



Agenda Report

MEETING DATE: Tuesday, February 8, 2022

TO: City Council

FROM: CITY MANAGER PRO TEMPORE VIDES

SUBJECT: RESOLUTION AUTHORIZING CONTRIBUTION IN THE AMOUNT OF \$130,000 TOWARD THE ACQUISITION OR OPERATION OF THE WATSONVILLE COMMUNITY HOSPITAL CONTINGENT UPON THE PAJARO VALLEY HEALTHCARE DISTRICT PROJECT BEING SELECTED AS THE SUCCESSFUL BIDDER FOR PUBLIC OWNERS

STATEMENT OF ISSUES:

The mission of Pajaro Valley Healthcare District Project (PVHDP), a newly formed nonprofit public benefit corporation, is to ensure the communities it serves have the high quality and sustainable healthcare services they need by placing local healthcare resources in the hands of the people. Public ownership of the Watsonville Community Hospital (WCH) by the PVHDP is the best way to ensure that WCH continues to provide critical, quality health care services to the community, including services for Medi-Cal, Medicare and uninsured populations.

RECOMMENDED ACTION:

- 1) Approve Resolution authorizing a contribution in the amount of \$130,000 toward the acquisition or operation of WCH, contingent upon the PVHDP being selected as the successful bidder for ownership of the WCH;
- 2) Authorize the City Manager Pro Tempore to execute all necessary documents to effectuate this contribution;
- 3) Approve an appropriation of \$130,000 from the City's General Fund

DISCUSSION:

WCH was originally incorporated in 1902 as a private, for-profit organization. As the communities in South County grew, WCH restructured to nonprofit status and sought to build a new facility. WCH opened in 1969 on Green Valley Road, and after sustaining substantial damage in the 1989 earthquake, was moved to its current location on Airport Boulevard. It was financed by Federal and State grants made available through its non-profit status as well as robust community fundraising efforts. These endeavors paved the way for construction and improvement projects necessary to keep up with the increasing needs of the community.

In 1998, WCH was acquired by Community Health Systems, Inc. (CHS), and in 2016, ownership was transferred to Quorum Health Corporation, a spin-off of CHS. In October 2019, Quorum Health Corporation, as part of an overall trend of selling hospitals to reduce its \$1.2 billion in long term debt, sold WCH to Halsen Healthcare, LLC (Halsen), which immediately entered into a sale-leaseback agreement with Medical Properties Trust (MPT). In January 2021, MPT replaced Halsen with Prospect Medical Holdings, which has been providing management services for WCH since that time. MPT recently filed bankruptcy with a goal of a structured sale of the hospital through the bankruptcy court. In just over 20 years of for-profit corporate ownership, WCH has had nearly 21 changes in administration under the private for-profit model.

Health system partners and community members have come together over the years to support WCH through several changes in ownership and management as well as to balance financial sustainability with the services needed by the community.

A balanced healthcare infrastructure in Santa Cruz County, including the long-term viability of WCH, is essential to addressing health disparities, improving health outcomes, and meeting the unique needs and circumstances of South County communities. Towards that end, the partners that make up PVHDP are pursuing a healthcare district model for WCH to provide access to essential quality healthcare services, create a governance structure that is directly accountable at the community level, and access opportunities for public hospital financing not otherwise available to private for-profit and non-profit entities. The mission of PVHDP, is to ensure the communities it serves have the high quality and sustainable healthcare services they need by placing local healthcare resources in the hands of the people.

On November 9, 2021, the City Council adopted Resolution No. 306-21 supporting the establishment of the Pájaro Valley Healthcare District Project. Senator John Laird authored urgency legislation, Senate Bill 418, to preserve access to healthcare for Pájaro Valley residents by forming a healthcare district and allowing the return to public ownership of Watsonville Community Hospital. The Council authorized a letter of support for SB 418 on January 20, 2022. On January 25, 2022, the County of Santa Cruz Board of Supervisors approved a County contribution for the purchase of the Hospital in the amount of \$5,000,000.

PVHDP expects the State Legislature will adopt legislation forming the District later this month. District formation will allow PVHDP to submit a bid in the bankruptcy court for the purchase of WCH. Acquisition bids are due on February 14, 2022, and bids will be opened by the court on February 17, 2022. If PVHDP is the successful bidder, the City's contribution of \$100,000 will be used to acquire or operate WCH in its initial months under public ownership.

STRATEGIC PLAN:

The project supports the following Strategic Plan Priority:
5-Community Engagement and Well-Being

FINANCIAL IMPACT:

If PVHDP is the successful bidder, the contribution in the total amount of \$130,000 will be appropriated from the City's General Fund. The requested \$130,000 will come from the City's reserve fund.

ALTERNATIVE ACTION:

Council could elect not to contribute \$130,000 toward the acquisition or operation of Watsonville Community Hospital (WCH) in the event the Pajaro Valley Healthcare District Project (PVHDP) is the successful bidder for ownership of the WCH.

ATTACHMENTS AND/OR REFERENCES (If any):

None.