

# **2002-2003 GRAND JURY REPORT**

## **The Palo Verde Healthcare District and Association**

### **Background**

Two healthcare related organizations, the Palo Verde Healthcare District and the Palo Verde Hospital Association have existed in the Blythe area since 1948.

The Palo Verde Healthcare District (District) was formed on January 27, 1948, and operates under the California Health and Safety Code, Sections 32000-32312. The District covers approximately 1,022 square miles in eastern Riverside County. The purpose of the District is to provide funds from property taxes for healthcare support within its boundaries. Currently, the District has no fixed assets or long term debt. The District is governed by a board of five directors, elected in general elections by registered voters. Board meetings are held annually with special meetings as needed.

The Palo Verde Hospital Association (Association) is a non-profit corporation, which was chartered on March 18, 1948, for the purpose of purchasing and operating a hospital. Association membership is open to anyone 21 years of age or older who pays the lifetime dues specified in the bylaws. The bylaws require a seven member Board of Directors to be elected by the Association members annually, and for the board to hold monthly meetings. After its formation, the Association acquired land and hospital buildings in Blythe to which it continues to hold legal title. The hospital is a 55-bed facility offering a range of inpatient and outpatient services.

On July 1, 1960, the District and Association entered into an agreement whereby the District would transfer tax revenue to the Association. On March 24, 1969, the District and the Association amended the agreement to allow for the Association to convey the hospital to the District should the Association determine it could no longer operate the hospital. This agreement also provided for the Association to appoint the District as its agent "until approval of the conveyance by the members is obtained."

The Association continued to operate the facility until 1992, accumulating liabilities of almost \$1,750,000, and faced closure. The minutes of a joint Association/District meeting in February 1992, indicate the Board of Directors of the Association terminated its management agreement with the hospital administrator (Quorum Health Resources); voted to convey the hospital facilities and liabilities to the District; voted to appoint the District board as its agent; and then collectively resigned.

The Board of Directors of the District then voted to accept the resignations of the Association Board and requested assistance from Brim, Inc. (later to become Province Healthcare) to manage the hospital for six months. Province Healthcare Corporation

(PHC) is a for-profit corporation that owns or manages over 50 hospitals in rural locations throughout the United States.

During the six months Brim managed the hospital, negotiations were held which led to a 10-year lease between the Association (with the District acting as agent) and Brim, which was signed in December 1992. This lease included an option to renew for an additional 10-years and included an option for Brim to purchase the hospital. On February 7, 2001, an adjacent house and tract of land was purchased to add to the hospital campus. This acquisition was made by the District in the name of the Association with money from the District. In March 2001, the lease was amended to include this additional property and the 10-year renewal was signed.

## **Findings**

1. The District and Association have different organizational structures and constituents, and are chartered under different state codes. District board members were not elected to the Association Board in accordance with Association bylaws.
2. Since the resignation of its board in February 1992, the Association has had no elected directors. The District Directors have acted as agents for the Association since that date. The agreement indicated that the agency was intended to be only for a transitional period of time.
3. The Association is still recorded as the owner of the hospital.
4. The terms of the original lease required Brim, Inc. to pay a special one-time payment of up to \$400,000 toward the liabilities of the Association.
5. The District receives annual tax revenue of approximately \$60,000 plus about \$8,000 from the Blythe Redevelopment Agency. After paying District expenses, the balance is used for hospital maintenance and capital improvement.
6. Contact from constituents of both the District and Association is difficult because neither has a permanent office or telephone.
7. The renewal of the lease in 2001 was signed by the District board president acting as agent for the Association. No board gave any District board member the authority to sign the lease agreement, which raised a question as to its legality.
8. Interviews with several former and current District board and Association members revealed that they are unaware of the Association's mortgage, its balance, debt service, or even the name of the lien holder.

9. PHC is paying \$103,000 a year to the lien holder on an unpaid balance of slightly more than \$1,170,000. The five percent loan is currently being reduced by about \$40,000 per year. At the current rate of pay down, the Association will be in debt for approximately 17 more years.

## **Recommendations**

### **PALO VERDE HEALTHCARE DISTRICT BOARD PALO VERDE HOSPITAL ASSOCIATION**

1. Legal opinion be obtained to determine the validity of the renewed lease and to suggest solutions to the current issues under contention.
2. A meeting of the Association members be convened by the District board (as agent) to approve or disapprove the conveyance of the hospital to the District and to elect a board of directors in accordance with its bylaws.
3. If the conveyance is approved, the paperwork should be completed to transfer title to the District and the board should consider the possibility of dissolving the Association. If the conveyance is not approved, the appointment of the District as agent for the Association should be revoked.
4. Minutes and fiscal records be kept current and retained in good order at a permanent location.
5. The Association and the District maintain separate mailing addresses and telephone systems for contact by the public.