

---

UNFINISHED BUSINESS

---

Bill No: SB 418  
Author: Laird (D), et al.  
Amended: 1/24/22  
Vote: 27 - Urgency

---

PRIOR SENATE VOTES NOT RELEVANT

SENATE GOVERNANCE & FIN. COMMITTEE: 5-0, 2/2/22 (Pursuant to  
Senate Rule 29.10)

AYES: McGuire, Nielsen, Durazo, Hertzberg, Wiener

ASSEMBLY FLOOR: 69-0, 1/27/22 - See last page for vote

---

**SUBJECT:** Pajaro Valley Health Care District

**SOURCE:** Pajaro Valley Health Care District Project

---

**DIGEST:** This bill creates the Pajaro Valley Health Care District.

*Assembly Amendments* delete the initial contents of this bill and insert the current language relating to the Pajaro Valley Health Care District.

**ANALYSIS:**

Existing law:

- 1) Enacts the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, which:
  - a) Controls how local officials change the boundaries of cities and special districts, putting local agency formation commissions (LAFCOs) in charge of the proceedings; and,
  - b) Directs LAFCOs to ensure that services are effectively and efficiently delivered, and local governments can only exercise their powers and provide services where allowed to by LAFCO, including the formation of new cities

and special districts, modifications of existing boundaries, and dissolutions of unsustainable special districts.

- 2) Enacts the Local Healthcare District Law, which:
  - a) Controls how healthcare districts can be formed according to specified procedures, the District Organization Law, and LAFCO Law. These procedures include: an impartial analysis by the LAFCO of the proposed formation; a determination that the district is “feasible, economically sound, and for the public interest,” and a requirement that a majority of voters approve of the formation of the district.
  - b) Allows healthcare districts to exercise various powers, including to lease or own property, build and operate healthcare facilities and services, to provide assistance to other entities to carry out those services, and to sell their assets.
  - c) Provides that a five-member board of directors manages each healthcare district. Each member must be a registered voter residing in the district and serves a four-year term, with the exception of the initial board. The board of supervisors of the county with the greatest share of land in the district appoints the initial board. Upon appointment, the board selects two members by lot to serve two-year terms.

This bill:

- 1) Forms the Pajaro Valley Health Care District (PVHCD).
- 2) Allows PVHCD to exercise the powers of a healthcare district once the Santa Cruz County board of supervisors appoints an initial board of directors.
- 3) Outlines the district’s territory.
- 4) Specifies that, following the formation of the PVHCD, LAFCO law governs any change of organization.
- 5) Requires the district’s board of directors to adopt a resolution to divide the district into zones as specified. The board must hold a public hearing on the proposed zones to allow district 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.

- 6) Requires the district to notify the Santa Cruz County LAFCO when the district, or any other entity, acquires Watsonville Community Hospital (WCH). If the district does not acquire the hospital, the LAFCO must order its dissolution.
- 7) Requires the district to notify the Santa Cruz County LAFCO if it subsequently sells the hospital or stops providing healthcare services at the facility. If either occurs, the LAFCO must order the district's dissolution.
- 8) Provides that if the LAFCO orders the district's dissolution in aforementioned cases, the dissolution does not require a protest process, any additional findings to justify the dissolution, a study beforehand, or a property tax sharing agreement.

## **Background**

*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 the ability to form special districts that could be a source of tax dollars for constructing and operating community hospitals. SB 1169 (Maddy, Chapter 696, Statutes of 1994) changed the name of the law 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 the districts serve, 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, thus moving away from the original legislative intent of "hospital districts."

*Watsonville Community Hospital.* WCH is a 106-bed facility that provides acute care and emergency services to residents in the Pajaro Valley, which spans across southern Santa Cruz and northern Monterey counties. The current WCH facilities opened in 1998 after the 1989 Loma Prieta earthquake seriously damaged the previous hospital. The previously not-for-profit hospital was sold in 1998 to a private for-profit company, Community Health Systems (CHS). Community healthcare partners formed the Community Health Trust of Pajaro Valley with the proceeds of the sale and had right of first refusal if CHS decided to sell it. Facing financial difficulties, the private owners decided to sell the hospital in 2019, but Community Health Trust of Pajaro Valley decided not to purchase the hospital, and

instead another private entity purchased the facility. According to the partners of the Pajaro Valley Healthcare District Project (PVHDP), which is a partnership formed by the County of Santa Cruz, the City of Watsonville, the Community Health Trust of the Pajaro Valley, and Salud Para La Gente, WCH administration has changed 20 times over the last 21 years of for profit-ownership. During the COVID-19 pandemic, the hospital has operated at a loss and, as of August 2021, the corporation running the hospital reported a year-to-date cash flow shortfall of over \$17 million among other financial troubles.

These financial challenges prompted WCH to file for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code on December 5, 2021, which would allow it to reorganize the corporation and sell the hospital. WCH has sufficient funds to keep the hospital open through March 2022 as the court adjudicates the bankruptcy filing. 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. Under this agreement, which PVHDP entered into with WCH and filed with the court on January 10, 2022, PVHDP can purchase the hospital according to terms it has agreed upon with WCH unless another entity bids a higher amount provided that PVHDP meets certain benchmarks by February 14, 2022.

## Comments

- 1) *Purpose of this bill.* 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.”

- 2) *Skipping the line.* While the Legislature has the authority to create, change, or dissolve local agencies, creating PVHCD via legislation circumvents the normal process for district formation. Instead of placing the decision whether to form the district in front of local agencies, who possess intimate knowledge of local services, and local voters to whom the district will be accountable, SB 418 places the decision in front of the Legislature. In doing so, it circumvents key safeguards designed to ensure that district formation is desirable and sustainable, including economic analysis and opportunities for local residents to weigh in on the district’s formation. Without completing this process, it is unclear whether creating a new healthcare district is the best option for providing health care to the community compared to other public sector alternatives, such as Santa Cruz County or the nearby Salinas Valley Memorial Healthcare System. However, completing this process may not meet the deadlines set by the Court adjudicating the bankruptcy filing. If the district is not created, it cannot successfully acquire the hospital, which could result in the hospital’s closure unless another bidder emerges.
- 3) *Show me the money.* How the district plans to finance the initial hospital acquisition and ongoing operations remains unclear. PVHDP’s draft business plan identified capital needs of \$64.4 million to acquire and begin operating the hospital. This includes \$45 million in acquisition costs, \$18 million to operate the hospital for six months, and \$1.4 million in administrative and consulting costs. While the draft business plan did not identify how PVHDP plans to cover these costs, it anticipates receiving financial support from various public agencies and healthcare organizations. Whether all this funding materializes, and whether additional revenue sources prove necessary to support hospital operations after the initial acquisition period, remains uncertain.

### **Related/Prior Legislation**

AB 903 (Frazier, 2021) would have dissolved the Los Medanos Community Healthcare District and designated the County of Contra Costa as the successor agency to the district. The bill failed passage in the Senate Governance and Finance Committee.

SB 522 (Glazer, Chapter 133, Statutes of 2018) dissolved the existing Board of Directors of the West Contra Costa Healthcare District and required the Board of Supervisors of Contra Costa County to either serve as or appoint the district board.

AB 2471 (Quirk, 2016) would have required the Alameda County LAFCO to order the Eden Township Healthcare District's dissolution if the District met specified criteria. The bill died on the Senate Inactive File.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: No Local: No

**SUPPORT:** (Verified 2/2/22)

Pajaro Valley Healthcare District Project (source)  
Association of California Healthcare Districts  
California Hospital Association  
California Medical Association  
California Nurses Association  
California Special Districts Association  
California Teamsters  
Catholic Charities Dioceses of Monterey  
City of Monterey  
City of Watsonville  
Community Action Board of Santa Cruz County  
Community Bridges  
Community Foundation Santa Cruz County  
County of Monterey  
County of Santa Cruz  
Court Appointed Special Advocates for Children of Santa Cruz County  
Dientes Community Dental  
Digital Nest  
District Hospital Leadership Forum  
Driscoll's Inc.  
El Pajaro Community Development Corporation  
Encompass Community Services  
Foodwhat?!  
Graniterock  
Health Improvement Partnership of Santa Cruz  
Hospice of Santa Cruz  
Jacob's Heart Children's Support Services  
Kaiser Permanente  
Monarch Services of Santa Cruz County  
Pajaro Valley Prevention and Student Assistance, Inc.  
Pajaro Valley Unified School District  
S. Martinelli & Company  
Salud Para La Gente

Santa Cruz Community Health Centers  
Santa Cruz Community Ventures  
Santa Cruz County Childhood Advisory Council  
Santa Cruz County Office of Education  
Second Harvest Food Bank of Santa Cruz County  
SEIU  
Sutter Health  
Teen Kitchen Project  
Under One Roof  
United Way of Santa Cruz  
Watsonville Film Festival  
Watsonville Law Center  
YWCA of Watsonville

**OPPOSITION:** (Verified 2/2/22)

None received

**ASSEMBLY FLOOR:** 69-0, 1/27/22

**AYES:** Aguiar-Curry, Arambula, Bauer-Kahan, Bennett, Berman, Bigelow, Bloom, Boerner Horvath, Bryan, Burke, Calderon, Cervantes, Choi, Cooley, Cooper, Cunningham, Daly, Davies, Flora, Fong, Friedman, Gabriel, Gallagher, Cristina Garcia, Gipson, Gray, Grayson, Holden, Irwin, Jones-Sawyer, Kalra, Kiley, Lackey, Lee, Levine, Low, Maienschein, Mathis, McCarty, Medina, Mullin, Muratsuchi, Nazarian, Nguyen, O'Donnell, Patterson, Petrie-Norris, Quirk, Quirk-Silva, Ramos, Reyes, Luz Rivas, Robert Rivas, Rodriguez, Blanca Rubio, Salas, Santiago, Seyarto, Smith, Stone, Ting, Valladares, Villapudua, Voepel, Ward, Akilah Weber, Wicks, Wood, Rendon

**NO VOTE RECORDED:** Mia Bonta, Carrillo, Chen, Megan Dahle, Eduardo Garcia, Mayes, Waldron

Prepared by: Jonathan Peterson / GOV. & F. / (916) 651-4119  
2/2/22 16:23:29

\*\*\*\* **END** \*\*\*\*