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Overview of Health Care Districts

LEGISLATIVE ANALYST'S OFFICE

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Hon. Roger Dickinson, Chair

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State Law Provides Authority to Establish Health Care Districts

☑ ***Special Districts.*** Special districts are local governments that are legally separate from counties and cities. They deliver specific public services allowed by state law and supported by residents within defined boundaries.

- Special districts may have authority to build public works projects and run programs, and power to impose taxes to raise funds to pay for these services.
- Special districts may have authority to enter into contracts, purchase property, exercise eminent domain, issue debt, and hire staff.

☑ ***Local Health Care Districts Are a Type of Special District.*** In 1945, the Legislature enacted the Local Hospital District Law (later renamed the Local Health Care District Law).

- The law authorized special districts to build and operate hospitals and other health care facilities in underserved areas, and to recruit and support physicians.
- Chapter 696, Statutes of 1994 (SB 1169, Maddy), renamed hospital districts "health care districts," reflecting that health care was increasingly being provided outside of the hospital setting.

☑ ***Health Care Districts Are Governed Locally.*** Each health care district is governed by a locally elected five-member board of directors. Health care districts are also subject to state policies and regulations as applied by each county's Local Agency Formation Commission (LAFCO).

- LAFCOs conduct "municipal service reviews" and oversee the formation, dissolution, and reorganization of all special districts, including health care districts.
- Chapter 109, Statutes of 2011 (AB 912, Gordon), allows LAFCOs—with some exceptions—to dissolve special districts without holding voter elections.

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State Law Provides Broad Authority to Health Care Districts

☑ ***State Law Enumerates Various Powers.*** Authority granted to health care districts under current law includes, but is not limited to:

- Operating health care facilities such as hospitals, clinics, skilled nursing facilities (SNF), adult day health centers, nurses' training school, and child care facilities.
- Operating ambulance services within and outside of the district.
- Operating programs that provide chemical dependency services, health education, wellness and prevention, rehabilitation, and aftercare.
- Carrying out activities through corporations, joint ventures, or partnerships.
- Establishing or participating in managed care.
- Contracting with and making grants to provider groups and clinics in the community.
- Other activities that are necessary for the maintenance of good physical and mental health in communities served by the district.

☑ ***State Law Limits Flexibility on Setting Rates.*** Health care districts that contract with providers to provide care for indigent county patients may not set rates paid to providers below the cost of care. The law requires that district board members set rates that, whenever possible, permit provider facilities to operate on a self-supporting basis.

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Health Care District Operations Vary Throughout State

☑ ***Health Care Districts Grew in the 1940s and 1950s.*** There are currently 73 health care districts serving 40 counties. Most were established in the first two decades following enactment of the Local Hospital District Law and the federal Hospital Survey and Construction Act.

☑ ***Health Care Districts Vary Regionally.*** Health care districts may overlap county boundaries and can be found in urban, suburban, and rural communities. For example, there are 29 rural health care districts and 19 counties with multiple health care districts.

☑ ***43 Districts Currently Operate Hospitals.*** Small rural districts may have only a few general acute care beds, while larger urban districts may have hundreds of beds with many specialized care units. District hospitals are the only public hospitals in 22 counties.

☑ ***30 Districts Do Not Currently Operate Hospitals.*** Some health care districts have never operated a hospital. In addition, some health care districts that previously operated hospitals until the 1990s no longer operate them.

- Some districts established legally separate nonprofit hospital corporations, and transferred ownership or operation of facilities to public and private systems. Examples include Grossmont Healthcare District and San Gorgonio Memorial Health Care District in San Diego County.
- Some districts have closed their hospitals, such as Beach Cities Health District in Los Angeles County and Bloss Memorial Healthcare District in Merced County.

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Health Care Districts Raise Funds Through Various Mechanisms

☑ ***General Taxes.*** Most health care districts receive a share of local property taxes. The share of local property tax going to health care districts varies among districts.

- Palomar Health in San Diego County received $13 million in property tax revenue in 2009, accounting for 3 percent of the district's operating budget.

☑ ***Special Taxes.*** Some health care districts have received two-thirds voter approval to levy special "parcel taxes" for each lot or acre of ground.

- City of Alameda Health Care District was formed in 2002 when voters approved a $296 annual parcel tax to assume operation of Alameda Hospital.

☑ ***Service Charges.*** Health care districts may run hospitals, clinics, SNF, and ambulance services. These activities earn revenue and are entirely or predominately self-supporting through service charges. These are sometimes referred to as enterprise activities.

☑ ***Other Revenues.*** Some health care districts generate revenues from district resources, such as property lease income and interest earnings from investments. They may also receive grants from public and private sources.

☑ ***Debt Financing.*** Health care districts can create debt to borrow money needed for capital projects such as hospital construction. General obligation bonds require two-thirds voter approval to raise property tax rates for district residents to serve as the mechanism to repay the bonds. Revenue bonds are backed by user fees. Districts may also issue promissory notes and receive loans from state and federal governments.

- Directors of the City of Alameda Health Care District have proposed using parcel tax revenues to secure loans for hospital expansion projects.

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Some Health Care Districts Have Faced Recent Local Challenges

☑ ***LAFCOs Have Considered Dissolving Health Care Districts.*** Five districts have been dissolved or otherwise reorganized since 2000. Contra Costa County LAFCO is currently considering consolidating Mount Diablo Healthcare District into the City of Concord. Contra Costa LAFCO also considered but did not pursue dissolution of Los Medanos Community Hospital District in 1999. Both districts do not currently operate hospitals.

☑ ***Grand Juries Have Questioned District Practices.*** El Camino Hospital District in Santa Clara County was the subject of a civil grand jury report in 2011. The report raised concerns over whether the district had used property tax or corporation revenues to purchase a healthcare facility outside its boundaries.

☑ ***Financial Issues.*** Seven health care districts have declared bankruptcy since 2000. Other districts may have reserve balances in the tens of millions of dollars. Peninsula Health Care District and Beach Cities Health District have each reported over $45 million in unrestricted net assets (reserves) at the end of June 2011.

- Peninsula Health Care District leases Peninsula Hospital to Mills-Peninsula Health Services (MPHS)—a nonprofit, private health system—and reports that it maintains a portion of reserves to resume control of the hospital in the event that MPHS defaults on hospital reconstruction or fails to provide core medical services.
- Beach Cities Health District's audited financial statements state that reserves may be used to meet the district's ongoing obligations to residents and creditors.