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**SB-418 Pajaro Valley Health Care District.** (2021-2022)

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**Senate Bill No. 418**

**CHAPTER 1**

An act to add Chapter 9 (commencing with Section 32498.5) to Division 23 of the Health and Safety Code, relating to health care districts, and declaring the urgency thereof, to take effect immediately.

[ Approved by Governor February 04, 2022. Filed with Secretary of State February 04, 2022. ]

**LEGISLATIVE COUNSEL'S DIGEST**

SB 418, Laird. Pajaro Valley Health Care District.

Existing law, the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, provides the authority and procedures for the initiation, conduct, and completion of changes of organization and reorganization of cities and districts by local agency formation commissions.

This bill would create the Pajaro Valley Health Care District, as specified, except that the bill would authorize the Pajaro Valley Health Care District to be organized, incorporated, and managed, only if the relevant county board of supervisors chooses to appoint an initial board of directors.

The bill would require, within 5 years of the date of the first meeting of the Board of Directors of the Pajaro Valley Health Care District, the board of directors to divide the district into zones and number the zones consecutively. The bill would require that, after formation, the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 govern any organizational changes for the Pajaro Valley Health Care District. The bill would require the district to notify the County of Santa Cruz local agency formation commission (LAFCO) when the district, or any other entity, acquires the Watsonville Community Hospital. The bill would require the LAFCO to order the dissolution of the district if the hospital has not been acquired by January 1, 2024. The bill would require the district to notify the LAFCO if the district sells the Watsonville Community Hospital to another entity or stops providing health care services at the facility, and would require the LAFCO to dissolve the district under those circumstances, as specified.

This bill would make legislative findings and declarations as to the necessity of a special statute for the creation of the Pajaro Valley Health Care District within the Counties of Santa Cruz and Monterey.

This bill would declare that it is to take effect immediately as an urgency statute.

Vote: 2/3 Appropriation: no Fiscal Committee: no Local Program: no

**THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:**

**SECTION 1.** The Legislature finds and declares all of the following:

- (a) Watsonville Community Hospital 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.
- (b) Watsonville Community Hospital 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.
- (c) 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.
- (d) Over the last 21 years of for-profit ownership, the hospital 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.
- (e) Originally incorporated in 1902 as a privately owned for-profit entity, the Watsonville Community Hospital board of directors voted in 1950 to reorganize to nonprofit status. This allowed a bond sale and access to federal and state grants for construction of a new hospital, which opened in 1969. That facility was seriously damaged in the 1989 Loma Prieta earthquake. With funding from the Federal Emergency Management Agency, the current facility, which replaced the 1969 facility and opened in 1998, is sufficient to keep pace with the growing needs of the community. In 1998, the previously not-for-profit hospital was sold to a for-profit company, Community Health Systems (CHS). The proceeds of the sale were contributed to a community trust, the Community Health Trust of Pajaro Valley. This trust also held a right of first refusal if CHS were to decide to sell the hospital.
- (f) In 2015, Community Health Systems reorganized and formed a new subsidiary, Quorum Health Resources, consisting of its small hospitals. Facing financial difficulties, Quorum decided to sell Watsonville Community Hospital in 2019, and the Community Health Trust of Pajaro Valley had the option to acquire the hospital. However, at that time, the Community Health Trust of Pajaro Valley decided not to purchase the hospital, and it was sold to a company called Halsen Healthcare and the hospital operated under a corporation named Watsonville Hospital Corporation (WHC). The real estate for the hospital was purchased by a subsidiary of Medical Properties Trust (MPT), a real estate investment trust, and then leased back to WHC.
- (g) In January 2021, MPT, after declaring numerous events of default, exercised its stock pledge and replaced the Halsen-appointed board of directors with a new independent board of directors, and the new board designated Prospect Medical Holdings as the new hospital manager. However, this change in management did not solve the hospital's liquidity crisis. To remain in operation, the hospital has had to borrow millions of dollars to address operating losses and the hospital remains in default on its operating loan from another subsidiary of MPT regarding the real property of the hospital.
- (h) In 2020 and 2021, during the COVID-19 epidemic, with rising costs of labor and supplies, the hospital experienced significant financial losses. As of August 2021, WHC had a year-to-date cashflow shortfall of over \$17,000,000. It also fell into arrears in its obligations to suppliers, employees, and lenders.
- (i) Watsonville Community Hospital has been essential in serving its community's primarily low-income, underinsured, and uninsured populations of color for over a century and proved crucial in serving those disproportionately impacted by COVID-19 throughout the pandemic. This is evidenced by 43 percent of the hospital's gross revenue coming from the Medi-Cal program and an additional 30 percent of its gross revenue coming from the Medicare Program, serving the aged and disabled.
- (j) The Pajaro Valley Healthcare District Project (PVHDP), a nonprofit organization, was created by the County of Santa Cruz, the City of Watsonville, Salud Para La Gente, and the Community Health Trust of Pajaro Valley, for the purpose of forming a new California health care district. For several years, the partners of PVHDP have been concerned about the continuance of operations and the financial viability of Watsonville Community Hospital, and have been working together to explore the possibility of community ownership.
- (k) PVHDP has initiated a process to establish and capitalize a local health care district to purchase the hospital on behalf of the community through the Chapter 11 bankruptcy/restructuring process commenced by WHC, to prevent the hospital's closure and loss of critical community services. With strong community and stakeholder support, the PVHDP partners are well positioned to engage the Legislature, the Governor, and private funders. In addition, WHC and PVHDP intend to seek emergency funding from

public and private entities to support the short-term operating capital needs of the hospital and eventual acquisition of the hospital.

(l) If PVHDP cannot raise sufficient funds to acquire and operate the hospital, WHC intends to close the hospital and liquidate the assets. For this reason, PVHDP believes it is critical to the health and welfare of the community that it will be able to keep this important hospital open under the stewardship of the community, rather than under another for-profit operator. To do this, it is imperative that emergency funding and urgency legislation be considered immediately in the 2021–22 legislative session.

(m) It is necessary to permit the formation of the Pajaro Valley Health Care District for the above-described purposes.

**SEC. 2.** Chapter 9 (commencing with Section 32498.5) is added to Division 23 of the Health and Safety Code, to read:

#### **CHAPTER 9. Pajaro Valley Health Care District**

**32498.5.** (a) A local hospital district designated as the Pajaro Valley Health Care District is hereby formed within the Counties of Santa Cruz and Monterey. The Pajaro Valley Health Care District may be organized, incorporated, and managed as provided in this division, and may exercise the powers granted or necessarily implied by this division, only if the relevant county board of supervisors chooses to appoint an initial board of directors, as described in Section 32100. All other provisions of this division apply to the Pajaro Valley Health Care District, except as provided in this chapter.

(b) The territory of the district shall be the following area: Situated in the Counties of Santa Cruz and Monterey, State of California; being all the lands within the boundary of the Pajaro Valley Unified School District, excepting the lands to the north and west of the following described line: beginning at a point on the edge of the Pacific Ocean at the intersection with the projected centerline of Aptos Beach Drive; thence along said projected centerline to the intersection of the centerline of Aptos Beach Drive and the centerline of Rio Del Mar Boulevard; thence along the centerline of Rio Del Mar Boulevard in a northeasterly direction to the intersection of the centerline of Rio Del Mar Boulevard and the centerline of Bonita Drive; thence along the centerline of Bonita Drive in a westerly direction to the intersection of the centerline of Bonita Drive and the centerline of Freedom Boulevard; thence along the centerline of Freedom Boulevard in a northerly and easterly direction to the intersection of the centerline of Freedom Boulevard and the centerline of Hames Road; thence along the centerline of Hames Road in an easterly direction to the end of the centerline of Hames Road and the beginning of the centerline of Browns Valley Road; thence along the centerline of Browns Valley Road in a northerly and easterly direction to the end of the centerline of Browns Valley Road and the beginning of the centerline of Hazel Dell Road; thence along the centerline of Hazel Dell Road in an easterly and southerly direction to the intersection of the centerline of Hazel Dell Road and the centerline of Mount Madonna Road; thence along the centerline of Mount Madonna Road in a southerly direction to the intersection of the centerline of Mount Madonna Road and the centerline of Gaffey Road; thence along the centerline of Gaffey Road 1300 feet, more or less, in an easterly direction to a point on the centerline of Gaffey Road; thence leaving the centerline of Gaffey Road 90 feet, more or less, in a northeasterly direction to a point on the Santa Cruz County line.

(c) Following the formation of the district, the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Division 3 (commencing with Section 56000) of Title 5 of the Government Code) governs any change of organization.

**32498.6.** (a) Notwithstanding any other law, within five years of the date of the first meeting of the Board of Directors of the Pajaro Valley Health Care District, the board of directors shall adopt a resolution to divide the district into zones and number the zones consecutively.

(b) In establishing these zones, the board of directors shall provide for representation in accordance with demographic and geographic factors of the entire area of the district, including population factors. The board of directors shall fix the time and place for a hearing on the proposed establishment of zones. At this hearing, any elector of the district may present their views and plans in relation to the proposed zoning, but the board of directors shall not be bound thereby and their decision, in the resolution adopted, shall be final.

(c) The zones shall be effective for the next district election after the resolution of the board of directors for which there is time to implement the zones and elections within the zones.

**32498.7.** (a) The district shall notify the County of Santa Cruz local agency formation commission (LAFCO) of when the district, or any other entity, acquires the Watsonville Community Hospital.

(b) If the district does not acquire the Watsonville Community Hospital through the bankruptcy proceeding pursuant to Chapter 11 (commencing with Section 1101) of Title 11 of the United States Code by January 1, 2024, the LAFCO shall order the dissolution of the district.

**32498.8.** (a) The district shall notify the Santa Cruz County local agency formation commission if the district sells the Watsonville Community Hospital to another entity or stops providing health care services at the facility.

(b) If the commission receives notification subject to subdivision (a), it shall order the dissolution of the district.

(c) The dissolution of the district pursuant to this section is not subject to any of the following:

(1) Chapter 1 (commencing with Section 57000) to Chapter 7 (commencing with Section 57176), inclusive, of Part 4 of Division 3 of Title 5 of the Government Code.

(2) Determinations pursuant to subdivision (b) of Section 56881 of the Government Code.

(3) Requirements for commission-initiated changes of organization described in paragraph (3) of subdivision (a) of Section 56375 of the Government Code.

(4) Sections 99 and 99.01 of the Revenue and Taxation Code.

**SEC. 3.** The Legislature finds and declares that a special statute is necessary and that a general statute cannot be made applicable within the meaning of Section 16 of Article IV of the California Constitution because of the unique circumstances surrounding the operation of the Watsonville Community Hospital. .

**SEC. 4.** This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the California Constitution and shall go into immediate effect. The facts constituting the necessity are:

The imminent financial collapse of the Watsonville Community Hospital is a serious threat to the public health and safety of the residents of the region, as it is one of two hospitals serving the County of Santa Cruz and the only hospital serving the City of Watsonville and surrounding area. An urgency statute to form a local health care district is necessary to allow local officials the opportunity to purchase the Watsonville Community Hospital and ensure the continuance of hospital operations at the earliest possible time.