



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: PAR 22-010, **Version:** 3

Receive a preliminary analysis report in response to **Board Referral No. 2022.03** seeking to support efforts to keep the Watsonville Community Hospital open and operating through the expedited purchase of the hospital by the Pajaro Valley Healthcare District Project.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Receive a preliminary analysis report in response to **Board Referral No. 2022.03** and:
 - 1) Direct that staff proceed with completion of referral based on description in this report; or,
 - 2) Direct that staff:
 - i. Proceed with completion of referral based on modifications by the Board; or,
 - ii. Return to Board with a more comprehensive analysis of referral and anticipated effort for completion; or,
 - iii. Rescind referral.
- b. Provide further direction, as appropriate.

PRELIMINARY ANALYSIS:

Referral Summary & Background: Board Referral No. 2022.03 assigned on February 1, 2022 requests that the Monterey County Health Department, Natividad Medical Center and its Board of Trustees and the County Administrative Office provide their expertise and recommendations to support the Watsonville Community Hospital.

The Watsonville Community Hospital (WCH) is a primary provider of quality healthcare for residents of North Monterey County and South Santa Cruz County including the City of Watsonville. It serves a truly diverse community that includes many disadvantaged working families. Although not the total population of the proposed district, Watsonville has a population of 53,800. In north Monterey County, the communities of Pajaro and Las Lomas are home to over 6,500 individuals, with 85% or more identifying as Hispanic/Latinx. Pajaro is identified in Quartile 1 of the Healthy Places Index and Las Lomas in Quartile 3, indicating these communities have significantly greater challenges and community conditions that prevent community members from achieving greater health outcomes. WCH has 106 beds, employs more than 620 personnel and has a medical staff of over 200 physicians. WCH is currently owned by Halsen Healthcare who filed for bankruptcy on December 6, 2021. As part of the bankruptcy proceeding there is a deadline for bids on the purchase of WCH on February 14, 2022 and a sale hearing on February 23, 2022.

There is pending legislation, Senate Bill 418 by Senator John Laird, that is moving quickly through the California legislature having passed the Assembly on January 27, 2022, and is expected to soon reach Governor Gavin Newsom's desk for signature. SB 418 would create a California Healthcare District to administer and operate the Watsonville Community Hospital under a purchase by the Pajaro Valley Healthcare District Project (PVHDP), as a non-profit organization. The originating members of the PVHDP are County of Santa Cruz, City of Watsonville, Community Health Trust of Pajaro Valley and Salud Para La Gente. There are currently more than 70 healthcare districts throughout the state of California.

The PVHDP is also seeking funding from the State and local partners to support the purchase. A representative from PVHDP agreed to present at your Board meeting their request from Monterey County and articulate their proposal. On January 18, 2022, the Central California Alliance for Health approved a one-time \$3 million grant for acquisition of WCH. On January 25, 2022, the Santa Cruz County Board of Supervisors approved allocating \$5 million towards the purchase, contingent on a successful bid for the purchase. The City of Watsonville is also considering providing financial support towards the acquisition of WCH.

Proposed Project Description: The PVHDP formed to create community-led healthcare services in the Pajaro Valley and keep the Watsonville Community Hospital (WCH) open and convert it back to community ownership. PVHDP has finalized an Asset Purchase Agreement with the WCH and is filed in court. It is the lead bidder. To date, PVHDP has enjoyed the support of organized labor, local businesses, political leaders and healthcare partners.

PVHDP needs to secure a total of \$76 million for the successful acquisition of WCH. This does not include the real estate assets. PVHDP is requesting \$40 million from the State. Remaining funds are being requested from local partners and private philanthropy.

The PVHDP has reported:

- The hospital has been under for-profit ownership for 21 years and the hospital administration has changed 20 times during this time period.
- It was sold to Halsen Healthcare in 2019, a company without history of operating a hospital. The real estate was subsequently purchased by Medical Properties Trust (MPT), a real estate investment trust, and then leased back to the Halsen Healthcare. The cost of the lease was significantly above market. Halsen Healthcare went into default and MPT brought in a new operator Prospect Holdings which had a high management fee.
- In 2020 and 2021 during the COVID pandemic, the hospital experienced rising costs of labor and supplies. WCH suffered losses of \$22 million in 2021.
- Lacked opportunity to negotiate favorable terms with vendors and payers.
- Going into bankruptcy, the billing and accounts receivable management system failed with as much as \$10 million in uncollected fees.

PVHDP has presented a Business Plan that projects the loss turning positive by 2023 and a margin growing to 6% by 2026. The proposed Business Plan is substantive, however, it is still evolving and there is significant work still to be done.

The Plan is based on the following assumptions:

- Projects a doubling of revenue
- Significant increase in Average Daily Hospital Census
- Significant increase in minimum spend from Kaiser, an already existing partner

- Multiple additional clinical service lines
- Leasing revenue opportunities in unused space
- Improved Lease terms
- Improved Accounts Receivable management
- Improved terms with vendors and payers
- Decrease in Management fees

If PVHDP succeeds in acquiring the hospital, there is the opportunity to build a better healthcare infrastructure and hospital for the community under a locally governed model.

If PVHDP fails, the hospital will likely close and the community including northern Monterey County residents will not have local access to hospital services.

The missions of Monterey County, Health Department, and Natividad are consistent with providing support to this vital part of our community.

The Mission of Monterey County is to Excel at providing Quality Services for the benefit of all Monterey County residents while developing, maintaining, and enhancing the resources of the area.

Monterey County's County-operated clinics are committed to offering high-quality medical services to County residents, regardless of their ability to pay. It is our sincere hope that our activities will build a healthy Community for the shared benefit of all Monterey County Residents.

Natividad's mission is to continually monitor and improve the health of the people, including the vulnerable, in Monterey County through coordinated, affordable, high-quality health care.

Funding and Next Steps:

Continue to support the formation of the PVHDP. Consistent with the Natividad Board of Trustees recommendation, support a one-time contribution of \$500,000 for the acquisition of WCH from Natividad's Operational Reserve Fund if the Board of Supervisors determines it appropriate.

Estimated Project Cost: \$76 million

Staffing Level Estimate: TBD

Departmental Challenges: *The need to ensure the long term healthcare access for the Pajaro Valley Community is vital for our community and consistent with the missions we serve. The Business Plan continues to evolve with significant work ahead for PVHD and WCH.*

Proposed Response Date: February 8, 2022

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

This recommendation advances the Board of Supervisors Health and Human Services Strategic Initiative and supports all three key objectives: Reduce regional, socio-economic inequities in health outcomes; improve health outcomes through health and wellness promotion and access to top quality healthcare; and advocate for a sufficient allocation of funds from the state and federal governments that will enable the County to carry out its

authorized health care programs.

Mark a check to the related Board of Supervisors Strategic Initiatives

Economic Development

Administration

Health & Human Services

Infrastructure

Public Safety

Prepared by: Chad Harris, MD, Interim CEO Natividad and Elsa Jimenez, Director Health Department

Approved by: Charles McKee, County Administrative Officer

Attachments:

Preliminary Analysis Report

Board Referral No. # 2022.03