LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY

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PROPOSAL NO.: **LAFCO 3106**

HEARING DATE: **February 15, 2012**

RESOLUTION NO. 3149

A RESOLUTION OF THE LOCAL AGENCY FORMATION COMMISSION OF THE COUNTY OF SAN BERNARDINO MAKING DETERMINATIONS ON LAFCO 3106 – A SERVICE REVIEW AND SPHERE OF INFLUENCE UPDATE FOR THE SAN BERNARDINO MOUNTAINS COMMUNITY HEALTHCARE DISTRICT (sphere of influence reduction by approximately 13,975 acres, expansion by approximately 10,485 acres, and affirmation of the balance of its existing sphere of influence, as shown on the attached map).

On motion of Commissioner Cox, duly seconded by Commissioner Coleman, 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 January 18, 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 provisions of the California Environmental Quality Act (CEQA) and such exemption was adopted by this Commission on January 18, 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 San Bernardino Mountains Community Healthcare District (hereafter shown as the "SBMCHD" 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 2 (containing approximately 1,080 acres), Area 3 (containing approximately 320 acres), Area 4 (containing approximately 7,475 acres), Area 5 (containing approximately 1,420 acres), Area 7 (containing approximately 2,300 acres), and Area 8 (containing approximately 1,380 acres);

(2) Expand the District's sphere of influence to include Area 1 (containing approximately 9,100 acres related to the Crest Forest community) and Area 6 (containing approximately 1,385 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 January 9, 2012 and received and filed by the Commission on January 18, 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

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.

The District overlay 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.

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.

Land Ownership Breakdown (in Acres)			
SBMCHD	**Private**	**Public**	**Total Area**
Boundary & Sphere	14,660	23,290	37,950

Population Projections

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%*
TOTAL	**18,066**	**19,886**	**21,893**	**24,106**	**26,546**	**29,237**	**32,203**	***78.3%***

Community	Build-out	2030 as % of
Lake Arrowhead Community	61,871	36%
Hilltop Community	27,376	35%
TOTAL	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%; and 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.

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

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	Change 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
Totals	8,396	8,136	8,842	260	(706)
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.

3. Financial ability of agencies to provide services:

The Commission has reviewed the District's budgets and audits, State Controller reports for special districts, and County filing records.

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**
Net Assets					
Invested in capital assets – 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
Total Net Assets	**$8,312,959**	**$7,780,608**	**$4,367,000**	**$3,100,200**	**$3,494,650**
*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.

	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 was 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. The chart below is taken from the District's Fiscal Year 2012 Budget:

REVENUE:	
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
EXPENSES:	
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)
NONOPERATING REVENUE (EXPENSES):	
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 July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within 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 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 XIIIB of the California Constitution, the Gann Spending Limitation Initiative (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, identified as the Gann Limit), 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 XIIIB allows the SBMCHD to designate a portion of fund balance of general contingencies to be used in future years without limitation.

At the February 15, 2012 hearing, the Commission reviewed and considered a Legal Opinion submitted by LAFCO Legal Counsel related to the applicability of Article XIIIB to Healthcare Districts, a copy is on file in the LAFCO office, that addresses differences of opinion between the Commission and the Bear Valley Community Healthcare District. The Legal Opinion identifies 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 determines to seek an Attorney General opinion on the question of whether the provisions of Article XIIIB of the State Constitution (appropriations or "Gann" limit) apply to healthcare districts, which may apply to the District.

The District is required to provide a ballot measure every four years that acts as a reaffirmation of the district's appropriations limit by separate determination. 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 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.

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

SBMCHD and Bear Valley Community Healthcare District 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.

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

Local Government Structure and Community Service Needs

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." A review of records available though the County Registrar of Voters identifies that two elections were held for SBMCHD membership since 1996 (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) 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 and agenda are not included on the website as required by law, nor are the minutes included on the website. SBMCHD District publishes regular newsletters and health related information. The current board, positions, and terms of office are shown below:

Board Member	Title	Term	Elected/Appointed
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

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.

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.
- Both SBMCHD and the Bear Valley Community Healthcare 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.

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, SBMCHD has indicated that it does not provide any services outside its 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.

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, which were adopted by San Bernardino LAFCO as its guidelines in May of 2003. 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.

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 Bear Valley Community Healthcare District. 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 Bear Valley Community Healthcare District 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 Bear Valley Healthcare District 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 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, additional 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 the Commission 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 provided, 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 SBMCHD states its preference for this scenario at this time.

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 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.

2. Present and Probable Need for Public Facilities and 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 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.

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

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 patent 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.

4. Social and Economic Communities of Interest:

The SBMCHD and the Bear Valley Community Healthcare District 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.

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.

5. Additional Determinations

- As required by State Law notice of the hearing was provided through publication in a newspaper of general circulation, the *Alpenhorn*. 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 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.

- Comments from landowners/registered voters and any affected agency have been reviewed and considered by the Commission in making its determinations.

WHEREAS, pursuant to the provisions of Government Code Section 56425(i) the range of services provided by the San Bernardino Mountains Community Healthcare District shall be limited to the following:

FUNCTIONS	SERVICES
Healthcare	Establish, acquire, maintain and/or operate one or more healthcare facilities; operation of acute care and continual care hospital facility

WHEREAS, having reviewed and considered the findings as outlined above, the Commission determines to reduce the San Bernardino Mountains Community Healthcare District's existing sphere of influence by approximately 13,975 acres, expand its sphere of influence by approximately 10,485 acres, and affirms the balance of its existing sphere of influence.

NOW, THEREFORE, BE IT RESOLVED by the Local Agency Formation Commission of the County of San Bernardino, State of California, that this Commission shall consider the territory

shown on the map attached as Exhibit "A" as being within the sphere of influence of the San Bernardino Mountains Community Healthcare District; it being fully understood that establishment of such a sphere of influence is a policy declaration of this Commission based on existing facts and circumstances which, although not readily changed, may be subject to review and change in the event a future significant change of circumstances so warrants.

BE IT FURTHER RESOLVED that the Local Agency Formation Commission of the County of San Bernardino, State of California, does hereby determine that the San Bernardino Mountains Community Healthcare District shall indemnify, defend, and hold harmless the Local Agency Formation Commission of the County of San Bernardino from any legal expense, legal action, or judgment arising out of the Commission's designation of the modified sphere of influence, including any reimbursement of legal fees and costs incurred by the Commission.

THIS ACTION APPROVED AND ADOPTED by the Local Agency Formation Commission of the County of San Bernardino by the following vote:

AYES:	**COMMISSIONERS:**	**Bagley, Coleman, Cox, Derry, McCallon, Mitzelfelt, Smith**
NOES:	**COMMISSIONERS:**	**None**
ABSENT:	**COMMISSIONERS:**	**Curatalo (Smith voting in his stead), Rutherford (Derry voting in her stead)**

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STATE OF CALIFORNIA)
) ss.
COUNTY OF SAN BERNARDINO)

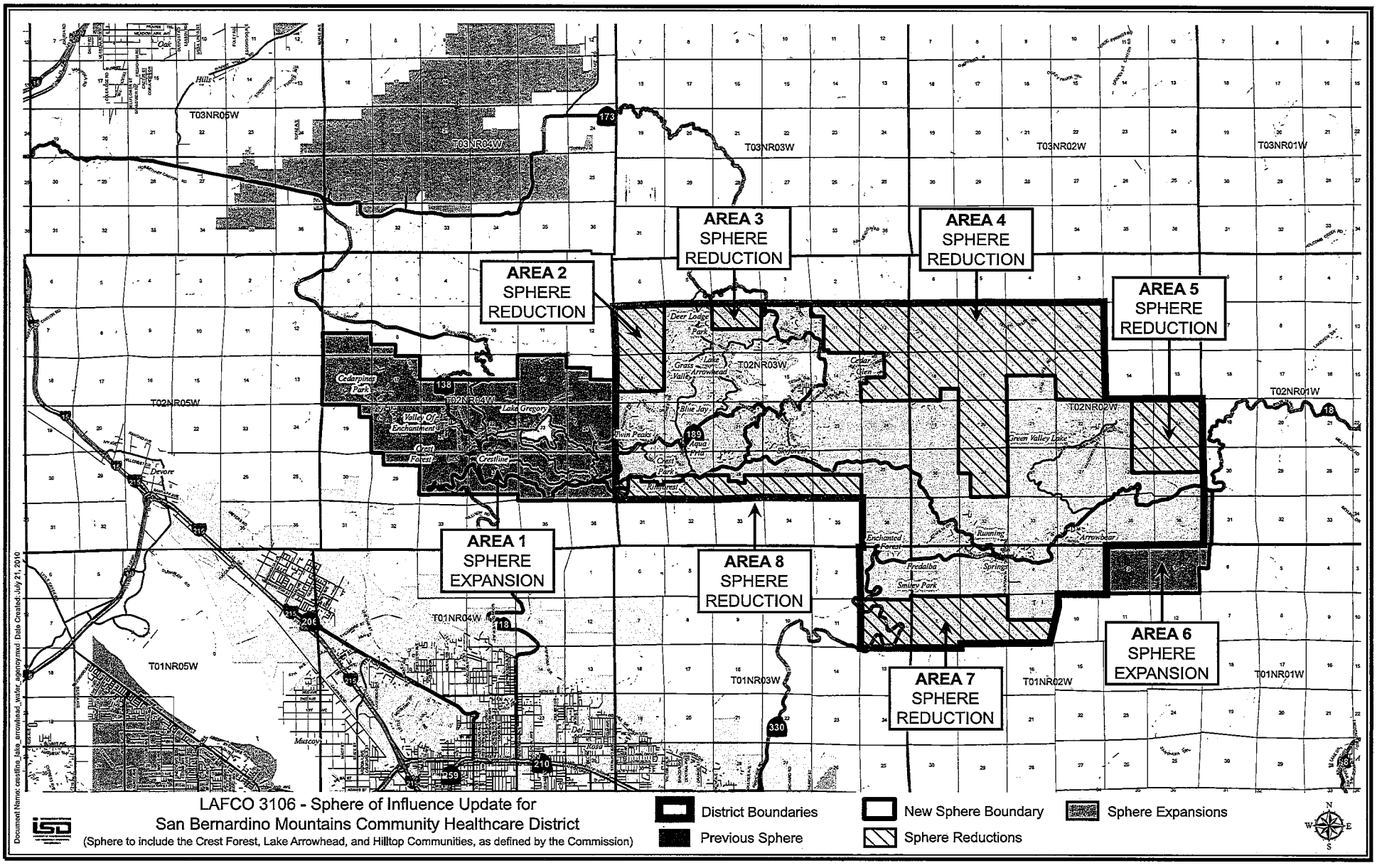
I, KATHLEEN ROLLINGS-McDONALD, Executive Officer of the Local Agency Formation Commission of the County of San Bernardino, California, do hereby certify this record to be a full, true, and correct copy of the action taken by said Commission, by vote of the members present, as the same appears in the Official Minutes of said Commission at its meeting of February 15, 2012.

DATED: February 16, 2012

LOCAL AGENCY FORMATION COMMISSION CO. OF SAN BERNARDINO

KATHLEEN ROLLINGS-McDONALD
Executive Officer

EXHIBIT A



LAFCO 3106 - Sphere of Influence Update for
San Bernardino Mountains Community Healthcare District
(Sphere to include the Crest Forest, Lake Arrowhead, and Hilltop Communities, as defined by the Commission)

District Boundaries
Previous Sphere
New Sphere Boundary
Sphere Reductions
Sphere Expansions

EXHIBIT A