


# LOCAL AGENCY FORMATION COMMISSION COUNTY OF SAN BERNARDINO

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**DATE:** JANUARY 9, 2012   
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**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** Agenda Item #7: Service Reviews for the Mountain Region Healthcare Districts

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**INITIATED BY:**

Local Agency Formation Commission for San Bernardino County

## **INTRODUCTION**

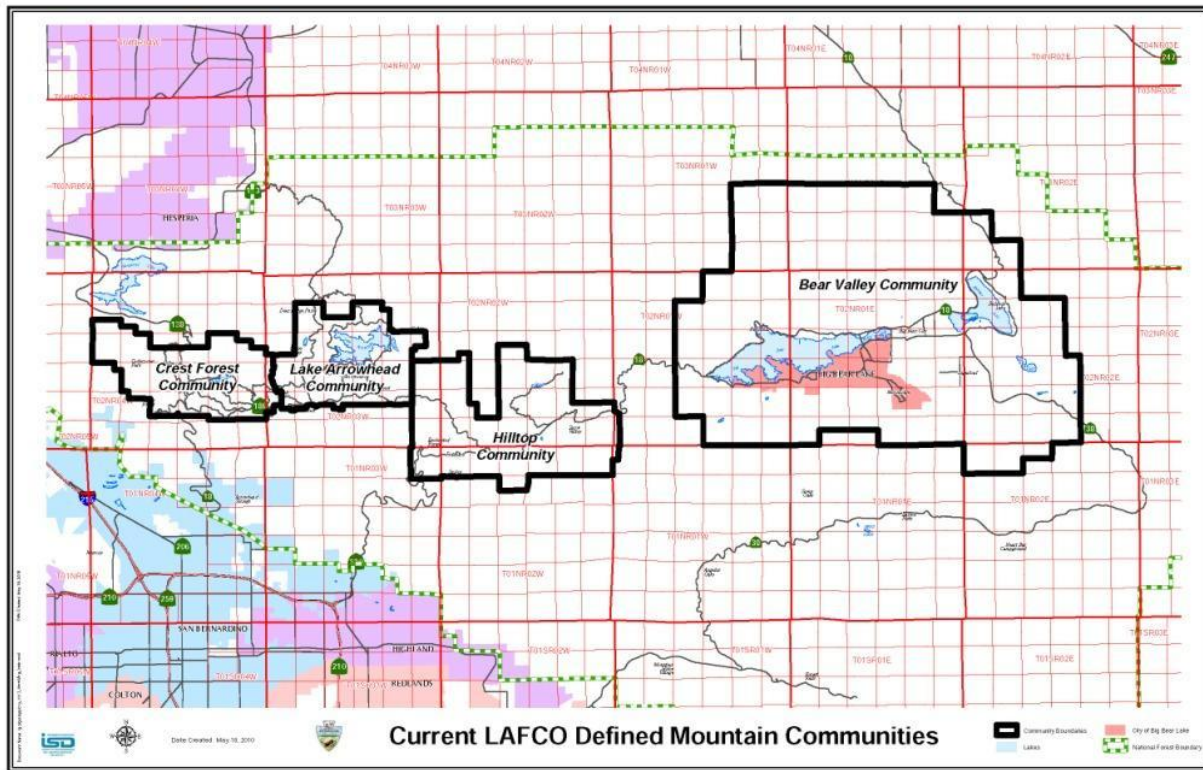
San Bernardino LAFCO has chosen to undertake its Service Reviews on a regional basis. The Commission has divided the county into five separate regions, with the Mountain Region defined as generally being the territory of private lands within the San Bernardino National Forest encompassing the communities of Crest Forest, Lake Arrowhead, Hilltop, and Bear Valley.

The Commission has adopted policies related to its sphere of influence program determining that it will utilize a community-by-community approach to sphere of influence identification. The Commission has conducted service reviews for each of the four mountain communities to date. However, service reviews/sphere updates for the two healthcare districts in the Mountain region (San Bernardino Mountains Community Healthcare District and Bear Valley Community Healthcare District) are presented in a separate report for the following reasons. First, the San Bernardino Mountain Community Healthcare District cannot be isolated to one community as it encompasses the Lake Arrowhead and Hilltop communities. Second, the unique need for hospital access in the mountains (vacation and recreational uses and accessibility to the Valley) warrants a separate review of this regional service. Third, this is the Commission's first review of a healthcare district which is San Bernardino County based.

At the outset, staff believes it is important to outline the legislative direction for Healthcare Districts as outlined in State law. Healthcare districts are formed for the purpose of providing healthcare services, and in general, operation of a hospital for the benefit of the residents within the district. Many healthcare districts exist in isolated or rural areas in order to support the small hospitals or clinics which serve the communities. A 2006 study conducted by the California HealthCare Foundation outlined the challenges being experienced by Healthcare Districts throughout the State. These challenges were due to funding changes experienced since the advent of Prop. 13 as well as changes in the revenue structure for hospital care and/or health care due to the manner in which services were reimbursed. No longer are these services funded by the individual through fees for service and tax revenues, they are now predominantly paid for through insurance coverage be they private or government sponsored. This has dramatically altered the landscape for all Healthcare Districts and their effects are far reaching. A copy of the handout LAFCO staff has prepared providing information on healthcare districts is included as Attachment #4 to this report.

## **LOCATION AND DESCRIPTION**

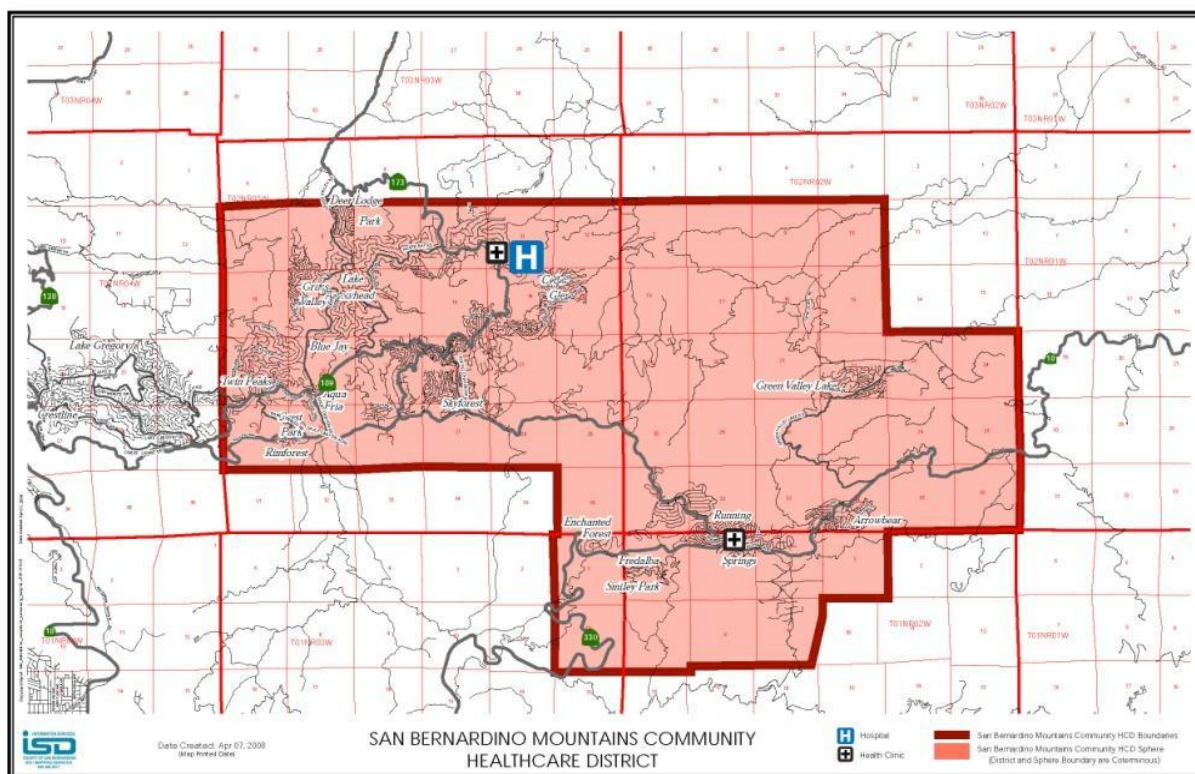
Below is a map illustrating the LAFCO defined communities in the Mountain region.



The overall service review and sphere study area encompasses the entire Mountain region, as defined by the Commission, generally composed of the Crest Forest, Lake Arrowhead, Hilltop, and Bear Valley communities. The maps below show: 1) the overall location of both districts within the mountain region; 2) the San Bernardino Mountains Community Healthcare District's boundaries and sphere of influence with location of its facilities; and 3) the Bear Valley Community Healthcare District's boundaries and sphere of influence with location of its facilities (all maps are included as a part of Attachment #1).



## San Bernardino Mountains Community Healthcare District

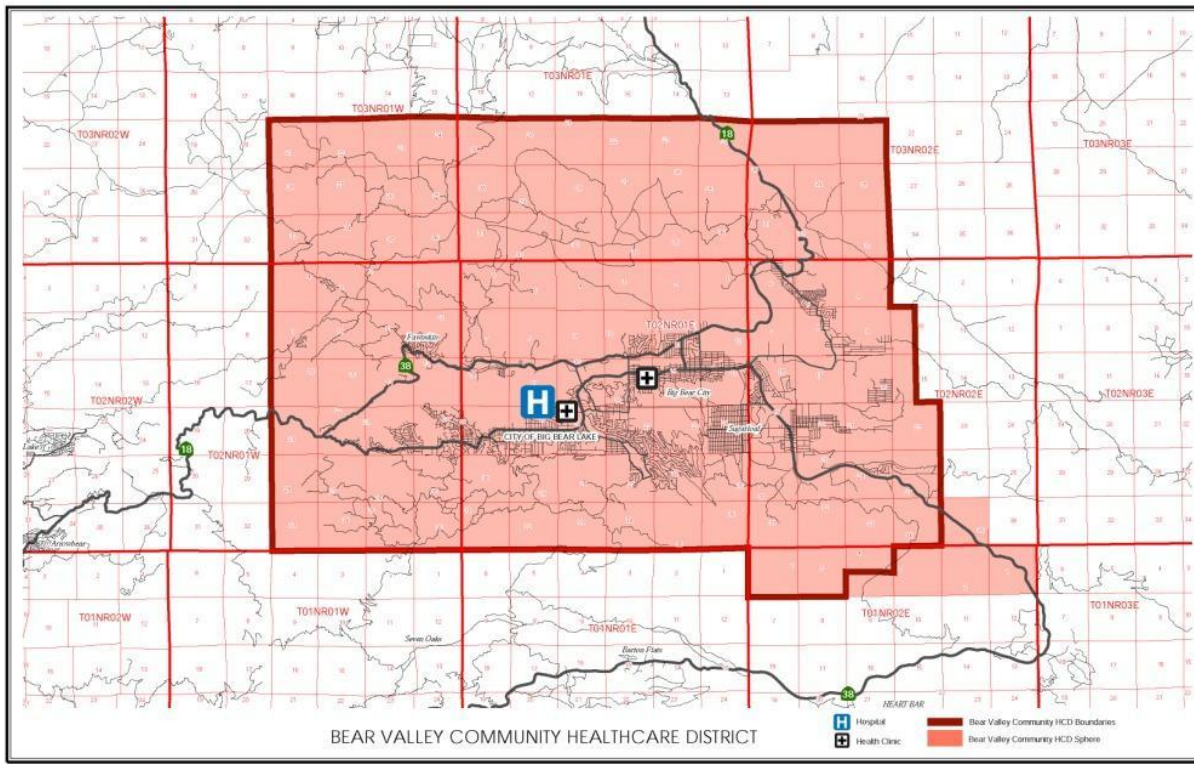


The locations of the District's facilities are as follows:

1. Health Facility (hospital) – 29101 Hospital Road, Lake Arrowhead
2. Rural Health Clinic (adjacent to hospital) – 29099 Hospital Road, Suite 200, Lake Arrowhead
3. Rural Health Clinic – 31900 Hilltop Boulevard, Suite 2, Running Springs



### Bear Valley Community Healthcare District



The locations of the District's facilities are as follows:

1. Health Facility (hospital) – 41870 Garstin Drive, Big Bear Lake
2. Rural Health Clinic (adjacent to hospital) – 370 Summit Boulevard, Big Bear Lake
3. Rural Health Clinic – 816 West Big Bear Boulevard, Big Bear City

The Mountain region will continue to experience growth as a variety of factors continue to drive people to migrate from more urban areas to areas attractive for their rural nature. Additionally the area will continue to attract attention as a recreation destination. As the mountain region develops, it will be imperative that adequate services and infrastructure are provided, that all improvements reflect the needs of locals as well as visitors, that all development maintains a sense of connection to the natural environment and that the small town, rural-mountain character of the community is preserved. Given this, the need for accessible and adequate healthcare in the Mountain region will only increase.

## **COMMUNITY HISTORY**

A brief history of the major governmental events for healthcare districts in the Mountain region and its relationship with the Local Agency Formation Commission is described below, listed chronologically by end date:

1947-68      Using land and money donated by the Los Angeles Turf Club, the Sisters of Saint Joseph built the Santa Anita Hospital, which opened in 1951. In the mid-1960s the hospital was sold to the San Bernardino Mountains Community Corporation, a non-profit organization. Due to financial difficulties encountered by the non-profit organization, in 1966 interests in the community submitted an application to form a hospital district, which would then assume the hospital and also provide emergency medical services. The proposed boundaries generally included the Crest Forest, Lake Arrowhead, and Hilltop communities. The Crest Forest community was excluded from the final boundaries due to opposition from within the community.

In 1967, the LAFCO Commission reviewed and the Board of Supervisors and the electorate approved (867 yes, 163 no) the formation of the San Bernardino Mountains Community Hospital District (LAFCO 407).

Shortly after the formation of the district, in 1968 the name of the hospital was legally changed to Mountains Community Hospital.

1969-70      The Bear Valley Community Hospital Auxiliary Fund was formed to raise funds for a hospital in the Bear Valley due to the ski areas and growing community in the remote location. In 1969, the community submitted an application to form a hospital district in order to gain public financing to build and maintain a hospital. The LAFCO Commission reviewed and the Board of Supervisors and the electorate approved (1153 yes, 138 no) the formation of the Bear Valley Community Hospital District (LAFCO 808).

1972      The Commission established the spheres of influence for the districts within the Bear Valley community (LAFCO 1273 – 1281) with coterminous spheres of influence for County Service Area 53, Big Bear Lake Pest Abatement District, Big Bear Valley Park and Recreation Park District, and Bear Valley Community Hospital District, in general representing the community. Due to many of the districts being single-purpose districts, as well as many of the districts overlapping, the staff report requested that the districts in the future seriously consider consolidation into one or more multi-function general purpose type districts.

The Commission established the sphere of influence for the San Bernardino Mountains Community Hospital District as coterminous with its boundaries (LAFCO 1287). According to the staff report, the Commission noted that no new hospital district be considered in the Crest Forest community without first

thoroughly investigating the feasibility and desirability of annexing to the San Bernardino Mountains Community Hospital District.

1973 Resulting from the sphere of influence establishments from 1972, the Commission approved a reorganization to align the boundaries of the large regional districts of the Bear Valley (LAFCO 1398). In doing so, the residents would then have the same services, same tax rates, and the entire community would have a uniformed level of service. The changes to each district were minor with all districts consenting to the alignment.

1984-90 For at least a decade, the San Bernardino Mountains Community Hospital District encountered severe financial difficulties, partly due to a reduction in tax receipts stemming from Proposition 13 and partly due to operations problems at the hospital itself. From 1984-1987 the district board leased the hospital to three different entities, each of whom lost substantial money in running the hospital, resulting in protracted litigation. At that point, the district developed a "Turnaround Plan" to address its \$1.9 million annual deficit. In 1989, the 73% of the voters approved a special tax to augment funding for the district. One outgrowth of the special tax election was the questioning of those within the Hilltop community as to their inclusion within the district, coalescing into a group called the Central Mountains Citizens Committee ("CMCC").

In 1990 the CMCC submits a proposal initiated by registered voter petition to detach the Hilltop community from the district (LAFCO 2611), on the basis that:

- The perception that the Hilltop community should never have been included within the district,
- Residents and landowners do not substantially benefit from services provided by the district,
- Special tax in the form of assessments on developed and undeveloped properties is unfair, and
- Hilltop residents lack political influence because the majority of the voters reside within Lake Arrowhead.

After considering the financial situation of the district and the benefits of district services to residents of the area proposed for detachment, the Commission denied the proposal. However, the Commission believed that several of the proponent's issues were sufficient to justify continued monitoring of the district, to include:

- A public hearing on the district's financial status and operations would be held within four years,
- Requiring the district to submit periodic financial and activity reports to assist staff in monitoring the progress of the district's "Turnaround" effort,



- Requesting the board of directors to consider expansion of the district boundaries to be coterminous with the boundaries of the Rim of the World School District and the Rim of the World Recreation and Park District

The CMCC submitted a request for reconsideration of the Commission's denial of LAFCO 2611. The Commission determined that no compelling new evidence was provided or that any significant factors were overlooked and denied the request for reconsideration.

1994      The Commission received an application initiated by registered voter petition to detach the Green Valley Lake area (part of the Hilltop community) from the San Bernardino Mountains Community Hospital District (LAFCO 2770). LAFCO's analysis included a review of the district's finances and service provision through the district and the detachment area. The proponent's justification for detachment and the Commission's reasons for denial were generally the same as those for the 1990 detachment proposal.

From the 1990 detachment proposal, the Commission indicated that it would schedule a status report on the district's programs and services in 1994. The Commission felt that the requirement for a status report had been fulfilled through LAFCO 2770 and that no further review was warranted as it would not yield any new information that was not provided through LAFCO 2770.

1998      Senate Bill 1169 amended Hospital District Law. The new law became known as Local Health Care District Law (Health and Safety Code Sections 32000 et seq.) and deemed all hospital districts to be referred to as health care districts. Accordingly, the two hospital districts became known as healthcare districts and changed their names.

2005      The Big Bear City Community Services District ("CSD"), with concurrence of the Bear Valley Community Healthcare District, proposed to assume full operating responsibilities for ambulance and paramedic services that were provided by the Healthcare District (LAFCO Service Contract OSC-249). Through the transfer of service, the CSD assumed full operating responsibility for the ambulance permit that was held in the name of the Healthcare District and its corresponding Exclusive Operating Area defined by ICEMA. Because the contract to transfer service was between two public agencies, the Commission determined that pursuant to Government Code Section 56133 (e) the contract was exempt from LAFCO review at its March 31, 2005 hearing.

2008      The County Board of Supervisors approved the sale of 11.2 acres in the Lake Arrowhead area owned by County Service Area 70 Zone D-1 ("Zone D-1") to the San Bernardino Mountain Communities Healthcare District for \$500,000. The Board declared that the 11.2 acres in the name of Zone D-1 was no longer necessary for its purposes and declared the property surplus. The purchase of the land is for San Bernardino Mountain Communities Healthcare

District to proceed with its expansion of the hospital, which will provide much needed facilities and expanded medical services to the local residents and the many visitors to the mountain communities. The deed includes a condition that the property must be used exclusively by San Bernardino Mountain Communities Healthcare District and that title to the property will revert back to CSA 70 D-1 if San Bernardino Mountain Communities Healthcare District fails to use the property for medical facilities.

## SERVICE REVIEWS AND SPHERE OF INFLUENCE UPDATES

### INTRODUCTION:

The Commission is now required to conduct periodic sphere of influence updates (Government Code Section 56425) and when doing so, is required to prepare a service review pursuant to Government Code Section 56430. The following are the service reviews and sphere of influence updates for the San Bernardino Mountains Community Healthcare District (LAFCO 3106) and Bear Valley Community Healthcare District (LAFCO 3136).

**San Bernardino Mountains Community Healthcare District (“SBMCHD”)** was formed in 1967 by voter approval to assume control of the Santa Anita Hospital and also medical services to the Lake Arrowhead and Hilltop communities. **Bear Valley Community Healthcare District (“BVCHD”)** was formed in 1970 by voter approval to build a hospital and provide medical services to the Bear Valley community. The districts are independent special districts each with a five-member board of directors and operate under Local Health Care District Law (Health and Safety Code Sections 32000 et seq.). Currently, both districts are authorized by LAFCO to provide the Hospital function pursuant to the *Rules and Regulations of the Local Agency Formation Commission of San Bernardino County Affecting Functions and Services of Special Districts*.

As discussed in the “Sphere of Influence” section of this report, staff is recommending that each district maintain its own sphere along with adjustments to each respective sphere. For SBMCHD, staff is recommending modifications to its existing sphere to encompass the Lake Arrowhead and Hilltop communities, as defined by the Commission. Additionally, staff is recommending that the SBMCHD sphere be expanded to include the Commission-defined Crest Forest community as well to provide for a clear delineation of service area. For BVCHD, staff is recommending modifications to reduce its existing sphere to encompass the Bear Valley community, as defined by the Commission.

## **SERVICE REVIEWS**

At the request of LAFCO staff, the districts each provided a response to the mandatory service review criteria pursuant to San Bernardino LAFCO policies and procedures. The responses to LAFCO's original and updated requests for materials includes, but is not limited to, the narrative response to the factors for a service review, response to LAFCO staff's request for information, and financial documents. LAFCO staff responses to the five mandatory factors for consideration for a service review (as required by Government Code 56430) are identified below and incorporate the responses and supporting materials. The districts' responses and supporting materials are included as Attachments #2 (SBMCHD) and #3 (BVCHD).

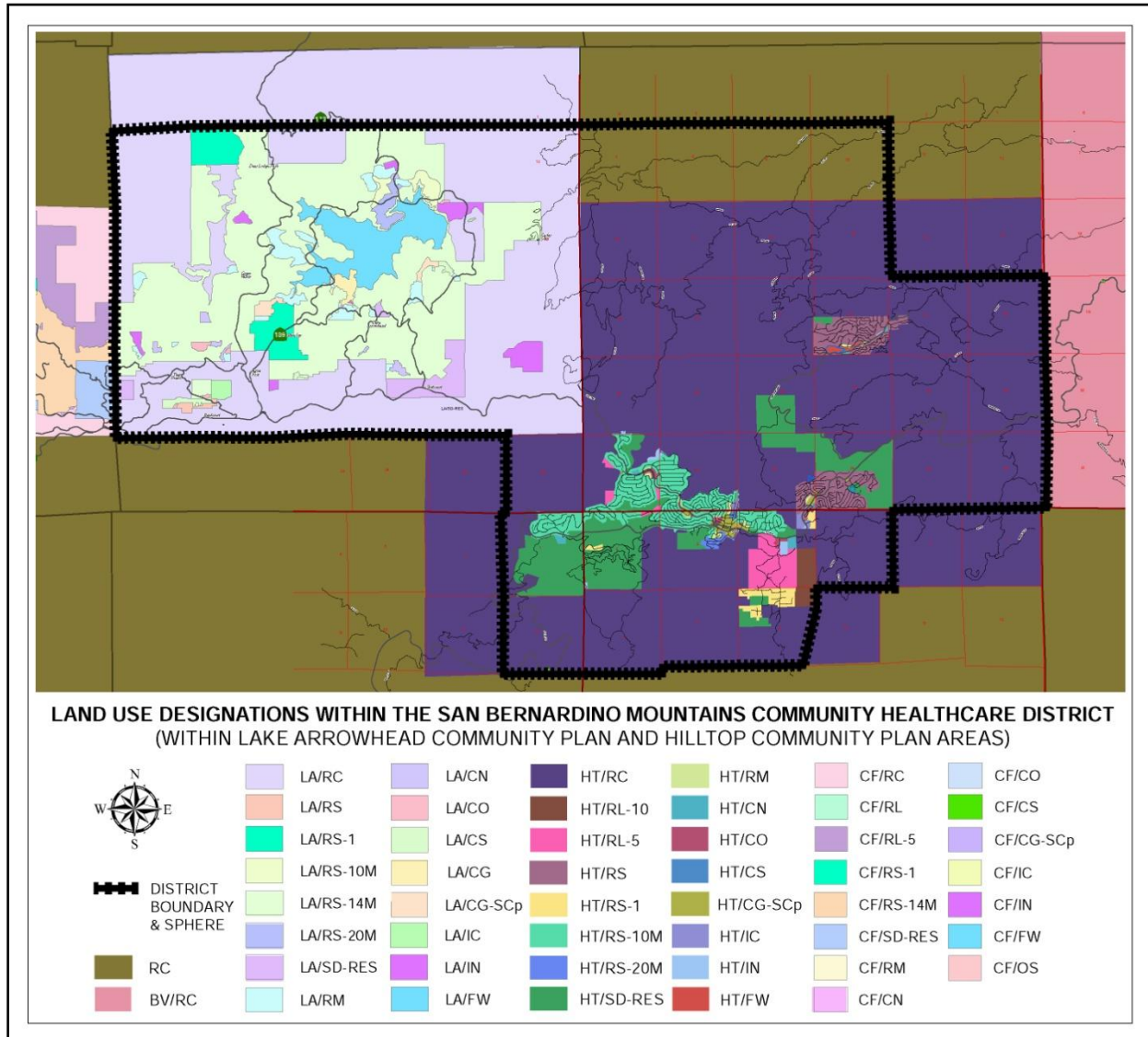
### **I. Growth and population projections for the affected area.**

#### ***San Bernardino Mountains Community Healthcare District***

##### **Land Use**

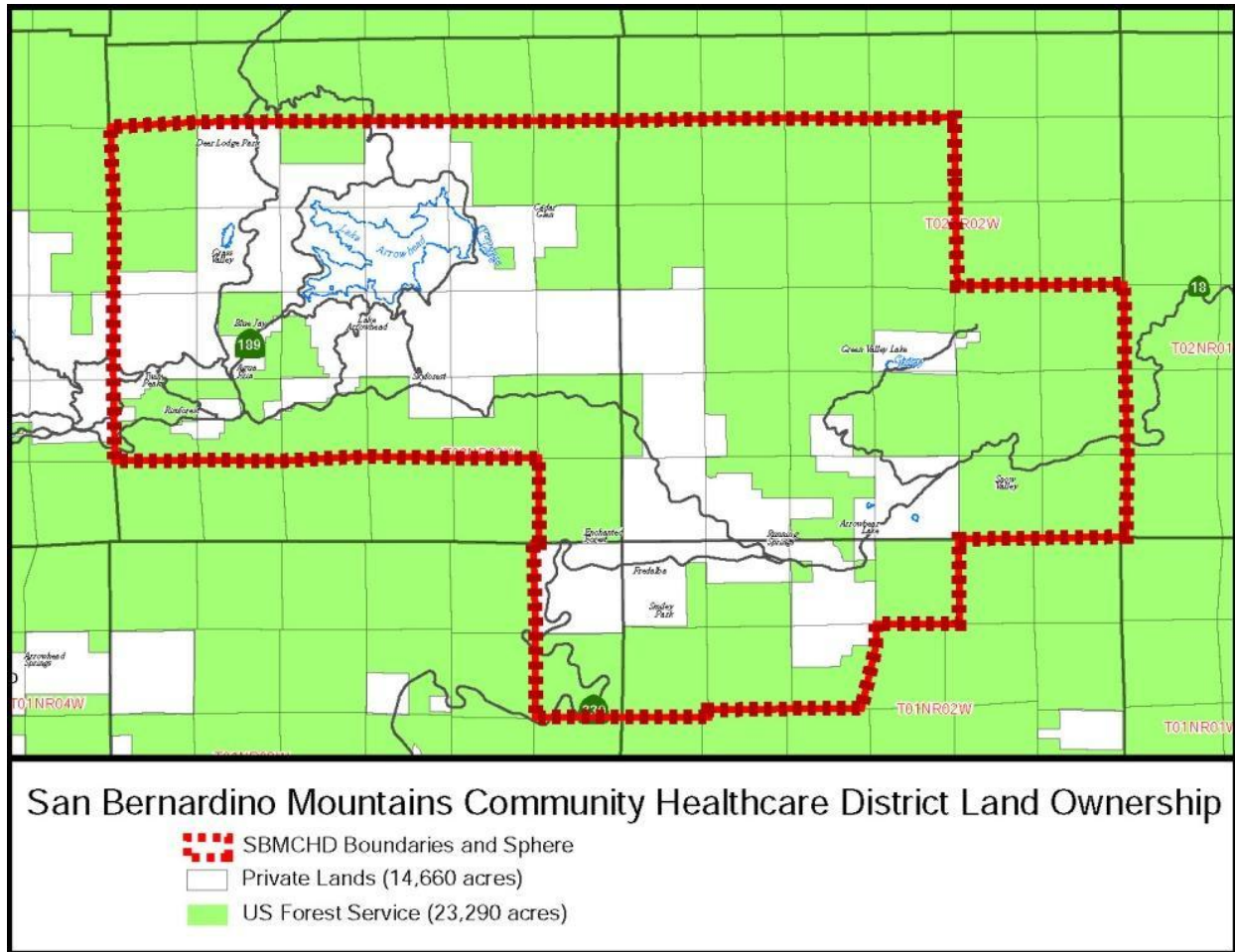
Development in the San Bernardino Mountains is naturally constrained by public land ownership, rugged terrain, limited access, and lack of support infrastructure, as well as by planning and environmental policies which place much of the area off limits to significant development. Maximum build-out potential is substantially constrained by the slope-density standards and fuel modification requirements of the County General Plan Fire Safety Overlay.

As shown on the map below, the District overlays both the Lake Arrowhead and the Hilltop Community Plan areas. Within the Lake Arrowhead Community Plan area, the major residential land uses include RS-14M (Single Residential, 14,000 sq. ft. minimum) and RS-1 (Single Residential, 1 acre minimum) with scattered commercial along State Route 189, 173, Rim Forest and along the lake (Lake Arrowhead Village). Within the Hilltop Community Plan, the three major residential land uses include RS-10M (Single Residential, 10,000 sq. ft. minimum), SD-RES (Special Development – Residential), and RS (Single Residential, 7,500 sq. ft. minimum). Most of the commercial land use designations are concentrated in the central portion of the community where State Highway 18 and 330 meet. This commercial area is commonly known as "downtown Running Springs". The public lands within the district are designated Resource Conservation.



The land ownership distribution and breakdown within the District boundary are identified on the map below. Roughly 60 percent of SBMCHD's area is within the San Bernardino National Forest (owned by the federal government), which are devoted primarily to resource protection and recreational use.





## Population

In general, the overall San Bernardino Mountains region is one of the most densely populated mountain areas within the country, and is the most densely populated urban forest west of the Mississippi River. In addition, there is a large seasonal population component as well as a substantial influx of visitors to the mountain resort areas. It is estimated that the seasonal factors can significantly increase the peak population. The seasonal population and visitors are not reflected in available demographic statistics (shown on the chart below), which count only year-round residents. Even with the large increase in population, the District's area is not anticipated to reach its build-out population by the 2030 horizon of this report.

| Year                     | 2000          | 2005          | 2010          | 2015          | 2020          | 2025          | 2030          | 2000 to 2030 growth rate |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------------|
| Lake Arrowhead Community | 12,040        | 13,364        | 14,834        | 16,466        | 18,278        | 20,288        | 22,520        | 87.0%                    |
| Hilltop Community        | 6,026         | 6,522         | 7,059         | 7,640         | 8,268         | 8,949         | 9,683         | 60.7%                    |
| <b>TOTAL</b>             | <b>18,066</b> | <b>19,886</b> | <b>21,893</b> | <b>24,106</b> | <b>26,546</b> | <b>29,237</b> | <b>32,203</b> | <b>78.3%</b>             |

| Community                | Build-out | 2030 as<br>% of |
|--------------------------|-----------|-----------------|
| Lake Arrowhead Community | 61,871    | 36%             |
| Hilltop Community        | 27,376    | 35%             |
| <b>TOTAL</b>             | 89,247    | 36%             |

Source: County of San Bernardino *2007 Lake Arrowhead and Hilltop Community Plans* (citing Stanley R. Hoffman Associates, Inc.); LAFCO

Notes: Does not include seasonal population or visitors

Italicized figures are calculated by LAFCO staff

Annual growth for Lake Arrowhead population is anticipated at 1.5%.

Annual growth for Hilltop population is anticipated at 1.6%.

For purposes of planning and designing infrastructure and future service delivery, the seasonal population must be considered. As the population increases so does the need for service. Any future projects will increase the need for municipal services within the existing boundaries.

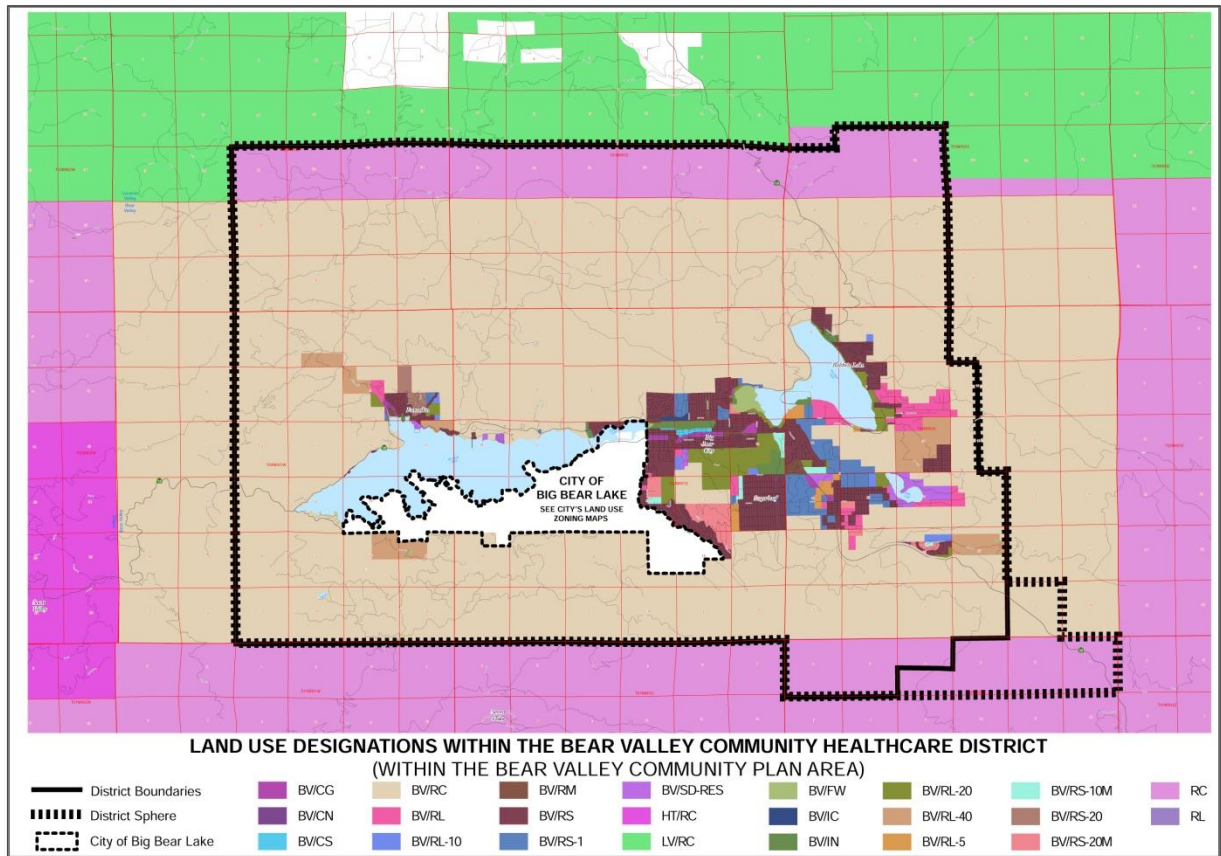
### ***Bear Valley Community Healthcare District***

#### **Land Use**

##### Unincorporated Area

According to the *Bear Valley Community Plan*, several issues set Bear Valley apart from other mountain communities, suggesting that different strategies for future growth may be appropriate. Among these are preservation of community character and infrastructure. As for preservation of community character, residents feel that the high quality of life experienced in their neighborhoods today should not be degraded by growth and the subsequent impacts of traffic congestion, strains on infrastructure and threats to natural resources.

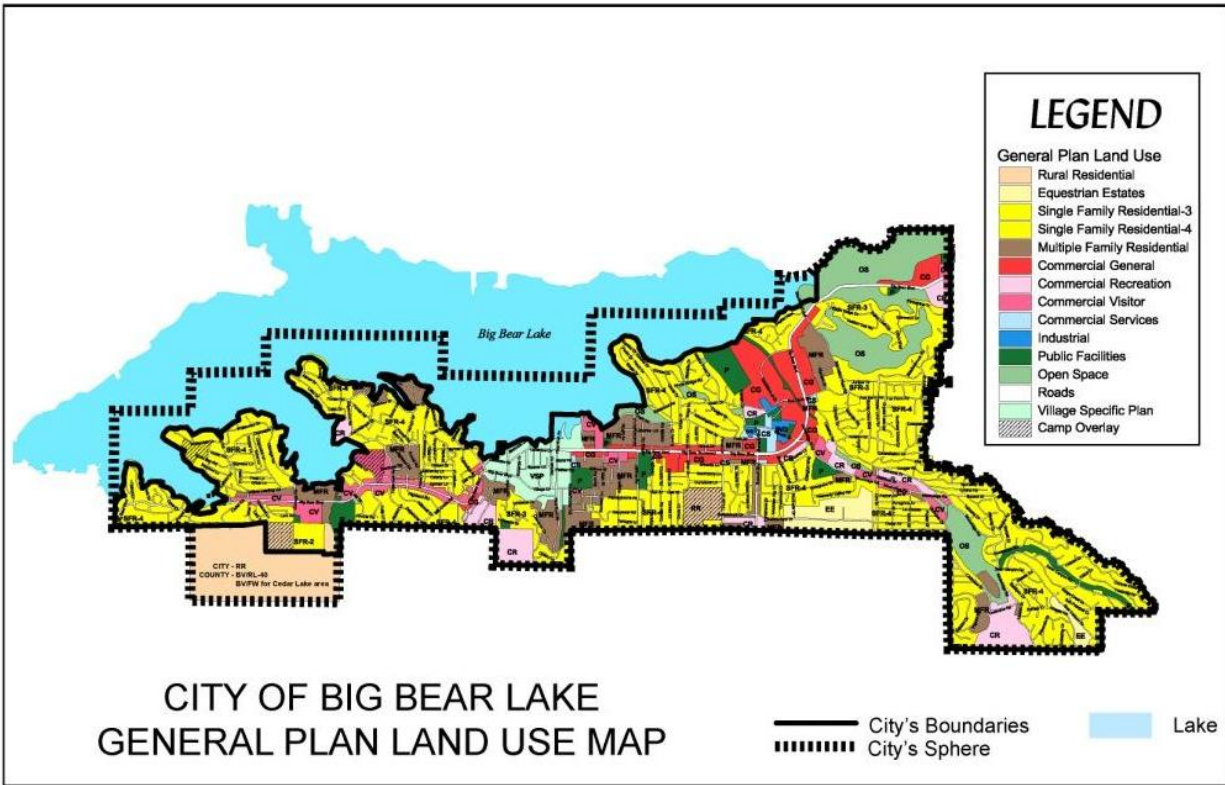
Below is a map identifying the County of San Bernardino's land use designations within the study area. The breakdown shows approximately 79% is designated Resource Conservation, 6% is Single Residential (RS, RS-10M, RS-20M, and RS-1), 4% is Rural Living (RL, RL-5, RL-10, RL-20, and RL-40), 5% is designated Floodway (lake areas), 1% is a mix of generally commercial, industrial, and institutional land uses in the County (Neighborhood Commercial, Service Commercial, General Commercial, Community Industrial, and Institutional), and the remainder 5% is within the City's boundaries, whose land uses are the jurisdiction of the City.



### Incorporated Area

The preservation of the community's natural setting, small town atmosphere and rural mountain character are all aspects that are considered by the City in the development process. In addition the City imposes a development impact fee that addresses the need to construct infrastructure as development takes place.

Within the City's boundaries, approximately 60% of the lands are designated as Single-Family Residential, 9% Multiple Family Residential, 18% Commercial/Industrial, 4% Public Facilities, and 9% Open Space. The commercial development within the City is generally located along Big Bear Boulevard (which connects between Highway 18 and SR 38) and some areas near the lakefront. Below is a map identifying the City's land use designations within its corporate boundaries.

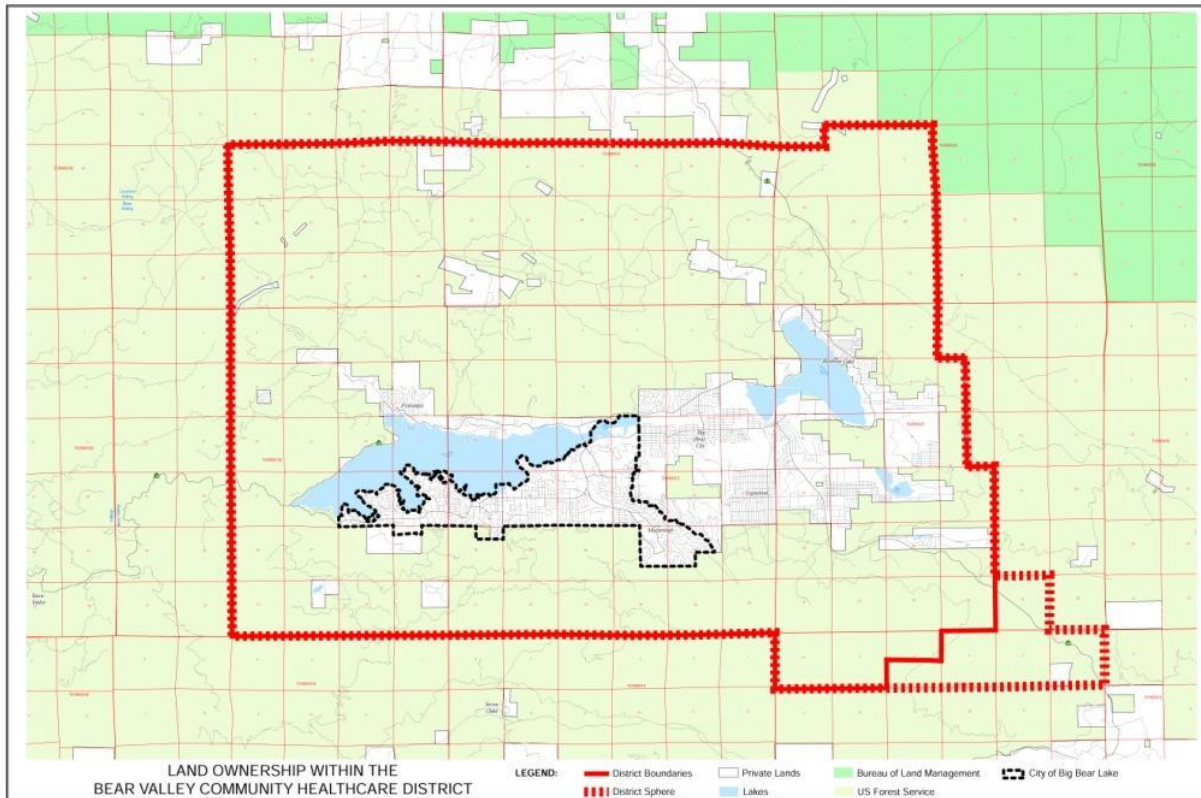


### Landownership

The land ownership distribution and breakdown within the district boundary and current sphere are identified on the map below. Within the entire boundary/sphere, roughly 19% of the land is privately owned, 5% comprise all the lakes within the community, and the remainder 76% are within the San Bernardino National Forest (owned by the federal government), which are devoted primarily to resource protection and recreational use.

| Land Ownership Breakdown (in Acres)     |            |            |           |             |
|---|------------|------------|-----------|-------------|
|   | Private    | Public     | Lake      | Total Area  |
| Boundary                                | 15,110     | 59,660     | 3,960     | 78,730      |
| Sphere (not within District boundaries) | 80         | 2,800      | 0         | 2,880       |
| Boundary and Sphere                     | 15,190     | 62,460     | 3,960     | 81,610      |
| <b>Percentage</b>                       | <b>19%</b> | <b>76%</b> | <b>5%</b> | <b>100%</b> |





## Population Projections

### Unincorporated Area

The estimated unincorporated population was roughly 12,000 in 2000 and 15,000 in 2010. The seasonal population and visitors are not reflected in available demographic statistics, which count only year-round residents. It is estimated that the seasonal factors can substantially increase the peak population. The population projections below encompass the developable territory within the community. Utilizing the 1.8% annual growth from the *Bear Valley Community Plan*, by 2030 the permanent population is estimated to reach approximately 20,000, a 69% increase from 2000.



Table 3: Population, Households and Employment Projection 2000-2030

|  | 1990        | 2000        | Projection<br>2030 | Average<br>Annual<br>Growth<br>Rate:<br>1990-<br>2000 | Projected<br>Average<br>Annual<br>Growth<br>Rate:<br>2000-2030 | Maximum<br>Policy Plan<br>Build-Out | Ratio of 2030<br>Projection to<br>Land Use<br>Policy Map<br>Build-out |
|--|-------------|-------------|--------------------|---|--|-------------------------------------|---|
| <b>Population</b>  | 9,058       | 11,771      | <b>19,910</b>      | 2.7%  | 1.8%   | 43,414                              | 0.46  |
| <b>Households</b>  | 3,474       | 4,712       | <b>8,426</b>       | 3.1%  | 2.0%   | 17,364                              | 0.49  |
|  |             |             |                    |   |  |                                     |   |
|  | <b>1991</b> | <b>2002</b> |                    | <b>1991-2002</b>                                      | <b>2002-2030</b>   |                                     |   |
| <b>Employment</b>  | 1,007       | 1,684       | <b>2,650</b>       | 4.8%  | 1.6%   | 8,332                               | 0.32  |
| Source: Stanley R. Hoffman Associates, Inc.<br>Note: The population figures for 1990 and 2000 were based on the U.S. Census. The employment figures for 1991 and 2002 were based on data from the EDD (Employment Development Department). |             |             |                    |   |  |                                     |   |

Sources: County of San Bernardino 2007 *Bear Valley Community Plan* (citing Stanley R. Hoffman Associates, Inc.);

Notes: Does not include seasonal population or visitors

Annual growth for population is anticipated at 1.8%.

### Incorporated Area

Both the Department of Finance and the U.S. Census list the 2000 population as 5,438. For 2010, the U.S. Census lists 2010 population as 5,019 (decrease of 419), and the Department of Finance estimates the 2011 population as 5,051. The City further states that numerous jobs have been eliminated within the City, there has been sparse development for the past two years, and the tourism industry has been significantly impacted by the road closures due to winter storms of the past two years.

In looking at the City's population projections through 2035, the Southern California Association of Government (SCAG) Growth Forecast from the *2008 Regional Transportation Plan* did not reflect the full extent of the current economic and housing conditions. Although not yet adopted, recent figures available from SCAG point towards a more realistic and steady growth through 2035<sup>1</sup>, as shown in the chart below. Again, these figures are for the permanent population and do not take into account seasonal and tourism activities.

| <b>2020</b> | <b>2035</b> |
|-------------|-------------|
| 5,619       | 7,001       |

The City's 1995 General Plan describes the City as a mountain resort community. Although the General Plan provides for a wide range of housing options, the majority of the development has been single family housing units. The 2010 Census identifies that from 2000 to 2010, total housing units increased by 11.5% while occupied units decreased by 6.7%. The decrease in occupied units correlates with the economic downturn.

<sup>1</sup> Southern California Association of Governments. *Draft Integrated Growth Forecast. May 2011.*

For purposes of planning and designing infrastructure and future service delivery, the seasonal population must be considered. As the population increases so does the need for service. Any future projects will increase the need for municipal services within the City's existing boundaries as well as within the surrounding unincorporated territory.

## **II. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.**

For this service review factor, referenced materials include the districts' narrative response to the factors for a service review, website, financial statements, and hospital newsletters.

### ***San Bernardino Mountains Community Healthcare District***

#### **Foundation and Auxiliary**

There are two entities that contribute significantly to the operations of the hospital, although both are legally separate from the district.

The Mountains Community Hospital Foundation ("Foundation") is a volunteer organization dedicated to assuring that the hospital has the financial strength to grow and improve, keeping pace with technological advances and expanding the services the hospital provides to the mountain community. The Foundation was incorporated in 1991 and shortly thereafter, received its tax-exempt status. Since that time, the Foundation has raised over \$2.5 million to support the Hospital. The work of the Foundation has enabled the hospital to maintain its status as a modern healthcare facility, able to keep up with medical and diagnostic technology. Recent gifts to the Foundation have made possible a new helipad, a state-of-the-art CT scanner, physical rehabilitation equipment, and an emergency backup generator.

Mountains Community Hospital Auxiliary members promote and advance the welfare of the hospital, assist patients and hospital personnel, assist good public relations, and aid purchase of needed equipment through fundraising activities.

#### **Services**

The SBMCHD operates a hospital, a rural health clinic located at the east end of Lake Arrowhead (Hospital Road), and another rural health clinic located at the intersection of Highways 18 and 330 in Running Springs. The hospital has 37 beds (17 acute and 20 long term care). On average 24 beds are in use. These are the only acute or long-term care beds available in the district's service area. The SBMCHD states that it has adequate capacity for surge patient volumes. The SBMCHD has identified that it does not have a contracted relationship in or outside the district and has no formal agreement with other institutions to address under capacity. Services provided by the SBMCHD include:

- Dentistry – dental services are provided at the Rural Health Clinic

- Emergency Medicine - Mountains Community Hospital maintains a 24-hour emergency department.
- Family Practice, general surgery, internal medicine, ophthalmology, orthopedics, pathology, pediatrics, podiatry, psychology, and radiology.
- ENT (Ear, Nose, and Throat) specialist is available once a week at its "time share" office suite, which is located adjacent to the Hospital.
- Gynecology has recently returned to the hospital. For some time, the district was without a gynecologist, which made it necessary for women to travel down the mountain for care. According to the SBMCHD, the Hospital has been able to have a board certified Gynecologist present in its "time share" office suite. This physician is currently present on alternate Fridays and some Saturdays. The doctor sees gynecology patients in the office and performs surgery in the Hospital. Since July 2009, the district has not offered obstetrical services due to: a) the lack of volume (only a 20% share of the mountain market), and b) not having an Obstetrician willing to practice within the district without a significant income guarantee.

In July 2000, the SBMCHD opened a new, modern emergency department that includes radiography, CT scanner, mammography, and ultrasound capabilities. The final cost of the project exceeded \$3 million, a significant part of which was raised by the Foundation. In 2004 the Department of Human Services designated MCH as a critical access hospital.

The figure below taken from the FY 2009-10 financial statements shows the district's activity for the past three years.

|   | 2010         | 2009         | 2008         | Change     |              |
|---|--------------|--------------|--------------|------------|--------------|
|   |              |              |              | 2010-2009  | 2009-2008    |
| Patient days:                                     |              |              |              |            |              |
| Acute care hospital (includes swing-bed patients) | 1,551        | 1,835        | 2,559        | (284)      | (724)        |
| Skilled nursing facility                          | 6,845        | 6,301        | 6,283        | 544        | 18           |
| <b>Totals</b>                                     | <b>8,396</b> | <b>8,136</b> | <b>8,842</b> | <b>260</b> | <b>(706)</b> |
| Selected outpatient visits:                       |              |              |              |            |              |
| Emergency room                                    | 6,652        | 6,443        | 6,569        | 209        | (126)        |
| Rural health clinics                              | 7,561        | 7,801        | 6,762        | (240)      | 1,039        |

Part-time residents and visitors can receive services by the SBMCHD, which averages about 20% above the full time residents. According to the SBMCHD, at last count (Fiscal Year 2010-11) approximately 27% of its business came from the Crestline area which is not in the district (shown on chart below). Even though a significant portion of business comes from outside of the district's boundaries, it states that it has no plans for annexation.

| Mountains Community Hospital Admission Data (Fiscal Year 2011) |                       |                 |         |         |               |                 |         |         |                                |                 |         |         |
|--|-----------------------|-----------------|---------|---------|---------------|-----------------|---------|---------|--------------------------------|-----------------|---------|---------|
|  | In Patient Admissions |                 |         |         | ER Admissions |                 |         |         | Out Patient Admissions (No ER) |                 |         |         |
|  | In District           | Out of District | Total   | %       | In District   | Out of District | Total   | %       | In District                    | Out of District | Total   | %       |
| Arrowbear  | -                     | -               | -       |         | 1             | -               | 1       | 0.02%   | 12                             | -               | 12      | 0.07%   |
| Big Bear   | -                     | 1               | 1       | 0.36%   | -             | 25              | 25      | 0.39%   | -                              | 143             | 143     | 0.80%   |
| Blue Jay   | 56                    | -               | 56      | 20.36%  | 751           | -               | 751     | 11.58%  | 3,036                          | -               | 3,036   | 16.91%  |
| Cedar Glen   | 14                    | -               | 14      | 5.09%   | 484           | -               | 484     | 7.46%   | 1,343                          | -               | 1,343   | 7.48%   |
| Cedar Pines Park   | -                     | -               | -       | 0.00%   | -             | 55              | 55      | 0.85%   | -                              | 225             | 225     | 1.25%   |
| Crestline  | -                     | 47              | 47      | 17.09%  | -             | 1,611           | 1,611   | 24.85%  | -                              | 4,579           | 4,579   | 25.50%  |
| Fawnskin   | -                     | -               | -       | 0.00%   | -             | 2               | 2       | 0.03%   | -                              | 13              | 13      | 0.07%   |
| Green Vally Lake   | 2                     | -               | 2       | 0.73%   | 25            | -               | 25      | 0.39%   | 150                            | -               | 150     | 0.84%   |
| Lake Arrowhead   | 50                    | -               | 50      | 18.18%  | 884           | -               | 884     | 13.63%  | 3,181                          | -               | 3,181   | 17.72%  |
| Rimforest  | 8                     | -               | 8       | 2.91%   | 175           | -               | 175     | 2.70%   | 497                            | -               | 497     | 2.77%   |
| Running Springs  | 28                    | -               | 28      | 10.18%  | 751           | -               | 751     | 11.58%  | 2,337                          | -               | 2,337   | 13.02%  |
| Skyforest  | 2                     | -               | 2       | 0.73%   | 71            | -               | 71      | 1.10%   | 281                            | -               | 281     | 1.56%   |
| Twin Peaks   | 32                    | -               | 32      | 11.64%  | 365           | -               | 365     | 5.63%   | 1,349                          | -               | 1,349   | 7.51%   |
| All Other  |                       | 35              | 35      | 12.73%  | -             | 1,284           | 1,284   | 19.80%  | -                              | 810             | 810     | 4.51%   |
|  | 192                   | 83              | 275     | 100.00% | 3,507         | 2,977           | 6,484   | 100.00% | 12,186                         | 5,770           | 17,956  | 100.00% |
|  | 69.82%                | 30.18%          | 100.00% |         | 54.09%        | 45.91%          | 100.00% |         | 67.87%                         | 32.13%          | 100.00% |         |

Source: SBMCHD

In recent years, management reviewed existing hospital service contracts and either eliminated those services which did not provide community benefit equal to their cost or reduced such shortfall as follows:

- OB/GYN physician practice support contract was not renewed.
- Employee health and dental insurance was modified for significant savings.
- MRI, an under-utilized contracted radiology service, was eliminated.
- The District ceased billing for outpatient laboratory procedures performed by Quest.
- Patient Eligibility, which was formerly contracted, was brought in-house.

During 2010 management implemented additional actions which included but were not limited to the following:

- Two additional beds were added to the licensed capacity of the skilled nursing facility thereby increasing net revenue derived from that service.
- All revenue cycle departments were realigned to report to the Revenue Cycle Manager (previously the PFS Manager).
- The district's information system continues to be reviewed. As of the date of the auditor's report on the 2010 financial statements, SBMCHD management believes many of the significant critical operating problems have been addressed and that the hospital information system is being used properly.

### Improvements

The hospital was built in 1951 and had an addition in 2000. In accordance with SB 499, the District is having a review of its facility performed by the California Office of Statewide Healthcare Planning and Development. Such review will determine seismic standards and help the district plan our future capital requirements. This will be funded primarily by a bond. Presuming that the SB499 analysis indicates that the hospital needs to replace its

acute beds to ensure seismic compliance, such replacement would not be required to take place until 2015 (soonest) or 2020 to 2030 (latest).

The district's plan is to reinforce the current building that houses the 17 acute beds and re-designate that building to a higher seismic classification. Such reinforcement work (roof ties, roof reinforcements and exterior wall sheer panels) will be completed by 2013. Other than this project, the information received from the Hospital indicates it has no current expansion plans even though it purchased additional land for expansion from County Service Area 70 Zone D-1 in 2008.

According to the FY 2009-10 financial statements, subsequent to the FY 2009-10 year-end, the District engaged architects and structural engineers to assist it in complying with various seismic regulations affecting hospitals in California. To date, the SBMCHD has committed to expend fees of approximately \$100,000 for the planning phase of the project. Completion of the plans and approval by the State of California Office of Statewide Planning and Development will require several months. As of June 30, 2010, the District had recorded approximately \$214,000, as construction-in progress representing costs capitalized for landscaping, remodeling, seismic, and information system related projects. Estimated costs to complete obligated projects as of June 30, 2010 were approximately \$257,000. Costs are to be financed through contributions and operations.

### ***Bear Valley Community Healthcare District***

A proper review for this determination could not be completed due to the lack of information provided by the BVCHD for this service review. The information which follows has been gleaned from the District's website and filings with the County Auditor/Controller and others.

#### **Foundation and Auxiliary**

There are two entities that are contribute significantly to the operations of the hospital, although both are legally separate from the district.

The Bear Valley Community Hospital Foundation was formed in December, 1996 as an ongoing source of fundraising and public relations for the Healthcare District. The primary focus of the Foundation is to serve as a conduit for funds to improve our local non-profit HealthCare District as it strives to provide more comprehensive medical care and emergency-based services for the Big Bear Valley.

The Bear Valley Community Hospital Auxiliary, a non-profit organization was established in 1966, prior to the opening of the Hospital in 1974. The Auxiliary's purpose is to serve the patients and residents of the Hospital through direct services and provision of other support services to enhance patient care and comfort, and to strengthen public relations of the Hospital. Today, the Auxiliary provides thousands of hours of volunteer service, the operation of a Hospital Gift Shop, donations of equipment and patient amenities when requested.



## Services

BVCHD owns and operates a hospital with 24 hour emergency care, a rural health clinic at 816 West Big Bear Blvd (located in the unincorporated Big Bear City community), and a family health clinic at 370 Summit Blvd (located within the City of Big Bear Lake). Services provided by the 30-bed (9 acute and 21 skilled nursing beds) hospital include acute respiratory care, in-patient medical care, in and out-patient surgery, laboratory, physical therapy, and skilled nursing facility. Other services include comprehensive diagnostic imaging including CT scanning, ultrasound, digital x-ray, and mammography.

Services added at the rural health clinics during FY 2007-08 added to gross revenue of the clinics during FY 2008-09. Some of the services are pediatrics, podiatry, and chiropractic. The District states that its facilities are roughly 40 years old but are in good condition.

In June 2009 the District completed the build out of the new location for the Big Bear City rural health clinic. The new clinic offers medical and dental services. The district anticipates that the new dental services will generate additional revenue for the hospital's ancillary departments such as laboratory and radiology.

The District's FY 2011-12 budget provides key operating statistics from FY 2003-04 through budgeted numbers for FY 2011-12 (a part of Attachment #3). The chart below summarizes the detailed census statistics from the budget (does not include ancillary statistics such as X-ray and ultrasound):

| ACTIVITY                                     | FY 03/04 | 04/05  | 05/06  | 06/07 | 07/08  | 08/09  | 09/10  | 10/11 | 11/12  |
|--|----------|--------|--------|-------|--------|--------|--------|-------|--------|
| <b>Patient Days Acute</b>                    | 939      | 952    | 863    | 937   | 1,050  | 1,024  | 912    | 850   | 915    |
| <b>Patient Days Skilled Nursing Facility</b> | 6,855    | 6,955  | 7,290  | 7,112 | 7,192  | 7,224  | 7,465  | 7,592 | 7,592  |
| <b>Emergency Room Visits</b>                 | 10,273   | 9,607  | 10,024 | 9,827 | 10,159 | 10,005 | 10,095 | 9,954 | 10,200 |
| <b>Surgeries</b>                             | 317      | 340    | 350    | 467   | 462    | 331    | 237    | 495   | 520    |
| <b>Family Health Clinic Visits</b>           | 12,911   | 12,878 | 9,516  | 8,114 | 6,672  | 8,180  | 7,530  | 9,303 | 9,530  |
| <b>Rural Health Clinic Visits</b>            | 0        | 663    | 2,541  | 2,630 | 4,661  | 2,452  | 2,775  | 4,262 | 4,270  |
| <b>RHC Dental Visits</b>                     |          |        |        |       |        |        | 549    | 880   | 900    |

## Capital Improvements Plans

The District placed on the June 3, 2008 election a measure for authorization to retrofit its facilities to meet state seismic mandates and remodel and refurbish some facilities and departments by issuing \$11.5 million in bonds with interest. The District was willing to use \$4 million of its own reserves to contribute to the mandates. The bond measure required 2/3 majority to pass but failed with 65.24% voting yes. As a result, the District was unable to acquire bond funding to finance mandatory seismic mandates.

Nonetheless, the state seismic mandates remain, and the District is undergoing retrofits to its existing facilities with local funds on a pay-as-you-go basis.

### **III. Financial ability of agencies to provide services.**

For this report, staff has reviewed the districts' budgets and audits, State Controller reports for special districts, and County filing records.

#### ***San Bernardino Mountains Community Healthcare District***

##### **General Operations and Accounting**

The SBMCHD has no component units and is not included in any other governmental reporting entity. There are two related entities indirectly involved with the hospital; however, both are not financially significant to the SBMCHD and therefore their financial statements are not included in this report.

- Mountains Community Hospital Foundation, Inc. is a legally separate, 501 (c)(3) tax-exempt, public benefit corporation. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the SBMCHD. Although the District does not control the timing or amount of receipts from the Foundation, the majority of the resources, or income that the Foundation holds and invests, are restricted to the activities of the SBMCHD by its bylaws. The Foundation's Board of Directors may also restrict the use of such funds for capital asset replacement, expansion, or other specific purposes.
- Mountains Community Hospital Auxiliary, Inc. is also a legally separate, 501 (c)(3) tax-exempt, public benefit corporation.

##### **Net Assets**

The district's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the district's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic condition, population growth, and new or changed governmental legislation should also be considered.

In reviewing the district's financial documents, net assets have decreased by 58% since FY 2005-06 as shown on the chart below. The decline in 2009 is primarily attributable to the use of Board-designated funds to purchase adjacent land and for operating costs. As of June 30, 2010, the district had \$3.5 million in net assets. Not including capital assets value and debt, the district had roughly \$4.3 million in unrestricted net assets.

The chart below identifies sharp declines in FY 2007-08 with negative capital assets. According to the district, the building is quite old (built in 1951) and accumulated depreciation is a large number. Depreciation continues to exceed additions to property, plant, and equipment ("PP&E") due to the fact that it has not had the need to make large expenditures in PP&E. This will change in the next few years when the district capitalizes some seismic improvements required by the State.

|  | 2005-06            | 2006-07            | 2007-08*           | 2008-09*           | 2009-10            |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Net Assets</b>  |                    |                    |                    |                    |                    |
| Invested in capital assets –<br>net of related debt                                  | 3,239,756          | 4,349,358          | (302,000)          | (405,662)          | (879,208)          |
| Unrestricted   | 5,073,203          | 3,431,250          | 4,669,000          | 3,505,862          | 4,373,858          |
| <b>Total Net Assets</b>  | <b>\$8,312,959</b> | <b>\$7,780,608</b> | <b>\$4,367,000</b> | <b>\$3,100,200</b> | <b>\$3,494,650</b> |
| *Reclassifications have been made to 2009 and 2008 to conform to 2010 presentations. |                    |                    |                    |                    |                    |

### Revenues and Expenditures: Financial Statements

The chart below, taken from the FY 2009-10 financial statements, shows the revenue and expenditure categories with respective amounts for the past two years. During 2010, 2009, and 2008, the district's loss from operations (operating revenue – operating expenses) was \$2.4 million, \$3.8 million, and \$5.6 million (not shown on chart), respectively. Making up the difference primarily is the receipt of a share of the one percent general levy property tax and the District's special tax of \$80.30 per parcel (roughly \$2.7 million annually). Even with the non-operating revenue such as the share of the property tax, during 2010, 2009, and 2008, expenses in excess of revenue totaled \$16,000, \$1.6 million, and \$3.3 million (not shown on chart), respectively.

Mountain Healthcare Districts - Service Reviews  
January 9, 2012

|   | 2010          | 2009           |
|---|---------------|----------------|
| Revenue:  |               |                |
| Net patient service revenue                     | \$ 12,718,182 | \$ 12,105,395  |
| Other operating income                          | 352,815       | 256,355        |
| Total revenue                                   | 13,070,997    | 12,361,750     |
| Expenses:                                       |               |                |
| Salaries and wages                              | 6,617,594     | 6,565,130      |
| Employee benefits                               | 1,532,698     | 1,737,725      |
| Professional fees                               | 1,853,426     | 1,765,658      |
| Supplies  | 1,897,913     | 1,909,823      |
| Purchased services                              | 519,419       | 910,718        |
| Rent  | 257,985       | 351,506        |
| Repairs and maintenance                         | 524,533       | 411,583        |
| Utilities                                       | 327,310       | 363,333        |
| Insurance                                       | 363,230       | 374,828        |
| Depreciation and amortization                   | 1,141,816     | 1,160,125      |
| Other operating expense                         | 438,656       | 598,957        |
| Total expenses                                  | 15,474,580    | 16,149,386     |
| Loss from operations                            | (2,403,583)   | (3,787,636)    |
| Nonoperating revenue (expenses):                |               |                |
| District tax revenue                            | 2,686,196     | 2,704,314      |
| Investment gain (loss)                          | 70,345        | (306,890)      |
| Interest expense                                | (510,946)     | (525,759)      |
| Noncapital grants and contributions             | 45,113        | 195,012        |
| Loss on disposal of capital assets              | (17,430)      | -              |
| Other nonoperating income                       | 114,475       | 99,272         |
| Total nonoperating revenue - Net                | 2,387,753     | 2,165,949      |
| Expenses in excess of revenue                   | (15,830)      | (1,621,687)    |
| Expenses in excess of revenue (brought forward) | \$ (15,830)   | \$ (1,621,687) |
| Capital grants and contributions                | 410,280       | 354,796        |
| Increase (decrease) in net assets               | 394,450       | (1,266,891)    |
| Net assets at beginning                         | 3,100,200     | 4,367,091      |
| Net assets at end                               | \$ 3,494,650  | \$ 3,100,200   |

As stated in the FY 2009-10 financial statements, in the past few years (2009 and prior), the SBMCHD sustained significant decreases in cash, net assets, and operating profitability. Many of the issues were a result of the installation of a new hospital information system during FY 2006-07. At the hospital level, the installation was not properly planned or executed, and hospital personnel were not fully trained, engaged, or otherwise prepared for the process. Other issues contributing to the continued negative financial performance were the result of inattention by management to certain contractual obligations over a period of several years. Midway through the year ended June 30, 2009, certain new senior management were hired, and the following actions were implemented:

- Patient Financial Services Department was realigned, as follows:
  - New experienced manager was placed in charge of the department.
  - Extensive training was given to personnel.
  - Reorganization of workflow was completed.
  - Denials management process was developed and implemented.
  - Charge Description Master (CDM) was reviewed, updated, and corrected.
  - All old unpaid, denied accounts were evaluated for rebilling.
  - Major Preferred Provider Contracts were renegotiated and payment rates were updated.
- Management reviewed existing hospital service contracts and either eliminated those services which did not provide community benefit equal to their cost or reduced such shortfall,

The FY 2009-10 financial statements further reads that SBMCHD management believes many of the significant critical operating problems have been addressed and that the hospital information system is being used properly.

#### Revenues and Expenditures: FY 2011-12 Budget

The figure below is taken from the FY 2011-12 budget and includes the following assumptions:

- Does not include possible California budget cut for Medi-Cal (28%)
- Property tax estimated to remain same as previous year
- Across the board cuts in services and supplies

As stated above, operating expenses have exceeded operating revenues and the shortfall is bridged primarily by property taxes. For the past three years at least, total expenses still exceeded total revenues even with property taxes and other non-operating revenue. However, the total shortfall has been lessened each year and for FY 2011-12 the District estimates a nominal surplus. Should the California budget include cuts to Medi-Cal, then a deficit for the year is a possibility.



|   |              |
|---|--------------|
| <b>REVENUE:</b>                                 |              |
| GROSS PATIENT SERVICE REVENUE                   | 31,448,808   |
| PROVISION FOR CONTRACTUAL DISCOUNTS & BAD DEBTS | (18,349,297) |
| NET PATIENT SERVICE REVENUE                     | 13,099,511   |
| OTHER OPERATING REVENUE                         | 316,860      |
| TOTAL REVENUE                                   | 13,416,371   |
| <b>EXPENSES:</b>                                |              |
| SALARIES AND WAGES                              | 7,109,146    |
| EMPLOYEE BENEFITS                               | 1,566,725    |
| PROFESSIONAL FEES                               | 1,789,622    |
| SUPPLIES  | 1,756,200    |
| PURCHASED SERVICES                              | 555,028      |
| RENT  | 265,124      |
| REPAIRS & MAINTENANCE                           | 489,365      |
| UTILITIES                                       | 332,460      |
| INSURANCE                                       | 302,214      |
| DEPRECIATION                                    | 1,081,447    |
| OTHER OPERATING EXPENSE                         | 552,849      |
| TOTAL EXPENSES                                  | 15,800,180   |
| LOSS FROM OPERATIONS                            | (2,383,809)  |
| <b>NONOPERATING REVENUE (EXPENSES):</b>         |              |
| DISTRICT TAX REVENUE                            | 2,700,000    |
| INVESTMENT INCOME                               | 42,000       |
| INTEREST EXPENSE                                | (494,435)    |
| NONCAPITAL GRANTS AND CONTRIBUTIONS             | 42,000       |
| OTHER NONOPERATING INCOME                       | 117,959      |
| TOTAL NONOPERATING REVENUE, NET                 | 2,407,524    |
| NET INCOME                                      | 23,715       |

### Long-Term Debt

The SBMCHD has two outstanding Certificates of Participation, classified as long-term debt. In 2007, the District issued two Certificates of Participation: Capital Improvement Financing and Refinancing Project and Capital Improvement Financing Project. The rates vary from 4.3% to 7.65%. The proceeds of the 2007 Certificates of Participation funded the following capital items: a new CT Scanner, a healthcare information system upgrade and reimbursement of expenditures relating to a new electric generator. The proceeds also refunded Prior Certificates of Participation.

| Long-term debt consisted of the following at June 30: |                            |           |              |                             |                                   |
|---|----------------------------|-----------|--------------|-----------------------------|-----------------------------------|
|   | Balance<br>July 1,<br>2009 | Additions | Reductions   | Balance<br>June 30,<br>2010 | Amounts<br>Due Within<br>One Year |
| Certificates of Participation:                        |                            |           |              |                             |                                   |
| 2007 Series A   | \$ 6,250,000               | \$ -      | \$ (110,000) | \$ 6,140,000                | \$ 115,000                        |
| 2007 Series B   | 2,505,000                  | -         | (30,000)     | 2,475,000                   | 30,000                            |
| Subtotal  | 8,755,000                  | -         | (140,000)    | 8,615,000                   | 145,000                           |
| Less - Unamortized<br>original issue discount         | 430,759                    | -         | (15,617)     | 415,142                     | -                                 |
| Totals  | \$ 8,324,241               | \$ -      | \$ (124,383) | \$ 8,199,858                | \$ 145,000                        |

### Other Information

The SBMCHD has a defined contribution pension plan covering substantially all of its employees. The SBMCHD contributes four percent of eligible wages to the plan. Employees are eligible to enter the plan after one year of employment and are 100% vested when they enter. Pension expense for the years ended June 30, 2010 and 2009, was approximately \$174,000 and \$188,000, respectively.

In 2010, the SBMCHD became aware that there were certain issues relating to its defined contribution retirement plan. Subsequent to the end of FY 2009-10, this plan was frozen and replaced by new 457(b) and 401(a) plans. According to the FY 2009-10 financial statements, management continues to work with its legal counsel to resolve the issues relating to the frozen plan. To outline these issues, according to SBMCHD, the District has a Third Party Administrator (TPA) who currently administrates its retirement plans. In 2010 the District determined that it had, in previous years, inadvertently created a 401(k) plan (which is not appropriate for a governmental entity to solely have a 401(k) plan—governmental entities are supposed to have 457(b) plans as well as a related 401(a) plan). The District has filed a request with the IRS for a Voluntary Correction Program (VCP) under which it can correct any deficiencies and move forward with its new 457(b) and a new 401(a) Plan. At this time, the request with the IRS is outstanding. While the projected expense to resolve these issues is not known at this time, management does not expect it to be material and, accordingly, the District has not recorded a liability.

Government Code Section 26909 requires all districts to provide for regular audits; the District conducts annual audits and meets this requirement. Section 26909 also requires districts to file a copy of the audit with the county auditor within 12 months of the end of the fiscal year. According to records from the County Auditor, the last audit received was in February 2011 for FY 2009-10.

### Appropriation Limit

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative)<sup>2</sup>, the SBMCHD is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. Furthermore, Section 5 of Article XIII B allows the SBMCHD to designate a portion of fund balance of general contingencies to be used in future years without limitation.

The District is required to provide a ballot measure every four years that acts as a reaffirmation of the district's appropriations limit. While only 50% is needed, 75%-80% is the usual vote supporting the appropriation limit. The most recent ballot measure was in 2009 and read as follows:

In order to continue the current level of tax support, shall an appropriations limit, as defined by Subdivision (h) of Section 8 of Article XIII B of the California Constitution, be continued for San Bernardino Mountains Community Hospital District, County of San Bernardino, State of California, in the amount of \$3,000,000.00?

A review of the County Registrar of Voters website identifies that the ballot language from the 2005 and 2001 elections is identical to the above language. However, each local agency subject to an appropriation limit is required to annually adjust the limit based upon the methodology outlined in the Government Code. It is unclear to LAFCO staff as to why the appropriation limit for the agency remains at \$3,000,000, has not been adjusted annually, and the District has not adopted the annual appropriation limit by resolution as a part of its budgetary process.

Section 1.5 reads that the annual calculation of the appropriations limit for each entity of local government shall be reviewed as part of an annual financial audit. Further, Government Code Section 7910<sup>3</sup> expands upon the Gann Initiative and requires each local government to annually establish its appropriation limits by resolution. The District's audits and budgets do not identify adherence to the above-mentioned requirements.

### ***Bear Valley Community Healthcare District***

#### General Operations and Accounting

The BVCHD is responsible for itself and has no component units and is not included in any other governmental reporting entity. There are two related entities indirectly involved with

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<sup>2</sup> In 1979 the voters amended the California Constitution by passing Proposition 4 (the Gann Initiative), requiring each local Government to set an annual appropriations limit (the Gann Limit).

<sup>3</sup> Added by Stats.1980, c. 1205, p. 4059, § 2. Amended by Stats.1988, c. 1203, § 1; Stats.2007, c. 263 (A.B.310), § 25.

the hospital; however, both are not financially significant to the BVCHD and therefore their financial statements are not included in this report.

- Bear Valley Community Hospital Foundation is a legally separate, 501 (c)(3) tax-exempt, public benefit corporation. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the BVCHD. Although the District does not control the timing or amount of receipts from the Foundation, the majority of the resources, or income that the Foundation holds and invests, are restricted to the activities of the BVCHD by its bylaws.
- Bear Valley Community Hospital Auxiliary is also a legally separate, 501 (c)(3) tax-exempt, public benefit corporation.

### Net Assets

The district's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the district's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic condition, population growth, and new or changed governmental legislation should also be considered.

In reviewing the district's financial documents, net assets have increased by 57% from FY 2005-06 to FY 2009-10, as shown on the chart below. As of June 30, 2010, the district had \$18.8 million in net assets. Not including capital assets value and debt, the district had roughly \$14.0 million in unrestricted net assets.

|  | 2005-06             | 2006-07             | 2007-08             | 2008-09             | 2009-10             |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Net Assets</b>                                |                     |                     |                     |                     |                     |
| Invested in capital assets – net of related debt | 3,236,169           | 3,443,934           | 3,148,799           | 3,039,525           | 2,721,120           |
| Unrestricted                                     | 8,765,255           | 9,549,713           | 10,834,271          | 12,490,584          | 14,000,990          |
| <b>Total Net Assets</b>                          | <b>\$12,001,424</b> | <b>\$12,993,647</b> | <b>\$13,983,070</b> | <b>\$15,530,109</b> | <b>\$18,811,348</b> |

### Revenues and Expenditures: Financial Statements

The chart below, taken from the FY 2009-10 financial statements, shows the revenue and expenditure categories with respective amounts for the past two years. During 2010 and 2009 the district's loss from operations (operating revenue – operating expenses) was roughly \$1.3 million for each year. Making up the difference primarily is the receipt of the one percent general levy property tax (roughly \$2.2 million annually). The addition of property taxes has resulted in a net gain for the district's operations.

|  | Year Ended June 30  |                     |
|--|---------------------|---------------------|
|  | <u>2010</u>         | <u>2009</u>         |
| <b>Operating revenues</b>                |                     |                     |
| Net patient service revenue              | \$ 18,115,839       | \$ 16,510,694       |
| Other operating revenue                  | <u>114,105</u>      | <u>108,991</u>      |
| Total operating revenues                 | 18,229,944          | 16,619,685          |
| <b>Operating expenses</b>                |                     |                     |
| Salaries and wages                       | 8,114,577           | 7,578,619           |
| Employee benefits                        | 1,677,119           | 1,469,954           |
| Professional fees                        | 1,907,262           | 1,748,844           |
| Purchased services                       | 1,279,134           | 1,051,723           |
| Supplies                                 | 1,637,245           | 1,619,689           |
| Repairs and maintenance                  | 271,480             | 269,938             |
| Utilities                                | 409,930             | 377,965             |
| Rentals and leases                       | 168,487             | 163,418             |
| Depreciation and amortization            | 625,802             | 652,495             |
| Provision for bad debts                  | 3,007,089           | 2,382,509           |
| Insurance                                | 164,647             | 178,631             |
| Other operating expenses                 | <u>307,641</u>      | <u>422,656</u>      |
| Total operating expenses                 | <u>19,570,413</u>   | <u>17,916,441</u>   |
| Operating income (loss)                  | (1,340,469)         | (1,296,756)         |
| <b>Non-operating revenues (expenses)</b> |                     |                     |
| District tax revenues                    | 2,190,242           | 2,256,882           |
| Non-capital grant revenues               | 291,232             | 379,915             |
| Investment income                        | 95,072              | 237,882             |
| Interest expense                         | <u>(44,076)</u>     | <u>(30,884)</u>     |
| Total non-operating revenues (expenses)  | <u>2,532,470</u>    | <u>2,843,795</u>    |
| Excess of revenues over expenses         | <u>\$ 1,192,001</u> | <u>\$ 1,547,039</u> |

#### Revenues and Expenditures: FY 2011-12 Budget

The figure below is taken from the FY 2011-12 budget and includes the following assumptions:

- Room rate reduced 8% principally due to the proposed reduction in medical reimbursement. The state is proposing a rollback of the per patient day reimbursement to the FY 2008-09 rate less 10%.
- Salaries & Benefits - Health insurance premium is projected to increase at 18%.
- Property tax estimated to remain same as previous year.

As stated above, operating expenses have exceeded operating revenues and the shortfall is bridged primarily by property taxes. For the past three years at least, total expenses still exceeded total revenues even with property taxes and other non-operating revenue. However, the total shortfall has been lessened each year and for FY 2011-12 the District

estimates a nominal surplus. Should the California budget include cuts to Medi-Cal, then a deficit for the year is a possibility.

### Long-Term Debt

The BVCHD has a note payable to a bank, original amount of \$546,500, maturing in September 2022, interest rate at 7.25%, payable monthly in principal and interest payments of \$4,350, secured by property. As of June 30, 2009, the amount remaining was \$495,640. However, in 2010 the total debt borrowings increased by \$115,681 to \$639,559. At this time, staff is unaware of the purpose of the debt.

### Other Information

The BVCHD has a defined contribution retirement plan whereby the district contributes to the plan at a rate of two to four percent of eligible compensation, based on the length of the employee's service. The district's pension expense for the plan was approximately \$96,000 for FY 2008-09 and \$112,000 for FY 2009-10.

Government Code Section 26909 requires all districts to provide for regular audits; the District conducts annual audits and meets this requirement. Section 26909 also requires districts to file a copy of the audit with the county auditor within 12 months of the end of the fiscal year. According to records from the County Auditor, as of October 20, 2011 the last audit received was in October 2010 for FY 2008-09.

### Appropriation Limit

Article XIII B of the State Constitution (the Gann Spending Limitation Initiative)<sup>4</sup>, mandates local government agencies receiving the proceeds of taxes to establish an appropriations limit. Without an appropriations limit, agencies are not authorized to expend the proceeds of taxes. Section 9 of this Article provides exemptions to the appropriations limit, such as Section 9(c) exempts the appropriations limit for special districts which existed on January 1, 1978 and which did not levy an ad valorem tax on property in excess of \$0.125 (12 ½ cents) per \$100 of assessed value for the 1977-78 fiscal year. According to the *County of San Bernardino 1977-78 Valuations/Tax Rates* publication, the tax rate for the District for FY 1977-1978 was \$0.40 per \$100 of assessed value. Being over the \$0.125 tax rate, the district does not qualify for an exemption from the requirement of an appropriations limit. Therefore, it must have an appropriations limit. Failure to provide for an appropriation limit calls into question the District's ability to expend the proceeds of taxes (general ad valorem share and special taxes). This determination has been reviewed with the District which will be providing further detail prior to the hearing.

Section 1.5 reads that the annual calculation of the appropriations limit for each entity of local government shall be reviewed as part of an annual financial audit. Further, government Code Section 7910<sup>5</sup> expands upon the Gann Initiative and requires each local

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<sup>4</sup> In 1979 the voters amended the California Constitution by passing Proposition 4 (the Gann Initiative), requiring each local Government to set an annual appropriations limit (the Gann Limit).

<sup>5</sup> Added by Stats.1980, c. 1205, p. 4059, § 2. Amended by Stats.1988, c. 1203, § 1; Stats.2007, c. 263 (A.B.310), § 25.

government to annually establish its appropriation limits by resolution. Since the District lacks the mandatory appropriation limit, the District's audits and budgets do not identify adherence to the above-mentioned audit and budget requirements and no verification of this requirement has taken place as required by State law and the Constitution.

#### **IV. Status of, and opportunities for, shared facilities.**

SBMCHD and BVCHD have jointly purchased eye surgery equipment to be used by a physician who performs eye surgery at each of the hospitals. Additionally, the hospitals have loaned each other patient care equipment.

#### **V. Accountability for community service needs, including governmental structure and operational efficiencies.**

##### **A. Government Structure and Accountability for Community Service Needs**

###### ***San Bernardino Mountains Community Healthcare District***

The SBMCHD is an independent special district governed by a five-member board of directors at-large. Membership elections are held in even years as a part of the consolidated November election. In a recent edition of its report, *What's So Special about Special Districts*, the state Senate Local Government Committee states that the, "narrow and technical nature of a district's activities often results in low civic visibility until a crisis arises."<sup>6</sup> A review of records available through the County Registrar of Voters identifies two elections were held for SBMCHD membership since 1996<sup>7</sup> (although the two elections were held in 2006 and 2010). The report further states that special district elections typically have very low voter turnouts. Since the SBMCHD holds its elections as a part of the consolidated November election, this is no longer the case for this district.

Regular Board Meetings are scheduled at 4:00p.m. on the third Thursday of each month. The district's website ([www.mchcares.com](http://www.mchcares.com)) states the board meets each month in the Hospital Conference Room. However, the website does not identify the date or time of the meetings. Additionally, the notices of hearing, agenda, or minutes are not included on the website. SBMCHD District publishes regular newsletters and health related information. The current board, positions, and terms of office are shown below:

| <b>Board Member</b> | <b>Title</b>   | <b>Term</b> | <b>Elected/Appointed</b> |
|---------------------|----------------|-------------|--------------------------|
| Kieth Burkart, OD   | President      | 2014        | Elected                  |
| James Gibson        | Vice President | 2012        | Appointed                |
| Steve Watt          | Secretary      | 2012        | Elected                  |
| David Stern         | Treasurer      | 2014        | Elected                  |
| John Good III       | Director       | 2012        | Appointed                |

<sup>6</sup> California Senate Local Government Committee, *What's So Special about Special Districts?* 4<sup>th</sup> Edition, Oct 2010.

<sup>7</sup> [http://www.co.san-bernardino.ca.us/rov/past\\_elections/](http://www.co.san-bernardino.ca.us/rov/past_elections/) Accessed August 15, 2011.



All patients that use the hospital are provided with a survey instrument to provide feedback on their level of satisfaction. In addition there is a formal complaint review and tracking system in place.

### ***Bear Valley Community Healthcare District***

The BVCHD is an independent special district governed by a five-member board of directors at-large. Membership elections are held in even years as a part of the consolidated November election. In a recent edition of its report, *What's So Special about Special Districts*, the state Senate Local Government Committee states that the, "narrow and technical nature of a district's activities often results in low civic visibility until a crisis arises." A review of records available through the County Registrar of Voters identifies elections have been held every two years for BVCHD membership since 1996 with the exception of 2010<sup>8</sup>. Regular Board Meetings are scheduled at 6:30p.m. on the fourth Tuesday of each month at the Hospital Cafeteria. The current board, positions, and terms of office are shown below:

| <b>Board Member</b>  | <b>Title</b>   | <b>Term</b> | <b>Elected/Appointed</b> |
|----------------------|----------------|-------------|--------------------------|
| Ron Peavy            | President      | 2012        | Elected                  |
| Brad Summers, PA-C   | Vice President | 2012        | Elected                  |
| Barbara Espinoza, RN | Secretary      | 2014        | Appointed                |
| Jim Gonzales         | Treasurer      | 2014        | Appointed                |
| Otto Lacayo          | Director       | 2012        | Appointed                |

## **B. Operational Efficiencies**

Operational efficiencies are realized through several joint agency practices, for example:

- SBMCHD is a participant in the Association of California Healthcare Districts' ALPHA Fund which administers a self-insured workers' compensation plan for participating member hospitals and their employees.
- BVCHD is a member of the Health Net Inc. provider network. The terms of the agreement provide that the hospital will be paid a percentage of billed charges. This type of agreement is vastly different from the per diem agreements that most urban and many rural adjacent hospitals sign. According to the FY 2008-09 financial statements, the benefit of this type of contract is the operating margin should improve.
- BVCHD has contracted with Heritage Provider Network. Rather than driving down the mountain to the Victor Valley for care, Heritage patients can use the district hospital.
- Both districts utilize one or more of the following to obtain reduced group pricing for purchasing and insurance: Amerinet, Beta Healthcare Group, and California Critical Access Hospital Network. Each of these are recognized through Group Purchasing Agreements entered into by the respective Healthcare District.

<sup>8</sup> [http://www.co.san-bernardino.ca.us/rov/past\\_elections/](http://www.co.san-bernardino.ca.us/rov/past_elections/) Accessed August 15, 2011.

### **C. Government Structure Options**

There are two types of government structure options:

1. Areas served by the agency outside its boundaries through “out-of-agency” service contracts;
2. Other potential government structure changes such as consolidations, reorganizations, dissolutions, etc.

#### **Out-of-Agency Service Agreements:**

Healthcare District Law allows a healthcare district to provide services outside of its boundaries. Even so, the districts have indicated that they do not provide any services outside their boundaries.

Conversely, the SBMCHD provides healthcare services at its facilities to those that reside outside of its boundaries who require care. Part-time residents and visitors can receive services from the SBMCHD, which averages about 20% above the full time residents. According to the SBMCHD, at last count, approximately 27% of its business came from the Crestline/Cedarpines Park area which is not in the district. Even though a significant portion of business comes from outside of the SBMCHD boundaries, it states that it has no current plans for annexation.

In 2005, the Big Bear City Community Services District (“CSD”) assumed full operating responsibilities for the ambulance and paramedic services that had been provided by the BVCHD (LAFCO SC 249). Through the transfer of service, the CSD assumed full operating responsibility for the ambulance permit (as well as equipment, etc.) that was held in the name of the BVCHD as well. Because the contract to transfer service was between two public agencies as an alternative to the current service provider, the Commission determined that the contract was exempt from LAFCO review.

#### **Government Structure Options:**

The State has published advisory guidelines for LAFCOs to address all of the substantive issues required by law for conducting a service review<sup>9</sup> and the Commission’s has adopted these guidelines for its use in preparing its Service Reviews. The Guidelines address 49 factors in identifying an agency’s government structure options. Themes among the factors include but are not limited to: more logical service boundaries, elimination of overlapping boundaries that cause service inefficiencies, economies of scale, opportunities to enhance capital improvement plans, and recommendations by a service provider.

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<sup>9</sup> State of California. Governor’s Office of Planning and Research. “Local Agency Formation Commission Municipal Service Review Guidelines”, August 2003.

The following scenarios are not being presented as options for the Commission to consider for action as a part of this service review. Rather, a service review should address possible options, and the following are theoretical scenarios for the community to consider for the future. .

- Consolidation of SBMCHD and BVCHD. The Mountain region is provided healthcare services by two healthcare districts. One scenario would be for the two districts to consolidate.

Prior to 2005, maintenance of separate districts was evident because the BVCHD provided ambulance service within its boundary and the Exclusive Operating Area assigned by ICEMA. In 2005, that service transferred to the Big Bear City Community Services District. With BVCHD no longer providing that service, there is no operational reason why the two healthcare districts should remain separate.

A consolidation could achieve economies of scale through one board of directors, one legal counsel requirement, a single election, and a union of support services. If desired, board representation can be by division to ensure adequate representation from all communities. Additionally, two zones can be created isolating the distinct revenues and operations of the current districts as well as maintaining the hospital names.

- LAFCO staff posed this scenario to the districts. They do state that the two districts have a working relationship to include discussing common issues and sharing eye surgery equipment. However, according to the districts, economies of scale could not be realized since there are different medical staffs, nursing staffs, the hospitals are roughly a one hour drive from each other, and the districts already participate in group purchasing organizations which provide for cost efficiencies in purchasing goods and supplies. On the basis that LAFCO staff is not aware of any community interest at this time for this scenario nor are the economies of scale sufficient in scope to support moving forward with such an action, this scenario has not been recommended. Annex the Crest Forest Community. The SBMCHD provides healthcare services at its facilities to those that reside outside of its boundaries who require care. According to the SBMCHD, at last count, approximately 27% of its business came from the Crestline/Cedarpines Park area which is not in the district. Even though a significant portion of business comes from outside of the SBMCHD boundaries, it states that it has no plans for annexation. Theoretically, the SBMCHD could receive a share of the general levy from a potential annexed area; however, existing County policy related to annexations does not provide for a transfer of a share of the general levy to annexing county service areas. Outside of a general levy transfer, any additional special tax or charge would be subject to a Prop 218 election. However, any existing special assessments could be extended as a part of the annexation process. As noted in the timeline at the beginning of this report, the inclusion of the Crest Forest community was not supported at the inception of the agency; however, based upon service needs a discussion of this option with the community may be timely.

- Maintenance of the status quo. This option retains the existing structure with the Mountain region served healthcare services by two healthcare districts. The districts state their preference for this scenario at this time.

## **SPHERE OF INFLUENCE UPDATES**

### **A. SPHERES OF INFLUENCE**

#### Past

The two healthcare districts in the Mountain region were formed with the hospital locations in mind. SBMCHD was primarily formed to assume the Santa Anita Hospital and to also provide emergency medical services to its local area. In the Big Bear community, the BVCHD was formed to gain public financing to build and maintain a hospital.

For over 35 years, having two districts complemented the distinct needs of each community for two reasons. First, the formation justification for each district was different (purchase existing versus build a hospital). Second, prior to 2005 maintenance of separate districts was evident because the BVCHD provided ambulance service within its boundary and the Exclusive Operating Area assigned by ICEMA. In 2005, the Big Bear City Community Services District ("CSD"), with concurrence of the Bear Valley Community Healthcare District, assumed full operating responsibility for the ambulance permit that was held in the name of the BVCHD and its corresponding Exclusive Operating Area defined by ICEMA.

#### Present

Today, healthcare districts have expanded their role beyond solely hospitals and provide a variety of healthcare services ranging from hospitals to mobile care at remote locations (which is why hospital districts are now called healthcare districts). This is true of both districts in the Mountain region. Both have hospitals and provide other healthcare services at family and rural clinics. What has remained is the unique need for healthcare services within the isolated Mountain region.

#### Future

The preamble to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 reads that while the Legislature recognizes the critical role of many limited purpose agencies, especially in rural areas, it finds and declares that a single multipurpose governmental agency accountable for community service needs and financial resources may be the best mechanism for establishing community service priorities. Further, the law states that the Commission may recommend governmental reorganizations to particular agencies using the spheres of influence as the basis for those recommendations.

Given this direction, LAFCO staff raises the question:

*Should the Mountain region contain one or two healthcare districts?*

### Staff's Analysis

To reflect the Legislature's intent in LAFCO Law and the Commission's policy on spheres of influence, staff's analysis indicates there are two options for Commission consideration:

1. Each healthcare district in the Mountain Region maintains its own sphere.

The districts were formed for different reasons and that uniqueness remains. Both districts state that the hospitals are a one hour drive when conditions are good. When conditions are bad the roads are routinely closed, thus limiting access to the hospitals. While the communities are in the Mountain Region, they are technically on two different mountains and BVMCHD serves a distinct community. In fact, the Bear Valley is separate from the western portion of the Mountain Region in the following manner:

- County Flood Control District zones
- Water basins regulated by Regional Water Quality Control Boards
- School districts
- Groundwater basins
- Watersheds
- Resource conservation districts
- South Coast Air Quality Management District areas

As for administration and operations, SBMCHD states that the districts have different medical staffs and nursing staffs. Both districts state that savings from a reduction in board membership would be minimal and there are really no other costs for running the districts except for elections. Additionally, there are different tax rates for each district, which could not be joined. Finally, the districts participate in group purchasing organizations which already provide for cost efficiencies in purchasing goods and supplies.

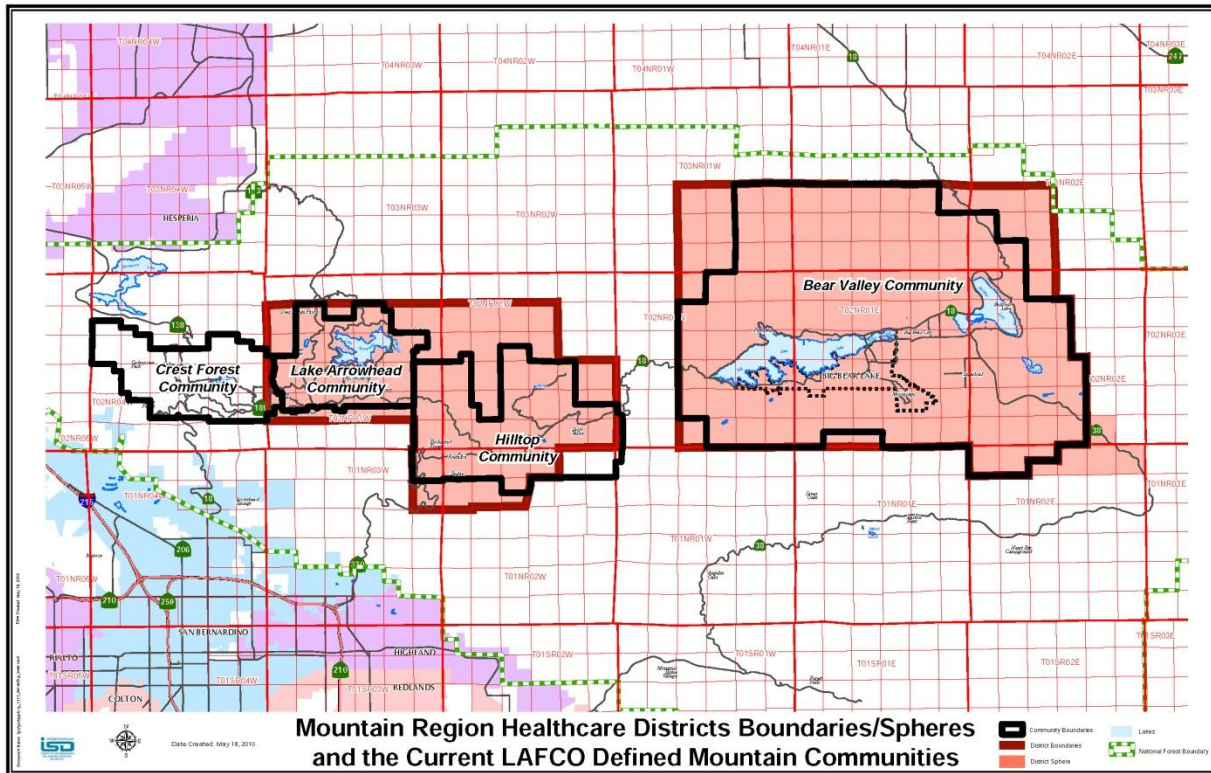
2. Single sphere for healthcare in the Mountain Region.

The Mountain region is provided healthcare services by two healthcare districts. The two long-standing reasons for the maintenance of two districts (different formation justifications and BVCHD providing ambulance service) are no longer pertinent and no longer exist, respectively.

Consolidation could achieve some economies of scale through one board of directors and a union of support services. If desired, board representation can be by division to ensure adequate representation from all communities. LAFCO can include a condition of approval for a consolidation which expands the Board of Directors to 7, 9 or 11 members for a period of time to allow for continuity of representation during any transition. Additionally, two zones can be created isolating the distinct revenues and operations of the current districts as well as maintaining the hospital names.

### Staff Recommendation

The map below illustrates the location of the two Mountain region healthcare districts and their relationship to the communities in the Mountain - Lake Arrowhead, Hilltop (Running Springs, Arrowbear Park, and Green Valley Lake) and the Bear Valley communities, including the Crest Forest community, majority of which is not within the boundaries or sphere of the adjacent San Bernardino Mountains Community Healthcare District.



One of the primary benefits to consolidation is the economy of scale in purchasing. However, the potential savings resulting from a consolidation between the two healthcare districts would be minimal given that the districts already experience economies of scale in purchasing goods and supplies through participation in group purchasing organizations.

Therefore, based upon the information detailed in the Service Review, LAFCO staff's recommendation is that the Commission maintains each district's own sphere of influence (Option 1) along with modifications to each respective sphere.

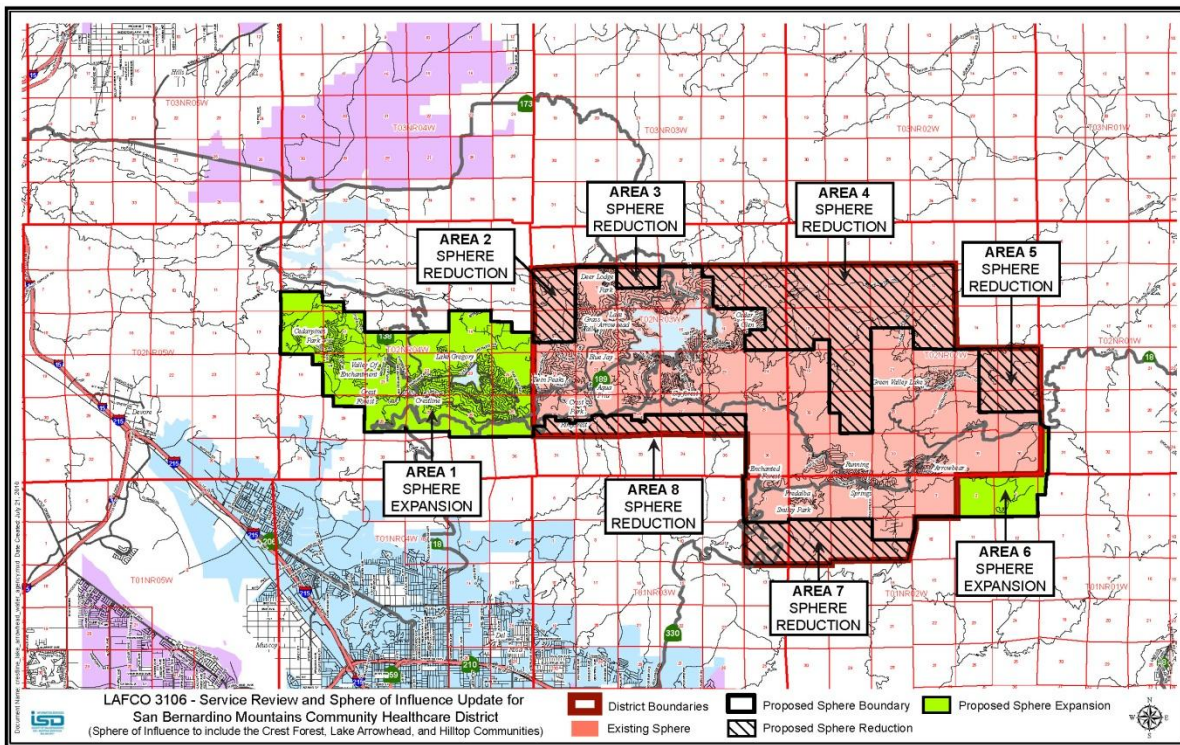
Staff provided each agency with a copy of the draft report and met with representatives from the agencies on two occasions. The position of the districts is that the Commission determine that each agency maintain a separate sphere of influence.



*San Bernardino Mountains Community Healthcare District*

For SBMCHD's, staff is recommending modifications to its existing sphere to encompass the Lake Arrowhead and Hilltop communities. Additionally, LAFCO staff is also recommending that SBMCHD's sphere be expanded to include the Crest Forest community. The items below outline (illustrated by the following map) the proposed sphere designation for SBMCHD, which illustrate the different sphere modifications (expansions and reductions) necessary to encompass the Crest Forest, Lake Arrowhead, and Hilltop communities, as defined by the Commission:

- Expand the sphere of influence by approximately 9,100 acres (Area 1) to include the LAFCO defined Crest Forest community that is not within SBMCHD's existing boundary and/or sphere;
- Reduce the sphere of influence by approximately 1,080 acres (Area 2) to exclude a portion of SBMCHD's existing northwestern sphere area, which is outside the LAFCO redefined Lake Arrowhead community;
- Reduce the sphere of influence by approximately 320 acres (Area 3) to exclude a portion of SBMCHD's existing northern sphere area, which is outside the LAFCO redefined Lake Arrowhead community.
- Reduce the sphere of influence by approximately 7,475 acres (Area 4) to exclude the portion of SBMCHD's existing northern sphere area, which is outside the LAFCO redefined Lake Arrowhead community and the LAFCO defined Hilltop community;
- Reduce the sphere of influence by approximately 1,420 acres (Area 5) to exclude a portion of SBMCHD's existing northeastern sphere area, which is outside the LAFCO defined Hilltop community;
- Expand the sphere of influence by approximately 1,385 acres (Area 6) to include the portion within the LAFCO defined Hilltop community that is currently outside of SBMCHD's boundary and/or sphere;
- Reduce the sphere of influence by approximately 2,300 acres (Area 7) to exclude the portion of SBMCHD's existing southern sphere area, which is outside the LAFCO defined Hilltop community; and,
- Reduce the sphere of influence by approximately 1,380 acres (Area 8) to exclude the portion of SBMCHD's existing southwestern sphere area, which is outside the LAFCO redefined Lake Arrowhead community;

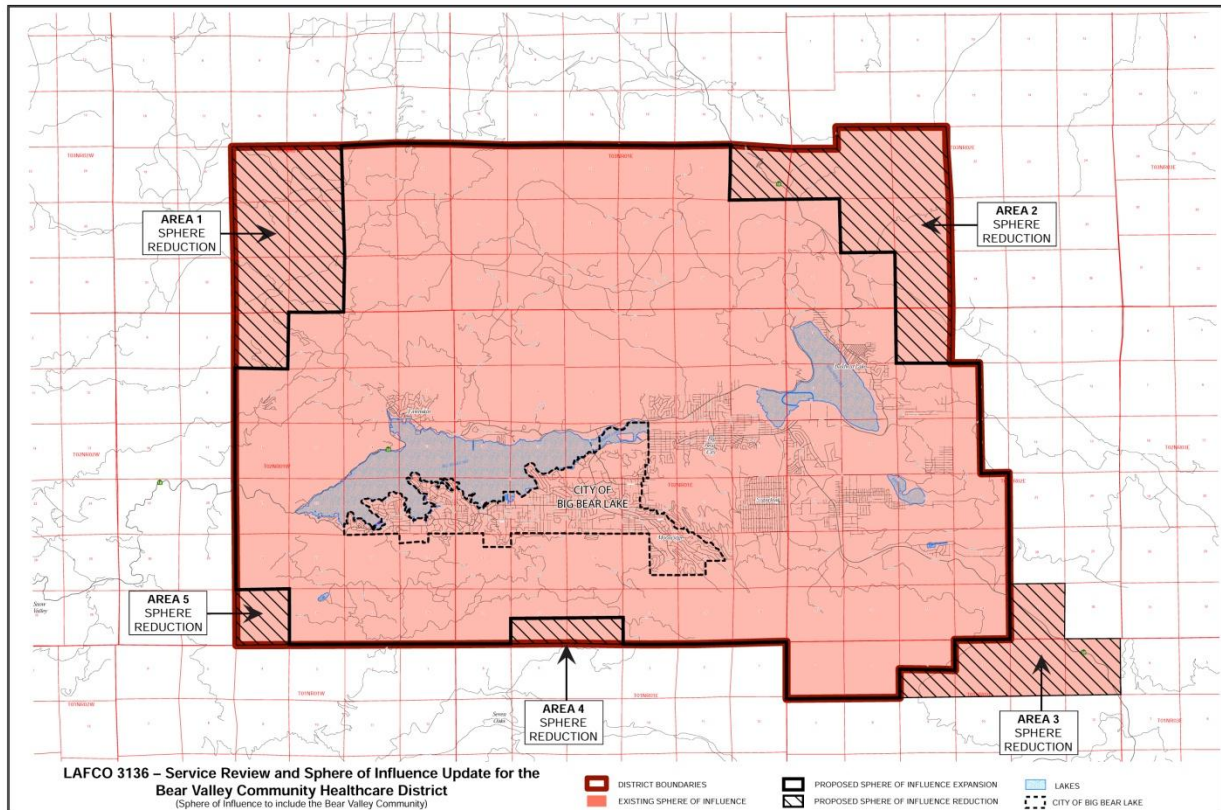


### *Bear Valley Community Healthcare District*

For BVCHD, staff is recommending modifications to its existing sphere to encompass the Bear Valley community. The items below outline (illustrated by the following map) the proposed sphere designation for BVCHD, which illustrate the different sphere reductions necessary to encompass the Bear Valley community, as defined by the Commission:

- Reduce the sphere of influence by approximately 4,480 acres (Area 1) to exclude a portion of BVCHD's existing northwestern sphere area, which is outside the LAFCO redefined Bear Valley community;
- Reduce the sphere of influence by approximately 5,340 acres (Area 2) to exclude a portion of BVCHD's existing northeastern sphere area, which is outside the LAFCO redefined Bear Valley community.
- Reduce the sphere of influence by approximately 2,880 acres (Area 3) to exclude the Onyx Summit portion of BVCHD's existing southeastern sphere area, which is outside the LAFCO redefined Bear Valley community;
- Reduce the sphere of influence by approximately 640 acres (Area 4) to exclude two half-sections of BVCHD's existing southern sphere area, which is outside the LAFCO redefined Bear Valley community;

- Reduce the sphere of influence by approximately 640 acres (Area 5) to exclude one section of BVCHD's existing southwestern sphere area, which is outside the LAFCO redefined Bear Valley community;



## **B. AUTHORIZED POWERS**

When updating a sphere of influence for a special district, the Commission is required to establish the nature, location, and extent of any functions or classes of services provided by the district (Government Code §56425(i)).

In 1995 Hospital District Law was amended and the new law became known as Local Health Care District Law (Health and Safety Code Sections 32000 et seq.) and deemed all hospital districts to be referred to as health care districts. Accordingly, the districts changed their names, which is more reflective of its actual function. Currently, the sole function of the districts is listed as “Hospital”. To reflect the change in its parent act, staff recommends that the Commission update the title of the function from “Hospital” to “Healthcare”.

Additionally, the SBMCHD provides acute and continual medical care as well as operating a 24 hour emergency room. Staff recommends that the Commission modify the service description to reflect the services actually provided. The modifications to the functions and services are shown below (changes identified in ~~strikeout~~ and underline):

**San Bernardino Mountains Community Healthcare District**

| <b>FUNCTION</b>                      | <b>SERVICE</b>   |
|--------------------------------------|--|
| <u>Hospital</u><br><u>Healthcare</u> | <del>37 bed acute care general hospital</del><br>Establish, acquire, maintain and/or operate one or more healthcare facilities; operation of acute care and continual care hospital facility |

**Bear Valley Community Healthcare District**

| <b>FUNCTION</b>                      | <b>SERVICE</b>  |
|--------------------------------------|---|
| <u>Hospital</u><br><u>Healthcare</u> | <del>Acute and continual medical care, hospital administration, 24-hour emergency room service</del><br>Establish, acquire, maintain and/or operate one or more healthcare facilities; operation of acute care and continual care hospital facility |

**C. FACTORS OF CONSIDERATION**

Government Code Section 56425 requires the Commission to make four specific determinations related to a sphere of influence update. The staff's responses to those factors are as follows:

**I. Present and Planned Uses**

**San Bernardino Mountains Community Healthcare District**

The District currently overlays both the Lake Arrowhead and the Hilltop Community Plan areas. Within the Lake Arrowhead community area, majority of the lands are designated for residential land uses include RS-14M (Single Residential, 14,000 sq. ft. minimum) and RS-1 (Single Residential, 1 acre minimum) with scattered commercial along State Route 189, 173, Rim Forest area, and along the lake (Lake Arrowhead Village). Within the Hilltop community area, the majority of the residential land uses include RS-10M (Single Residential, 10,000 sq. ft. minimum), SD-RES (Special Development – Residential), and RS (Single Residential, 7,500 sq. ft. minimum). Most of the commercial land use designations are concentrated in the central portion of the community where State Highway 18 and 330 meet. This commercial area is commonly known as the "Downtown Running Springs".

The public lands within the district are designated Resource Conservation. Roughly 60 percent of SBMCHD's area is within the San Bernardino National Forest (owned by

the federal government), which are devoted primarily to resource protection and recreational use.

There are two areas, Areas 1 and 6, being added to SBMCHD's sphere of influence. Area 1 encompasses the rest of the Snow Valley Ski Resort area along the top of Slide Peak designated as Resource Conservation. Area 6 encompasses the Crest Forest community, which is predominantly residential (RS-14M and RL-5), with scattered commercial along State Route 138 and along Lake Drive west of Lake Gregory. The public lands within the sphere expansion area, approximately 33 percent, are designated Resource Conservation.

The SBMCHD's proposed sphere reduction areas, Areas 2, 3, 4, 5, 7 and 8, currently have limited development potential since these are all forest lands owned by the Federal Government.

#### *Bear Valley Community Healthcare District*

The District overlays the Bear Valley community, which includes the City of Big Bear Lake and the unincorporated communities of Big Bear City, Fawnskin, Baldwin Lake, Erwin Lake and Lake Williams. Within the unincorporated County area, the County's General Plan designates approximately 79% as Resource Conservation, 6% Single Residential (RS, RS-10M, RS-20M, and RS-1), 4% Rural Living (RL, RL-5, RL-10, RL-20, and RL-40), 5% Floodway (lake areas), 1% a mix of generally commercial, industrial, and institutional land uses, and the remainder 5% is entirely within the City. Within the City's boundaries, approximately 60% of the lands are designated as Single-Family Residential, 9% Multiple Family Residential, 18% Commercial/Industrial, 4% Public Facilities, and 9% Open Space. The commercial development within the City is generally located along Big Bear Boulevard (which connects between Highway 18 and SR 38) and some areas near the lakefront as well as the ski resorts of Snow Summit and Bear Mountain.

Within the entire boundary/sphere, roughly 19% of the land is privately owned, 5% comprise all the lakes within the community, and the remainder 76% are within the San Bernardino National Forest (owned by the federal government), which are devoted primarily to resource protection and recreational use.

The BVCHD's proposed sphere reduction areas, Areas 1 through 4, currently have limited development potential since these are all forest lands owned by the Federal Government.

## **II. Present and Probable Need for Public Facilities and Services**

#### *San Bernardino Mountains Community Healthcare District*

The SBMCHD operates a hospital, a rural health clinic located at the east end of Lake Arrowhead (Hospital Road), and another rural health clinic operated and located at the



intersection of Highways 18 and 330 in Running Springs. The hospital has 37 beds (17 acute and 20 long term care). On average 24 are in use.

In recent years, management reviewed existing hospital service contracts and either eliminated those services which did not provide community benefit equal to their cost or reduced such shortfall as follows:

- OB/GYN physician practice support contract was not renewed.
- Employee health and dental insurance was modified for significant savings.
- MRI, an under-utilized contracted radiology service, was eliminated.
- The District ceased billing for outpatient laboratory procedures performed by Quest.
- Patient Eligibility, which was formerly contracted, was brought in-house.

#### *Bear Valley Community Healthcare District*

BVCHD owns and operates a hospital with 24 hour emergency care, a rural health clinic at 816 West Big Bear Blvd, and a family health clinic at 370 Summit Blvd. Services provided by the 30-bed (9 acute and 21 skilled nursing beds) hospital include acute respiratory care, in-patient medical care, in and out-patient surgery, laboratory, physical therapy, and skilled nursing facility. Other services include comprehensive diagnostic imaging including CT scanning, ultrasound, digital x-ray, and mammography.

Services added at the rural health clinics during FY 2007-08 added to gross revenue of the rural health clinics during FY 2008-09. Some of the services are pediatrics, podiatry, and chiropractic. The District states that facilities are roughly 40 years old but are in good condition.

### **III. Present Capacity of Public Facilities and Adequacy of Public Services**

#### *San Bernardino Mountains Community Healthcare District*

The hospital was built in 1951 and had an addition in 2000. In accordance with SB 499, the District is having a review of its facility performed by the California Office of Statewide Healthcare Planning and Development. Such review will determine seismic standards and help the district plan for future capital requirements. Presuming that the SB499 analysis indicates that the hospital needs to replace its acute beds to ensure seismic compliance, such replacement would not be required to take place until 2015 (soonest) or 2020 to 2030 (latest).

The district's current plan is to reinforce the current building that houses the 17 acute beds and re-designate that building to a higher seismic classification. Such reinforcement work (roof ties, roof reinforcements and exterior wall sheer panels) will be completed by 2013. Other than this project, the Hospital has no current expansion plans. In 2008 the District purchased lands adjacent to its existing facility from County

Service Area 70 Zone D-1 for potential expansion; however, as noted above no current plans are in the offing to utilize this property.

The SBMCHD states that it has adequate capacity for surge patient volumes. Services provided by the SBMCHD include:

- Dentistry – dental services are provided at the Rural Health Clinic
- Emergency Medicine - Mountains Community Hospital maintains a 24-hour emergency department.
- Family Practice, general surgery, internal medicine, ophthalmology, orthopedics, pathology, pediatrics, podiatry, psychology, and radiology.
- ENT (Ear, Nose, and Throat) specialist is available once a week.
- Gynecology has recently returned to the hospital. For some time, the district was without a gynecologist, which made it necessary for women to travel down the mountain for care.

In July 2000, the SBMCHD opened a new, modern emergency department that includes radiography, CT scanner, mammography, and ultrasound capabilities. The final cost of the project exceeded \$3 million, a significant part of which was raised by the Foundation. In 2004 the Department of Human Services designated MCH as a critical access hospital.

#### *Bear Valley Community Healthcare District*

Due to state seismic mandates, the District will need to undergo retrofits to its existing facilities.

In June 2009 the District completed the build out of the new location for the Big Bear City rural health clinic. The new clinic offers medical and dental services. The district anticipates that the new dental services will generate additional revenue for the hospital's ancillary departments such as laboratory and radiology.

#### **IV. Social and Economic Communities of Interest**

The SBMCHD and BVCHD are both separated along Bear Creek, which divides the two districts from Slide Peak (Snow Valley Ski Area) and the Big Bear Dam, which is also known as the "Arctic Circle". This divide is also generally the division that separates groundwater basins and watersheds, and the water basins regulated by the Regional Water Quality Control Boards. The area is also the dividing line between school district boundaries, the County's Flood Control District zones, resource conservation districts, as well as the South Coast Air Quality Management District areas.

#### *San Bernardino Mountains Community Healthcare District*

The social and economic communities of interest for SBMCHD include the Lake Arrowhead and Hilltop communities, both of which are generally located along the



western section of the Mountain region. For the Lake Arrowhead community, which includes the areas commonly known as Lake Arrowhead, Cedar Glen, Grass Valley, Twin Peaks, Crest Park, Rim Forest, Skyforest, Deer Lodge Park and Blue Jay, the social communities of interests are the Arrowhead Woods development and the surrounding communities. The economic communities of interest are Lake Arrowhead, Lake Arrowhead Village, and businesses along the highways. For the Hilltop community, which includes the areas commonly known as Running Springs, Arrowbear Park, and Green Valley Lake, the social and economic communities of interest are represented by the commercial center of the community located at the intersection of Highway 18 and 330. In addition, the Rim of the World Unified School District (which is a regional entity servicing the majority of the mountain region) provides for a larger social unit for the western Mountain region.

The proposed Area 1 sphere expansion includes the general vicinity of the Snow Valley Ski Resort. The proposed Area 6 sphere expansion includes the Crest Forest community. The social and economic communities of interest for Crest Forest are the Rim of the World Unified School District and Lake Gregory and areas commonly known as Crestline, Valley of Enchantment, Aqua Fria, Blue Jay, Twin Peaks, and Cedarpines Park.

#### *Bear Valley Community Healthcare District*

BVCHD is within the Bear Valley community, which is located along the eastern section of the Mountain region. For the Bear Valley community, the social communities of interest include the City of Big Bear Lake and the unincorporated communities of Big Bear City, Fawnskin, and the communities around Baldwin Lake, Erwin Lake, and Lake Williams. In addition, the Bear Valley Unified School District is a regional entity servicing the Bear Valley community (including the Angelus Oaks area) providing for a larger social unit for the eastern Mountain region. Economic communities of interest include the two ski resorts (Bear Mountain and Snow Summit), Big Bear Lake itself and the recreational activities supported by the lake, as well as the commercial activities around the lake area and along Big Bear Boulevard (State Highway 18 and 38).

#### **D. CONCLUSION:**

Based upon the information outlined in this report, staff believes that the Mountain region represents a unique healthcare service need for its residents and the transient public. This service need is best served by the respective agencies within the separate spheres of influence for each agency as identified below. Staff is recommending that the Commission take the following actions related to the individual spheres of influence and authorized functions and services:

**San Bernardino Mountains Community Healthcare District:**

1. Reduce the SBMCHD's existing sphere by a total of approximately 13,975 acres (Areas 2, 3, 4, 5, 7, and 8) to exclude the existing sphere area outside the LAFCO redefined Lake Arrowhead community and the LAFCO defined Hilltop community;
2. Expand the SBMCHD's sphere for a total of approximately 10,485 acres, identified as follows:
  - Approximately 9,100 acres (Area 1) to include the remainder of the LAFCO defined Crest Forest community; and,  
  
Approximately 1,385 acres (Area 6) to include the portion within the LAFCO defined Hilltop community that is currently outside of SBMCHD's boundary and/or sphere;
3. Update the tile of the "Hospital" function to "Healthcare" to reflect the change in Local Health Care District Law, and modify the service description by adding "Establish, acquire, maintain and/or operate one or more healthcare facilities; operation of acute care and continual care hospital facility" and removing "37 bed acute care general hospital".

**Bear Valley Community Healthcare District:**

1. Reduce the BVCHD's existing sphere by a total of approximately 13,980 acres (Areas 1, 2, 3, 4, and 5) to exclude the existing sphere area outside the redefined Bear Valley community; and,
2. Update the tile of the "Hospital" function to "Healthcare" to reflect the change in Local Health Care District Law, and modify the service description by adding "Establish, acquire, maintain and/or operate one or more healthcare facilities; operation of acute care and continual care hospital facility" and removing "Acute and continual medical care, hospital administration, 24 hour emergency room service".

## **ADDITIONAL DETERMINATIONS**

1. The Commission's Environmental Consultant, Tom Dodson and Associates, has recommended that the options outlined in this report for the both agencies are statutorily exempt from environmental review. Mr. Dodson's response for each of the reviews is included in their respective attachments to this report.
2. As required by State Law notice of the hearing was provided through publication in a newspaper of general circulation within each agency, the *Alpenhorn* for the San Bernardino Mountains Community Healthcare District representing the Crest Forest, Lake Arrowhead and Hilltop communities and the *Big Bear Grizzly* for the Bear Valley Community Healthcare District. Individual notice was not provided as allowed under Government Code Section 56157 as such mailing would include more than 1,000 individual notices. As outlined in Commission Policy #27, in-lieu of individual notice the notice of hearing publication was provided through an eighth page legal ad in each of the respective newspapers.
3. As required by State law, individual notification was provided to affected and interested agencies, County departments, and those agencies and individuals requesting mailed notice. In addition, on November 8, 2011 and December 13, 2011 LAFCO staff met with the agencies and representatives to review the determinations and recommendations made within its draft report, to solicit comments on the determinations presented and to respond to any questions of the affected agencies.
4. Comments from landowners/registered voters and any affected agency will need to be reviewed and considered by the Commission in making its determinations.

## **RECOMMENDATIONS**

To complete the considerations for the Mountain region healthcare districts, staff recommends that the Commission take the following actions:

1. Receive and file the service reviews for the Mountain region healthcare districts; make the determinations related to the service reviews for the San Bernardino Mountains Community Healthcare District and Bear Valley Community Healthcare District required by Government Code 56430 as outlined in the staff report.
2. For environmental review certify that expansions and reductions of the existing sphere of influence and the service description modifications for the San Bernardino Mountains Community Healthcare District (LAFCO 3106) and reductions of the existing sphere of influence and the service description modifications for the Bear Valley Community Healthcare District (LAFCO 3136) are statutorily exempt from environmental review and direct the Executive Officer to file the Notices of Exemption within five (5) days.
3. Approve the following:

- a. For LAFCO 3106, approve the sphere of influence expansions/reductions for the San Bernardino Mountains Community Healthcare District and service description modifications to its authorized Hospital function, as identified in this report.
  - b. For LAFCO 3136, approve the sphere of influence reductions for the Bear Valley Community Healthcare District and service description modifications to its authorized Hospital function, as identified in this report.
4. Direct the staff to prepare the resolutions reflecting the Commission's findings and determinations regarding the service review and sphere of influence updates for the San Bernardino Mountains Community Healthcare District and the Bear Valley Community Healthcare District and place their adoption as a consent item on the Commission's February 15, 2012 hearing agenda.

## ATTACHMENTS

1. Maps
  - a. [LAFCO Defined Mountain Communities](#)
  - b. [Existing Boundaries for the Mountain Healthcare Districts](#)
2. San Bernardino Mountains Community Healthcare District
  - a. [Map – Current Boundary and Sphere](#)
  - b. [Map – LAFCO Staff Proposed Sphere Modifications](#)
  - c. [Service Review and Sphere Update Response](#)
  - d. [Admission Statistics](#)
  - e. [Financial Information: Budget and Audit](#)
  - f. [Letter Dated December 19, 2011 from District](#)
  - g. [Response from Commission's Environmental Consultant](#)
3. Bear Valley Community Healthcare District
  - a. [Map – Current Boundary and Sphere](#)
  - b. [Map – LAFCO Staff Proposed Sphere Modifications](#)
  - c. [Service Review and Sphere Update Response](#)
  - d. [Financial Information: Budget and Audit](#)
  - e. [Letter Dated December 20, 2011 from District](#)
  - f. [Response from Commission's Environmental Consultant](#)
4. Handout – [What is a Healthcare District?](#)