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# SENATE COMMITTEE ON LOCAL GOVERNMENT

Senator María Elena Durazo, Chair

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**Author:** Arreguín  
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**Fiscal:** No  
**Consultant:** Peterson

## *ALAMEDA HEALTH SYSTEM: HOSPITAL AUTHORITY*

*Makes various changes to Alameda Health System's enabling legislation, including board composition and incompatible office provisions.*

### Background

***Incompatible office law.*** SB 274 (Romero, 2005) codified the common law rule against public officials holding incompatible offices. Incompatible office law generally prohibits a public officer, including, but not limited to, an appointed or elected member of a governmental board, commission, committee, or other body from simultaneously holding two public offices that are incompatible. A public office is incompatible when any of the following circumstances are present:

- Either of the offices may audit, overrule, remove members of, dismiss employees of, or exercise supervisor powers over the other office or body;
- Based on the powers and jurisdiction of the offices, there is a possibility of a significant clash of duties or loyalties between the offices; or
- Public policy considerations make it improper for one person to hold both offices.

Notwithstanding these circumstances, state law can expressly authorize the simultaneous holding of the particular offices. When a public officer takes on a second office that is incompatible, state law deems they forfeit the first office.

***Conflict of interest laws.*** In addition to common law, California state and local officials who negotiate, make, or vote on public contracts are subject to two main conflicts of interest laws: Section 1090 et seq. of the Government Code (known simply as “Section 1090”) and the Political Reform Act of 1974:

- *Section 1090.* Section 1090 formalized the longstanding common law rule prohibiting public officials—including board members, officers, and employees—from having a personal financial interest in the contracts they participate in awarding while exercising their official capacities. Financial interest has been liberally interpreted by the courts and includes the property and income of a public official's spouse. The consequences of violating Section 1090 are severe: a contract that runs afoul of the law is void, even if the affected official did not intend to receive a personal benefit. Willful violators can also face criminal penalties ranging from fines to prison time, plus a lifetime ban on holding public office;
- *The Political Reform Act.* In 1974, California voters passed Proposition 9 to create the Political Reform Act (PRA), along with the Fair Political Practices Commission (FPPC),

the agency tasked with enforcing the PRA through administrative and civil penalties. In 2013, the Legislature expanded the FPPC's jurisdiction to include Section 1090 (AB 1090, Fong). The PRA is broader than Section 1090 because it prohibits any state or local public official from using his or her official position to influence any "governmental decision" in which the official has a financial interest. The PRA also applies to decisions that will have a material financial effect on a member of the official's "immediate family," which the Legislature has defined as a government official's spouse or dependent children. The PRA supersedes most other conflict of interest laws, including Section 1090, in the case of an inconsistency. Public officials must therefore consider whether a conflict exists under either the PRA or Section 1090, or both; and

- *Common law conflict of interest.* In 1850, California's first Legislature adopted the English common law as the state's basic legal framework, insofar as it did not conflict with state statutes or the state and federal Constitutions. This legal framework remains in place today. Independent of Section 1090 and the PRA, California courts continue to apply the common law doctrine against conflicts of interests to invalidate public contracts tainted by self-dealing, even in situations when Section 1090 or the PRA do not apply. In several recent opinions, the Attorney General's Office has suggested the common law doctrine against conflicts of interest is broader than Section 1090 and the PRA, even prohibiting public contracts that raise only potential conflicts of interest, or even the mere appearance of impropriety. For example, the Attorney General has opined that a contract that benefits the adult child of a public official might be prohibited under common law, even though neither the PRA nor Section 1090 consider it a financial interest. Courts can void a contract that violates this common law doctrine.

***Alameda Health System.*** The Alameda County Medical Center is a network of facilities that provide health care services throughout Alameda County. Major components of the countywide system include:

- Wilma Chan Highland Hospital Campus, a major regional trauma center and teaching hospital with 236 beds;
- Fairmont Rehabilitation and Wellness Center, which treats severe stroke, brain injuries and multiple trauma;
- Alameda Hospital, an emergency, inpatient, and outpatient hospital; and
- John George Psychiatric Hospital, an acute and psychiatric emergency care facility.

Prior to 1996, the County of Alameda operated these facilities. However, changes in the provision of health care services made managing this system more challenging. Health care services shifted from inpatient services to outpatient services, and reduced state funding for county health care has resulted in critical funding problems for a number of counties operating county hospitals. In the case of Alameda County Medical Center, the County had to reduce its budget in 1995 with a resulting deficit of approximately \$15 million at the end of that year.

These funding challenges prompted the County to consider how to reform governance of the Medical Center. Special legislation allowed Alameda County to form a public hospital authority, now known as the Alameda Health System (AHS), to manage, administer, and control the Alameda County Medical Center (AB 2374, Bates, 1996). The board of supervisors appoints a board of trustees. AHS operates as a separate legal entity from the County.

The board also adopts bylaws related to the management of the medical center. The bylaws specify that the AHS board consists of nine members. Each supervisor gets to make one appointment with majority board approval. One has to represent medical staff, but the board of supervisors still approves their appointment. Board members serve three-year terms, and can serve no more than three consecutive terms.

To avoid violations of incompatible office law, AHS's enabling legislation provides that a member of hospital administrative staff is not incompatible with their duties as an employee or affiliate with the County.

AHS now employs about 5,000 people, including 700 physicians across the hospitals, wellness centers, and other health facilities it operates throughout Alameda County.

After the U.S. Congress passed House Resolution 1 (HR 1), health care systems with significant Medicaid populations, the federal program that provides funding to cover health care costs for lower-income households, have been preparing for significant cuts to their funding. AHS is one of systems. According to a *San Francisco Chronicle* article, "As a result [of HR 1], AHS, which gets about 60% of its revenue from Medicaid payments, is projected to lose \$100 million in revenue annually by 2030."<sup>1</sup> This led the AHS board, and the Alameda County Board of Supervisors to consider budget cuts, including staff layoffs. In March 2026, the board of supervisors voted to delay staffing cuts and service closures AHS proposed to address the funding gap.

The Alameda County Board of Supervisors wants to make various changes to its enabling legislation to allow the board to have a more prominent role in the management of AHS.

### **Proposed Law**

Senate Bill 1400 makes various changes to Alameda Health System's enabling legislation. These changes include to:

- Allows the board of supervisors to change the AHS ordinance so that supervisors, county officers, and employees to serve as members of the AHS board of trustees, and allow the AHS board to be made up solely of the board of supervisors;
- Authorizes the membership of the AHS board to include, with the approval of the board of supervisors, a representative of any local public entity that contributes financial or other support to the hospital authority pursuant to a joint powers agreement or other affiliation agreement;
- Provides that, notwithstanding state conflict of interest or incompatible office laws, members of the AHS board or its staff are not engaged in activities inconsistent, incompatible, or in conflict with their duties to either the hospital authority, the county, or any other local public entity as a result of employment or affiliation with the other;
- Provides that inclusion of members of the board of supervisors or county employees on the AHS board must not be a basis to determine that the hospital authority is not an independent entity or AHS has not obtained the administration, management, and control of the medical center;

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<sup>1</sup> <https://www.sfchronicle.com/health/article/alameda-health-system-layoffs-delayed-21953564.php>

- Allows the AHS board to delegate day-to-day operational responsibilities to one or more subsidiary bodies it establishes, consisting of members possessing relevant expertise. That delegation must involve reasonable safeguards to ensure that the governing board retains ultimate control over AHS;
- Allows, following the initial transfer by the county, the hospital authority to affiliate with, or acquire ownership or control of, additional public or private hospitals, clinics, or programs to further its mission, at the discretion of the AHS board; and
- Provides that the AHS bylaws do not prohibit the board of supervisors from establishing, through bylaws or ordinances, mechanisms for integrating the county's interests into medical center decisions.

### Comments

1. Purpose of the bill. According to the author, "Under current law, Alameda Health System has a unique governance structure that provides for a health system board of trustees appointed by the Board of Supervisors.

"The Alameda County Board of Supervisors previously transferred management and operational control of AHS to an independent hospital authority under Health & Safety Code Section 101850. This structure was intended to improve efficiency, effectiveness, and fiscal stability while preserving the County's obligation to provide indigent care.

"SB 1400 reflects those findings by providing increased flexibility in board composition and governance structure. Specifically, the bill authorizes members of the Board of Supervisors or designated county staff to serve on the AHS Board of Trustees, thereby strengthening coordination and communication between the County and AHS. This is intended to support a more defined and understood process of authority, consistent with the framework developed through the Ad Hoc Committee process.

"Given the significant impact of AHS governance on the delivery of health services to vulnerable populations, this bill seeks to ensure that elected officials have the ability to more directly engage in oversight and policy discussions affecting system operations."

2. Choose your own adventure. When Alameda County ran Alameda County hospitals in the 1990s, changes in healthcare prompted budgetary challenges. Alameda County hoped that shifting services to an entity independent from the county would help address these budgetary concerns. Fast forward a couple decades, and AHS faces another budgetary shortfall due in part to reasons outside of its control, including federal spending cuts. Now the board of supervisors is seeking the option to change its governance structure to allow it more control over AHS, seemingly shifting the pendulum back towards county control of AHS. Specifically, SB 1400 would allow the board of supervisors, or county staff, to become all, or a portion, of the AHS board of directors. SB 1400 includes language to provide that such changes do not alter the independent character of AHS, but because SB 1400 allows the board of supervisors to become the AHS board, in practice it may be difficult for AHS to maintain the same level of independence between the two entities.

3. Why independence matters. Maintaining the independent legal status of AHS is not just a question of who controls the hospital authority. Sometimes courts consider entities a local agency creates to be subsidiary bodies of that agency, not independent entities. If the board of

supervisors becomes the board of trustees, a court would be more likely to view AHS as an arm of the county, not an independent legal entity. This could have important ramifications for key functions of the hospital authority:

- The Constitution limits local agency's ability to incur debt without 2/3 voter approval. If the entire board of supervisors takes control of AHS, AHS debts would be considered debts of the county. That would mean that AHS would have to get voter approval to debt finance its projects; and
- Local agencies are subject to constitutional spending limits. Specifically, the Constitution limits annual tax revenue spending based on inflation and population changes. If the entire board of supervisors takes control of the hospital authority, AHS revenues could be counted towards Alameda County's spending limits. This could affect the County's ability to appropriate funds for its other programs without voter approval. While the Constitution includes provisions to transfer spending limits, this uncertainty increases the litigation exposure of Alameda County.

Alameda County should carefully examine these issues to ensure that SB 1400 avoids any unintended consequences.

4. Opposites attract. Existing statutory provisions provide that a member of the AHS administrative staff is not engaged in activities inconsistent and incompatible with the staff member's duties as a result of employment or affiliation with the county. SB 1400 expands these provisions to state that, notwithstanding state conflict of interest or incompatible office laws, members of the AHS governing board or its staff are not engaged in activities inconsistent, incompatible, or in conflict with their duties to either the hospital authority, the county, or any other local public entity as a result of employment or affiliation with the other.

According to Alameda County, this language is necessary to ensure that if the county decides to take on a more prominent role managing AHS, staff and members of the governing bodies of the county and AHS who may be employed or under contract with both entities can continue providing their services. On the other hand, it is unclear whether this broader language could inadvertently cover other scenarios that might otherwise be considered a conflict of interest or incompatible office, such as when:

- Either of the offices may audit, overrule, remove members of, dismiss employees of, or exercise supervisor powers over the other office or body;
- Based on the powers and jurisdiction of the offices, there is a possibility of a significant clash of duties or loyalties between the offices; or
- Public policy considerations make it improper for one person to hold both offices.

Without knowing how specific roles of supervisors, county staff, and AHS staff may change as a result of SB 1400, it is difficult to assess whether the powers and duties of these individuals should be shared by any single individual.

5. Back to the future. The initial statutory provisions in AB 2374 that enabled the creation of AHS make various references to what the enabling ordinance the board of supervisors would pass could include. The board of supervisors enacted the enabling ordinance in 1998. SB 1400 makes various changes to provisions related to what the enabling ordinance can or cannot include, but does not explicitly provide authority to amend the enabling ordinance. The

Committee may wish to consider amending the bill to more clearly identify the board of supervisor's ability to amend the enabling ordinance, change the board composition, and revoke the hospital authority's duties and responsibilities.

6. Coming and going. The Senate Rules Committee has ordered a double referral of SB 1400: first to the Committee on Local Government to hear issues of local governance, and then to the Committee on Health.

**Support and Opposition** (4/10/2026)

Support: County of Alameda (Sponsor)  
California State Council of Service Employees International Union (seiu California)

Opposition: None Submitted

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