

**ADDENDUM TO THE
MUNICIPAL SERVICE REVIEW
AND SPHERE OF INFLUENCE STUDY
For the
PALM DRIVE HEALTH CARE DISTRICT
May 2019**

INTRODUCTION

Scope of Addendum Report

In October of 2016, the Sonoma Local Agency Formation Commission (“LAFCO”), adopted a Municipal Service Review and Sphere of Influence Study (“MSR” or “study”) for the Palm Drive Health Care District (“PDHCD” or “District”).

The study included a set of determinations regarding the condition of the District in the seven categories that, according to State law, must be evaluated in an MSR.

The MSR did not recommend amending the Sphere of Influence of the District. After the Commission determined that Russian River-area communities should be granted detachment from the District in early 2017, the Commission did reduce the District’s sphere to remove the detached area.

The Commission has received an application, filed by petition, from residents seeking detachment of the Bodega Bay community from PDHCD.

In order to consider the merits of the proposal, LAFCO staff has prepared this addendum to the MSR, making further or otherwise updated determinations reflecting current conditions of the District. Because this is an addendum to the original report, not all factors required in an MSR are covered in this addendum.

In particular, the addendum addresses the following factors:

1. Capacity and Adequacy of Public Facilities and Services
2. Financial Ability to Provide Services
3. Accountability, Structure, and Efficiencies

This addendum also provides updated background information regarding the District, reflecting developments that have occurred since 2016.

DISTRICT PROFILE – UPDATES

HISTORY SINCE FORMATION – ADDENDA

Detachment of Russian River-area Communities

In 2016, LAFCO approved a proposal to detach Russian River-area communities from the District. These communities were defined as the territory located within the boundaries of the Forestville Union School District, Guerneville School District, and Monte Rio Union School District.

Subsequent to the detachment, District representatives met with the applicants and the Sonoma County Tax Collector, and agreed to a plan to continue collecting the voter-approved parcel tax levy of \$155 per parcel in the detached areas.

Because residents in those areas are only responsible for payments directed towards debt that was incurred while they were a part of the District, collections in excess of those debt payments are being sequestered in the equivalent of an escrow account to pay debt obligations related to the District's current bankruptcy.

In simpler terms, rather than collecting a reduced parcel tax levy from detachment area landowners that would cover known, existing debt obligations, the District is collecting the entire authorized parcel tax, reserving "excess" payments that will be applied on the detached landowners' behalf against unknown existing debt obligations – the District's bankruptcy obligations.

Resolution of Bankruptcy

The District has filed a payment plan in bankruptcy court that will be presented to the creditor committees for consideration. If the plan is approved by the creditor committees and the court, the District will be obligated to pay on the order of \$7 million to resolve the bankruptcy.

Previously, the District indicated that they would make payments to creditors of approximately \$1 million annually for a multi-year period to settle claims. The District has accumulated about \$1.1 million in reserves intended for bankruptcy settlement payments.

Closure of Sonoma West Medical Center

In October of 2018, the Sonoma West Medical Center, unable to meet financial commitments due to insufficient revenue, closed the hospital facility and filed for bankruptcy protection.

The MSR raised the concern that the District may not be suitably "insulated" from SWMC liabilities. Although there hasn't apparently been a broad challenge, the ownership of equipment at the hospital has come in to question by the SWMC bankruptcy trustee. The

equipment could be declared an asset of SWMC rather than of PDHCD, and sold to repay SWMC creditors.

Facility Reopened as Sonoma Specialty Healthcare

The District entered into an agreement in October 2018 with the American Advanced Management Group (“AAMG”) to take over operations of the District’s facility, offering primarily long-term acute care services. AAMG has opened an urgent care center and may also operate an operating theater; however there are no plans to re-establish the facility as a hospital with emergency room capabilities.

The contract with AAMG included provision of \$100,000 per month payments from PDHCD for management services; AAMG will book these payments as a debt obligation on behalf of the District. The District is also liable for any financial losses accrued by AAMG until such time as the facility is leased or sold to the management group. AAMG was granted the exclusive right to lease or purchase the facility.

District Secures Approval for Sale/Lease of Facility

In March 2019 the District sought and received voter support for the sale of the facility to AAMG, and election returns indicated broad support (over 75% of voters approved). The lease/purchase agreement with AAMG values the facility at between \$5 and \$6 million, less accrued management fees and financial loss coverage.

Under a lease, AAMG is expected to pay the District \$275,000 annually; lease payments would end when and if AAMG exercised its right to purchase the facility. (The lease payments, per the agreement, will be used to fund facility maintenance and will therefore not accrue to the District.)

AAMG exercised their option to lease the facility in March 2019.

The District has authorized their bond counsel to seek refinancing of debt, with a target for completion of the end of May 2019.

DISTRICT BOUNDARIES

Subsequent to the detachment of Russian River-area communities, the District now serves the communities of Sebastopol, Graton, Bodega Bay, Carmet, Occidental, Freestone, and Bodega. A current map of District territory is shown in Figure 1.

AFFECTED AGENCIES

The Coastal Valleys EMS agency and the Sonoma County Fire District are additional Affected Agencies for this Addendum report.

These agencies are no longer Affected Agencies per Government Code Section 56014:

- Cazadero Community Services District
- Forestville Fire Protection District
- Monte Rio Fire Protection District
- Rincon Valley Fire Protection District (Dissolved and Annexed to Sonoma County Fire District)
- Russian River Fire Protection District
- Forestville Water District

MUNICIPAL SERVICE REVIEW FACTORS

State law requires LAFCOs to review and make determinations related to seven factors as part of a Municipal Service Review. For this Addendum, updates and/or new determinations have been made for three of the seven factors.

CAPACITY AND ADEQUACY OF PUBLIC FACILITIES AND SERVICES

Determinations

- The District's facility, now managed by the American Advanced Management Group, no longer provides emergency medical care services. While the District maintains that approximately ninety percent of former emergency room visits can be accommodated by AAMG's urgent care clinic, the clinic is not available 24-hours a day, and first responder agencies cannot deliver patients to an urgent care clinic.
- After the lease/sale of the facility, the District intends to continue operation, primarily to administer debt service, but also to provide community health services in West County.

Discussion

PDHCD was formed in 2000 with the intent of providing emergency care, acute care, and other medical services. With the cessation of emergency room services, the AAMG-managed facility will meet two of those criteria.

The District has leased the facility to AAMG; AAMG also has an exclusive right to purchase the facility. Upon the execution of the lease, the District will no longer provide subsidies (in the form of financial loss coverage and management fees) to AAMG.

The District is evidently planning to repurpose itself as a provider of public health services, funding community services, likely through grants to community organizations.

It has always been unclear whether the formation effort considered that all three areas of services must be provided by the District, or whether the District could focus more narrowly on one or two of the service categories.

Further, "other medical services" is a broad designation that certainly could include provision of community health services but also other activities. The MSR noted that the District could consider supporting urgent care clinics, community health clinics, and subsidies for first responder agencies within the broad category of "other medical services".

In October 2018, the Commission considered a broad array of options for potential reorganization of the District. Included in the discussion was whether it would be appropriate for the District to seek amendment of its "powers" (essentially proposing a new plan for

services). The staff report that was provided to the Commission for that discussion is included as Attachment 1.

The District, the County, citizens within the District, and the Commission have the authority to seek a reorganization of the District, including authorizing a new service model, seeking detachments of territory from the District, joining the District to another Health Care District in the County, or dissolving the District and naming a successor agency to wind up District affairs.

FINANCIAL ABILITY TO PROVIDE SERVICES

Determinations

- The District has accumulated debt to AAMG in the form of accrued management fees and accrued AAMG losses. The District has accrued about \$2.4 million in debt to AAMG.
- There appears to be a lack of clarity regarding whether an appropriate appraisal of the facility has been made. The District must, by law, seek a fair value for the sale of District facilities, based on an independent valuation, and should endeavor to fully meet this standard.
- The eventual sale of the facility to AAMG will likely result in less than \$5 million in proceeds to the District. The District has indicated that these proceeds would be used to pay off or pay down existing debt obligations. The proceeds may be significantly reduced if the District uses a portion of them to pay accrued AAMG management fees or accrued AAMG financial losses.
- The District has reserves allocated to bankruptcy settlement payments the order of \$1.1 million. Based on previous plans, the District might allocate about \$1 million annually to bankruptcy settlement payments, for a multi-year period.
- The District's costs for securing legal, financial, and other services related to negotiating an agreement with AAMG, refinancing debt, bankruptcy proceedings, and other matters, represent a significant portion of District operating costs. These costs, and the costs of operating the District, are disproportionate to the amount of funds that could be used for community health programs. Near-term budget projections indicate that approximately three-quarters of District revenue not devoted to debt repayment will be devoted to "overhead" activities rather than funding health programs.

Discussion

Palm Drive Health Care District continues to address a complicated and intertwined set of transactions, including:

- Refinancing of Debt: District debt was issued in the form of non-taxable bonds, reflective of its former status as an agency directly operating a health care facility. With the transition to a facility managed by a contractor (first SWMC, and now AAMG), the

bonds must be refinanced as taxable. Additionally, the District believes that it can secure what are historically low financing rates under current market conditions.

- Lease/Sale of the Facility: The District has secured voter approval to sell the facility, and has executed a lease of the facility to AAMG.
- District Bankruptcy: The District has filed a settlement proposal with the court and it is being sent to creditor committees for consideration.
- SWMC Bankruptcy: Although this is nominally a peripheral issue, the District may be drawn into the SWMC bankruptcy case if creditors or the court assert that the District's relationship with SWMC extended responsibility for debts from SWMC to the District.
- Transition to a New Service Model: The District has indicated that once it fully exits from providing emergency and acute medical care, including the sale of the hospital facility, it will shift to a service model of providing community health programs.

The District has indicated that it intends to use facility sale proceeds to pay off or pay down existing bond debt, although it is seeking bond restructuring prior to the sale of the facility. If the sale proceeds were devoted to bankruptcy creditor payments, the funds would represent perhaps a third of those liabilities.

There are two "escrow" accounts that the District has established that represent reserves held for bankruptcy settlement payments: one represents accruals from parcel tax payments made by landowners in the detached Russian River-area communities, the other is funded by remaining property owners in the District.

These reserves are on the order of \$1.1 million, thereby representing perhaps 15% of anticipated bankruptcy creditor payments.

The District previously indicated that it would make bankruptcy settlement payments of about \$1 million annually. Conceivably, the District could incur additional debt, separately or as part of the restructuring of existing debt, in order to fund these liabilities.

Key Determinants for Financial Outlook

There are three factors that will significantly affect the near- and long-term financial outlook for the District:

- The results of refinancing of existing debt: This includes whether debt can be restructured at higher or lower interest rates, longer maturities, and crucially, higher or lower annual payments.
- Resolution of bankruptcy: This includes whether the payment plan proposed by the District is accepted by creditor committees and the court, and how the District will structure payments and secure funding to pay the settlements.

- The sale of the facility to AAMG. Sale of the facility will result in some one-time income that can be devoted to a variety of purposes, including debt or bankruptcy settlement payments.

District Operational Outlook

The District has total revenues of about \$4.2 million annually. Of this, about half is devoted to bond debt, and a portion of the tax received from the Russian River area is diverted to the aforementioned bankruptcy settlement “escrow” account.

If the District hews to previous plans, it will devote approximately \$1 million per year, or almost one quarter of revenue, to pay bankruptcy settlement payments for a period of around a half-dozen years.

The District therefore has annual revenue for the near term of around \$1 million that it can devote to administrative costs, contracted service costs, additional payments on existing debt, diversion to reserves for payment of bankruptcy debt, facility maintenance costs, and/or service program costs.

Direct District operational costs, which primarily constitute staff salaries and other office-related costs, are on the order of \$250,000 annually.

Contracted service costs, including legal counsel, bond counsel, and bankruptcy counsel, are on the order of \$500,000 per year. These costs should go down significantly after the sale of the facility is executed, bonds are refinanced, and the bankruptcy resolved.

It is unclear whether debt refinancing will result in lower costs for the District. Taxable bond financing has inherently higher interest rates than non-taxable bonds; bonds can be often be restructured at lower rates if the term is extended; prevailing market interest rates may be higher or lower than the original rates.

Prior to the sale of the facility, the refinancing of debt, and the resolution of the bankruptcy, the District has on the order of \$250,000 of unallocated funding, after about \$750,000 is allocated to operational and contracted services.

Although the District is likely to reduce operational and contracted service costs in time, and may see additional revenue from reduced debt service costs, the ratio of “overhead” costs to funding available for service provision is likely to remain alarmingly high for the next half-dozen years.

District leadership and constituents might carefully consider whether these circumstances represent the best interests of the community going forward.

ACCOUNTABILITY, STRUCTURE AND EFFICIENCIES

Determinations

- The District has not been providing minutes for meetings held this year, and should immediately rectify this situation.
- District directors and staff continue to be challenged by a thicket of transition activities, necessitating aggressive meeting schedules and agendas. There are continued reports from the public that transparency, reporting, and opportunities for engagement are not as forthcoming as they would hope.

Discussion

The District has not posted or otherwise distributed minutes of board and committee meetings in 2019. The District Secretary has acknowledged this in open session and is working to move the draft minutes through the review process and to the Board for consideration and approval.

The District continues to hold numerous monthly meetings of the board and board subcommittees to address transition issues, and to hold a series of public “town hall” meetings. These circumstances make it difficult for members of the public to engage with the District’s leadership. District staff and the board should be encouraged, despite the challenging workload, to continue to strive to provide suitable opportunities for engagement with the public.

SONOMA LOCAL AGENCY FORMATION COMMISSION

111 SANTA ROSA AVENUE, SUITE 240, SANTA ROSA, CA 95404
(707) 565-2577 www.sonomalafco.org

Staff Report

Meeting Date: October 10, 2018

Agenda No. Item 6.1

Agenda Item Title: Palm Drive Health Care District: Status and Potential Commission Action

Proposal: None

Environmental Determination: Not a project under CEQA

Staff Contacts: Mark Bramfitt

ANALYSIS

Staff has been providing regular updates to the Commission regarding the status of the Palm Drive Health Care District (“PDHCD” or “District”), and, at its September 5 meeting, the Commission directed staff to prepare a written status report and a description of options that the Commission might take to address a variety of District matters.

This report covers:

- A review of recent actions undertaken by the District with regard to the operation of the health care facility in Sebastopol and District finances, including disposition of the District’s bankruptcy and debt.
- A review of the determinations made in the Municipal Service Review of the District adopted by the Commission in 2016 and the District’s status with regard to fulfilling recommendations made in the determinations.
- A set of options that those residing within the District, the governing board of the District, or the Commission, acting independently, could pursue to address concerns regarding the District’s operations and financial condition.

Staff is seeking guidance from the Commission regarding activities that the Commission would like staff to undertake.

Background

In 2016, the Commission considered and adopted a Municipal Service Review for the Palm Drive Health Care District. Subsequently, the Commission adjudicated a proposal to detach Russian River-area communities from the District, and, in April of this year, the Commission amended the sphere of influence of the District to reflect the approved detachment.

In February of this year, staff presented the Commission with a series of options for potential studies and actions that the Commission could undertake to address continued concerns regarding the sustainability of the District. At that time, the Commission directed staff to continue monitoring activities at the District and to provide updates to the Commission on a regular basis.

The District has undertaken a significant change with regard to the services it intends to provide going forward, in response to the failure of the previous model. Further, the financial condition of the District continues to be impacted, giving rise to concerns that the District may cede any capability to meet its stated purpose.

Recent changes to District circumstances include:

- The Sonoma West Medical Center (SWMC), a non-profit corporation formed to manage and operate the District's hospital, has failed. SWMC has accumulated debt of an estimated \$8 million; the District maintains that it established a secure financial "firewall" between it and SWMC, such that the District should not be responsible for SWMC debt. [what about mentioning SWMC's declaring bankruptcy]
- The District has entered into an agreement with American Advanced Medical Group (AAMG) to sell the hospital to AAMG, which would result in a transition from a short-term acute care operation with an emergency department to a long-term acute care facility with an urgent care facility. As of September 16, the emergency department has closed. All other departments of the hospital, including imaging, laboratory, and surgery, are expected to continue to operate.
- The District's agreement with AAMG includes payment of a monthly management fee and responsibility for any of AAMG's financial losses prior to a proposed sale of the facility to AAMG. The sale of the facility requires voter approval, which the District plans to seek in March 2019. AAMG has agreed to carry the management fees and any financial losses that accrue prior to the sale of the facility at a 5% interest rate. AAMG has projected that financial losses will be on the order of \$4.7 million through March 2019.
- The District declared bankruptcy in 2014 and has recently been enjoined by the court to file a disclosure statement by November 15, 2018. The disclosure statement will propose how creditor classes would be paid by the District as part of a settlement and is subject to a vote by the creditors. The District believes that it will file a plan before the deadline and that creditors are likely to approve it, but the District has not shared the total amounts to be paid or the schedule for the payments.
- A notice of intent to circulate petitions in support of a proposal to detach the Bodega Bay area from the District has been filed with the Commission. The applicants cite the ongoing demonstration of poor hospital management, resulting in ongoing fiscal failure, including the closure of the hospital emergency department, as the reason for their proposal. If the application is filed and subsequently approved by the Commission, parcel tax revenue for the District would be modestly reduced.

MSR Determinations – Review

Staff has prepared a summary document of the determinations that the Commission adopted as part of the Municipal Service Review conducted in 2016, with notes for each reflecting current circumstances and any actions undertaken by the District. The determinations and updated information can be found in Attachment 1.

Potential Actions

There are three constituencies that are eligible to apply to LAFCO seeking approval for a variety of actions: the residents (landowners or registered voters) of the District, the District board, and LAFCO, acting independently. (The County of Sonoma is generally considered an affected agency, with broad authority to apply to LAFCO on special district matters, but staff believes it is unlikely that the County would consider seeking adjudication of any matter involving PDHCD at this time.)

A summary of the available options for each constituency is summarized below.

Options for District Residents

1. Application by Petition for Detachment

The Commission is familiar, through recent experience, with the process whereby residents of a district, by petition, can seek detachment of an area from the district.

In short, residents seeking detachment must provide a map of the territory proposed for detachment that meets State requirements, a deposit against actual Commission expenses to process the application, information and indemnifications outlined in an application form, and sufficient valid signatures of landowners or registered voters within the proposed detachment area. The key component of a request to detach territory from a district is stating the reason or reasons for the application.

The Commission is enjoined to adjudicate the application within a specified time frame, and adjudication would typically include preparation or update of a Municipal Service Review, public noticing of proceedings, validation of petitions, and, if the detachment is approved, conducting protest proceedings.

As noted earlier, staff is in receipt of a Notice of Intent to distribute petitions in support of a proposal to detach an area on the coast defined by the boundaries of the Bodega Bay Fire Protection District from PDHCD. (The Bodega Bay FPD is in no way affiliated with this effort.)

2. Application by Petition for Dissolution

Residents of a district may also seek dissolution of the district by filing an application by petition. Processing of an application for dissolution is substantially the same as one for detachment, although the petition threshold is lower. For health care districts, if the Commission approves dissolution, the matter must be placed before the registered voters of the district for confirmation.

If dissolution of the PDHCD is ordered by the Commission, and is confirmed by the electorate of the District, the Commission is likely to name the County of Sonoma as the successor agency.

Upon dissolution, the County would assume all rights and responsibilities for debts and assets of the District and would have the same authority as the District for the sole purpose of winding up the affairs of the District. This authority expressly includes additional rights to exchange, sell, or otherwise dispose of real property; to settle claims of every kind and nature; and to sue and be sued in the same manner as the dissolved District.

The County would also have the right to continue to levy and collect taxes or assessments on properties within the District until such time as all debt obligations have been paid.

3. Request for Sphere of Influence Amendment

According to CKH §56428, any person or local agency may file a written request with the Executive Officer requesting amendments to a Sphere of Influence (SOI). The Commission's fee schedule indicates that a deposit of \$5,000 against actual staff expenses is required with the request, unless the request is concurrent with a change of organization or reorganization; in that case, the fee is \$775 (in addition to the change of organization/reorganization fee)

The processing and adjudication of a SOI amendment request is similar to that of an application for detachment or dissolution, except that there are no protest proceedings.

The SOI is intended to indicate the eventual boundaries of an agency, with a time horizon on the order of ten years. Usually the SOI of an agency is either coterminous with existing boundaries, indicating that the agency is not expected to expand, or somewhat larger, indicating areas where the agency may grow.

Although the Commission has not done so, a SOI can be set that is smaller than an agency's existing territory, indicating that an agency should reduce its territory.

Lastly, the Commission can set a "zero" sphere, which would indicate that the agency is expected to be consolidated or dissolved. The Commission recently set zero spheres for two fire protection districts that are expected to be reorganized.

The SOI for PDHCD is currently coterminous with its existing territory, after the Commission acted this year to amend the SOI to exclude the area detached from the District in 2016.

Options for the District

1. Request for Sphere of Influence Amendment

If the PDHCD believes that it wants to serve a larger area, detach an area, or dissolve, it has the right to seek a sphere amendment. To do so, the District must provide a

written request, including a map indicating the area that is the subject of the proposed amendment and reasons for amending the sphere.

PDHCD opposed amending the SOI of the District to exclude the Russian River-area communities that were detached in 2016 and has, in the past, suggested that it might consider expansion of the District to the south and east.

2. Application by Resolution to Amend Powers

Agencies operate under government code principal acts that describe what activities and classes of service (termed “powers”) that the agency may provide. Agencies formed under the LAFCO process may have those powers proscribed or conditioned by the Commission.

If an agency is not providing a service that is authorized under its principal act, or was not authorized to offer it in its formation document, the agency may seek LAFCO approval to have its powers amended. In LAFCO parlance this is an application for a change of organization, i.e., authorization to exercise a “latent power or service.”

PDHCD’s principal act is the California Health and Safety Code. Article 2 (§32121) of the Code lists the activities that a health care district can undertake. The pertinent powers include:

(j) To establish, maintain, and operate, or provide assistance in the operation of, one or more health facilities or health services, including, but not limited to, outpatient programs, services, and facilities; retirement programs, services, and facilities; chemical dependency programs, services, and facilities; or other health care programs, services, and facilities and activities at any location within or without the district for the benefit of the district and the people served by the district.

(l) To acquire, maintain, and operate ambulances or ambulance services within and without the district.

(m) To establish, maintain, and operate, or provide assistance in the operation of, free clinics, diagnostic and testing centers, health education programs, wellness and prevention programs, rehabilitation, aftercare, and any other health care services provider, groups, and organizations that are necessary for the maintenance of good physical and mental health in the communities served by the district.

Staff notes that these three categories of powers are sufficiently broad to allow a very wide range of services. In Sonoma County, three of the five health care districts (Palm Drive, North Sonoma County, and Sonoma Valley) primarily operate hospitals; one (Cloverdale) provides ambulance services; and one (Petaluma) provides services within the last category (public health programs).

For PDHCD, LAFCO did not proscribe the powers of the District in its resolution approving the formation of the District (Resolution No. 2345), other than to note as findings (Section 5) that: [Since the quotes below are limited, I don't think they should be indented.]

“The purpose of the proposed district is to ensure local access to emergency, acute care and other medical services to residents and visitors of the district area.”

And:

“The proposed district intends to purchase the real property, buildings, and building improvements known as Palm Drive Hospital and lease the hospital to a qualified operator.”

If the first noted finding is expressly considered a proxy for the services that Palm Drive HCD was authorized to provide, it too is rather broad in definition. Valid questions regarding the finding could include the definitions of “emergency (care),” “acute care,” and “other medical services,” and whether the District is required to provide any or all of the listed service categories.

For the District, there is an avenue to seek the exercise of latent powers that could also be used to more clearly define the services that the District is authorized to provide.

CKH Section 56824.10 et seq., under Article 1.5 – New or Different Services, describes how a district may, by filing a resolution of application in accordance with the article, seek to exercise new or different functions or classes of services or the divestiture of the power to provide services.

A key component of an application is submission of a plan for services, which would outline how the provision of services will be funded, and identification of alternatives, including whether other agencies could provide the services more efficiently. The article does not expressly indicate whether potential private service providers should be identified.

Staff notes that there are no provisions in CKH for the Commission or other agency to initiate an application under Article 1.5, although the Commission could undertake a study that might make findings that the District's activities should be reviewed and amended.

3. Application by Resolution for Dissolution

The directors of the District may apply, by resolution, to have the District dissolved. Adjudication of such an application would be the same as that noted for an application

for dissolution filed by petition of District landowners or registered voters, covered in the previous section.

At this time, the District has not indicated any intent to seek dissolution but rather intends to provide a different set of functions and classes of service.

Options for LAFCO

1. Adjudication of Applications for Reorganization

The Commission may be called to adjudicate proposals to reorganize the District and might expect in particular to consider a proposal to detach the Bodega Bay area from the District, given that petitions are being circulated to support that application.

2. Consideration of New or Different Services

As noted above, the District may seek to amend the functions and classes of services that it offers through an application for a change of organization to LAFCO. The Commission would then adjudicate that proposal, evaluating the District's plan for services, community needs, and the ability of other agencies to provide similar services.

Staff notes that the Commission can initiate a review of the functions and classes of services for the District, but cannot direct a District to exercise a new power or divest itself of an existing power. For a potential new power, the Commission would not be in a position to prepare a plan for services on behalf of the District.

3. Further Study

CKH §56378 grants LAFCO broad authority to conduct studies regarding local agencies and directs local agencies to supply relevant information sought by the Commission. While most studies that LAFCO conducts are in service of considering reorganization proposals and/or amendments to spheres of influence, the Commission has authority to conduct studies that are more narrowly or broadly focused.

Staff notes that, although the most recent MSR for PDHDC was conducted and adopted in 2016, circumstances have certainly changed since that time. For any new reorganization proposal, staff believes that preparing an addendum to the 2016 MSR may be sufficient to support the Commission's subsequent adjudications.

Staff does not foresee any need to undertake further study outside what would be needed to support a reorganization adjudication (for dissolution or detachment), but is certainly open to direction from the Commission.

4. Sphere of Influence Amendment

The Commission has the authority and responsibility to develop and determine the spheres of influence of local government agencies, and therefore could initiate a study, in the form of an addendum to the 2016 MSR, that could propose changes to the District's sphere.

5. Initiation of Dissolution

CKH §56375 authorizes the Commission to initiate proceedings, by resolution, for reorganizations including the dissolution of a district. In order to do so, the Commission must adopt recommendations and conclusions of a study (the study may be "targeted" or meet the requirements set forth for a Municipal Service Review). Additionally, the Commission must make both of these specified determinations (§56881):

1. Public service costs of a proposal that the commission is authorizing are likely to be less than or substantially similar to the costs of alternative means of providing the service.
2. A change of organization or reorganization that is authorized by the commission promotes public access and accountability for community services needs and financial resources.

Staff notes that, should the Commission seek to initiate dissolution proceedings for the District, significant study and analysis would likely be required to not only satisfy code requirements, but to objectively provide information to the Commission to support its subsequent adjudication of the proposal.

Further, staff notes that any dissolution adjudication leading to approval would include a protest proceeding, allowing registered voters and landowners within the District to challenge the Commission's decision. The protest proceeding would result in either an affirmation of the Commission's decision, a ballot election for registered voters in the District to consider the matter, or an outright vacation of the Commission's decision.

RECOMMENDATION

Staff requests that the Commission provide direction regarding potential Commission-initiated actions related to the Palm Drive Health Care District.

ATTACHMENTS

1. Review and Status of Determinations Adopted in MSR and SOI Study of Palm Drive Health Care District, 2016