

PROPOSAL NO.: LAFCO 3103

HEARING DATE: May 16, 2012

RESOLUTION NO. 3159

A RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION OF THE COUNTY OF SAN BERNARDINO MAKING DETERMINATIONS ON LAFCO 3103 – A SERVICE REVIEW AND SPHERE OF INFLUENCE UPDATE FOR THE HI-DESERT MEMORIAL HEALTHCARE DISTRICT (sphere of influence reduction by approximately 483 square miles, expansion by a total of approximately 739 square miles, and affirmation of the balance of its existing sphere of influence, as shown on the attached map).

On motion of Commissioner _____, duly seconded by Commissioner _____, and carried, the Local Agency Formation Commission adopts the following resolution:

WHEREAS, a service review mandated by Government Code 56430 and a sphere of influence update mandated by Government Code Section 56425 have been conducted by the Local Agency Formation Commission of the County of San Bernardino (hereinafter referred to as “the Commission”) in accordance with the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Sections 56000 et seq.); and,

WHEREAS, at the times and in the form and manner provided by law, the Executive Officer has given notice of the public hearing by the Commission on this matter; and,

WHEREAS, the Executive Officer has reviewed available information and prepared a report including her recommendations thereon, the filings and report and related information having been presented to and considered by this Commission; and,

WHEREAS, a public hearing by this Commission was called for May 16, 2012 at the time and place specified in the notice of public hearing and in any order or orders continuing the hearing; and,

WHEREAS, at the hearing, this Commission heard and received all oral and written protests; the Commission considered all plans and proposed changes of organization, objections and evidence which were made, presented, or filed; it received evidence as to whether the territory is inhabited or uninhabited, improved or unimproved; and all persons present were given an opportunity to hear and be heard in respect to any matter relating to the application, in evidence presented at the hearing; and,

WHEREAS, at this hearing, this Commission certified that the sphere of influence update including sphere amendments is statutorily exempt from environmental review pursuant to the

RESOLUTION NO. 3159

provisions of the California Environmental Quality Act (CEQA) and such exemption was adopted by this Commission on May 16, 2012. The Commission directed its Executive Officer to file a Notice of Exemption within five working days of its adoption; and,

WHEREAS, based on presently existing evidence, facts, and circumstances filed with the Local Agency Formation Commission and considered by this Commission, it is determined that the sphere of influence for the Hi-Desert Memorial Healthcare District (hereafter shown as "HDMHD" or the "District") shall be amended as shown on the map attached as Exhibit "A" to this resolution, defined as follows:

- (1) Reduce the District's existing sphere of influence to exclude Area 1 (containing approximately 309,350 acres);
- (2) Expand the District's sphere of influence to include Area 2 (containing approximately 159,900 acres) and Area 3 (containing approximately 313,200 acres); and,
- (3) Affirm the balance of the District's existing sphere of influence.

WHEREAS, the determinations required by Government Code Section 56430 and local Commission policy are included in the report prepared and submitted to the Commission dated May 7, 2012 and received and filed by the Commission on May 16, 2012, a complete copy of which is on file in the LAFCO office. The determinations of the Commission are:

1. **Growth and population projections for the affected area:**

Land Use

The study area includes the Town of Yucca Valley, the City of Twentynine Palms and County territory (which include lands within the Joshua Tree Community Plan area, and portions of the Morongo Valley Community Plan and the Homestead Valley Community Plan areas). For the entirety of the study area approximately 71.3% is designated Resource Conservation (comprising mostly of the BLM lands, the Marine Base, and the Joshua Tree National Park area), 19.3% Rural Living, 0.8% Single Residential, 0.1% Multiple Residential, 0.2% Commercial, 0.1% Industrial, and 0.6% are designated Open Space, Floodways, and Institutional land uses. The remainder 9% of the total area is the urban core of the Town of Yucca Valley (3.1% of overall area) and the City of Twentynine Palms (4.5% of overall area).

Town of Yucca Valley

The current land use designation within the Town of Yucca Valley (based on the Town's General Plan originally adopted in 1995) includes approximately 17% Hillside Reserve, 49% Rural Living, 20% Single-Family Residential, 2% Multi-Family Residential, 4% Commercial, 4% Industrial, and 4% Public/Quasi Public and Open Space.

City of Twentynine Palms

The current land use designation within the City of Twentynine Palms (based on the City's General Plan originally adopted in October 2001 and amended in March 2002) includes approximately 43% Rural Living, 32% Single-Family Residential, 6% Open Space Residential, 3% Multi-Family Residential, 4% Commercial, 3% Industrial, 3% Public and Floodway, and 6% Military (portion of the City within the Marine Corps Air Ground Combat Center).

RESOLUTION NO. 3159

The City of Twentynine Palms is currently in the process of updating its General Plan, which is tentatively scheduled for adoption sometime in 2012. If the City adopts the new General Plan Land Use and Zoning Map, the land uses will generally be the same compared to its current designations except for a few minor changes. Some of the changes include a new land use designation identified as the Downtown Economic Revitalization Specific Plan Area (Approximately 95 acres) which replaces some of the current General Commercial and Multi-family Residential-Specific Plan land uses within the downtown area, a Tribal Land designation (approximately 160 acres) previously designated Public, and additional lands designated as Public (100 acres) previously designated Rural Living 5 acres.

Within the District’s entire sphere, roughly 73 percent of the land is public, which are devoted primarily to resource protection, military use and recreational use and the remainder, 27%, is privately owned.

Land Ownership Breakdown (in Acres) for HDMHD

Ownership Type	Boundary	Sphere (outside boundary)	Total Sphere (Total Area)
Private	216,495	5,908	222,403
Public Lands – Federal (BLM), State, & others	605,675	4,939	610,614
Total	822,170	10,847	833,017

Population Projections

In 2000, the population within the District’s boundaries was 62,200 derived from the 2000 Census data. Based on the 2010 Census, the current population for the area is 65,650. This represented an average annual growth rate of approximately 0.5 percent within the given period.

The Commission calculated the projected growth for the District’s boundaries utilizing a combination of the growth rates identified in the Regional Council of the Southern California Association of Governments (SCAG) Draft 2012 Regional Transportation Plan (RTP) Integrated Growth Forecast for the Town of Yucca Valley, the City of Twentynine Palms, and the County’s unincorporated area for 2020 and 2035 periods, and the use of average annual growth rate to generate the intervals. By 2040, the population within the District is estimated to reach 93,159. This represents a projected annual growth rate of approximately 1.2 percent between 2010 and 2040, which also represents a total population increase of 42 percent from 2010.

Population Projection 2010-2040 for HDMHD

Census¹			Population Projection					
1990	2000	2010	2015	2020	2025	2030	2035	2040
53,430	62,200	65,650	69,147 ²	72,961	77,470 ³	82,320	87,540	93,159

¹ Data derived from the 1990, 2000, and 2010 Census for the Hi-Desert Memorial Healthcare District area.
² 2015 and 2020 projections were calculated using Average Annual Growth Rate based on the growth rate from SCAG’s 2012 RTP Revised Draft Integrated Growth Forecast (published May 2011) for the Town of Yucca Valley, the City of Twentynine Palms, and the unincorporated County area for the data between 2010 and 2020.
³ 2025, 2030, 2035 and 2040 projections were calculated using Average Annual Growth Rate based on the growth rate from SCAG’s 2012 RTP Revised Draft Integrated Growth Forecast (published May 2011) for the Town of Yucca Valley, the City of Twentynine Palms, and the unincorporated County area for the data between 2020 and 2035.

RESOLUTION NO. 3159

The population projections shown above may represent an unattainable growth trend based on the historic growth experienced in the region. In addition to the marginal growth experience in the last 10 years, there are other circumstances in the region that tend to restrict growth (i.e. water quality issues, development restrictions related to moratorium on the use of septic systems, etc.). Based on these issues, actual growth is expected to be much lower than projected.

In order to represent a more realistic growth projection for the area, the Commission revised the projected growth rate between 2020 and 2040 based on the actual growth rate the district experienced for the last 20 years (using Census data for 1990 and 2010), which had an annual growth rate of approximately 1.04 percent. Based on the revised annual growth rate applied between 2020 and 2040, it is estimated that the population within the District is expected to reach 83,364 by 2040, or a total population increase of 27 percent from 2010.

Build-out

The table below provides the potential build-out within the District's territory. This build-out scenario takes into consideration the existing land use designations assigned for the area and the dwelling unit densities assigned for each residential land use.

Land Use Maximum Build-Out for HDMHD

Land Use	Acreage	Density (D.U. / Acre)	Maximum Build-out (DU's)
County Area Residential Land Use			
Resource Conservation	568,239	0.025	14,206
Rural Living (RL)-40 (40 acres)	320	0.025	8
RL-20 (20 acres)	493	0.05	25
RL-10 (10 acres)	1,560	0.1	156
RL-5 (5 acres)	96,852	0.2	19,370
RL (2.5 acres)	59,939	0.4	23,976
Single Residential (RS)-1 (1 unit/acre)	1,939	1.0	1,939
RS-20M	323	2.18	704
RS-14M	1,707	3.0	5,121
RS-10M	1,265	4.0	5,060
RS	596	6.0	3,576
Multiple Residential	897	16.0	14,352
City of Twentynine Palms Total Residential Land Use	31,446		45,965
Town Of Yucca Valley Total Residential Land Use	22,589		25,039
District Total Residential	788,165		159,497

The revised population projections identified earlier indicates that the population within the District's territory will be 83,364 by 2040. Based on the maximum residential build-out within the District's territory, the projected maximum population is anticipated to reach 427,452 (at 2.68 persons per household based on the ratio for the County's Desert Region). Likewise, based on the projected population for 2040, it is anticipated that the number of households

RESOLUTION NO. 3159

within the District's territory will be 31,106 with a maximum potential build-out to reach approximately 159,497. These imply that the study area will reach 19 percent of its potential household and population capacity by 2040.

Population and Household Projection for HDMHD

	Projection 2040	Maximum Build-out	Ratio of 2040 Projection with Maximum Build-out
Population	83,364	427,452	0.19
Households	31,106	159,497	0.19

2. The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence:

Disadvantaged unincorporated communities are those communities that have an annual median household income that is less than 80 percent of the statewide annual median household income, which is under \$46,285. Based on the Median Household Income taken from the 5-year 2006-2010 American Community Survey block group level data, the following areas within and around the District's sphere of influence were classified as disadvantaged unincorporated communities: Rimrock, Pioneertown, Landers, Flamingo Heights, Joshua Tree, Morongo Valley (portion north of SR 62), Twentynine Palms (unincorporated portion of the community) and Wonder Valley. All of these are considered to be rural communities. The community of Johnson Valley is considered a disadvantaged unincorporated community that is contiguous to the District's sphere of influence.

Rimrock and Pioneertown are in the western part of the District's boundary/sphere. Rimrock is a rural community with primarily RL-5 (Rural Living, 5-acre lots) land use designation. Pioneertown, which is a small community located between Rimrock and the Town of Yucca Valley, primarily with 1.25-acre residential lots.

The communities of Johnson Valley, Landers, and Flamingo Heights are all considered a part of the overall Homestead Valley community. Homestead Valley is a rural community with large lot residential development (primarily Rural Living, 5-acre parcels), wide open spaces and a natural desert setting.

The community of Morongo Valley is a rural community that takes pride in being an equestrian-oriented community with primarily Rural Living 2.5-acre lots. Morongo Valley is further characterized as having an abundance of wildlife and open vistas.

The community of Joshua Tree is a rural community that is characterized by an abundance of open space and natural resources. Located between the Town of Yucca Valley and the City of Twentynine Palms, Joshua Tree also serves as the entry point to the Joshua Tree National Park.

The unincorporated portion of the Twentynine Palms community and the community of Wonder Valley are communities that are adjacent to the City of Twentynine Palms. Both communities are very rural in nature with large lot residential development (primarily Rural Living, 5-acre lots).

RESOLUTION NO. 3159

3. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies:

The District's facilities are comprised of the Hi-Desert Medical Center ("HDMC") (to include a Continuing Care Center and its 120 bed skilled nursing facility) and clinics in Yucca Valley and Twentynine Palms. Services include inpatient and outpatient diagnostic treatment and rehabilitation services, home health and hospice services and a variety of community outreach services which include an outpatient surgical center, behavioral health, prenatal education center, family birthing center and family health clinics. The hospital was built in 1976 and is currently licensed for 59 beds: 55 acute-care beds and four labor and delivery beds. The hospital includes a 24-hour emergency room and is located in Joshua Tree, approximately the center of the District, with clinics to the west (Yucca Valley) and east (Twentynine Palms). In 1990, the Continuing Care Center was completed and licensed as a skilled nursing facility with 120 beds, including 25 sub-acute beds. The District has a total of 179 licensed beds and offers the only inpatient services available within a 37 mile radius. In 1994, the hospital campus expanded with the addition of an imaging and outpatient surgery center and laboratory in the community of Yucca Valley; outpatient behavioral health services were added in 1997; maternity services were added as a new service line in 2003; and rural health clinics in both Yucca Valley and Twentynine Palms were added to the service line in 2007.

The District provided the chart below which outlines the patient and service activity for the past four fiscal years. As shown, patient days and service at the Continuing Care Center have decreased since FY 2007-08 while outpatient and other services have increased. The District's analysis for these categories and its plans for the future are addressed in its *Strategic Plan* and *Market Demand Analysis*, addressed below.

RESOLUTION NO. 3159

	2007-08	2008-09	2009-10	2010-11
Patient Days				
Medical-Surgical-Pediatrics	8,763	9,498	9,743	8,787
Obstetric Days	1,066	1,092	1,000	1,047
ICU/CCU	1,046	1,082	1,122	988
Swing Beds	1,507	1,572	1,025	764
Newborn	822	787	682	688
TOTAL	13,204	14,031	13,572	12,274
Continuing Care Center				
Sub-Acute	7,627	7,854	7,378	7,318
Nursing Facility	28,658	28,299	27,035	25,891
Certified Distinct Part	3,584	3,600	4,268	4,371
TOTAL	39,869	39,753	38,681	37,580
Outpatient Statistics				
OP Surgeries	1,158	1,199	1,143	1,214
Outpatient Scopes	421	452	446	499
Total ER visits	21,206	21,490	23,503	24,959
Family Clinic-Yucca Valley	12,186	16,085	18,339	15,527
Family Clinic-29 Palms	7,428	8,072	7,911	6,637
Behavioral Health-Yucca Valley	8,515	9,395	7,262	7,650
Airway Radiology- Yucca Valley	12,881	14,665	15,504	14,278
TOTAL	63,795	71,358	74,108	70,764
Other Services				
IP Surgeries	668	661	596	645
Radiology, Diagnostic	18,083	19,335	20,165	21,321
Nuclear Medicine	389	360	248	228
MRI	1,415	1,590	1,477	1,027
Ultrasound	4,502	4,703	5,451	5,606
CT	8,071	9,177	9,582	9,483
Clinical Laboratory	204,957	221,147	238,019	252,180
TOTAL	238,085	256,973	275,538	290,490

Strategic Plan

The District adopted a Strategic Plan in 2009 to guide the District's growth through 2012. It included an assessment of strengths, weaknesses, opportunities and threats, strategies, goals, and objectives (copy included in Attachment #2). This year the District will be updating its Strategic Plan for the years 2013-15. As a part of the update, it will hold three Town Hall meetings in March 2012 (in Twentynine Palms, Joshua Tree, and Yucca Valley) to hear from residents about the services it provides, along with residents' thoughts for future programs and services.

The origin of the District's patients ranges throughout the Morongo Basin. The most recent data provided to LAFCO for this review is from 2007, shown below with a population percentage comparison. The Morongo Valley community is within the Agency's sphere and comprises 5% of the total patient population. However, 2% of the District's patients originate

RESOLUTION NO. 3159

from the area. As identified to LAFCO, many in Morongo Valley travel to the Desert Regional Medical Center in Palm Springs, which is roughly equidistant to the HDMC in Joshua Tree. As for the Marine Base, a significant amount of the population does not travel to the HDMC or its clinic in Twentynine Palms and presumably receives care on the base.

Patient Origin	2007 Origin Percentage	2010 Population Percentage
Yucca Valley	44%	31%
Twentynine Palms	26%	26%
Joshua Tree	19%	15%
Landers	5%	10%
Morongo Valley (not in Agency boundary)	2%	5%
Pioneertown	0%	0%
Marine Base	4%	13%

In 2007, the District had a 50% market share of all inpatients discharged who reside in zip codes defined as the hospital's primary and secondary service areas. However, the hospital held a 64% market share of all discharged inpatients from primary and secondary service areas that either had no insurance or had Medi-Cal benefits. This patient population is less likely to be directed outside the community for healthcare services and is more likely to encounter difficulty with transportation to access care further away. Moreover, this supports an opportunity for the District to become more clinically attractive to assure patients that may otherwise leave the area for care elsewhere.

FY 2008-09 through 2010-11

The District's financial statements since FY 2008-09 provide additional information on the District's volume of services provided:

- The volume of services provided at the Medical Center showed significant increase from 2008, with a 7% increase in acute patient days, and a 15% increase in outpatient visits. Only modest volume increases occurred in 2008 when compared with 2007 service volume.
- The 2010 inpatient volume of services provided at the Medical Center showed a slight decrease compared to 2009, with a 3% decrease in acute patient days; and a 9% increase in outpatient visits in comparison with 2009. Volumes for 2009 showed significant increases from 2008, with a 7% increase in acute patient days and a 15% increase in outpatient visits. District outpatient growth continues to be strong.
- The 2011 inpatient volume of services provided at the Medical Center showed a decrease of 8.8% in acute patient days compared to 2010; and a 4.4% decrease in outpatient visits in comparison with 2010. Volumes for 2010 showed a 3% decrease in acute patient days and a 9% increase in outpatient visits in comparison with 2009. The Emergency Department continues to show increased growth and completed the 2011 fiscal year with 24,959 visits, 3.5% above budget.

According to the Strategic Plan, contributions made to the community by the District go beyond healthcare services. As Morongo Basin's third largest employer, the District provided 450 permanent jobs and \$28.2 million in wages and paid-time-off benefits to its employees in FY 2008. Additionally, HDMC purchased \$ 9.2 million in taxable supplies, services and

RESOLUTION NO. 3159

equipment in the same period and paid \$720,000 in sales tax. Payment to local businesses for supplies, repairs and maintenance and professional services is estimated to have contributed an additional \$4 million to the local economy. The District HDMC employees and their families further support local businesses and the tax base.

Critical Issues

The Strategic Plan identifies critical issues due to socioeconomic and market force issues, patient utilization, patient access, and unmet healthcare needs.

- *HDMC is the sole provider of emergency and acute care and ancillary diagnostics within a 37 mile radius.*
- *In 2008 HDMC absorbed \$3 million in costs for unreimbursed care. The troubled economy, growth in unemployment and an increasing number of uninsured patients will further challenge HDMC's fiscal stability.*
- *HDMC lacks some sub-specialty medical staff needed to provide the office-based, emergency room back up, and inpatient services the community needs. As a result, patients unable to access care locally must seek specialty healthcare outside their community and emergency patients often require transfer to clinical facilities elsewhere.*
- *The age distribution, economic profile of the community, and the shortage of industry or large employer base will continue to result in increasing demand for services for uninsured and underinsured patients.*
- *The County hospital is located 75 miles away preventing Hi-Desert patients from reasonable access to safety-net clinical services.*
- *HDMC's emergency department is a vital safety net for patients seeking urgent medical care. Customer satisfaction and consistent delivery of quality services are key to improved community perception of HDMC.*
- *Low reimbursement and payer mix are major obstacles to physician recruitment and retention.*
- *HDMC has historically had a passive relationship with large local employers (i.e.: Town of Yucca Valley, City of Twentynine Palms, civilian employees on the Base, Morongo Unified School District, Copper Mountain College and the utility companies).*

Response Strategies

The above critical issues led the District to adopt the following six response strategies in its 2009 Strategic Plan. The District plans to take appropriate steps to:

1. *Measurably improve the quality and scope of existing services and patient safety.*
2. *Determine the healthcare needs of the District and create and foster alliances to meet those needs.*
3. *Build, sustain and grow the best people.*
4. *Assess existing services for viability and create sustainable, measurable growth through new services and additional patient volume.*
5. *Measurably improve service to the customer.*
6. *Ensure financial capabilities to support present and future District programs and services.*

In addition to statewide healthcare economic issues, the District faces other challenges that are inherent in the local community. The majority of the population is under the age of 50, and the median household income is significantly below the state average. According to the

RESOLUTION NO. 3159

Strategic Plan, the absence of large employers in the area, other than healthcare and education, further increases the probability health insurance and healthcare will be less likely to be sought outside of the emergency room or during a catastrophic event when the cost to deliver the care would be far less expensive. The District has seen the effects of this through an increase of patients using emergency room services in lieu of a family physician or pediatrician.

Market Demand Analysis

In the same year as the adoption of the Strategic Plan, the District contracted for a study (Market Demand Analysis) to provide a demand forecast and capacity projections for the hospital focusing on its Intensive Care Unit (ICU) and Obstetric (OB) services including C-section operating suite capabilities (copy included in Attachment #2).

The Market Demand Analysis identifies the following as its findings:

- *It is the finding of this report that HDMC is currently significantly under-bedded in Obstetrics ("OB"). The unit has been running at 80% occupancy and is full and overflowing (with more than four patients) 38% of the time.*
- *The lack of adequate bed availability to meet demand exists while HDMC has realized only a 50% OB market share for primary and secondary service area deliveries. Based on these findings, there is ample market share growth potential for the service at HDMC.*
- *Based on the industry standards for ORs per C-section rates, the current OR in the OB service is adequate and will continue to be adequate even with future market demand and growth.*
- *We project the demand for HDMC requires expanding its Obstetrical unit from four beds to twelve beds. Consistent with present treatment approaches, the existing four LDRPs (Labor, Delivery, Recovery, and Postpartum) should be used as LDRs (Labor, Delivery, Recovery) and eight post-partum beds should be added.*

Capital Improvements

In May 2009, the Board of Directors approved the purchase of a 64 Slice Computed Tomography (CT) scanner to augment the existing single slice CT. In 2010 the District spent \$2,076,146 to acquire capital assets, and in 2009 \$1,940,166 was spent to acquire new assets. In 2011, the District purchased new equipment and other capital assets totaling \$4,901,000.

The American Recovery and Reinvestment Act, and the Health Information Technology for Economic and Clinical Health (HITECH) acts of 2009 provided incentives for health care investments for electronic medical records systems that meet a "meaningful use" criterion. The District has capitalized \$204,000 for two of these systems in fiscal 2011, and has made progress payments of \$336,000 on two systems that are being implemented. Further additions to the electronic medical record are scheduled for 2012. By meeting the meaningful use criterion the District could receive aggregate federal funds of \$3.2 million in the years 2013 through 2016.

RESOLUTION NO. 3159

Hospital Expansion Project

Management has completed a master site plan for the HDMC in order to address seismic retrofit requirements and the need to increase capacity for patient care in the main hospital building. A multi-phase project is currently underway. The first phase includes construction of a waste water treatment facility, a maintenance building, a professional office building, and road and parking improvements. This will occur on owned property adjacent to the main hospital building, and is expected to cost \$7,058,000. \$980,000 has been spent with internal generated funds leaving a cost to complete of \$6,078,000. Support services that do not require a hospital presence will be relocated to the new buildings.

Phase two of the project will include the build-out of vacated space in the main hospital building to accommodate an expanded pharmacy, expanded central sterile facilities, relocation of laboratory services to an existing outpatient building, renovation and relocation of certain departments and the addition of a new central corridor in the HDMC. Management estimates the phase two project will cost approximately \$12,835,000 and expects to finance phase two with proceeds of another revenue bond issue of approximately \$15,000,000, a capital campaign, and internally generated funds.

The phase three and four projects will include replacing plant operations with a new central utility plant and an expansion of surgery services. Management estimates that phases three and four will cost approximately \$31,218,000. Funding sources are yet to be determined.

4. Financial ability of agencies to provide services:

General Operations and Accounting

The reporting entity "Hi-Desert Memorial Healthcare District" includes the activities of the District to include its hospital campus, the Hi-Desert Medical Center (Center). The Hi-Desert Medical Center Auxiliary (Auxiliary) and Hi-Desert Medical Center Foundation (Foundation) are authorized by the District to solicit contributions on behalf of the Center. In the absence of donor restrictions, the Auxiliary and Foundation have discretionary control over the amounts, timing and use of their distributions. The Auxiliary and Foundation are not considered component units of the District because management believes the resources of the corporations are not significant to the District.

Additionally, in 2011 the Hi-Desert Memorial Health Care District Foundation (new Foundation) was formed by the District. The new Foundation is a California nonprofit public benefit corporation whose purposes are (1) to develop resources, funding and community support for the benefit of the District, (2) to solicit and maintain gifts of money and property and to distribute money and property to the District for use in its operations and expansion of health care systems in the community, (3) to engage in and conduct charitable activities and, (4) to promote and carry on such activities as may be deemed advisable for the betterment of the general health of the communities it serves. The new Foundation had no operating activities through June 30, 2011.

RESOLUTION NO. 3159

Long-Term Debt

At the end of FY 2010-11, the District had total debt outstanding of \$13.20 million. All debts are scheduled to mature by 2033. As of June 30, 2011, from 2012 until 2033, total debt service requirements are scheduled to be \$19.7 million (\$13.8 million in principal and \$5.9 million in interest). Debt consists of the following:

- Refunding Revenue Bonds, Series 1998: \$8.64 million; 5.1% to 5.5% interest
- Revenue Bonds, Series 2002: \$4.49 million; 5.8% to 6.25% interest
- Equipment contract payable: \$61,667; 5.5% interest; matures October 2012

Subsequent Events

On July 1, 2011, the District entered into a master lease agreement with Banc of America Public Capital Corp. (Banc of America Public Capital Corp. is a subsidiary of Bank of America, National Association) for \$8,560,000. By recalling the 2008 bonds and obtaining the loan arrangement, the District will have the benefit of reducing interest expense by \$1,566,691 (present value \$1,411,319). The master lease agreement is collateralized by capital equipment, including the new CT Scanner and a pledge of securities (District investment) valued at no less than \$3,500,000. The outstanding balance is repayable in 84 monthly installments of \$110,920 each, including interest at 2.43%.

Additionally, the District is in the process of preparing a bond offering of \$8.7 million to finance the expansion of non-patient care construction (Phase 1) to expand the campus. The district may use the Cal-Mortgage program sponsored by the State of California to obtain bond insurance, depending on market conditions when the bonds are brought to market. Current plans also include placement of a \$15 million additional debt in 2013, for use in expanding patient care capacity in the main hospital building.

Net Assets

In reviewing the District's financial statements, net assets have steadily increased for the past five years. Since FY 2006-07, net assets have increased by 38%. The District's net assets increased by \$953,000 in 2011, increased by \$2,825,000 in 2010, and by \$8,195,000 in 2009. As of June 30, 2011, the District had \$42.3 million in net assets. Of this amount \$36.0 million (85%) is unrestricted. Therefore, most of the District's net assets are classified as unrestricted.

Net Assets

	2006-07	2007-08	2008-09	2009-10	2010-11
Net Assets – Governmental Activities					
Invested in capital assets – net of related debt	\$3,861,012	\$1,799,342	\$1,268,390	\$840,511	\$3,498,749
Restricted for:					
Debt Service	2,404,198	2,367,330	2,583,710	2,578,839	2,609,430
Specific Oper. Activities	84,670	53,089	72,499	75,578	148,904
Capital Assets	0	36,385	12,813	15,136	10,936
Unrestricted	24,204,444	27,177,052	34,560,076	37,812,734	36,007,655
Total Net Assets	\$30,554,324	\$31,433,198	\$38,497,488	\$41,322,798	\$42,275,674

RESOLUTION NO. 3159

Activities

Operating Revenues and Expenses

Operating Revenues have increased overall for the past three fiscal years, an increase of 7% since FY 2008-09. Similarly, Operating Expenses have increased as well, an increase of 13%. Salaries and wages have generally remained constant for the past three years, at 43% of total operating expenses. In FY 2009-10, the District hired staff that replaced registry contract labor. Similarly, employee benefits have generally remained constant for the past three years, at 13% of total operating expenses.

Even with the growth of Operating Expenses outpacing Operating Revenues, the result has been an annual surplus in Operating Revenue for this time frame. However, the annual surplus has decreased significantly with a gain of \$2,886,000 in 2009, \$1,387,000 in 2010, and \$225,000 in 2011.

Non-Operating Revenues and Expenses

During this time, Non-Operating Revenues and Expenses together have decreased from \$5.244 million to \$686,000. However, in fiscal year 2009, the District received a \$4.25 million distribution from the Elsinore Machris Gilliland Trust, via Hi-Desert Memorial Hospital, Inc. an unrelated charity (accounting for roughly half of the increase in Net Assets for the year). Hi-Desert Memorial Hospital, Inc. is one of six charities bequeathed by the Trust and has been sharing 50% of their revenue with the District for many years. The Hi-Desert Memorial Hospital Inc. of Yucca Valley was created in 1959 as a charitable entity registered with California Secretary of State. In October 2008 the Trust was liquidated and distributions were made to the charities. There is a modest amount of the distribution remaining with Hi-Desert Memorial Hospital, Inc. The District received \$120,000 from the charity in 2010 and \$5,000 in 2011.

The property taxes received are based on the assessed property values in the District. The amount of \$541,493 earned in FY 2010-11, \$573,431 earned in 2009-10 and \$609,839 in 2008-09 approximates a tax of two cents per one hundred dollars of assessed value. For FY 2010-11, this represents 0.9% of total revenue received.

RESOLUTION NO. 3159

	2009	2010	2011
Operating revenues:			
Patient service revenues, net of provision for uncollectible	\$54,278,076	\$57,190,212	\$58,455,681
Other revenues	565,198	580,585	287,286
Total operating revenues	54,843,274	57,770,797	58,742,967
Operating expenses:			
Salaries and wages	22,187,051	24,357,004	25,481,041
Employee benefits	6,738,620	7,651,539	7,833,278
Professional fees and contract labor	5,262,284	5,443,700	6,051,166
Supplies	6,489,562	7,546,879	7,622,070
Purchased services	3,118,592	3,409,675	3,341,802
Repairs and maintenance	1,686,065	1,856,118	2,004,627
Utilities and telephone	1,154,167	1,150,351	1,201,189
Building and equipment rent	327,810	305,008	387,776
Insurance	422,558	382,116	558,564
Depreciation	3,397,261	3,296,850	3,113,144
Other	1,173,444	984,823	922,990
Total operating expenses	51,957,414	56,384,063	58,517,647
Income (loss) from operations	2,885,860	1,386,734	225,320
Non-operating revenues (expenses):			
Tax revenues	609,839	573,431	541,493
Investment income	1,362,251	1,712,245	950,573
Non-capital contributions	4,422,973	132,662	93,721
Interest expense	(1,071,724)	(1,003,509)	(882,594)
Loss on retirement and disposal of capital assets	(79,038)	(6,253)	(16,927)
Total non-operating revenues	5,244,301	1,408,576	686,266
Income before capital contributions	8,130,161	2,795,310	911,586
Capital contributions	65,129	30,000	41,290
Increase in net assets	8,195,290	2,825,310	952,876

State and Federal Cutbacks

Hi-Desert Medical Center, like other hospitals across the state, is experiencing significant cuts to state and federal reimbursements. In December 2011, the federal agency that runs the Medicare program, the Center for Medicare and Medicaid Services (CMS), which also works to make sure that the beneficiaries in these programs are able to get high quality health care, has approved the state of California's request to reduce certain Medi-Cal provider payments by 10 percent.

The District's Community Care Center ("CCC") is now expected to lose \$900,000 in state Medi-Cal reimbursement this year. Centers such as the CCC often care for patients with complex medical needs or those who require specialized services not available in other

RESOLUTION NO. 3159

nursing homes. In addition to these drastic reimbursement reductions, the District is facing federal Medicare cuts, increased labor costs and increased charity care due to high unemployment in the Basin. The District has lost over three million dollars during the first four months of the current fiscal year.

The District's Board of Directors, responding to a "perfect storm" of the economy -- more people without health insurance, and reductions in payments to hospitals by state and federal payer sources -- reviewed senior management's recommendation of a reduction in work force during its February meeting. As a result, some management and non-management positions were reduced from the District's workforce. According to the District's press release, the delivery of direct patient care is not affected by this reduction. Position eliminations also occurred through attrition and management consolidations.

Cash and Cash Equivalents

Considering net assets does not indicate if an agency has enough liquidity to operate short and long-term operations. The chart below shows cash and investments for the past four fiscal years. Changes in the District's cash flows are consistent with changes in operating income and non-operating revenues and expenses. There was a decrease in cash (Deposits) of \$801,000 in fiscal FY 2010-11, a decrease of \$870,000 in 2009-10 and an increase in cash of \$531,000 in 2008-09. The construction projects and the procurement of computerized medical records systems have taken significant amounts of cash which was supplied by operations and by a \$2.5 million sale of investments in 2010-11.

Cash and Cash Equivalents

	FY 2007-08	2008-09	2009-10	2010-11
Cash & Cash Equivalents				
Cash on hand	\$1,880	\$1,950	\$2,250	\$2,250
Deposits with financial institutions	2,834,477	3,364,946	2,495,074	1,693,856
Total cash & cash equivalents	2,836,327	3,366,896	2,495,074	1,696,106
Investments				
U.S. Treasury obligations	2,115,643	8,864,562	8,652,990	6,593,023
U.S. Agencies securities	8,817,408	8,587,808	9,978,783	8,205,936
Mortgage backed securities	409,736	424,551	618,658	557,095
Corporate bonds & notes	3,672,183	6,736,585	9,781,761	11,288,773
Negotiable certificates of deposit	1,622,899	1,749,545	1,472,324	1,059,804
Investment contract held by trustee	1,334,018	0	0	0
Money market mutual funds	1,178,340	3,479,113	2,900,166	2,923,509
Total investments	19,150,227	29,842,164	33,404,682	30,625,845
Total deposits & investments	\$21,986,554	\$33,209,060	\$35,902,006	\$32,321,951

Appropriation Limit (Gann Limit)

Article XIII B of the State Constitution, the Gann Spending Limitation Initiative (in 1979, the voters amended the California Constitution by passing Proposition 4, the Gann Initiative), mandates local government agencies receiving the proceeds of taxes to establish an appropriations limit. Without an appropriations limit, agencies are not authorized to expend

RESOLUTION NO. 3159

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 and the former Twentynine Palms Hospital District for FY 1977-1978 was \$0.1900 and 0.0650, respectively, 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 is the Commission's position that 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).

However, in response to questions raised during the service review for the other two healthcare districts in the County, LAFCO Legal Counsel has provided its opinion, included as a part of Attachment #3, that there is no clear legal authority as to whether or not an appropriations limit applies to healthcare districts. Some healthcare districts in California establish annually appropriations limits according to the Gann Initiative and others do not. Based upon the differences outlined in the opinion provided by LAFCO Legal Counsel, the Commission determined to seek an Attorney General opinion on the question of whether the provisions of Article XIII B of the State Constitution (appropriations or "Gann" limit) apply to healthcare districts. The LAFCO is currently working with local Legislators and the County to request this opinion from the Attorney General to resolve these questions.

This determination has been reviewed with the District. In response, the District in its letter to LAFCO dated April 5, 2012, states that it will await the opinion of the Attorney General and will abide by the opinion without reservation. A copy of the District's letter is included as Attachment #4.

Post-Employment Benefits

Pension

The District provides a single employer defined contribution pension plan covering regular full-time employees who are at least 21 years old and have six months' service with the HDMC. Employer funding into the plan is based on a contribution level equal to 1% of compensation, plus 1% of compensation in excess of the Social Security Compensation Base in effect at the beginning of each plan year. The plan complies with section 401a of the Internal Revenue Service. The District also funds a matching contribution equal to 50% of the employee's contributions made into a 457 Deferred Compensation Plan. Deferrals in excess of 4% are not matched. The District's matching 457 plan contributions are deposited into the 401a plan. All funds of the plans are maintained and administered by the Variable Annuity Life Insurance Company (VALIC) and ING/Aetna Financial Services. Employees become fully vested in their accounts after five years of service. The District's contributions to the plans for the years ended June 30, 2011 and 2010 are \$430,234 and \$363,320, respectively.

Other Post-Employment Benefits

No other post-employment benefits were identified in the financial statements.

RESOLUTION NO. 3159

Filing Requirements

Government Code Section 26909 requires districts to file a copy of its annual 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 January 2011 for FY 2009-10. The audit for FY 2011-12 is due to the County Auditor by June 30, 2012.

5. Status of, and opportunities for, shared facilities:

The District has identified that it does not currently share facilities, nor are there opportunities for shared facilities, with other agencies. However, the District does allow for the use of its conference rooms for meetings with local community groups and others.

The American Recovery and Reinvestment Act, and the Health Information Technology for Economic and Clinical Health (HITECH) acts of 2009 provided incentives for health care investments for electronic medical records systems that meet a “meaningful use” criterion. By meeting the meaningful use criterion the District could receive aggregate federal funds of \$3.2 million in the years 2013 through 2016.

6. Accountability for community service needs, including governmental structure and operational efficiencies:

A. Government Structure and Accountability for Community Service Needs

The District is an independent special district governed by a five-member board of directors elected 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 four elections were held for District membership since 1996 (exactly half the eight November elections) with three of the current members appointed in-lieu of elections. The report further states that special district elections typically have very low voter turnouts. Since the District holds its elections as a part of the consolidated November election, this is not the case for this district. The District publishes regular newsletters and health related information. The current board, positions, and terms of office are shown below. In March a director resigned from the Board and at its April 16 hearing the Board appointed a replacement to complete the balance of the term (November 2012).

Board Member	Title	Term	Elected/Appointed
Dianne Swella, D.C.	President	2014	Elected 2010
Pat Cooper	Vice President	2012	Appointed 2008
Korina Cole	Secretary	2014	Elected 2010
Paul Hoffman	Treasurer	2012	Appointed 2008
Martie Avels	Director	2012	Appointed 2012

RESOLUTION NO. 3159

Regular Board Meetings are scheduled at 6:00p.m. on the second Tuesday of each month at the Hi-Desert Medical Center, Helen Gray Building, at 6601 White Feather Road in Joshua Tree. Agendas and minutes for the Board and its committees (Financial, Human Resources, Governance, Quality, Joint Conference, Facilities and Technology) are posted on the District's website (www.hdmc.org). 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.

B. Operational Efficiencies

The District did not identify any operational efficiencies. Due to the District being the sole acute and emergency medical care provider in the Morongo Basin, joint practices with other agencies does not occur.

The District's Continuing Care Center (CCC) earned the 2011 Excellence in Programing Award from the California Association of Health Care Facilities (CAHF).

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 District has indicated that it does not provide any direct services outside its boundaries.

Conversely, the District provides healthcare services at its facilities to those that reside outside of its boundaries that require care. Two percent of the District's patients originate from the Morongo Valley, which is outside of the District's boundary but within its sphere of influence. Part-time residents, visitors, and travelers can receive services from the District through its facilities. Additionally, the Hi-Desert Medical Center receives ambulances (except for trauma) from outside the District's boundaries from the Johnson Valley and area east of Wonder Valley. This area corresponds to the Ambulance Exclusive Operating Area (EOA) assigned by ICEMA and reflects the true service area of the District.

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 ("Local Agency Formation Commission Municipal Service Review Guidelines", State of California Governor's Office of Planning and Research, August 2003) and the Commission 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

RESOLUTION NO. 3159

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.

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.

1. Expansion of boundaries to include the Morongo Valley. Two percent of the District's patients originate from the Morongo Valley, which is outside of the District's boundary but within its sphere of influence. Expansion of the District into the Morongo Valley would allow for those within Morongo Valley to participate in District elections. However, it is unlikely that the County would transfer a portion of its share of the one percent general ad valorem property tax to the District. Therefore, there would be no financial benefit for the District to annex the area.
2. Maintenance of the status quo. The District offers the only inpatient services available within a 37 mile radius and provides the only emergency room in the Morongo Basin. The services that the District provides are necessary, and this scenario retains the existing structure.

The Commission does not identify any potential governmental structure changes at this time for further discussion with the District and/or its constituents.

WHEREAS, the following determinations are made in conformance with Government Code Section 56425 and local Commission policy:

1. Present and Planned Uses:

The study area includes the Town of Yucca Valley, the City of Twentynine Palms and County territory (which include lands within the Joshua Tree Community Plan area, and portions of the Morongo Valley Community Plan and the Homestead Valley Community Plan areas). For the entirety of the study area approximately 71.3% is designated Resource Conservation (comprising mostly of the BLM lands, the Marine Base, and the Joshua Tree National Park area), 19.3% Rural Living, 0.8% Single Residential, 0.1% Multiple Residential, 0.2% Commercial, 0.1% Industrial, and 0.6% are designated Open Space, Floodways, and Institutional land uses. The remainder 9% of the total area is the urban core of the Town of Yucca Valley (3.1% of overall area) and the City of Twentynine Palms (4.5% of overall area).

Town of Yucca Valley

The current land use designation within the Town of Yucca Valley (based on the Town's General Plan originally adopted in 1995) includes approximately 17% Hillside Reserve, 49% Rural Living, 20% Single-Family Residential, 2% Multi-Family Residential, 4% Commercial, 4% Industrial, and 4% Public/Quasi Public and Open Space.

RESOLUTION NO. 3159

City of Twentynine Palms

The current land use designation within the City of Twentynine Palms (based on the City's General Plan originally adopted in October 2001 and amended in March 2002) includes approximately 43% Rural Living, 32% Single-Family Residential, 6% Open Space Residential, 3% Multi-Family Residential, 4% Commercial, 3% Industrial, 3% Public and Floodway, and 6% Military (portion of the City within the Marine Corps Air Ground Combat Center).

The City of Twentynine Palms is currently in the process of updating its General Plan, which is tentatively scheduled for adoption sometime in 2012. If the City adopts the new General Plan Land Use and Zoning Map, the land uses will generally be the same compared to its current designations except for a few minor changes. Some of the changes include a new land use designation identified as the Downtown Economic Revitalization Specific Plan Area (Approximately 95 acres) which replaces some of the current General Commercial and Multi-family Residential-Specific Plan land uses within the downtown area, a Tribal Land designation (approximately 160 acres) previously designated Public, and additional lands designated as Public (100 acres) previously designated Rural Living 5 acres.

Within its entire sphere, roughly 73% of the land is public, which represent primarily the Twentynine Palms Marine Corps Air Ground Combat Center along the northern section of the District, Bureau of Land Management (BLM) lands along the eastern section of the District (mainly along Sheep Hole Mountain on the east and the Twentynine Palms Mountain on the southeast) and the Joshua Tree National Park along the south, which are lands administered by the U.S. National Park Service. The remainder 27% of the land is privately owned.

The area being proposed for reduction from its current sphere of influence is the the entirety of the Twentynine Palms Marine Corps Air Ground Combat Center. The proposed sphere reduction area has limited access and has no development potential since this land area is within the military facility.

There are two areas being proposed to be added to the District's sphere of influence:

- Area 1 encompasses lands westerly of the District that include portions of the Johnson Valley area of the Homestead Valley community and the rest of the Morongo Valley community on the southwest. The rest of the area includes lands between both communities. Most of the area is designated as Resource Conservation with some scattered residential (within the Homestead Valley and Morongo Valley communities) designated as Rural Living (RL, RL-5, and RL-10).
- Area 2 encompasses lands easterly of the District comprised of public lands designated as Resource Conservation.

2. Present and Probable Need for Public Facilities and Services:

The District has a total of 179 licensed beds and offers the only inpatient services available within a 37 mile radius. In 1994, the hospital campus expanded with the addition of an imaging and outpatient surgery center and laboratory in the community of Yucca Valley; outpatient behavioral health services were added in 1997; maternity services were added as

RESOLUTION NO. 3159

a new service line in 2003; and rural health clinics in both Yucca Valley and Twentynine Palms were added to the service line in 2007.

Capital Improvements

In May 2009, the Board of Directors approved the purchase of a 64 Slice Computed Tomography (CT) scanner to augment the existing single slice CT. In 2010 the District spent \$2,076,146 to acquire capital assets, and in 2009 \$1,940,166 was spent to acquire new assets. In 2011, the District purchased new equipment and other capital assets totaling \$4,901,000.

The American Recovery and Reinvestment Act, and the Health Information Technology for Economic and Clinical Health (HITECH) acts of 2009 provided incentives for health care investments for electronic medical records systems that meet a "meaningful use" criterion. The District has capitalized \$204,000 for two of these systems in fiscal 2011, and has made progress payments of \$336,000 on two systems that are being implemented. Further additions to the electronic medical record are scheduled for 2012. By meeting the meaningful use criterion the District could receive aggregate federal funds of \$3.2 million in the years 2013 through 2016.

Hospital Expansion Project

Management has completed a master site plan for the HDMC in order to address seismic retrofit requirements and the need to increase capacity for patient care in the main hospital building. A multi-phase project is currently underway. The first phase includes construction of a waste water treatment facility, a maintenance building, a professional office building, and road and parking improvements. This will occur on owned property adjacent to the main hospital building, and is expected to cost \$7,058,000. \$980,000 has been spent with internal generated funds leaving a cost to complete of \$6,078,000. Support services that do not require a hospital presence will be relocated to the new buildings.

Phase two of the project will include the build-out of vacated space in the main hospital building to accommodate an expanded pharmacy, expanded central sterile facilities, relocation of laboratory services to an existing outpatient building, renovation and relocation of certain departments and the addition of a new central corridor in the HDMC. Management estimates the phase two project will cost approximately \$12,835,000 and expects to finance phase two with proceeds of another revenue bond issue of approximately \$15,000,000, a capital campaign, and internally generated funds.

The phase three and four projects will include replacing plant operations with a new central utility plant and an expansion of surgery services. Management estimates that phases three and four will cost approximately \$31,218,000. Funding sources are yet to be determined.

Strategic Plan

The District adopted a Strategic Plan in 2009 to guide the District's growth through 2012. It included an assessment of strengths, weaknesses, opportunities and threats, strategies, goals, and objectives (copy included in Attachment #2). This year the District will be updating its Strategic Plan for the years 2013-15. As a part of the update, it will hold three Town Hall meetings in March 2012 (in Twentynine Palms, Joshua Tree, and Yucca Valley) to

RESOLUTION NO. 3159

hear from residents about the services it provides, along with residents' thoughts for future programs and services.

3. Present Capacity of Public Facilities and Adequacy of Public Services

The District's facilities are comprised of the Hi-Desert Medical Center ("HDMC") (to include a Continuing Care Center and a 120 bed skilled nursing facility) and clinics in Yucca Valley and Twentynine Palms. Services include inpatient and outpatient diagnostic treatment and rehabilitation services, home health and hospice services and a variety of community outreach services which include an outpatient surgical center, behavioral health, prenatal education center, family birthing center and family health clinics. The hospital was built in 1976 and is currently licensed for 59 beds: 55 acute-care beds and four labor and delivery beds. The hospital includes a 24-hour emergency room and is located in Joshua Tree, approximately the center of the District, with clinics to the west (Yucca Valley) and east (Twentynine Palms). In 1990, the Continuing Care Center was completed and licensed as a skilled nursing facility with 120 beds, including 25 sub-acute beds.

The District provided a chart which outlines the patient and service activity for the past four fiscal years. Patient days and service at the Continuing Care Center have decreased since FY 2007-08 while outpatient and other services have increased. The District's analysis for these categories and its plans for the future are addressed in its *Strategic Plan* and *Market Demand Analysis*.

The origin of the District's patients ranges throughout the Morongo Basin. The most recent data provided to LAFCO for this review is from 2007, shown below with a population percentage comparison. The Morongo Valley community is not within the Agency's boundary and comprises 5% of the total patient population. However, 2% of the District's patients originate from the area. As identified to LAFCO, many in Morongo Valley travel to the Desert Regional Medical Center in Palm Springs, which is roughly equidistant to the HDMC in Joshua Tree. As for the Marine Base, a significant amount of the population does not travel to the HDMC or its clinic in Twentynine Palms and presumably receives care on the base.

Patient Origin	2007 Origin Percentage	2010 Population Percentage
Yucca Valley	44%	31%
Twentynine Palms	26%	26%
Joshua Tree	19%	15%
Landers	5%	10%
Morongo Valley (not in Agency boundary)	2%	5%
Pioneertown	0%	0%
Marine Base	4%	13%

In 2007, the District had a 50% market share of all inpatients discharged who reside in zip codes defined as the hospital's primary and secondary service areas. However, the hospital held a 64% market share of all discharged inpatients from primary and secondary service areas that either had no insurance or had Medi-Cal benefits. This patient population is less likely to be directed outside the community for healthcare services and is more likely to encounter difficulty with transportation to access care further away. Moreover, this supports

RESOLUTION NO. 3159

an opportunity for the District to become more clinically attractive to assure patients that may otherwise leave the area for care elsewhere.

FY 2008-09 through 2010-11

The District's financial statements since FY 2008-09 provide additional information on the District's volume of services provided:

- The volume of services provided at the Medical Center showed significant increase from 2008, with a 7% increase in acute patient days, and a 15% increase in outpatient visits. Only modest volume increases occurred in 2008 when compared with 2007 service volume.
- The 2010 inpatient volume of services provided at the Medical Center showed a slight decrease compared to 2009, with a 3% decrease in acute patient days; and a 9% increase in outpatient visits in comparison with 2009. Volumes for 2009 showed significant increases from 2008, with a 7% increase in acute patient days and a 15% increase in outpatient visits. District outpatient growth continues to be strong.
- The 2011 inpatient volume of services provided at the Medical Center showed a decrease of 8.8% in acute patient days compared to 2010; and a 4.4% decrease in outpatient visits in comparison with 2010. Volumes for 2010 showed a 3% decrease in acute patient days and a 9% increase in outpatient visits in comparison with 2009. The Emergency Department continues to show increased growth and completed the 2011 fiscal year with 24,959 visits, 3.5% above budget.

According to the Strategic Plan, contributions made to the community by the District go beyond healthcare services. As Morongo Basin's third largest employer, the District provided 450 permanent jobs and \$28.2 million in wages and paid-time-off benefits to its employees in FY 2008. Additionally, HDMC purchased \$ 9.2 million in taxable supplies, services and equipment in the same period and paid \$720,000 in sales tax. Payment to local businesses for supplies, repairs and maintenance and professional services is estimated to have contributed an additional \$4 million to the local economy. The District HDMC employees and their families further support local businesses and the tax base.

Critical Issues

The Strategic Plan identifies critical issues due to socioeconomic and market force issues, patient utilization, patient access, and unmet healthcare needs.

- *HDMC is the sole provider of emergency and acute care and ancillary diagnostics within a 37 mile radius.*
- *In 2008 HDMC absorbed \$3 million in costs for unreimbursed care. The troubled economy, growth in unemployment and an increasing number of uninsured patients will further challenge HDMC's fiscal stability.*
- *HDMC lacks some sub-specialty medical staff needed to provide the office-based, emergency room back up, and inpatient services the community needs. As a result, patients unable to access care locally must seek specialty healthcare outside their community and emergency patients often require transfer to clinical facilities elsewhere.*

RESOLUTION NO. 3159

- *The age distribution, economic profile of the community, and the shortage of industry or large employer base will continue to result in increasing demand for services for uninsured and underinsured patients.*
- *The County hospital is located 75 miles away preventing Hi-Desert patients from reasonable access to safety-net clinical services.*
- *HDMC's emergency department is a vital safety net for patients seeking urgent medical care. Customer satisfaction and consistent delivery of quality services are key to improved community perception of HDMC.*
- *Low reimbursement and payer mix are major obstacles to physician recruitment and retention.*
- *HDMC has historically had a passive relationship with large local employers (i.e.: Town of Yucca Valley, City of Twentynine Palms, civilian employees on the Base, Morongo Unified School District, Copper Mountain College and the utility companies).*

Response Strategies

The above critical issues led the District to adopt the following six response strategies in its 2009 Strategic Plan. The District plans to take appropriate steps to:

1. *Measurably improve the quality and scope of existing services and patient safety.*
2. *Determine the healthcare needs of the District and create and foster alliances to meet those needs.*
3. *Build, sustain and grow the best people.*
4. *Assess existing services for viability and create sustainable, measurable growth through new services and additional patient volume.*
5. *Measurably improve service to the customer.*
6. *Ensure financial capabilities to support present and future District programs and services.*

In addition to statewide healthcare economic issues, the District faces other challenges that are inherent in the local community. The majority of the population is under the age of 50, and the median household income is significantly below the state average. According to the Strategic Plan, the absence of large employers in the area, other than healthcare and education, further increases the probability health insurance and healthcare will be less likely to be sought outside of the emergency room or during a catastrophic event when the cost to deliver the care would be far less expensive. The District has seen the effects of this through an increase of patients using emergency room services in lieu of a family physician or pediatrician.

Market Demand Analysis

In the same year as the adoption of the Strategic Plan, the District contracted for a study (Market Demand Analysis) to provide a demand forecast and capacity projections for the hospital focusing on its Intensive Care Unit (ICU) and Obstetric (OB) services including C-section operating suite capabilities (copy included in Attachment #2).

The Market Demand Analysis identifies the following as its findings:

- *It is the finding of this report that HDMC is currently significantly under-bedded in Obstetrics ("OB"). The unit has been running at 80% occupancy and is full and overflowing (with more than four patients) 38% of the time.*

RESOLUTION NO. 3159

- *The lack of adequate bed availability to meet demand exists while HDMC has realized only a 50% OB market share for primary and secondary service area deliveries. Based on these findings, there is ample market share growth potential for the service at HDMC.*
- *Based on the industry standards for ORs per C-section rates, the current OR in the OB service is adequate and will continue to be adequate even with future market demand and growth.*
- *We project the demand for HDMC requires expanding its Obstetrical unit from four beds to twelve beds. Consistent with present treatment approaches, the existing four LDRPs (Labor, Delivery, Recovery, and Postpartum) should be used as LDRs (Labor, Delivery, Recovery) and eight post-partum beds should be added.*

4. **Social and Economic Communities of Interest:**

The Morongo Basin is recognized as a distinct region of the county for designation of the types of services to be delivered. Within this primary region are the social communities of interest which include the Morongo Valley, Homestead Valley (Landers and Flamingo Heights), Yucca Valley (Town of Yucca Valley, Yucca Mesa, and Pioneertown), Joshua Tree community, Twentynine Palms, and Wonder Valley. The District is within the Morongo Unified School District, which serves the entire Morongo Basin.

Economic communities of interest are the commercial activities along the Highway 62 corridor, Hi-Desert Medical Center, Joshua Tree National Park, and the Twentynine Palms Marine Corps Air Ground Combat Center.

5. **Additional Determinations**

- As required by State Law notice of the hearing was provided through publication in a newspaper of general circulation, the *Hi-Desert Star*. 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.
- 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 April 4, 2012, LAFCO staff met with the agency 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.
- Comments from landowners/registered voters and any affected agency have been reviewed and considered by the Commission in making its determinations.

RESOLUTION NO. 3159

the members present, as the same appears in the Official Minutes of said Commission at its meeting of May 16, 2012.

DATED:

KATHLEEN ROLLINGS-McDONALD
Executive Officer

DRAFT