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SHOULD THE MT. DIABLO HEALTH CARE DISTRICT BE DISSOLVED?

The Sixty-Year-Old Agency Has Outlived Its Usefulness

SUMMARY

For the past four years, the Mt. Diablo Health Care District has spent virtually none of its revenue on health-related services for district residents. Instead, the district's board of directors dedicated nearly all of the \$1.2 million in property tax revenue generated since 2004 to administrative expenses. Expenses included legal fees, election costs, insurance premiums, post-retirement costs, professional fees, and board member stipends.

The district has not provided hospital, physician or emergency medical services of any kind since 1996. Facing financial insolvency at that time, Mt. Diablo Hospital merged with John Muir Medical Center in Walnut Creek. Since 1996, the former Mt. Diablo Hospital has served as the Concord campus of John Muir Health.

While the Mt. Diablo Health Care District continues to receive annual property tax revenues, its role is limited to the delivery by volunteers of health-related services such as blood pressure screenings and educational brochures to the public.

The Contra Costa County Grand Jury concludes that the evidence does not support the continued self-perpetuation of the health care district. The grand jury believes the Mt. Diablo Health Care District should immediately begin the steps to dissolve the district.

The complete report is available on the Contra Costa County Grand Jury website:
www.cc-courts.org/grandjury

CONTRA COSTA COUNTY GRAND JURY REPORT 0806

SHOULD THE MT. DIABLO HEALTH CARE DISTRICT BE DISSOLVED?

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TO: Board of Directors, Mt. Diablo Health Care District

BACKGROUND

In June 2003, the Contra Costa County Grand Jury investigated and reported on three health care districts, including the Mt. Diablo Health Care District (District). Grand Jury Report 0309 concluded that the Mt. Diablo District was no longer fulfilling a useful mission and recommended that it be dissolved.

The District, the county Board of Supervisors, and the Local Agency Formation Commission (LAFCO) rejected the recommendation. Detailed responses from all three agencies to the recommendation are included as part of Grand Jury Report 0401, pages 43-64. Reports 0309 and 0401 are available on the Contra Costa Grand Jury website: www.cc-courts.org/grandjury

Five years have passed, and the District remains in existence, supported almost entirely by property taxes. This Grand Jury investigated the District again to determine whether there is good reason to justify its continued existence.

FINDINGS

1. The District was formed in 1948, and in the early 1950's, acquired the Concord Community Hospital, later known as **Mt. Diablo Medical Center**. The District owned and operated the hospital until 1996.
2. The District boundaries encompass the cities of Concord, Martinez, portions of Lafayette and Pleasant Hill, and adjacent unincorporated areas.
3. The District is governed by a five-member Board of Directors (Board) elected by the voters within the District.
4. In 1996, under threat of financial insolvency, the District transferred the Mt. Diablo Medical Center and all related property and assets to John Muir Medical Center (now John Muir Health), a **private, non-profit corporation**. Mt. Diablo Medical Center is now operated as the Concord Campus of John Muir Health.

5. Since 1996, the District has not owned or operated a hospital and has not provided hospital, physician or emergency medical services of any kind.
6. The District has not had permanent, full-time employees for many years. In March of 2008, a part-time clerical employee was hired. The 2008 budget for this employee is \$12,000. Board members have performed all District administrative tasks, and some Board members have been occasional volunteers disseminating health-related information and services in the community. John Muir Health provides the District with office, meeting, and conference space.
7. The primary source of District income comes from property taxes levied on District homeowners and businesses. The District also receives an annual \$25,000 subsidy from John Muir Health.
8. The District's total annual revenues are as follows:

| <u>Year</u> | <u>Property Tax Revenue</u> | <u>Total Revenue</u> |
|---------------------------------|-----------------------------|-----------------------|
| 2004 | \$203,594 | \$236,783 |
| 2005 | 223,369 | 266,869 |
| 2006 | 255,649 | 296,638 |
| 2007* | 241,000 | 266,200 |
| 2008* | 241,000 | <u>266,000</u> |
| Total five-year revenue: | | \$1,322,490** |

*Budgeted

**Total revenues include miscellaneous income; e.g., interest earnings

9. District administrative and operating expenses have consumed nearly all of its revenues over the past four years. Expenses have included the cost of elections, legal and audit fees, Board member stipends, and the premiums for medical and dental insurance provided to current and retired directors. A percentage of expense summary, based on audited financial statements, follows:

| | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|------------------------------|-------------|-------------|-------------|
| Post-Retirement Costs | 0% | 0% | 46% |

| | | | |
|--------------------------|-------------|-------------|-------------|
| Election Costs | 40% | 0% | 24% |
| Insurance | 17% | 45% | 14% |
| Professional Fees | 4% | 20% | 0% |
| Legal Fees | 27% | 16% | 9% |
| Director Stipends | 5% | 7% | 0% |
| Other Expenses | 7% | 12% | 7% |
| Total: | 100% | 100% | 100% |

10. In 2004, 2005, and 2006, the District did not spend any of its total revenues to provide or advance health care for the District's taxpayers or residents. The District spent 100% of its total revenues for administrative and operating expenses.
11. Budget projections and unaudited accounting statements for a part of 2007 reveal a similar pattern as that shown for 2004-2006; no money was spent for health care.
12. Some District board members participated in volunteer activities during 2004-2007 at no cost to the District. For example, volunteers distributed health-related brochures and conducted blood pressure screenings. They offered such services a half dozen times in 2007 at community activities such as farmers' markets. District director volunteers also promoted an anti-truancy program for local students.
13. The District claims credit for a single \$5000 donation in 2007 to the nursing program at California State University East Bay. The purpose was a scholarship. The donation was not a budget item, but represented re-directed funds that reportedly had been set aside for a director's stipend.
14. The scholarship donation is the only expenditure the District has made for a health-related purpose since 1996.
15. On February 8, 2008, the District's Board adopted a budget for calendar year 2008. The budget contains a line item allocating \$70,000 to "community

Activities.” No specific activities or projects were approved at the time the budget was adopted.

16. The parties to the 1996 agreement between the District and John Muir Health continue to perform their obligations pursuant to their agreement.
17. John Muir Health created a Community Health Fund pursuant to the agreement, to which it has made contributions of \$1 million annually intended for community grants to improve public health.
18. The District contends that under the terms of the 1996 agreement with John Muir Health, it has continuing responsibilities. For example, the agreement provides that certain defaults by John Muir Health would result in termination of the agreement and permit the District to recover assets from John Muir Health, including the Mt. Diablo Medical Center building and property transferred by the District in 1996.
19. There is no suggestion by the District in the public record, including the District’s submissions to LAFCO, that there is any reasonably foreseeable possibility of default by John Muir Health under the 1996 agreement that would trigger the rights reserved by the District to recover the hospital. John Muir Health recently began a major addition to its Concord campus, an event that makes such a default highly unlikely.
20. The District controls neither the board of directors of John Muir Health nor the Community Health Fund established through the 1996 merger agreement.
21. The District and John Muir Health are currently negotiating another agreement. This proposal would establish a conduit to provide grant funds to the District to be passed through the District to selected organizations. A one-year agreement is likely. The District would incur administrative expenses in its role as a conduit for the grants.
22. As part of the arrangements to secure the grant contract with John Muir Health, the District’s 2008 budget line item entitled “Community Activities” was increased from \$70,000 to \$130,000, effective May 1, 2008. The District

also has plans to hire a part-time executive director to administer the anticipated grant program. A new budget line item, also effective May 1, 2008, allocates \$39,996 for a “CEO/Administrator.” As of that date, the District had not created a job description for the new position.

23. The District’s revised budget, as of May 1, 2008, calls for a total annual operating budget of \$328,300. Anticipated 2008 revenues remain unchanged, at \$266,200.

24. The Contra Costa County Local Agency Formation Commission (LAFCO) is responsible for studying special districts **and the services they provide**. LAFCO accomplishes this by completing periodic Municipal Services Reviews (MSR). Typically, the MSR process is completed every five years for special districts such as the Mt. Diablo Health Care District.

25. In August 2007, LAFCO completed its MSR for the District. While it did not recommend dissolution of the District, LAFCO recognized that additional scrutiny was warranted and directed the District to provide it with an interim report in 2008 on its activities and expenditures.

26. Dissolution of the District may be initiated by either Board action or a petition of District voters.

27. Upon dissolution, the District’s rights and obligations, both existing and contingent, would have to be taken over by another agency.

28. The District has never adopted a plan for its dissolution, nor has the Board ever proposed a study of how to accomplish the District’s dissolution.

CONCLUSIONS

1. Since the last Grand Jury report in 2003, the District has not contributed any significant financial support to benefit the health and welfare of its residents. It has collected and spent over \$1.3 million of taxpayer money, virtually all of

which was used to pay for administrative and operating expenses--to perpetuate the District's existence.

2. The proposed grant donation agreement between the District and John Muir Health, which is likely to result in new administrative costs, including the salary and benefits of new staff, will not benefit the District. The District's 2008 budget allocations for staff expense and its "Community Activities" appear to be unrealistic, especially since budgeted 2008 expenses exceed anticipated revenues by \$62,000 (23%).
3. During the course of its investigation, the Grand Jury did not find any instances of malfeasance, and does not imply that any such culpability exists. Volunteer activities are commendable, but they do not require the cachet of a government agency.
4. Public officials who preside over obsolete organizations like the Mt. Diablo Health Care District need to act responsibly and provide for the agency's demise, including the orderly and efficient transfer of assets to, and assumption of liabilities by, successor agencies.

RECOMMENDATIONS

The 2007-2008 Contra Costa County Grand Jury recommends that:

1. Within six months of this report, the District's Board of Directors drafts a written plan for the dissolution of the District. The dissolution plan should include:
 - a. A detailed task list, including time estimates for completion, of all steps required to complete the dissolution in an orderly and efficient manner.
 - b. Identification of problems related to District obligations to provide health insurance benefits to present and former District Board members, and recommended solutions to those problems.
 - c. Identification of all possible future events that likely would be necessary to create either rights in, or obligations of, the District under the 1996 agreement with John Muir Health or any other long-term contracts.
 - d. Evaluations of other public agencies that are qualified to act as successors to the District in connection with any possible future events or transactions, and corresponding rights and obligations.
2. Within six months of this report, the District submits the dissolution plan to LAFCO as part of the report required by that agency during the District's 2007 Municipal Services Review.

REQUIRED RESPONSES

Findings:

Mt. Diablo Health Care District: 1 through 28

REQUIRED RESPONSES

Recommendations:

Mt. Diablo Health Care District: 1 and 2