

Assembly Bill No. 1948

CHAPTER 493

An act to amend Section 56381 of the Government Code, relating to local agency formation commissions.

[Approved by Governor September 12, 2002. Filed with Secretary of State September 12, 2002.]

LEGISLATIVE COUNSEL'S DIGEST

AB 1948, Kelley. Local agency formation commissions.

Existing law prescribes the apportionment for the net operating expenses of the local agency formation commission among the county and the cities and special districts within the county.

This bill would revise the method of calculating independent special district revenues in order to determine independent special districts' apportionments of the net operating expenses of a commission, and would provide that no independent special district shall be apportioned a share of more than 50% of the total independent special districts' share of the commission's operational costs. The bill would provide, with respect to a district formed under the Local Health Care District Law that operates a hospital, that the district may not be apportioned any share until the fiscal year following positive net revenue, as defined, or, if the district has filed for and is operating under federal bankruptcy, until the fiscal year after its discharge from bankruptcy.

The people of the State of California do enact as follows:

SECTION 1. (a) The Legislature finds and declares all of the following:

(1) Health care districts operating hospitals throughout California are under severe financial assault.

(2) District hospitals provide a substantial proportion of health care services to low-income residents of the state, to minority populations, and to the uninsured. District hospitals serve a disproportionately large number of Medicare and Medi-Cal beneficiaries, as compared to nonpublic hospitals.

(3) Health care districts constitute the single largest provider of basic and emergency health services in rural California. In some communities, health care districts are the only providers of health care services.

(4) Health care districts operate 35 of California's 71 rural hospitals. In addition, districts operate some 15 health care clinics and skilled



nursing facilities. Health care district facilities provide inpatient care to more than 200,000 Californians and support more than 1,800,000 outpatient visits annually.

(5) Reimbursement for health care services from Medi-Cal, Medicare, and health maintenance organizations currently covers less than one-half of the actual cost of hospital services and these reimbursements are declining.

(6) The cost of recruiting and retaining health care workers, especially nursing staff, has increased sharply in recent years.

(7) The average district hospital in California operates with a net annual operating deficit of one million five hundred thousand dollars (\$1,500,000).

(8) As a group, California's district hospitals lost a total in excess of seventy million dollars (\$70,000,000) on operations in the 2000–01 fiscal year. In the past five years, five district hospitals have been forced to declare bankruptcy, and one has closed permanently.

(9) Recently imposed government mandates including, but not limited to, seismic safety, data reporting, Local Agency Formation Commission (LAFCO) assessments, and the federal Health Insurance Portability and Accountability Act of 1996 have put major financial strains on district hospitals. More of these facilities may soon be forced into bankruptcy and closure.

(b) It is the intent of the Legislature to enact legislation that would more fairly allocate the cost of operating LAFCOs to be borne by health care districts, which are seldom involved in changes of organization, or other activities which require action or oversight by LAFCOs.

SEC. 2. Section 56381 of the Government Code is amended to read:

56381. (a) The commission shall adopt annually, following noticed public hearings, a proposed budget by May 1 and final budget by June 15. At a minimum, the proposed and final budget shall be equal to the budget adopted for the previous fiscal year unless the commission finds that reduced staffing or program costs will nevertheless allow the commission to fulfill the purposes and programs of this chapter. The commission shall transmit its proposed and final budgets to the board of supervisors; to each city; to the clerk and chair of the city selection committee, if any, established in each county pursuant to Article 11 (commencing with Section 50270) of Chapter 1 of Part 1 of Division 1; to each independent special district; and to the clerk and chair of the independent special district selection committee, if any, established pursuant to Section 56332.

(b) After public hearings, consideration of comments, and adoption of a final budget by the commission pursuant to subdivision (a), the



auditor shall apportion the net operating expenses of a commission in the following manner:

(1) (A) In counties in which there is city and independent special district representation on the commission, the county, cities, and independent special districts shall each provide a one-third share of the commission's operational costs.

(B) The cities' share shall be apportioned in proportion to each city's total revenues, as reported in the most recent edition of the Cities Annual Report published by the Controller, as a percentage of the combined city revenues within a county, or by an alternative method approved by a majority of cities representing a majority of the combined cities' populations.

(C) The independent special districts' share shall be apportioned in proportion to each district's total revenues as a percentage of the combined total district revenues within a county. Except as provided in subparagraph (D), an independent special district's total revenue shall be calculated for nonenterprise activities as total revenues for general purpose transactions less revenue category aid from other governmental agencies and for enterprise activities as total operating and nonoperating revenues less revenue category other governmental agencies, as reported in the most recent edition of the "Special Districts Annual Report" published by the Controller. It is the intent of the Legislature that no single district or class or type of district shall bear a disproportionate amount of the independent special district share of costs. For the purposes of fulfilling the requirement of this section, a multicounty independent special district shall be required to pay its apportionment in its principal county.

(D) (i) For purposes of apportioning costs to a health care district formed pursuant to Division 23 (commencing with Section 32000) of the Health and Safety Code that operates a hospital, a health care district's share, except as provided in clauses (ii) and (iii), shall be apportioned in proportion to each district's net revenue from operations as reported in the most recent edition of the hospital financial disclosure report form published by the Office of Statewide Health Planning and Development, as a percentage of the combined independent special districts net operating revenues within a county.

(ii) A health care district for which net revenue from operations is a negative number may not be apportioned any share of the commission's operational costs until the fiscal year following positive net revenue from operations, as reported in the most recent edition of the hospital financial disclosure report form published by the Office of Statewide Health Planning and Development.



(iii) A health care district that has filed and is operating under public entity bankruptcy pursuant to federal bankruptcy law, shall not be apportioned any share of the commission's operational costs until the fiscal year following its discharge from bankruptcy.

(E) Notwithstanding the requirements of subparagraph (C), the independent special districts' share may be apportioned by an alternative method approved by a majority of the districts, representing a majority of the combined populations. However, in no event shall the independent special districts' share exceed the amount that would be calculated pursuant to subparagraphs (C) and (D).

(F) Notwithstanding the requirements of subparagraph (C), no independent special district shall be apportioned a share of more than 50 percent of the total independent special districts' share of the commission's operational costs. In those counties in which a district's share is limited to 50 percent of the total independent special districts' share of the commission's operational costs, the share of the remaining districts shall be increased on a proportional basis so that the total amount for all districts equals the share apportioned by the auditor to independent special districts.

(2) In counties in which there is no independent special district representation on the commission, the county and its cities shall each provide a one-half share of the commission's operational costs. The cities' share shall be apportioned in the manner described in paragraph (1).

(3) In counties in which there are no cities, the county and its special districts shall each provide a one-half share of the commission's operational costs. The independent special districts' share shall be apportioned in the manner described for cities' apportionment in paragraph (1). If there is no independent special district representation on the commission, the county shall pay all of the commission's operational costs.

(4) Instead of determining apportionment pursuant to paragraph (1), (2), or (3), any alternative method of apportionment of the net operating expenses of the commission may be used if approved by a majority vote of each of the following: the board of supervisors; a majority of the cities representing a majority of the total population of cities in the county; and the independent special districts representing a majority of the combined total population of independent special districts in the county.

(5) In no event shall the independent special districts' share exceed the amount that would be calculated pursuant to subparagraphs (C) and (D) of paragraph (1).

(c) After apportioning the costs as required in subdivision (b), the auditor shall request payment from the board of supervisors and from



each city and each independent special district no later than July 1 of each year for the amount that entity owes and the actual administrative costs incurred by the auditor in apportioning costs and requesting payment from each entity. If the county, a city, or an independent special district does not remit its required payment within 60 days, the commission may determine an appropriate method of collecting the required payment, including a request to the auditor to collect an equivalent amount from the property tax, or any fee or eligible revenue owed to the county, city, or district. The auditor shall provide written notice to the county, city, or district prior to appropriating a share of the property tax or other revenue to the commission for the payment due the commission pursuant to this section. Any expenses incurred by the commission or the auditor in collecting late payments or successfully challenging nonpayment shall be added to the payment owed to the commission. Between the beginning of the fiscal year and the time the auditor receives payment from each affected city and district, the board of supervisors shall transmit funds to the commission sufficient to cover the first two months of the commission's operating expenses as specified by the commission. When the city and district payments are received by the commission, the county's portion of the commission's annual operating expenses shall be credited with funds already received from the county. If, at the end of the fiscal year, the commission has funds in excess of what it needs, the commission may retain those funds and calculate them into the following fiscal year's budget. If, during the fiscal year, the commission is without adequate funds to operate, the board of supervisors may loan the commission funds and recover those funds in the commission's budget for the following fiscal year.

