

SENATE THIRD READING
SB 418 (Laird)
As Amended January 24, 2022
2/3 vote. Urgency

SUMMARY

Creates the Pajaro Valley Health Care District (PVHCD).

Major Provisions

- 1) Specifies that a local hospital district designated as the PVHCD is hereby formed within the counties of Santa Cruz and Monterey. The District may be organized, incorporated, and managed as provided pursuant to existing health care district law, and may exercise the powers granted or necessary, only if the relevant county board of supervisors chooses to appoint an initial Board of Directors, as specified.
- 2) Defines the territory of the PVHCD.
- 3) Specifies that following the formation of the PVHCD, Local Agency Formation Commission (LAFCO) Law governs any change of organization.
- 4) Requires the PVHCD to notify the Santa Cruz County LAFCO when the district, or any other entity, acquires the Watsonville Community Hospital.
- 5) Specifies that if, the district does not acquire the Watsonville Community Hospital through the bankruptcy proceeding pursuant to Chapter 11 of Title 11 of the United States Code by January 1, 2024, the LAFCO shall order the dissolution of the district.
- 6) Requires the PVHCD to notify the Santa Cruz County LAFCO if the PVHCD sells the Watsonville Community Hospital to another entity or stops providing health care services at the facility, and if the LAFCO receives such a notification, it shall order the dissolution of the district.

COMMENTS

- 1) *Background.* 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, 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; to provide assistance to other entities to carry out those services; and to sell their assets.

Healthcare districts, like other special districts, are subject to review in a municipal service review 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 its powers or change its 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.

- 2) *Watsonville Community Hospital (WCH)*. This bill contains a number of findings and declarations detailing the hospital and the surrounding community, including:
"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."

- 3) *Ongoing Bankruptcy*. WCH filed voluntary petitions under Chapter 11 of the United States 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."

The bankruptcy proceedings continue to move forward. According to court documents, all bids for the hospital must be received no later than February 14. The auction will take place on February 17, and the hearing to approve the sale to the winning bidder will take place before the Court on February 23. As the stalking horse bidder, PVHDP must meet certain benchmarks to be identified as a qualified bidder and to participate in the auction.

According to the Author

According to the author, "The Watsonville Community Hospital located in Santa Cruz County is an essential health care provider in the region, serving primarily low-income, under- and uninsured populations of color, and has proved crucial in helping those impacted by COVID-19 throughout the pandemic. Last year, the current owner/operator of the Watsonville Community Hospital announced its intention to file for Chapter 11 bankruptcy protection in early December and close the hospital in January. While the creditor has deferred closure through March 2022, immediate action is required to ensure the vital services and jobs that support the health care safety net remain in Watsonville.

"In response to the potential closure, a new not-for-profit organization, Pajaro Valley Healthcare District Project (PVHDP), was created by the County of Santa Cruz, the City of Watsonville, Salud Para La Gente, and the Community Health Trust of the Pajaro Valley, to form a new California healthcare district. The goal of Senate Bill 418 is to create the urgently needed hospital district to ensure the Watsonville Community Hospital remains open. The PVHDP has the first opportunity to acquire the hospital, and this bill will help local partners raise the necessary funds. Without SB 418, local partners face an uphill battle to save the hospital from closure."

Arguments in Support

According to the sponsors, "The hospital has a history of financial challenges under costly private equity ownership and while the community has discussed public ownership for a number of years, late last year the current owner/operator unexpectedly and abruptly announced its intention to 1) file for Chapter 11 bankruptcy protection in early December and 2) close the hospital in January. Required notices were sent to all employees. The Pajaro Valley Healthcare District Project (Project), a local non-profit organization created by the City of Watsonville, the County of Santa Cruz, Salud Para La Gente (a federally qualified health clinic in Watsonville), and the Community Health Trust of Pajaro Valley, immediately began negotiating with the

current owner/operator to purchase the hospital in the bankruptcy proceeding. Those negotiations resulted in an asset purchase agreement with the owner/operator, establishing the Project as priority bidder and initiating a process for a yet-to-be -formed California Healthcare District to take over hospital operations. Additionally, the current owner/operator and its largest creditor agreed to defer closure of the hospital through March. The formation of a new healthcare district through legislation is required as a key milestone of the Project's asset purchase agreement filed as part of federal Chapter 11 bankruptcy court process, and must be accomplished prior to bid and auction dates scheduled for February, 2022.

"SB 418 lays out the boundaries of the district, makes clear that the new district will be subject to the oversight of the Santa Cruz and Monterey County Local Agency Formation Commissions (LAFCOs), and directs the initial District Board of Directors to establish zones for the eventual election of future Directors. Additionally, the new Pajaro Valley Healthcare District would be subject to all of the requirements and authorities of other California healthcare districts, as contained in Health and Safety Code Section 32000.

"The urgent formation of the Healthcare District, as outlined in SB 418, is necessary to ensure that the asset purchase agreement negotiated between the Project and the current owner/operator is achieved, thereby ensuring that the hospital remains open and is under the stewardship of a public entity."

Arguments in Opposition

None on file.

FISCAL COMMENTS

None.

VOTES

SENATE FLOOR: 39-0-1

YES: Allen, Archuleta, Atkins, Bates, Becker, Borgeas, Bradford, Caballero, Cortese, Dahle, Dodd, Durazo, Eggman, Glazer, Gonzalez, Grove, Hertzberg, Hueso, Hurtado, Jones, Kamlager, Laird, Leyva, Limón, McGuire, Min, Newman, Nielsen, Ochoa Bogh, Pan, Portantino, Roth, Rubio, Skinner, Stern, Umberg, Wieckowski, Wiener, Wilk

ABS, ABST OR NV: Melendez

ASM NATURAL RESOURCES: 11-0-0

YES: Luz Rivas, Flora, Chau, Friedman, Cristina Garcia, Mathis, McCarty, Muratsuchi, Seyarto, Stone, Wood

ASM APPROPRIATIONS: 16-0-0

YES: Lorena Gonzalez, Bigelow, Bryan, Calderon, Carrillo, Chau, Megan Dahle, Davies, Fong, Gabriel, Eduardo Garcia, Levine, Quirk, Robert Rivas, Akilah Weber, Kalra

ASM LOCAL GOVERNMENT: 8-0-0

YES: Aguiar-Curry, Lackey, Bloom, Boerner Horvath, Fong, Ramos, Luz Rivas, Robert Rivas

UPDATED

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