



**Contra  
Costa  
County**

To: Board of Supervisors  
From: David Twa, County Administrator  
Date: September 11, 2018

Subject: GOVERNANCE OF THE WEST CONTRA COSTA HEALTHCARE DISTRICT

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**RECOMMENDATION(S):**

1. SELECT one of the following two options for replacing the existing West Contra Costa Healthcare District Board of Directors with a new appointed governing board, as authorized by Health and Safety Code section 32100.8:

a. APPOINT the Board of Supervisors as the West Contra Costa Healthcare District Board of Directors, effective January 1, 2019, as recommended by the Health Services Director.

OR

b. If the Board of Supervisors prefers not to be the governing body of the District, REFER to the Internal Operations Committee the task of identifying and recommending appointees to the District's governing body, for staggered four-year terms, commencing January 1, 2019, subject to removal for cause or at the pleasure of the Board of Supervisors, for final action by the Board of Supervisors on December 11, 2018.

2. DIRECT the Health Services Department to evaluate the need for healthcare services within the boundaries of the West Contra Costa Healthcare District

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☒ APPROVE

☐ OTHER

☒ RECOMMENDATION OF CNTY  
ADMINISTRATOR

☐ RECOMMENDATION OF BOARD  
COMMITTEE

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Action of Board On: **09/11/2018** ☐ APPROVED AS RECOMMENDED ☒ OTHER

Clerks Notes: see addendum

**VOTE OF SUPERVISORS**

AYE: John Gioia, District I Supervisor

Candace Andersen, District II  
Supervisor

Diane Burgis, District III  
Supervisor

Karen Mitchoff, District IV  
Supervisor

Federal D. Glover, District V  
Supervisor

I hereby certify that this is a true and correct copy of an action taken and entered on the minutes of the Board of Supervisors on the date shown.

ATTESTED: September 11, 2018

David Twa, County Administrator and Clerk of the Board of Supervisors

By: June McHuen, Deputy

Contact: Anna Roth, 5-5100

cc:



## RECOMMENDATION(S): (CONT'D)

and report the results of the needs assessment to the Board of Supervisors no later than August 1, 2019.

## FISCAL IMPACT:

No fiscal impact. The West Contra Costa Healthcare District, as a distinct public entity, has separate finances from the County, as discussed below.

## BACKGROUND:

### **West Contra Costa Healthcare District History**

The West Contra Costa Healthcare District (the “District”) struggled financially for decades, experiencing increasing costs, declining reimbursements, and growing service demand from uninsured and underinsured populations. After emerging from bankruptcy in 2006, the District fell deeper into debt. In 2015, it closed its hospital, Doctors Medical Center, which was a full-service acute care facility with 124 general acute care beds.

On October 20, 2016, the District again filed for bankruptcy under chapter 9 of the Bankruptcy Code. Through the bankruptcy, the District sought the bankruptcy court’s approval of a plan that allowed the District to modify its debts and on-going costs, emerge from bankruptcy, and begin the process of repaying creditors. The bankruptcy court approved the District’s Plan of Adjustment on January 2, 2018, allowing the District to repay certain creditors over a series of years.

### **Current Finances of West Contra Costa Healthcare District**

Assets: The District’s primary ongoing revenue sources are ad valorem and special tax proceeds. According to LAFCO’s December 2017, Healthcare Services Municipal Services Review, the District generated approximately \$4 million of ad valorem property tax revenues in FY 16-17. Under the terms of a tax transfer agreement between the District and the County, the District receives a fixed \$1 million annually from the ad valorem taxes. The remainder accrues to the County until the District’s debt to the County (approx. \$21 million) is repaid. At current property tax collection rates, the debt should be repaid by 2024. Growth in property taxes could reduce this time frame depending on the rate and timing of property tax increases. In addition to the ad valorem taxes, Measure D (2004), imposed a \$52 annual tax on single family residential units within the District and higher rates for multi-family, commercial and industrial parcels. This tax generates approximately \$5.65 million annually. These revenues are currently dedicated to the repayment of Certificates of Participation (COPs). The sale of the Doctors Hospital building, the District’s primary fixed asset, will repay outstanding obligations in accord with the bankruptcy Plan of Adjustment. Following bankruptcy and repayment of the County and other obligations the District’s projected cash flow (after expenses) of approximately \$3 to \$3.5 million annually will be available for healthcare

services after about 2024

Liabilities: The District's debt includes Certificates of Participation (COPs) issued in 2004 and 2011 that were used for hospital improvements and to fund operating costs. As of January 2017, the District owed approximately \$57 million to COPs holders. Until 2042, proceeds from the Measure D parcel tax will be used to pay COPs. Other significant costs include worker's compensation payments, pension plan payments, and administrative costs.

The net cash flow for the District is expected to increase over time as creditors are repaid and administrative costs, such as legal fees and bookkeeping services, decrease. While it is difficult to project the annual cash flow with certainty, the District's bankruptcy counsel submitted a projected cash flow showing a short-term negative cash flow, which turns to a positive cash flow within three to four years. (See attached.)

### **Governance of West Contra Costa Healthcare District**

The District is currently governed by an elected board of directors, pursuant to Health and Safety Code sections 32100 et seq. The cost that the District incurs in paying for these elections can be substantial. For instance, in 2014, the cost of the election for the District's board of directors was \$108,000.

The District's approved bankruptcy plan includes minimizing the District's operating costs, in part, by transitioning the District's governing board from an elected board of directors to a board of directors that is appointed by the Board of Supervisors. On August 1, 2017, the Board of Supervisors directed the County Administrator to seek legislation that would support the District in that effort.

### **Senate Bill 522 (Glazer)**

Senate Bill 522 was introduced by Senator Steve Glazer and proposed the dissolution of the existing elected board of directors of the West Contra Costa Healthcare District, effective January 1, 2019, and required that the Board of Supervisors of the County, at its election, either serve as the District's governing board or appoint a governing board for the District, as specified. Governor Brown signed the bill into law on July 18, 2018. (See attached.)

### **Governance Options**

As stated above, the Board of Supervisors is responsible for determining the governance structure of the District. The District is currently governed by an elected Board of Directors. Effective January 1, 2019, the current District Board of Directors will be replaced by a governing board appointed by the Board of Supervisors. Under Health and Safety Code section 32100.8, the Board of Supervisors may decide to appoint itself as the District Board of Directors. Alternatively, the Board of Supervisors may decide to

appoint a District Board of Directors consisting of five members.

In the interest of effectiveness and efficiency, the Health Services Director recommends that the Board of Supervisors serve in an ex officio capacity as the governing body for the District. This Board is familiar with the community and its needs, and also is in the best position to manage the coordination of health care services between the County and the District. This structure would also reduce the District's administrative costs because the Health Services Department could oversee fiscal and program management. Appointed boards often are subject to attrition and the appointment process can be lengthy as interested and qualified candidates are sought and vetted. Having the Board of Supervisors serve as the District's governing body would eliminate the recruitment process and associated delays when a board member resigns or otherwise leaves the District's governing body.

If the Board decides today that the District Board of Directors will be a five-member appointed board and will not be the Board of Supervisors acting in an ex officio capacity, then the Board of Supervisors must determine whether District Board members are subject to removal for cause, or whether they may be removed at the pleasure of the Board.

In addition, if the Board decides today that the District Board of Directors will be an appointed board, this matter should be referred to the Internal Operations Committee to recommend appointments to the District Board of Directors. The following requirements will apply:

1. Each appointed member must reside in the West Contra Costa Healthcare District.
2. The term of each member is four years.
3. One or more members may be Contra Costa County supervisors.
4. One or members may be city council members of any city located within the District's boundaries. The cities of Richmond, El Cerrito, Hercules, Pinole and San Pablo are located within the District's boundaries.

Because the terms of the new directors must commence on January 1, 2019, it is recommended that final action be taken by the Board of Supervisors on December 11, 2018.

### **Needs Assessment**

The closure of the District's hospital eliminated an important community resource. Relatively lower income levels in West County reduce healthcare options and increase certain health risks. The groups most likely affected by the closure are the elderly, children, diabetics and individuals with respiratory diseases and special needs.

Although the District no longer owns a hospital, healthcare districts, such as the District,

may provide a variety of services, including 1) health facilities, diagnostic and testing centers, and free clinics; 2) outpatient programs, services and facilities; 3) retirement program services and facilities; 4) chemical dependency services and facilities; 5) other healthcare programs, services and facilities; 6) health education programs; 7) wellness and prevention programs; 8) support to other healthcare service providers, groups and organizations; 9) ambulance or ambulance services; and 10) participation in or management of health insurance programs. Under the court-approved bankruptcy plan, on average approximately \$1 million per year will be available to be allocated to the needs of the District. However, as noted above, this figure is expected to fluctuate with revenues gradually expected to increase over time.

Since the amount of available funds is relatively small compared to the cost of addressing the healthcare needs within the District, a healthcare needs assessment of the District should be conducted to assist the new governing board of the District to prioritize the allocation of its resources. Today's action asks the Health Services Department to commission the needs assessment and report its findings no later than August 1, 2019.

#### CONSEQUENCE OF NEGATIVE ACTION:

Failure to take immediate steps toward appointing a Board of Directors for the District may put the District at risk of violating the plan approved by the bankruptcy court because, under SB 522, the District's current Board of Director's will be dissolved, effective January 1, 2019. If a new District board has not been appointed by that date, the District will be left without a governing board to take time-sensitive actions, such as directing payments to creditors.

#### CLERK'S ADDENDUM

*The Board of Supervisors appointed itself as the West Contra Costa Healthcare District Board of Directors, effective January 1, 2019, as recommended by the Health Services Director.*

#### ATTACHMENTS

Senate Bill 522

West Contra Costa Healthcare District: Projected Annual Cash Flow