFCO process is currently evolving and efforts are underway to provide a re-organization rather than dissolution.

LAFCO voted to accept the special study on January 11, 2012 and began the process of making determinations leading to dissolving the district. Since then, efforts appear to be aimed more toward reorganization rather than dissolution. The district adopted an annual grant program in February 2012 and is continuing with the application process.

Issues the Committee May Wish to Pursue

- 1) What is the current compensation arrangement with the interim executive director?
- 2) How has the board addressed the lifetime health care benefits liabilities for two former directors?
- 3) Why should the district continue operations following the LAFCO report?
- 4) What is the current status of the re-organization?