

LOS MEDANOS COMMUNITY HEALTH DISTRICT
Update to the 2007 Contra Costa Local Agency Formation Commission
Public Healthcare Services Municipal Service Review

Introduction: In August 2007, the Contra Costa Local Agency Formation Commission (LAFCO) completed a comprehensive Public Healthcare Services Municipal Service Review (MSR), which included a review of the Los Medanos Community Healthcare District (LMCHD or District).¹ The 2007 MSR found that LMCHD had “improved its financial condition, reduced liability to taxpayers, and ensured healthcare services to the community” and “successfully leveraged” the District’s assets and resources. *See* 2007 MSR at 4-5.

Since the 2007 MSR, LMCHD has continued to improve its infrastructure, long-term financial stability, cost containment, community partnerships, management efficiencies, and overall functioning. Among its many recent accomplishments, the District has: (1) reached a preliminary agreement to terminate early its last remaining obligations resulting from LMCHD’s 1994 bankruptcy; (2) successfully completed and is implementing its 2011-2016 strategic plan; and (3) improved the efficacy and long-term sustainability of its grant-making and direct-program activities, for the ultimate benefit of the community’s most vulnerable and disadvantaged. *See* Appendix A for letters of appreciation from the community LMCHD received in the previous 12 months.

This MSR Update follows the topics covered in the 2007 MSR, and addresses in order: (1) Growth and Population Projections; (2) Infrastructure Needs; (3) Financing Constraints and Opportunities; (4) Cost Avoidance Opportunities; (5) Opportunities for Rate Restructuring; (6) Opportunities for Shared Facilities; (7) Evaluation of Management Efficiencies; (8) Government Structure Options; and (9) Local Accountability and Governance. Per the August 15, 2011 Letter from LAFCO requesting this MSR Update, this report focuses on the District’s financial performance and status of service and program goals in support of health care services within the District’s service area.

Growth and Population Projections: LMCHD primarily serves the Pittsburg/Bay Point area. Based on 2005-2007 American Community Survey results, these two cities had a combined population of 83,044 people, consisting primarily of four races: Hispanic/Latino (40.4%), White (24.8%), Black/African American (14.9%), and Asian (14.2%). 29,982 people, or 35.1% of the total population, lived below 200% of the federal poverty level, of whom 40.6% were under the age of 18 and 6.1% were 65 and over.

As part of the implementation process of LMCHD’s 2011-2016 Strategic Plan, the District has scheduled a special Board study session on September 26, 2011 to review

¹ *See* http://www.contracostalafco.org/municipal_service_reviews/final%20healthcare%20services%20MSR%20report/HealthCare%20MSR%20Approved%208-8-07.pdf

and update the community's health needs, based on new Census and American Community Survey data, the 2010 Community Health Indicators Report for Contra Costa County, and other data sources, in order to continue its mission of identifying and advancing solutions to health disparities within the community.

"[LMCHD] has continued to be an important and valuable pillar in the community. . . . Thanks to the contribution from [LMCHD], the Nursing Program at Los Medanos College can uphold the longstanding reputation of supplying the healthcare community workforce with educated and exceptional RNs and LVNs."

- Lindy K. Maynes
Executive Director
Los Medanos College
Foundation

September 15, 2010 Letter to LMCHD

Infrastructure Needs: LMCHD recently reached a preliminary agreement with the State Office of Statewide Health Planning and Development (OSHPD) to terminate early its 1998 Settlement Agreement, under which LMCHD was required to pay over to OSHPD all rental income from the LMCHD hospital facility until 2026. This would terminate the District's last remaining obligations resulting from its 1994 bankruptcy and allow LMCHD to direct additional resources to the community's infrastructure and programmatic needs and provide a higher level of healthcare services within the community.

In 1998, the District entered into a Settlement Agreement with OSHPD to settle its 1994 bankruptcy. The Settlement Agreement consisted of two obligations: (1) a long-term, \$3,047,000 loan from OSHPD that was paid off in 2007, five years ahead of schedule; and (2) an agreement assigning all future rental income from the LMCHD hospital facility to OSHPD in lieu of a \$1.4 million claim in bankruptcy. The assignment schedule was as follows:

08/01/1998 – 07/31/2018:	\$100,000 per year
08/01/2018 – 07/31/2020:	\$500,000 per year, minimum
08/01/2020 – 07/31/2026:	All rental income, if any

Pursuant to this schedule, LMCHD has made annual lease payments of \$100,000 directly to OSHPD's Cal-Mortgage Insurance Division (Cal-Mortgage) since 1998. On August 29, 2011, LMCHD announced that the District and Cal-Mortgage have reached a preliminary agreement to terminate the Settlement Agreement at a \$1.5 million termination price, and expect to finalize the termination by the end of October 2011. As a result, it is expected that LMCHD will no longer be required to assign future rental revenue conservatively estimated at approximately \$4.7 million.

The termination of the Settlement Agreement would relieve taxpayers of an *additional 15 years and approximately \$4.7 million* of revenue assignment, and allow LMCHD to rededicate its rental revenues toward healthcare services for the community. As the 2007 MSR noted, LMCHD has "restructured its financial management approach to incorporate

prudent financial decision-making,” MSR at 4-11, and the District has clearly continued to improve its financial management and performance since then.

The ultimate beneficiaries of the District’s prudent and long-sighted financial planning is the community, whose most vulnerable and underserved populations the District’s funding supports. Please see Appendix A for a sampling of the diverse and crucial needs that LMCHD and its partners support, and which LMCHD’s careful financial planning and foresight will benefit.

“John Muir Health Faith and Health Partnership program staff appreciates the opportunity to continue to address health disparities in the African American and Latino populations within the LMCHD community. Your partnership in our efforts to improve the health of the communities we serve is greatly appreciated.”

- Lynn H. Baskett
VP/Executive Director
John Muir Health

January 20, 2011 Letter to LMCHD

Financing Constraints and

Opportunities: For FY 2011-2012, LMCHD has budgeted \$756,900 in revenue from property taxes, investment earnings, and other sources. As set forth in Appendix B, the District’s total community expenditures in FY 2011-2012 are projected to be 77.05% of the District’s total revenue, and direct grants to community-based organizations are projected to constitute 61.62% of total revenue.² Since 2007, the District has spent an average of 78.84% of its revenues on community expenses, of which an average of 50.68% has been on direct grants. In

addition, it should be noted that this calculation does not include the fair market value of the LMCHD’s in-kind donation of office space to the Pittsburg Health Center, which is estimated at almost \$2.1 million per year.

Recent press reports have suggested that LMCHD is budgeting more than half of its revenues on “its own expenses.” This represents an understandable misreading of the District’s budget, as outlined below.

In order to maximize the impact of its community health grants, in 2010 LMCHD increased the Health & Wellness Grant funding cycle to two years, so that grantees could count on and leverage the District’s two-year commitment. LMCHD set aside a total of \$852,850 for the two-year Health & Wellness funding program, or \$426,425 per year. In order to give grantees more certainty and flexibility, the grant disbursement schedule was front-loaded, so that the majority of the grant money was disbursed in the first 12 months.

Due to the current economic crisis, LMCHD is expecting lower property tax revenues in FY2011-2012 than in previous years. To ensure that the District does not face a cash flow problem in the coming year, the District employed a cash flow-based line-item budget to

² As noted in Appendix B and below, in 2010 the District decided to maximize the impact of its Health & Wellness Funding program by making it a 2-year program. For ease of comprehension, the funding allocation for the 2-year program has been divided between FY2010-2011 and FY2011-2012 in Appendix C and in this analysis.

identify expected expenditures. While this form of budget is helpful in determining cash flow issues, its focus is short-term and is concerned primarily with when money flows in and out of LMCHD's accounts. Since LMCHD had paid out the lion's share of the Health & Wellness Grant funding in FY 2010-2011 (i.e., had borrowed against its expected FY 2011-2012 revenues to pay out more than \$426,425 in the first year), the cash flow-based budget seemed to indicate that LMCHD was providing less than \$300,000 to Health & Wellness grantees.

This is hardly the case. Appendix B, which provides an analysis of LMCHD revenue and expenses since the 2007 MSR, and which includes projected revenues and expenses for FY 2011-2012, provides a more comprehensive and accurate analysis of the District's past and projected expenses. It shows that, when one accounts for the two-year funding cycle of the Health & Wellness Grant program, and splits that funding amount over two years, that LMCHD is actually projected to spend more than \$466,000, or 61.62% of total revenue, on grants to community organizations in FY2011-2012.

LMCHD will continue to invest resources in FY2011-2012 to improve the District's long-term capacity to deliver increased health services and address health disparities within the community. This includes negotiating the termination of the 1998 Settlement Agreement and implementing the 2011-2016 Strategic Plan and the Management Plan (discussed below).

Cost Avoidance Opportunities: As noted in the 2007 MSR, "[t]he District has made significant progress in limiting or reducing expenses," MSR at 4-11, and continues to do so. The District has continued its innovative partnerships with the County and community-based organizations to deliver cost-effective healthcare services and programs that target and address pervasive health disparities within the community.

"Your support of [Farm 2 Kids in Pittsburg and Bay Point] makes it possible for over 1,600 of our young children to enjoy the benefits of a healthier life style which can provide a better chance for success in life."

- Larry Sly
Executive Director
Food Bank of Contra Costa
and Solano

September 8, 2010 Letter to LMCHD

The District plays a critical and unique role within the community, of identifying, targeting and advancing solutions for health disparities based on race, socio-economic status, and age, among others.

For example, LMCHD has partnered with John Muir Health on the African American Faith and Health Partnership, an initiative to engage faith-based organizations, nonprofit community-based organizations, and African American and Latino individuals in the communities of Bay Point and Pittsburg to promote lifestyle choices for wellness, health promotion, and

disease prevention.



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August 15, 2011

Bobbi Palmer, Executive Director
Los Medanos Healthcare District
2311 Loveridge Road
Pittsburg, CA 94565

Dear Ms. Palmer:

On behalf of the Contra Costa Local Agency Formation Commission (LAFCO), I am wiring to request an update from the Los Medanos Health Care District (LMHCD).

Over the past few months, LAFCO has learned of fiscal, operational and service challenges facing the three health care districts in Contra Costa County. This has prompted LAFCO to request updates from the districts.

You may recall that in August 2007, LAFCO completed a comprehensive Municipal Service Review (MSR) of health care services in Contra Costa County. The MSR report is available online at www.contracostalafco.org. At the time the MSR report was completed, LMHCD had recovered from bankruptcy and was retiring its remaining debt. The District was mid-way through its two-year strategic plan which identified budget, service and program goals, including developing collaborative relationships with Contra Costa health Services, other service providers and community organizations to address the critical health issues within the community.

We request an update regarding LMHCD's financial performance and status of service and program goals in support of health care services within the District's service area. Please provide an update to LAFCO by September 2, 2011 so that we can include the report on the September 14 LAFCO meeting agenda.

If you have any questions, feel free to contact me directly at 925-335-1094. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Lou Ann Texeira", is written over a horizontal line.

Lou Ann Texeira
Executive Officer

c: Each Member, Contra Costa LAFCO