



State of California

LITTLE HOOVER COMMISSION

December 12, 2016

Carole D'Elia
Executive Director

TO: Commissioners

FROM: Carole D'Elia
Executive Director

SUBJECT: Summary of November 16, 2016 Advisory Committee Meeting on Special Districts

Thank you to everyone who participated in the November 16, 2016, advisory committee meeting on the Little Hoover Commission's study of special districts in California. The Little Hoover Commission is reviewing California's vast network of more than 4,700 special districts. State government has oversight responsibilities for the formation of new districts and the operations of existing local and regional districts which operate airports, harbors, cemeteries, hospitals, libraries and parks, while also providing fire-fighting and paramedic services, flood control and water delivery throughout California.

The November 16, 2016, advisory committee meeting focused on how healthcare districts are rethinking their roles and relevance in an era that has favored preventative care over traditional hospital care – the original reason for the existence of California healthcare districts. Specifically, the advisory meeting provided Commissioners additional background to consider questions that have swirled for several years among Capitol legislative committees, local grand juries, Local Agency Formation Commissions (LAFCOs) and healthcare analysts:

- If a healthcare district does not operate or own a hospital should it continue to exist?
- If a healthcare district primarily channels its property tax allocations to other entities as healthcare grants, might this better be done by county health departments or other local governments?
- Do critics who maintain that healthcare districts without hospitals should be dissolved have too narrow a focus and lack understanding of shifts in the healthcare landscape?

This document is intended to summarize the discussion by the participants. It will be distributed to the Commissioners to inform them of the points raised by the participants. This document does not contain Commission conclusions or final recommendations. Please let us know if we have misconstrued a topic of discussion or omitted an important point made during the meeting.

The Changing Healthcare Landscape

Commissioners learned from both the advisory committee meeting and the Commission's earlier August hearing that in the changing healthcare landscape many healthcare districts are

evolving, particularly those that do not own and operate hospitals. In his opening remarks, Commissioner David Beier described how market forces have separated some services from hospitals as part of the Affordable Care Act's shift toward more preventative care. In turn, many hospitals now have more beds than they need.

Commissioner Beier also noted that he has observed that as overall Medicaid spending goes down subsidies go away and funding for safety net hospitals decreases. He said that funding seems to decrease regardless of action taken at the federal level. He then asked, "How are healthcare districts continuing?"

A representative for the Association of California Healthcare Districts (ACHD) reported that ACHD has working groups made up of executives and trustees from different areas of California to discuss these changes and look at solutions to implement at the special district level. She added that ACHD would support increased oversight and accountability from Local Agency Formation Commissions (LAFCOs) to ensure that healthcare districts are being reviewed correctly and consistently. ACHD also is looking to increase transparency of its own boards, and engage members of local communities to better educate their residents on services the healthcare districts provide.

When asked why the association had made a shift toward greater transparency, the ACHD representative cited legislative concerns expressed during the 2015-16 session. Another ACHD representative added that transparency means different things to different people and that for ACHD, transparency is a broad term that applies to all of its activities and services. He also asserted that ACHD needs to do a better job informing the public and district residents of healthcare district accomplishments and missions, emphasizing their work in areas where private sector healthcare is unable to make a profit.

He went on to report that with the future of ACA-era healthcare up in the air, the landscape is highly uncertain. If an attempt is made to remove ACA in its entirety it will be overwhelming to localities, while a loss of federal matching funds could be catastrophic. He added that healthcare districts will continue to be important if the worst happens, and that historically, healthcare districts are more flexible than other healthcare providers.

What Makes Healthcare Districts Special Compared to Counties?

Commissioner Beier described a phenomenon of "mission creep" that comes over agencies defending their turf and asked what makes healthcare districts special compared to county government. Is it their financials, management or governance? An ACHD representative responded that because healthcare districts manage healthcare alone, they are more flexible than cities or counties that must balance many services beyond healthcare.

Commissioner Beier posed the question a different way and asked: if you developed a healthcare system from scratch could it best be done by a county? The ACHD representative responded that as of now, counties don't appear to want more responsibility over healthcare. A representative from Sequoia Healthcare District added to this sentiment, contending that many healthcare districts currently serve citizens neglected by their counties.

The ACHD representative said the point about where healthcare districts fit in locally isn't simply that counties are sometimes poor healthcare providers, but that local and regional healthcare operates in

components often independent of one another. He contended that counties also are strapped for funding across the board and have numerous responsibilities beyond healthcare alone. If healthcare districts were to go away or be dissolved into county operations there is no guarantee that property taxes currently allocated to healthcare districts would go to county healthcare, he said. The ACHD representative reiterated that healthcare districts don't have the competitive tensions and warring interests that counties do, and he worried that dissolving them in favor of county-provided care could leave healthcare out in the cold.

A representative from the California Special Districts Association (CSDA) noted that much of what counties do is mandated by the state. Some counties perform well, and others do not. In many cases where counties have not performed well in providing healthcare, voters created a healthcare special district. He also noted the important role of local voters when decades after they create a healthcare district they face the question of selling a hospital. Local voters make that decision because districts must put the question on the ballot.

Commissioner Beier asked if it would be better to consolidate healthcare authority under a county government umbrella. An elected Sequoia Healthcare District representative said voters might agree if counties had adequate funds, that is, the property taxes now controlled by healthcare districts. He said that in his county, LAFCO has recommended that the county's two major healthcare districts (neither of which have hospitals) should be consolidated into one and expanded to include the entire county, or short of that, dissolved. But no action has taken place. He argued that Sequoia Healthcare District should not exist, as it has closed its hospital and become a "philanthropic organization."

A Grossmont Healthcare District representative addressed Commissioner Beier's comment about "mission creep." He said it raises the question of whether it is better that healthcare be divided among many organizations within a county or be in a single system "where it can get lost, which is what I worry about."

What if Healthcare Districts Went Away?

Meeting participants said that districts that sell their hospitals often evolve to remain active and relevant in their communities. A representative from Fallbrook Healthcare District reported that seven to nine districts statewide recently lost their hospitals, and that Fallbrook, in particular, lost its hospital as she arrived there earlier this year. In that situation Fallbrook leased its hospital to an outside company, which during its contract chose to cease operations and close the 47-bed hospital. While this caused a lot of unrest and frustration in the community, Fallbrook continues to operate as a healthcare district. She reported that constituents have continued to support the healthcare district, which has shifted its focus to "prevent the preventable" through services and grants. She said she believes that Fallbrook Healthcare District knows best where to invest local dollars for a "wellness umbrella." She said Fallbrook Healthcare District officials believe that without their district it is hard to say what services would still be provided locally.

A Sequoia Healthcare District management representative agreed with the Fallbrook assessment, saying voters still play the key role in deciding the roles and responsibilities of a healthcare district, whether there is a hospital or not. He said, from what he has seen in recent district elections, most voters still support retaining healthcare districts for local health services.

A representative from Redbud Healthcare District in Lake County reported that recent fires in his area destroyed \$2 billion worth of county property and created great uncertainty for the district's budget which rests on a base of property taxes. He expressed fears that the district may lose or have to roll back its opioid treatment and wellness projects due to property tax shortfalls. He added that Redbud's clinics have capitation – "X dollars for a patient" – and that the district will eat any charges over that capped amount. He closed by surmising that if the property taxes allocated to Redbud went to the county for distribution none of the proceeds might get to the district.

How to Avoid Redundancies in Services Provided by Counties and Special Districts

Commissioner Sidley then asked the local special district representatives how they work with their respective counties to be sure there no redundancies in their collective healthcare work. This is particularly important, she said, if the ACA is eliminated and funding becomes even more competitive. A Fallbrook representative reported that the district works to eliminate redundancies, but some continue due to lack of coordination. She said when she first arrived earlier this year she had to strongly encourage San Diego County to begin sending county public health workers to Fallbrook Healthcare District wellness events, even though these county workers were funded to do this type of work.

A Sequoia Healthcare District representative cited countywide communication and coordination as key. A Peninsula Healthcare District representative reported that his district only does work not being done by the county. The district uses a health needs assessment to determine where needs are and what services are in place. Then district officials determine how they can fill the gaps. This includes seeking out nonprofits, introducing them to county officials and in some cases, providing them seed money. He said Peninsula noticed a rash of teen suicides, contacted local school districts to assess the problem and then provided funding to districts and through Stanford University to assist. "We did that in seven months. Find a problem, find a solution and get it going," he said. He said the fact that Peninsula doesn't run a hospital is a good thing. He said the district would rather be an engine of innovation in government.

Sharing Best Practices to Make Healthcare Districts Better

Commissioner Beier reported that the Commission recently conducted studies on mental health and customer-centric government and heard local agency officials repeatedly say that they look for statewide recommendations to optimize their outcomes. He said everyone told the Commission they want to share best practices, but in reality, he added, collaboration often isn't happening. He said, "There has to be things the Legislature can do to make healthcare districts better. What can we recommend to the Legislature to improve things?"

Chairman Nava added, "If the Legislature were to be helpful [to healthcare districts] what could they do?" He reiterated the Commission's goal to recommend metrics that can be applied universally since outcomes and rules for healthcare districts vary greatly from county to county.

An ACHD representative responded to both questions, acknowledging that there are variances in the effectiveness of healthcare districts. Although some districts already conduct needs assessments, he said ACHD has discussed how to do a more comprehensive statewide needs assessment and evaluate the findings, but hasn't yet accomplished the task. He said the Legislature could help by updating and clarifying statutory language that, since 1945, has defined the roles, responsibilities and practices of districts. He also affirmed ACHD's support of the LAFCO process and said it is important that LAFCOs use

relevant information in their municipal service reviews. The representative cited his disagreement and concern over a growing practice in the Legislature to pass bills that override and circumvent the local LAFCO process.

An elected Sequoia Healthcare District representative said it is important to address inequities within counties when considering how to measure and improve healthcare outcomes. He noted that many less affluent coast-side residents of San Mateo County pay property taxes but don't live within boundaries of the county's two healthcare districts – and can't access the tax-subsidized health benefits available to health district residents.

A representative from the office of Alameda County Supervisor Wilma Chan then spoke, saying, as a former county official, she believes it is hard for counties to do metrics. She said models exist, however, to do them better. She suggested that counties and healthcare districts also might have "room to incorporate results driven-accountability into their grant giving."

Commissioner Beier acknowledged that healthcare districts have to make difficult choices, but suggested they can easily look to their counterparts in other localities for information on best practices. He said that there doesn't seem to be very much common sharing of information among the state's 79 healthcare districts. He suggested starting by asking all 79 districts to volunteer their help and maybe 30 would pitch in to answer a question such as, "What is the best practice on one thing?" He suggested that these districts be asked to pick one practice and evaluate it a year later to show what works and might be replicated on a larger scale.

A Peninsula Healthcare District representative responded, saying districts want to know who is doing best and hear recommendations suited to urban, suburban and rural areas. He said in some cases if it is a "safety net" issue, the Legislature has to decide the best way to do something, perhaps requiring a certain way for counties or healthcare districts to do things. But he also returned to the topic of local control, saying it is often the best way to decide what services exist where.

A representative from Grossmont Healthcare District also replied that Commissioner Beier's question was hard to answer, given the wide variety of district practices and varying cultures of 58 individual LAFCOs that oversee healthcare districts statewide. "We need LAFCOs in place to push us to be better," he said. He recommended that LAFCOs receive more resources so that they can better do their jobs.

What Should LAFCOs Decide about Healthcare Districts?

Chairman Nava asked a representative of the California Association of Local Agency Formation Commissions if she thought that LAFCOs are the right place to review metrics and best practices. The CALAFCO representative acknowledged that LAFCOs' municipal service review (MSR) studies give them experience in advising special districts. But she said that while LAFCOs have clear authority over decisions about special district boundaries, their authority in many other areas is limited. When asked directly about the LAFCO MSR process she said many LAFCOs do them in-house, but also have capacity to hire consultants and can choose to hire appropriate subject matter experts for the process. She said one drawback for healthcare districts and the ability of LAFCOs to oversee them are the 1945 principal acts which established the ability of voters to form healthcare districts: "They are very antiquated and have not evolved with healthcare changes," the representative said. She also pointed out that LAFCOs are the agencies best suited to continue the work they do in advising and reviewing California's healthcare districts.

An ACHD representative agreed that local LAFCOs are best suited to advise and recommend options to special districts, including healthcare districts. He said across-the-board and statewide best practice recommendations may not always work at the local level. Localities are better at determining outcomes and what works, he said.

An elected representative from Sequoia Healthcare District recommended that LAFCOs receive expanded share of a county's existing 1 percent share of local property taxes.

A representative from the Senate Governance and Finance Committee said that with only one LAFCO per county, and some of them dealing with regional healthcare districts that cross county lines, comparing best practices on a large scale is difficult. He added that this type of oversight is not really part of LAFCO's core mission. To hold healthcare districts accountable, he said, you need a broad scope which local LAFCOs are too small to have.

A Sequoia Healthcare District management representative said that since healthcare districts are locally funded and voters elect board members who hire staff, healthcare districts must first be accountable to their constituents. He said the bottom line responsibility for healthcare districts is to work within their areas and not concern themselves as much with how the work is done elsewhere or how districts in the rest of the state might evaluate them.

A Peninsula representative said he believes that LAFCOs are not the best decision-makers in overseeing healthcare districts. Decisions should be made by people with public health backgrounds. He said he supports the idea of an entity taking a 58-county review of best practices so long as it is conducted by impartial public health professionals. He agreed that we need to aggregate best practices across healthcare districts, get rid of programs that aren't working and focus money and energy on the four or five programs that work best.

How Healthcare District Hospitals Share Information with Counterparts

Commissioner Beier opened a new subject, asking participants how healthcare district hospitals share information with one another about common and often unforeseen issues that some may be dealing with for the first time.

A representative from the District Hospital Leadership Forum (DHLF) responded that special district hospitals within its association submit a tremendous amount of data to the Office of Statewide Health Planning and Development and the Department of Healthcare Services. Such reporting is done annually and disclosed online. She added that district hospitals also provide standardized reports to the Centers for Medicare & Medicaid Services.

A representative from the California Hospital Association (CHA) added that all hospitals statewide do this type of reporting. She said there also are additional voluntary programs that hospitals participate in to provide and share data with one another. All CHA members, she said, participate in CHA Member Groups, in which hospitals send staff to meet with staff from other hospitals to network and share information.

A CHA representative said she often receives questions from member hospitals about how other hospitals are handling issues or problems that may arise. She specifically mentioned that she

coordinated between healthcare district hospitals on how to conduct transgender registration, as one example of a recent request.

A Redbud Healthcare District official responded that his district hospital (managed by Adventist Health System) often consults with other hospitals. He said the district belongs to a Northern California regional network set up for hospitals to share best practices. He said he contacted the Feather River Healthcare District for advice during the recent wildfire in Lake County.

The CSDA representative closed the discussion by saying that he sees two key issues within the discussion: metrics for best practices and LAFCO's role regarding whether a district should exist if it has no hospital. He contended that LAFCOs are great for local processes, gathering local input, providing local analysis and giving local voters the final say. He said it is key to remember the role that healthcare districts play in convening and collaborating on needs and information in their communities, and how they can be responsive to local needs. Decisions should remain local, he said, kept in the hands of districts, empowering locals to do what they do best.

Next Steps

This memo will be shared with the Commissioners for their consideration as they determine the direction of the special districts study. If you have anything you would like to add to this summary or if you would like to provide additional information for the special districts study in general, please contact me or Jim Wasserman, deputy director, at (916) 445-2125 or at carole.d'elia@lhc.ca.gov or jim.wasserman@lhc.ca.gov. We hope that Commission staff may continue to draw upon your expertise if there are any points that need to be clarified or to request additional information. Thank you again for your input, participation and time. A list of meeting participants follows:

1. **Ken Cohen**, Executive Director, Association of California Healthcare Districts
2. **Arthur J. Faro**, Board President, Sequoia Healthcare District, San Mateo County
3. **Barbara Glaser**, Senior Legislative Advocate, California Hospital Association
4. **Anton Favorini-Csorba**, Consultant, Senate Government and Finance Committee
5. **Jack Hickey**, Board Member, Sequoia Healthcare District, San Mateo County
6. **Barry Jantz**, Chief Executive Officer, Grossmont Healthcare District, San Diego County
7. **Amber King**, Senior Legislative Advocate, Association of California Healthcare Districts
8. **Sheretta Lane**, Vice President of Finance and Policy, District Hospital Leadership Forum
9. **Misa Lennox**, Associate Consultant, Assembly Local Government Committee
10. **Lee Michelson**, Chief Executive Officer, Sequoia Healthcare District, San Mateo County
11. **Pamela Miller**, Executive Director, California Association of Local Agency Formation Commissions
12. **Kyle Packham**, Advocacy and Public Affairs Director, California Special Districts Association
13. **Bobbi Palmer**, Executive Director, Fallbrook Healthcare District, San Diego County
14. **Mona Palacios**, Executive Officer, Alameda County Local Agency Formation Commission.
15. **Lou Ann Texeira**, Executive Officer, Contra Costa County Local Agency Formation

Commission.

16. **Peggy Broussard Wheeler**, Vice President, Rural Healthcare and Governance, California Hospital Association