

MODOC LAFCO

Hearing DRAFT

***MUNICIPAL SERVICE REVIEW
AND
SPHERE OF INFLUENCE***

FOR

HEALTH CARE DISTRICTS

***LAST FRONTIER
HEALTH CARE DISTRICT***

***SURPRISE VALLEY
HEALTH CARE DISTRICT***

April 10, 2012

Municipal Service Review – LAFCo Resolution 2012-0004

Sphere of Influence – LAFCo Resolution 2012-0005

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1 INTRODUCTION

1.1 LAFCO's Responsibilities

LAFCOs in California are independent agencies created by the California Legislature in 1963. The purposes of LAFCO are to encourage the orderly formation of local governmental agencies and to conserve and preserve natural resources.

Statewide there are 58 LAFCOs working with nearly 3,500 governmental agencies (400+ cities, and 3,000+ special districts). Agency boundaries are often unrelated to one another and sometimes overlap at random, often leading to higher service costs to the taxpayer and general confusion regarding service area boundaries. LAFCO decisions strive to balance the competing needs in California for efficient services, affordable housing, economic opportunity, and conservation of natural resources.

LAFCOs are responsible for coordinating logical and timely changes in local governmental boundaries, conducting special studies that review ways to reorganize, simplify, and streamline governmental structure, preparing a review of services called a Municipal Service Review (MSR) and preparing a Sphere of Influence (SOI) thereby determining the future “probable” boundary for each city and special district within each county. The Commission's efforts are directed toward seeing that services are provided legally, efficiently and economically while agricultural and open-space lands are protected.

LAFCOs do not have enforcement authority nor do they have the authority to initiate a city or district annexation or detachment proceeding. LAFCOs may initiate consolidation or dissolution proceedings; however, these proceedings are subject to the voter approval or denial. The Legislature has given LAFCOs the authority to modify any proposal before it to ensure the protection of agricultural and open space resources, discourage urban sprawl and promote orderly boundaries and the provision of adequate services.

1.2 Municipal Service Review Requirements

The statute as amended by AB1744 and regulations call for a review of the municipal services provided in the county or other appropriate area designated by the LAFCO. The LAFCO is required to prepare a written statement of its determinations with respect to each of the following:

1. *Growth and Population*
2. *Capacity and Infrastructure*
3. *Financial Ability*
4. *Shared Facilities*
5. *Government Structure and Accountability*

1.3 Preparation of the MSR

Research for this Municipal Service Review (MSR) was conducted during 2011. This MSR is intended to support preparation and update of the Sphere of Influence, in accordance with the provisions of the Cortese-Knox-Hertzberg Act. The objective of this Municipal Service Review (MSR) is to develop recommendations that will achieve the following:

- Promote more efficient and higher quality public service patterns.
- Identify areas for public service improvements.
- Assess the adequacy of service provision as it relates to determination of appropriate sphere of influence boundaries.

While LAFCO prepared the MSR document, LAFCO did not engage the services of experts in health care delivery, accounting or other specialists in related fields, but relied upon published reports, the Modoc Medical Center staff, and the Surprise Valley Health Care District staff for information.

Therefore, this MSR reflects LAFCO's recommendations, based on available information during the research period and provided by Last Frontier Health Care District staff and the Surprise Valley Health Care District staff to assist in its determinations related to promoting more efficient and higher quality service patterns; identifying areas for service improvement; and assessing the adequacy of service provision for the Last Frontier Health Care District and the Surprise Valley Health Care District.

This MSR includes relevant information from the various reports. Since the reports were prepared at different times there may be occasional differences in data.

1.4 Description of Public Participation Process

Modoc LAFCO is a legislative body authorized by the California Legislature and delegated powers as stated in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (the Act). The LAFCO proceedings are subject to the provisions of California's open meeting law, the Ralph M. Brown Act (Government Code Sections 54950 et seq.)

The Brown Act requires advance posting of meeting agendas and contains various other provisions designed to ensure that the public has adequate access to information regarding the proceedings of public boards and commissions. Modoc LAFCO complies with the requirements of the Brown Act.

The State MSR Guidelines provide that all LAFCOs should encourage and provide multiple public participation opportunities in the municipal service review process. MSR policies have been adopted by the Modoc LAFCO. Modoc LAFCO has discussed and considered the MSR process in open session, and has adopted a schedule for

completing the various municipal service reviews and sphere of influence updates for Modoc County.

Each Municipal Service Review will be prepared as a Draft, and will be subject to public and agency comment prior to final consideration by the Modoc LAFCO. Additional information on local government issues is found in Appendix A at the end of this report.

1.5 California Environmental Quality Act (CEQA)

The Municipal Service Review is a planning study that will be considered by Modoc LAFCO in connection with subsequent proceedings regarding the Last Frontier Health Care District, the Surprise Valley Health Care District and the Sphere of Influence. The Sphere of Influence review or update that will follow has not been approved or adopted by LAFCO.

This MSR is funded in the Modoc LAFCO's 2011-2012 Budget. This MSR includes an analysis, to the extent required by Section 15262 of the CEQA Guidelines, of the environmental factors that may be affected by the Municipal Service Review process, but will not include the preparation of an environmental review document.

1.6 Health Care Issues

The healthcare industry in general is going through changes, many of which are financially driven. Hospitals and their medical staffs are experiencing declining public financing through Medi-Cal and Medicare. Costs for construction and personnel are rising, and the overall emphasis by consumers and their medical providers for expensive technologies are driving costs up. In addition, human resources gaps at all health provider levels (especially in rural areas) threaten the stability of providers in the provision of services, especially hospitals when attempting to staff beds.

There are also other unique legislative parameters facing California hospital providers. California remains the only state with nurse staffing ratios and hospitals are continuing to grapple with the State-mandated seismic retrofit requirements due to impact the hospitals as early as 2013.

2 SETTING

2.1 City of Alturas

The Last Frontier Health Care District is located in and around the City of Alturas in Modoc County so the City will be described as the setting for this District.

2.1.1 History

Alturas is the most northeastern incorporated city in the State of California. It is the County Seat of the County of Modoc. The City was incorporated September 16, 1901 as a General Law City.

Alturas now occupies what was formerly an Achumawi (Pit River) village known as Kosealekte. The City was initially known as Dorris Bridge, named after Jim Dorris, the first white settler in the area who settled in 1869. In 1876, the town was renamed Alturas, which means "The Heights" in Spanish.

Alturas provides for public safety (police, fire and civil defense); highways and streets; water service, wastewater conveyance and treatment, solid waste removal, mosquito abatement, airport services, planning and general administration. It has a five person City Council elected at large for 4 year terms. It has an elected City Clerk and City Treasurer who serve 4 year terms. The Planning Commission is appointed by the City Council and serves at the pleasure of the Council.

The City has an appointed Public Works Director who oversees enterprise functions such as water and wastewater, parks, planning, buildings and grounds, roads, and mosquito abatement. The City has a volunteer Fire Chief and a paid Police Chief.

As the County Seat, the town is a home to regional government offices, including a California Highway Patrol office and a State Department of Motor Vehicles office. Modoc Subdivision track of the Union Pacific Railroad, and the Lake County Railroad, (of Lake County Oregon) serve the area.

It is the headquarters to the Modoc National Forest, the Alturas Field Office of the Bureau of Land Management (BLM), the Modoc National Wildlife Refuge, the Natural Resources Conservation Service (NRCS), and other recreation areas, and is the trade center for the agricultural region, which produces beef, sheep, potatoes, alfalfa and lumber. Environmental concerns in the area center on protection for the northern spotted owl which could limit lumber production.¹

Despite its abundance of wilderness, recreational opportunities, hunting and fishing resources, and resplendent natural beauty, tourism is not a major sector of the local economy -- largely due to the City's remote location.

Local, State, Federal, and Tribal governments are the largest employers in Alturas. A vibrant timber industry collapsed in the early 1980s due to increased production costs

¹ Pit River Watershed Alliance, <http://www.pitriverralliance.net/comcentr/library/fishwild/threatnd.html>, March 15, 2012.

and low market prices for softwood lumber. The Alturas Rancheria, a band of Pit River Indians, operates a small casino east of the City and outside the City Limits.

2.1.2 Alturas General Plan

The Alturas General Plan was adopted in June 1987.² The Plan stresses the development of tourism as a means of job creation and economic development. The Housing Element was adopted in June 2005.³

2.1.3 Alturas Population Data

As of 2010, Alturas's population was 2,878 people. Since 2000, it has had a population loss of 0.52 percent. The median home cost in Alturas is \$106,230. Home values are depreciating in Alturas⁴ which is understandable with a 21.7% vacancy rate for Modoc County reported in 2010.⁵ Compared to the rest of the country, Alturas's cost of living is 8.40% Lower than the U.S. average.⁶

Estimated median household income in 2005: (It was \$24,351 for Alturas in 2000.)
 Alturas: \$28,400 California: \$53,629

The unemployment rate in Modoc County remains significantly higher than that for the State of California and for the US as shown below:

Modoc County Unemployment Rates⁷				
	Jan 11	Nov 11	Dec 11 Revised	Jan 12 Preliminary
Civilian Unemployment Rate	18.5%	13.7%	14.7%	16.0%
(CA Unemployment Rate)	12.7%	10.9%	10.9%	11.3%
(U.S. Unemployment Rate)	9.8%	8.2%	8.3%	8.8%

Although the cost of living may be lower than the U.S. average; health care costs are probably the same or higher due to the cost of staff, equipment, medications and regulations.

2.1.4 Educational Facilities

Alturas public schools spend \$4,411 per student. The average school expenditure in the U.S. is \$5,678. There are about 18.8 students per teacher in Alturas.⁸

A. Public High Schools in Alturas⁹

²City of Alturas, "General Plan Goals, Policies, and Implementation Measures" June 1987, Prepared by Mintier Harnish & Associates, 510 8th Street, Sacramento, CA 95814, 916-446-0522.

³City of Alturas, "Housing Element", June 2005, Hunter Consulting Services.

⁴Steyer, Dick, March 15, 2012.

⁵<http://www.cubitplanning.com/county/1743-modoc-county-census-2010-population>, March 21, 2012.

⁶<http://www.bestplaces.net/city/california/alturas>, January 14, 2011.

⁷State of California, Employment Development Department, March 9, 2012, Labor Market Information Division (916) 262-2162, Modoc County, <http://www.calmis.ca.gov/file/1fmonth/modocpds.pdf>, March 15, 2012.

⁸<http://www.bestplaces.net/city/california/alturas>, January 14, 2011.

Modoc Charter School

214 West 1st St., Alturas, CA Students: 471 Grades: K-12

Modoc High School

900 North Main St. Alturas, CA Students: 290 Grades: 9-12

Modoc County Special Education

139 Henderson St. Alturas CA Students: 37 Grades: 1-12

Modoc County Community High School

139 Henderson St., Alturas, CA Students: 15 Grades: 8-12

Warner High School

802 North East St., Alturas CA Students: 4 Grades: 10-12

B. Public Elementary/Middle Schools in Alturas

Alturas Elementary School

809 West Eighth St., Alturas CA Students: 354 Grades: K-5

Modoc Middle School

906 West Fourth St. Students: 206 Grades: 6-8

High Desert Community Day School

802 North East St., Alturas CA Students: 5 Grades: 7-8

Alturas Community Day School

906 West Fourth St., Alturas CA Students: 2

C. Private elementary/middle school in Alturas

Alturas Mennonite School

PO BOX 75, Alturas CA Students: 20 Grades: 1 - 8

D. Library in Alturas

The Modoc County Library is located in Alturas at 212 W. Third Street. The Operating Income for the Library is \$312,341. The Library contains the following materials:

- 69,444 books
- 1,587 audio materials
- 1,958 video materials
- 129 serial subscriptions¹⁰

⁹ Modoc Unified School District Website –SARC reports 2008

¹⁰ <http://www.city-data.com/city/Alturas-California.html>

2.2 The Surprise Valley

2.2.1 Surprise Valley Location

Surprise Valley is about 60 miles in length from north to south. Residents refer to the area as the “Tricorner Region” because of the region's location at the intersection of California, Oregon and Nevada state lines. The Valley is east of the Modoc County seat of Alturas. The area is part of the Great Basin which extends across most of the northern half of Nevada.

Most of the Valley is over 4,000 feet above mean sea level (AMSL), and could be characterized as a high altitude desert valley. A series of alkaline lakes occupy low-lying areas. Forested mountains mark the west side of the valley. The Hays Canyon Range, (mostly east of the Nevada state line) is to the east and the Warner Mountains border the west. The Valley is considered part of the Great Basin, a desert region roughly covering the northern half of Nevada and extending into Utah. Communities in Surprise Valley include Eagleville, Cedarville, Lake City and Fort Bidwell.

Most of the land west of the main north-south highway, Surprise Valley Road, is US Forest Service land. To the east of the road, most land is owned by the Bureau of Land Management (BLM). Recreational facilities on BLM lands tie in with the US Fish and Wildlife Service, Sheldon National Wildlife Refuge, Nevada (formerly called *Sheldon Antelope Refuge*). Over the region, opportunities for hiking, exploring dirt roads, birding, stalking antelope with cameras, fishing, camping, and mountain biking are available. Big game and bird hunting is popular among some area visitors. A BLM brochure warns, “Snowstorms occasionally strand travelers. May and June snowstorms are not uncommon.” There are hot springs and abandoned mine shafts throughout the region.

2.2.2 Surprise Valley Early History

As early as 1846, emigrants’ wagons rolled through Surprise Valley enroute to Oregon and the lower valleys of California.

Lindsay Applegate and Levi Scott branched off with their party from the California Trail at what later became known as Lassen’s Meadow (now named Rye Patch Reservoir and located near Imlay, Nevada). They followed a northwestern direction across the Black Rock Desert and through High Rock and Forty Nine canyons to enter California near its extreme northeastern corner, 29 miles southwest of today’s California-Oregon border. Their trail traversed Surprise Valley and went on to cross the Warner Mountains at Fandango Pass on their journey to the Willamette Valley, the principle settlement in the Oregon Territory.

The trail this party laid out became known by various names, including the “South Oregon Emigrant Road”, the “Old South Road”, or the “Lassen Applegate Trail”. The importance of the tall, waving grass of this valley was intensified as most of the wagon trains arrived in late summer and early fall when bunch grass along the route had lost much of its nutrient value. Trains would stop long enough in the valley to harvest some

wild hay to carry over the dry parts of the trail ahead. Few early pioneers stayed on, though Mrs. I. Grove wrote, "They often spoke of this unnamed, unknown valley, little thinking that in a few years some would return...to make their homes here."

From 1848 through the mid-1860s, the route was much traveled, including by an influx of fortune-seekers drawn by the 1849 California Gold Rush. Others came after severe drought hit the Sacramento and San Joaquin Valleys in 1864, causing livestock owners to seek higher pastures. Others had left their border states rather than join in the Civil War, while former residents of Nevada's once-booming town of Virginia City migrated to surrounding areas and began to build new towns.

Local legend has attributed the name of the Valley to early emigrants, though careful research has shown the name wasn't actually applied until the early 1860s. The August 22, 1863 edition of the Humboldt Register out of Unionville, Nevada Territory says, "Surveyor General Houghton and his party appear to have discovered one of the most inviting valleys to be found in the state. The party named it "Surprise Valley", which is appropriate as the men must have been greatly astonished to find such a valley in that region. It is 50 miles long and from 8 to 15 miles broad and contains three lakes. Grass, clover and wild rye were found growing luxuriantly. Fine timber in abundance covered the mountains which bounded on the west."

The naming of the Valley in the 1860s, rather than earlier, is substantiated by the fact that no records of travel or Army reports concerned with the area have been found using the name "Surprise". In one early account, Surprise Valley is said to have been known by the local Indians as "Kibeningnaredols" which means "Valley of the Long Mountains".¹¹

2.2.3 The Establishment of Surprise Valley in the 1860's

A bad drought that occurred in the Sacramento and San Joaquin Valleys in 1864 caused much of the livestock there to perish. Owners offered up to half their cattle herds to anyone who would take the animals into the high country to grass and water. Men who saw this as an opportunity to have their own ranches and herds recalled the big grassy valley they had passed through while on the wagon train to California.

Meetings were held in Sacramento Valley towns and, with the hope of safety in numbers, men hired boys as drovers and decided to drive cattle to the mountains and face their worst fears: the Modoc, the Pit River ("Achumawi"), the Paiute -- all the Indian tribes in and around the Warner Mountains and its valleys. The settlement of Surprise Valley was finally underway.

The biggest single year of settlement in Surprise Valley was 1864. The cattle did well and many of the drovers who had brought cattle here were anxious to own their own land. They stayed on and quickly filed homestead claims. The first settlement in the area was Deep Creek, located two miles south of the present town of Cedarville.

¹¹ Surprise Valley Chamber of Commerce, <http://www.surprisevalleychamber.com/towns.htm>, June 7, 2011.

In 1865, a cabin was built at Deep Creek by Henry Talbert. Before long, James Townsend opened a store in the Talbert Cabin and Mr. Monchamp kept a station there. Townsend's prices were high – a spool of thread and a yard of calico each sold for 25 cents.

In 1867, two merchants from Red Bluff, John H. Bonner and William T. Cressler, came to the valley with a wagon of dry goods and set up business out of the back of their wagon at Deep Creek. It was a profitable venture. When James Townsend was killed fighting Indians, the enterprising young partners bought his cabin from his widow. Cedarville was born in 1867 when Cressler and Bonner moved the cabin to a new location north of Deep Creek; locating it on a stream they named Cedar Creek. The two men obtained a large block of land in the area where they eventually laid out present-day Cedarville and also established a ranch. As their business grew and lumber became available, they built a new store.

Cressler and Bonner did an excellent job of laying out the town. Main Street was made wide enough to allow 18-horse freight wagons to easily turn around. Many of the streets were named for US Presidents. They also named streets for themselves and one in memory of Townsend which today is Highway 299 which runs from Alturas through Cedarville.

Cressler and Bonner later built a large brick store building and big homes for themselves on either side, all of which remain important landmarks of the town today. Cedarville's founders became prominent throughout the state. Cressler, known as the "Father of Modoc County", became the county's first State Senator. Bonner built the first wagon road over Cedar Pass in 1869, opening Cedarville to wagon roads leading into the Sacramento Valley. By 1880, Cedarville had a population of 219 residents and boasted of being the largest urban center in Surprise Valley.¹²

2.2.4 Tribal Governments

There are two sovereign tribal governments in the valley: The Cedarville Rancheria and the Fort Bidwell Indian Community of the Fort Bidwell Reservation of California. The Cedarville Rancheria is a Paiute community on the southwest edge of Cedarville; it is led by Chairwoman Virginia Lash. The larger Fort Bidwell Paiute community is located at the Fort Bidwell Reservation to the north, and is led by Chairman Aaron Townsend.

2.2.5 Schools

The Surprise Valley is served by K-through-12 provider Surprise Valley Joint Unified School District headquartered in Cedarville. There are four schools as follows:¹³

Surprise Valley Elementary School, PO Box 100, Cedarville, CA 96104
Phone: 530-279-6161 Fax: 530-279-6154 125 students, nine teachers.

Surprise Valley Community Day School, one student.

¹² Surprise Valley Chamber of Commerce, <http://www.surprisevalleychamber.com/history.htm>, June 7, 2011.

¹³ <http://california.schooltree.org/Modoc-County-Schools.html>, August 8, 2011.

Surprise Valley High School, 62 students, six teachers. Phone: 530-279-6141

Great Basin High School (continuation school), eight students.

2.2.6 Cedarville

The unincorporated community of Cedarville is located in the Surprise Valley area of Modoc County, approximately 257 miles north of Lake Tahoe on State Route 299. The Community is located on the western shore of Middle Alkali Lake and is in close proximity to the Warner Mountains and the Modoc National Forest. Cedarville (formerly, Surprise Valley and Deep Creek) is located 20 miles east of Alturas at an elevation of 4652 feet.

By 1880 Cedarville was the largest town in the Valley, with a population of around 220. The town has grown little in the following hundred years; however, as of the 2010 census, the population was 514 (decreased from 849 in 2000). Wired telephone service is provided by Frontier Communications.

The town hosts an annual Last Frontier Fair. Tourist services, such as bed and breakfast accommodations, are available in the community. An area attraction is the Warner Mountains, most of which are inside Modoc National Forest.

2.3 Modoc County

Modoc County Population data is as follows:

2010 Population Growth and Population Statistics	Modoc county, CA ¹⁴		California	
Total Population	9,126		37,173,104	
Population Change Since 1990	-5.74%		24.95%	
Population Change Since 2000	-3.42%		9.75%	
Forecasted Population Change by 2014	1.14%		5.33%	
Population Male	4,628	50.71%	18,634,277	50.13%
Population Female	4,498	49.29%	18,538,827	49.87%
Median Age	42.30		33.40	

¹⁴ http://www.clrsearch.com/Cedarville_Demographics/CA/Population-Growth-and-Population-Statistics, June 11, 2011

In spite of the forecasted population increase of 1.14% shown above; there will most likely be a decrease in population due to the continued high unemployment rates as noted above.

2.4 Background--Health Care Districts in California

2.4.1 Hospital Districts

Hospital districts in California began forming in the mid-1940's to fund construction and operation of hospitals in both rural and urbanizing areas. Districts were given the authority to levy taxes and issue bonds for this purpose. Over time, health care costs increased and reimbursement from insurance and federal and state sources became more restricted.

These changes in both costs and funding combined with advances in medicine and technology that reduced length of hospital stays resulted in health care focus shifting from hospital operation to include outpatient services. Over time, district boards became increasingly concerned about the ability of districts to compete for managed care as well as staffing; and, either divested of hospitals or formed partnerships with private hospital operators.

Key events related to changes in hospital districts include the following:

- Proposition 13 which resulted in a designated share of property tax revenues for Health Care Districts
- In 1993, the Legislature amended hospital district enabling legislation renaming hospital districts "health care districts" and expanding the definition of health care facilities to reflect changes in medical practice in which health care was taking place more and more as an outpatient service.
- In 1994, the legislature also established seismic safety standards for hospitals requiring compliance by 2013 and in most cases replacement of existing hospitals.

2.4.2 Health Care District Services Permitted by Enabling Legislation

A summary of services authorized by California Health & Safety Code Section 32000 et seq. for Health Care Districts follows:

- A. Establish, maintain, operate, and assist in operation of:
1. Health care facilities as defined in Health & Safety Code 1250 and Gov. Code 15432
 2. Clinics as defined in Health & Safety Section 1204
 3. Nurses' Training School (Health and Safety Code 32124)

4. Child Care Facility for the benefit of employees of a facility or residents of the District
 5. Outpatient programs, services and facilities
 6. Retirement program, services and facilities
 7. Chemical Dependency programs, services and facilities
 8. Other health care programs, services and facilities and activities at any location within or without the district for the benefit of the district and the people served by the district
- B. Pursuant to Health and Safety Code 32121(l) the power to acquire, maintain and operate ambulances or ambulance services within and without the district
- C. Pursuant to Health and Safety Code 32121(m), the power to establish, maintain and operate or provide assistance in the operation of:
1. Free Clinics
 2. Diagnostic and testing centers
 3. Health education programs
 4. Wellness and prevention programs
 5. Rehabilitation, aftercare, and any other health care service provider, groups and organizations that are necessary for the maintenance of good physical and mental health in the communities served by the district.
- D. Pursuant to Health and Safety Code 32121(o), the power to establish, maintain and carry on its activities through corporations, joint ventures, or partnerships for the benefit of the district
- E. Pursuant to Health and Safety Code 32126.5(a)(1) the power to enter into contracts with health provider groups, community service groups, independent physicians and surgeons and independent podiatrists, for the provision of health care services
- F. Pursuant to Health and Safety Code 32126.5(a) (2) the ability to provide assistance or make grants to nonprofit provider groups and clinics already functioning in the community.
- G. Pursuant to Health and Safety Code 32126.5(a) (3), the power to finance experiments with new methods of providing adequate health care. Health Care Districts and Indigent Care:

Enabling legislation for Health Care District also provides that:

“A district shall not contract to care for indigent county patients at below the cost for care. In setting the rates the board shall, insofar as possible, establish rates as will permit the district health care facilities to be operated upon a self-supporting basis. The board may establish different rates for residents of the district than for persons who do not reside within the district.” [Health and Safety Code Section 32125(b)]

2.4.3 Mayers Memorial Hospital District

Mayers Memorial Hospital District is primarily located in Shasta County but does include some land within Modoc County. Contact information for this District is as follows:

Mayers Memorial Hospital District
PO Box 459
43563 Highway 299 East
Fall River Mills, CA 96028

Phone: (530) 336-5511 E-Mail: info@mayersmemorial.com

The history of this District as shown on the website is as follows:

Mayers Memorial Hospital was built and financed by members of the Intermountain Area in memory of Dr and Mrs. Mayers. Dr. Mayers came to the area in 1938 and it had long been his dream to provide hospital services for his patients living in this rural area. Members of the community supported DR. Mayers and began to raise funds to build his dream. A month after Dr. Mayers began his hospital campaign he and Mrs. Mayers were killed in an automobile accident. Community members refused to give up on Dr. Mayers dream and continued to pursue funds to make the hospital a reality.

Bing Crosby was a resident of the community and offered to produce a benefit show to help raise the funds necessary to finish construction of the hospital. What started out as a small show in a garden at Rising River, skyrocketed into a gala production. The first program was held in the arena of the Intermountain Fairgrounds where hundreds of people enjoyed the talents of Mr. Crosby and his friend Phil Harris. Mr. Crosby and Mr. Harris continued to raise funds to finance furnishings for the hospital by hosting a second show a year later.

Ground breaking for the new hospital was held in May of 1954 after the generous donation of land By Mrs. Anna McArthur Ritter. Five acres of land halfway between Fall River Mills and McArthur were donated for the hospital. Construction of the 10-bed facility was completed in 1956 with most of the materials and labor donated by members of the community.

A volunteer hospital guild was formed to staff the hospital until such time as finances would support salaries for the staff. Even though money was tight the hospital remained open and continued to provide a vital service to members of the community that made Dr. Mayers dream a reality. In 1969 area residents formed the Mayers Memorial Hospital District to support the future development and operations of the hospital. An elected Board of Trustees was formed to represent district residents. The Board of Trustees continues to guide the hospital mission and generously give of their time to assure the continuation of hospital and emergency services in the district.

The hospital now serves as a major link in the Intermountain community by providing extensive emergency, diagnostic, surgical and obstetric services. Mayers also provides home delivered oxygen and medical supplies to a large geographic region. Skilled Nursing and an Alzheimer Unit ensure complete long-term care services are available in the community. A Cardiac Rehabilitation Program provides an important link in the continuation of healthcare after a patient returns home. The Hospice Program provides compassionate and individual end of life care for local residents and families.

Over 200 health professionals make up the energetic team that delivers comprehensive services to the residents of the Intermountain Area.¹⁵

¹⁵ Mayers Memorial Hospital District, <http://www.mayersmemorial.com/01-pages/12-contact.html>, August 24, 2011.

3 LAST FRONTIER HEALTH CARE DISTRICT

3.1 History of Last Frontier Health Care District



<http://www.modocmedicalcenter.com/id1.html>, June 9, 2011

Modoc Medical Center (MMC) has been providing healthcare in Modoc County since the early 1900's. Currently, it is transitioning from a County facility to a District facility as a result of Measures Q & R that passed on August 31, 2010. The District name is the Last Frontier Healthcare District doing business as Modoc Medical Center.

Measure Q was approved on August 31, 2010 as follows:

The Last Frontier Healthcare District will own and operate the Modoc Medical Center.

Yes: 1,636 (70.15%)

No: 696 (29.85%)

Voters also approved Measure R, a \$195/year parcel tax to support the continued operations of the hospital.

Prior to the passage of Measure Q, the Modoc Medical Center was owned and operated by Modoc County, and had been operating at a deficit. That deficit, in turn, was part of the reason that Modoc County's overall budget was running at a \$12.5 million annual deficit. Judy Mason explains that "Modoc Medical Center was running small deficits from 1997 or so, but really started running huge deficits about 2005, and they were running closer to \$2.3 to \$2.5 million annually for several years."¹⁶

Modoc Medical Center is a 16 bed Critical Access Hospital located in Alturas, California near the junction of Highways 299 and 395. In addition to acute care services, the Modoc Medical Center also provides family practice clinic services and is licensed for 71 skilled nursing beds. Together, these activities serve a 4,500 square mile area of Northeastern California, bordering on Oregon and Nevada.

Locally, the Modoc Frontier Healthcare Association was formed to assist in the construction of a new facility. The current structure has been occupied since 1951, and no longer meets seismic requirements regulated by the state of California. MMC has been granted an extension until January 1, 2020 to meet these requirements.

¹⁶ Mason, Judy, E-Mail which2@yahoo.com, March 5, 2012.

Adopted April 10, 2012

Modoc LAFCO Healthcare MSR and SOI

Resolution 2012-0004 – MSR

Resolution 2012-0005 – SOI

MMC and Shasta Regional Community Foundation have partnered for the Foundation to accept donations on MMC's behalf. Their contact information is 1335 Arboretum Drive, Suite B, Redding, California 96003, (530) 244-1219. Any donations received will enhance the healthcare services provided.¹⁷

3.2 Last Frontier Health Care District Mission Statement

The Mission Statement for Modoc Medical Center is as follows:

The mission of MMC is to provide for the healthcare needs of all residents and visitors of Modoc County. The staff of Modoc Medical Center shall make every effort to alleviate pain and suffering, to restore health, to comfort the ill and their families and to promote wellness in its citizens. These efforts shall be met through the appointment and employment of highly qualified healthcare practitioners and staff. It is our aim to provide quality healthcare in a competent, friendly and compassionate manner.¹⁸

3.3 Last Frontier Healthcare District Contact Information

To contact the Last Frontier Healthcare District, there is a website at www.modocmedicalcenter.com, and the District office phone number is 530 233-7022. The District mailing address is as follows: 228 McDowell St., Alturas, CA 96101

3.4 Last Frontier Healthcare District Board of Directors

The governing board provides guidance to the Chief Executive Officer and is made up of key community leaders. They give of their time and talent so the community can have the world-class health care it expects and deserves. Additionally, many community members contribute their talents by providing oversight and leadership to certain committees within Modoc Medical Center's administrative functions.

The Last Frontier Healthcare District dba Modoc Medical Center Board of Directors meets the first and third Wednesdays of the month at the Alturas City Hall, 200 W. North Street, Alturas, CA; starting at 1:00 p.m.¹⁹ Agendas are posted at the Hospital, City Hall and County Courthouse.

The Last Frontier Healthcare District Directors will serve four-year terms of office once the two-year terms are over as follows:

Dick Steyer, Chairman,	Ph. 530-640-2637, no e-mail	(12/14)
Jim Cavasso, Vice-Ch.,	Ph. 530-640-0000, modocsteel@frontiernet.net	(12/12)
Leta Bethel, Treasurer,	Ph. 530-640-3619, lybethel@frontiernet.net	(12/14)

¹⁷ Last Frontier Health Care District, <http://www.modocmedicalcenter.com/id20.html>, June 9, 2011.

¹⁸ Last Frontier Health Care District, <http://www.modocmedicalcenter.com/id17.html>, June 9, 2011.

¹⁹ Last Frontier Health Care District, <http://www.modocmedicalcenter.com/id13.html>, June 9, 2011.

Adopted April 10, 2012

Modoc LAFCO Healthcare MSR and SOI

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Jim Wills, Secretary, Ph. 530-640-1963, jandlwills@frontiernet.net (12/14)

Dennis Tate, Member, Ph. 530-640-0273, triadproperties@frontiernet.net (12/12)

Ms. Monica Derner is the appointed Administrator. The Board has appointed the following two standing committees to assist the Board:

Finance Committee:

Leta Bethel, Chairperson, Treasurer
Dennis Tate, Board Member
Monica Derner, CPA, CEO
Dave Morris, Controller
Judy Mason, Community Member
Jo Knoch

Appeals Committee:

Dick Steyer, Chairperson, Board Chair
Dennis Tate, Board Member
Linda Monroe, Community Member

3.5 Modoc Medical Center Staff²⁰

The following is a list of the Modoc Medical Center Staff leaders:

Monica Derner, CEO M.Derner@ModocMedicalCenter.com
P: (530) 233 – 5883 F: (530) 233 - 6609

Diane Hagelthorn, Human Resources Director D.Hagelthorn@ModocMedicalCenter.com
P: (530) 233 – 5138 F: (530) 233 - 5884

Shannon Hewitt, Interim CNO S.Hewitt@ModocMedicalCenter.com
P: (530) 233 – 7031 F: (530) 233 - 5022

Timothy Standing, R.N., Director of Nursing Warnerview
T.Standing@ModocMedicalCenter.com
P: (530) 233 – 7059 F: (530) 233 - 4389

Dr. Edward Richert, M.D., Chief of Medical Staff, County Medical Officer

Maudy Sherer, Medical Records / Medical Staff
M.Sherer@ModocMedicalCenter.com
P: (530) 233 – 7035 F: (530) 233 - 7610

There are approximately 150 full-time equivalent paid employees.²¹

3.6 Modoc Medical Center Auxiliary²²

²⁰ Last Frontier Health Care District, <http://www.modocmedicalcenter.com/id6.html>, June 9, 2011

²¹ Last Frontier Health Care District, Modoc Medical Center, Michele Tatro, Administrative Assistant, 228 W. McDowell Ave., Alturas CA 96101, June 14, 2011

²² Last Frontier Health Care District, <http://www.modocmedicalcenter.com/id16.html>, June 9, 2011

Adopted April 10, 2012

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Modoc Medical Center Auxiliary is a volunteer organization dedicated to helping the hospital acquire equipment necessary to meet the needs and comfort of patients. The Auxiliary supports the staff and hospital for the betterment of the community.

Modoc Medical Center Auxiliary Officers are as follows:

Pam Williams, President	Carol Ennengs, Vice President
Kay Helton, Secretary	Dottie Green, Treasurer

The Modoc Medical Center Auxiliary is always seeking volunteers and may be contacted through any Auxiliary member or at Phone: (530) 233-5130. MMC Auxiliary meetings are on the second Monday of each month at 12:30pm in the Quiznos' Conference Room. The Auxiliary operates a gift shop, open Monday through Friday, 9am to 2pm, stocked with quality gifts and snacks.

3.7 Modoc Medical Center Services Provided²³

The Modoc Medical Center provides the following services:

Rural Health Clinic

Nutritional Services	Plastic Surgery
Podiatry	Audiology
Telemedicine	Family Planning
Presumptive Eligibility	Employee Physicals
CHDP (Child Health and Disability Prevention) Program	DMV Physicals
DOT Physicals	Annual Physicals
Vasectomies	Circumcisions
Biopsies	Laceration Repairs
Fracture Casting	

Physical Therapy and Rehabilitation

Outpatient	Post-surgical
Orthopedic	Cardiac
Neurologic	Stroke (CVA)
Neuropathy	Disease
Musculoskeletal Impairment	Chronic Pain
Neck/Back	Joints

All ages Inpatient/Long-term Care

Diagnostic Imaging

(On site radiologist Tuesdays and Thursdays, 24 hour Emergency Room Service)

Vascular Ultrasound	Digital Ultrasound Services
OB Studies (3D)	Abdomen Studies

²³ <http://www.modocmedicalcenter.com/id1.html>, June 9, 2011.

Adopted April 10, 2012
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Thyroid Studies
 Computerized Tomography (CT)
 Urinary Studies (IVP)
 Upper GI
 Small Bowel Studies
 Teleradiology

Cardiac Ultrasound
 Tomography
 Floroscopy
 Barium Enema
 Barium Swallows

3.8 Modoc Medical Center Finances

The voters have approved a ballot measure authorizing the District to impose and levy a special tax of up to \$195 per taxable parcel for five years. Without the financial base the parcel tax provides, the hospital would be forced to close, and there would be no emergency room service between Susanville and Fall River. Last Frontier Healthcare District dba Modoc Medical Center is the anchor of the Emergency Medical System in Modoc County.²⁴

The Modoc Medical Center provided the budget for 2011-2012. According to the District this budget includes a \$1.2 million reduction in MediCal reimbursement.²⁵

MODOC MEDICAL CENTER BUDGET 2011-2012		
Revenue		
Total Revenue		\$28,451,952
Deductions from Revenue*		15,381,944
Other Operating Revenue		194,940
Net Operating Revenue		\$13,264,948

*Deductions from revenue are contractual write-offs and adjustments. Contractual write-offs are the difference between what the Hospital charges and what 3rd party insurance pays the Hospital. For example, if the Hospital charges \$350 for a procedure; Blue Cross or Medicare pays the hospital \$200. The \$150 not collected is considered a contractual write off because MMC cannot bill the patient under our reimbursement contracts. Adjustments are bad debt reserves, clean up of old accounts, prompt pay discounts, etc.²⁶

MODOC MEDICAL CENTER BUDGET 2011-2012		
Expenses		
Salaries		
000	SAL-MGMT	1,155,842
001	TECH-SPECIALIST	740,016
002	SAL-RN	1,057,800
003	SAL-LVN	351,492
004	SAL-CNA	608,616
005	SAL-CLERICAL	628,500
006	ENVI-DIET	498,012
007	PHYSICIAN	166,670

²⁴ <http://www.modocmedicalcenter.com/id15.html>, June 9, 2011.

²⁵ Modoc Medical Center, Michele Tatro, Administrative Assistant, 228 W. McDowell Ave., Alturas, CA. 96101, Phone: 530/233-7022 Fax: 530/233-7021, m.tatro@modocmedicalcenter.com, June 21, 2011.

²⁶ Modoc Medical Center, "Monica Derner" M.Derner@ModocMedicalCenter.com, June 22, 2011.

Adopted April 10, 2012

Modoc LAFCO Healthcare MSR and SOI
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008	SAL-FAMILY NURSE PRACT.	116,520
009	SAL-OTHER	242,144
Subtotal Salaries		\$5,565,612
002	Employee Benefits PERS	427,841
013	Group Health Insurance	695,405
018	Workers Comp Insurance	177,972
018	Other Employee Benefits	4,584
019	Vacation & Holiday pay	566,478
010	FICA	430,423

MODOC MEDICAL CENTER BUDGET 2011-2012 Expenses Continued		
011	SUI &FUI	84,000
020	Physician Fees	1,637,888
021	Professional Fees	21,600
022	Consultant Fees	214,090
023	Legal Fees	84,000
024	Audit	25,000
025	Registry	1,209,708
026	Other Contract Services	168,298
036	Oxygen & other med. gasses	7,020
037	IV Solutions	
038	Pharmaceuticals	293,368
041	Medical supplies	337,080
043	Other Food	187,612
044	Linen & Bedding	4,560
045	Cleaning supplies	6,216
047	Employee Clothing	4,212
049	Minor Equipment	52,330
050	Nonmedical supplies	294,586
060	Purchased Services	
061	Purchased Medical Services	90,228
062	Repairs/Maintenance	315,338
065	Collections	92,940
069	Other Purchased Services	233,652
074	Depreciation/Amortization	339,252
075	Rentals/Leases Building	19,080
076	Rentals/Leases/Equipment	51,612
077	Electricity	133,201
078	Heating Fuel	74,902
079	Water	11,572
080	Utilities-Other	28,384
081	Insurance	95,832
083	Taxes	96,588
085	Telephone	40,752
086	Dues and Subscriptions	17,052
087	Outside Training	24,023
088	Travel	134,360
089	Recruiting	38,828
090	Other	84,188
091	Capital Expense	8,993
Total Expenses		\$14,430,637

MODOC MEDICAL CENTER BUDGET 2011-2012 Continued		
Nonoperating Expense		\$139,985
Nonoperating Revenue		
Capital Donations		
Grant Income		32,996
Property Tax Revenue		2,000,000
Interest Earned		6,516
Total		\$2,039,512
Contribution		733,838
Other		
Liability Obligations		(146,718)
Unfunded Depreciation		339,252
CHFFA Loan		(533,295)
Medi-CAL Cost Reporting Liability		(15,128)
Medicare Cost Reporting Liability		(333,082)
Capital Expenditures		(37,804)
EMR Reimbursement		
Net Profit		\$7,063

Since the District was approved in 2010, the District has not had time to complete an audit for the Last Frontier Health Care District. The Budget shown above shows the high costs of health care. The primary goal of the District is to continue to operate the Modoc Medical Center while securing the funds for a new facility that will meet the requirement of the State by 2020.

4 SURPRISE VALLEY HEALTH CARE DISTRICT

4.1 Surprise Valley Health Care District History



Surprise Valley Clinic

<http://svhospital.org/departments/clinic.html>, June 11, 2011

The Surprise Valley Health Care District operates the Surprise Valley Community Hospital and the Surprise Valley Clinic located in Cedarville, California in Modoc County. The history of the Surprise Valley Health Care District starts when the Cedarville Hospital was closed in March 1981 by Mercy Hospital of Redding under their management contract and with the approval of the Board of Supervisors of Modoc County. During the next two years, the residents of Surprise Valley worked to form a Hospital District. The efforts were supported by donations from the citizens of the Valley. In January 1985, the Hospital District reopened the Clinic as a PL 95-210 Rural Health Clinic.

The Hospital District conducted negotiations with the Board of Supervisors, Mercy Hospital, and Modoc Medical Center to lease the hospital from the County. According to the deed by the Alice Wylie family, the hospital and the land could only be used for a health care facility.

In 1985, State Senator Doolittle introduced legislation requesting \$200,000 to support the reopening of Surprise Valley Community Hospital. Although this bill never got out of committee, the Senator had also put it in as a budget item and convinced then Governor Deukmejian not to blue pencil it.

In July of 1985, the Senator flew into Cedarville and presented the Hospital Board and the waiting crowd with a check for \$200,000. With this money, the assessment, and the remaining donations, it now became feasible to reopen the hospital.

The State required considerable remodeling of the old hospital to meet the new regulations. Many individuals donated their time and expertise in order to get the job completed.

In order to open, however, the hospital still needed a physician and nursing staff. Dr. Fay Repath, M.D. along with Lita Wood, R.N. and Toni Hamilton, R.N. decided to move to Surprise Valley. On April 16, 1986 the hospital doors reopened for business.

Dr. Lois Roberts, M.D. came to Surprise Valley in 1987. She had two requirements: feed and water me, and find someone to cut my hair. She spent the rest of her life healing, delivering, and saving the lives of the residents of Surprise Valley until her death in November of 2007. A non-profit fund has been formed in her name: The Dr. Roberts' Surprise Valley Hospital Emergency Fund.

The residents of Surprise Valley remember all too well those days when there was no healthcare available in the Valley. The assessment for the Hospital District has made it possible for our hospital to stay open. In June of 1989, the assessment was again approved by the voters of Surprise Valley, and in recent years they even voted to increase the amount of the assessment.²⁷ In 2010 the assessment was made permanent (instead of a set term such as five years) by a 72% vote of approval.²⁸

4.2 Surprise Valley Health Care District Contact Information

Contact information for the Surprise Valley Health Care District is as follows:

Surprise Valley Health Care District
741 Main Street, Cedarville 96104

District Mailing Address: PO Box 246, Cedarville, CA 96104

Phone: 530-279-6111 E-mail: svhd@citlink.net

4.3 Surprise Valley Health Care District Mission Statement

The Surprise Valley Health Care District provides patients with access to exemplary medical care and as a non-profit health care provider in rural Northeastern California, Surprise Valley Hospital, is founded on the principle of improving community health. The physicians and staff are dedicated to providing the best possible care in a rural location.²⁹

The District serves four towns and two Native American groups in Surprise Valley - Ft. Bidwell, The Warner Mountain Indians, Lake City, Cedarville, the Cedarville Rancheria, and Eagleville. The District also provides care for patients from all over the County who choose to make the trip over Cedar Pass because of the knowledgeable and caring physicians and staff. These goals are reflected in the mission statement of the District as follows:

Mission Statement:

The Surprise Valley Health Care District was formed to provide the best medical and hospital care possible within the limitations of size and staff. The services are directed toward the physical, emotional, and spiritual well-being of those we serve. We are pledged to promote wellness, as well as healing.

²⁷ Surprise Valley Health Care District, <http://svhospital.org/aboutus/index.html>, June 7, 2011.

²⁸ Surprise Valley Health Care District, Wanda Grove, Hospital Administrator, Phone 530-279-6111, August 26, 2011.

²⁹ Surprise Valley Health Care District, <http://svhospital.org/>, June 7, 2011

Adopted April 10, 2012

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The mission of the Surprise Valley Health Care District is to provide safe, high quality care and professional excellence to all people regardless of race, color, creed, gender, religion, national origin, age, marital status, political affiliation, medical condition or physical or mental disability. The Governing Board will select qualified and conscientious physicians for the medical staff and ensure that the hospital is adequately staffed with competent personnel.

The Surprise Valley Health Care District will conduct business on the basis of modern business practice. All efforts will be made toward cost containment while providing a high quality of care. We will expand our services and facility based on the needs of the community. We will support training and educational programs which are beneficial to employees and to members of the community.³⁰

4.4 Surprise Valley Health Care District Facilities

The hospital has 26 beds: 22 skilled nursing beds and 4 acute beds (3 are swing beds which can be used as needed). There is an emergency room with a physician on stand-by 24 hours a day. If necessary, critical patients are first stabilized and then flown out of the local airport to larger facilities in Redding, California; Reno Nevada or Klamath Falls Oregon.

Lab, X-ray and CT (Cat-scan) services are available from 8 am to 5 pm, Monday through Friday for outpatient services. For emergencies, there is staff on call to cover these services 24 hours a day. Ultrasound exams are available on Tuesday afternoons, by appointment only.

Although there is no pharmacy for patients to fill their prescriptions at the hospital, the Rite-Aid Pharmacy makes deliveries to the hospital on Tuesday afternoon, by patient request. All patients are supplied with all needed medications.

The Surprise Valley Clinic has four part-time physicians and several part-time providers on staff. In addition, a podiatrist, an audiologist, and a cardiologist are available by appointment only.

4.5 Services Provided at Surprise Valley Hospital

Direct In-Patient Services:

Nursing Care for Acute, Emergency, and SNF patients - 24 hour coverage

Physical Therapy - two days per week for long-term care residents.

Nutritional Needs - 24 hour coverage

Direct Out-Patient Services:

Wound Care - 24 hour coverage

Telemedicine Consultations - Monday through Friday, as needed

³⁰ Surprise Valley Health Care District, <http://svhospital.org/miscellaneousdocs/missionstatement.html>, June 7, 2011.

Adopted April 10, 2012

Modoc LAFCO Healthcare MSR and SOI

Resolution 2012-0004 – MSR

Resolution 2012-0005 – SOI

Respite Care - 24 hour coverage

Outpatient Rural Health Clinic Services: Monday through Friday from 8:00 am to 5:00 pm

Dental Services - Tuesday through Thursday from 8:00 am to 5:00 pm

Diagnostic and Therapeutic Services:

Physical Therapy
Diabetic Teaching
Prenatal Teaching
Cardiology Services-one day per month, by appointment only
Podiatry Services-one day per month, by appointment only
Audiology Services – by appointment only
CHDP Services
Pharmaceutical Medications
Visiting Nurse

Diagnostic Services:

X-Ray-Monday through Friday from 8:00 am to 4:00 pm (Emergency Services-24 hours)
CT Scans- Available 24 hours per day
Ultrasound-Tuesday afternoons by appointment
PAD (Peripheral Artery Disease) screening
Holter Monitoring - 24 hour coverage
EKG - 24 hour coverage
Bone ultrasonometer - Monday through Friday from 8:00 am to 5:00 pm

Laboratory:

General hematology testing, general chemistry testing, arterial blood gas, prothrombin time-Monday through Friday from 8:00 am to 5:00 pm (Emergency Services-24 hours)
Pathology
Transfusion Service

Emergency Services:

Stand-by Emergency Room services - 24 hour coverage
Physician on duty - 24 hour coverage
Basic Life Support Ambulance-24 hour coverage

Skilled Nursing Facility:

Nursing Care - 24 hour coverage	Physical Therapy
Podiatry	Social Services
Activities	Dietitian

4.6 Ambulance Service

Surprise Valley Health Care District provides ambulance services 24 hours a day, 365 days a year for the residents of Surprise Valley. Day or night, rain or shine - even

through the snow, dedicated EMT's volunteer their time to respond throughout the valley for any medical or trauma emergencies.

Surprise Valley Ambulance relies on grant money and donations for new equipment and ambulances. The EMT's volunteer their time to be on-call. However, they do get paid for any time accrued while out on an ambulance call.

Surprise Valley also relies on First Responders from local fire protection districts. Because of the size of the Valley and the distance that the ambulance must travel, First Responders are often the first people to arrive at the scene of an accident or medical emergency. They are trained in CPR.³¹

4.7 Surprise Valley Health Care District Governing Board

The Surprise Valley Hospital District Directors serve four year terms and are listed below:

Jason Diven, Vice President - PO Box 654, Cedarville, CA 96104 (expires 12/12)

Bunne Hartmann, Secretary - PO Box 266, Cedarville, CA 96104 (expires 12/14)

Cynthia Linker, Treasurer - PO Box 162, Cedarville, CA 96104 (expires 12/14)

John Erquiaga, President - Star Route Box 5, Lake City, CA 96115 (expires 12/12)

James Laacke, Member at Large - PO Box 31, Cedarville, CA 96104 (expires 12/14)

Wanda Grove has been employed at the Hospital since 1999 and has been the Hospital Administrator since May 2007.³²

The Board meets at the Hospital and the agendas and minutes are published on the District website.

4.8 Surprise Valley Health Care District Finances

The Surprise Valley Health Care District Budget for 2010-2011 is shown on the following page. The Budget shows income equal to expenses. The item "Total Deductions from Revenue" means that the standard fee for various services has been reduced due to governmental or other regulations.

³¹ Surprise Valley Health Care District, <http://svhospital.org/departments/ambulance.html>, August 23, 2011.

³² Surprise Valley Health Care District, <http://svhospital.org/departments/administration.html>, June 7, 2011.

SURPRISE VALLEY HEALTH CARE DISTRICT ANNUAL BUDGET 2010-2011	
Revenue	
In-Patient Revenue	\$2,327,068.60
Out-Patient Revenue	1,204,654.97
Total Patient Revenue	351,723.57
Other Operating Revenue	151,093.42
Gross revenue	3,682,816.99
Total Deductions from Revenue	338,320.20
Net Revenue	\$3,344,496.79
Operating Expenses	
Salary Expense	1,651,362.26
Employee Benefits	657,431.16
Professional Fees	352,377.39
Supplies	329,637.62
Purchased Services	149,924.06
Utilities	91,220.92
Depreciation	125,517.04
Other Direct Expenses	153,031.56
Total Operating Expenses	3,510,502.01
Other non-operating Revenue	166,005.22
Net Income	0

4.9 *Surprise Valley Health Care District Audit*

4.9.1 *Audit Overview*

In the audit for the year ending June 30, 2010 the Management provides the following overview of the District:

The District has no short-term investments. Cash flow is always challenged due to the continuing increase in the cost of operations.

These increased costs include the following:

- 1) *Mandated implementation of HIPAA*
- 2) *Seismic non-structural retrofit*
- 3) *Risk Management and Quality Assurance*
- 4) *Employee health insurance*
- 5) *Worker's compensation insurance premiums*
- 6) *Unexpected recruitment fees*
- 7) *Registry staffing expenses*
- 8) *Unexpected Medicare paybacks*

*Employees continue to work a 36 hour work week to maintain financial viability. However, the reopening of Medicare/Medi-Cal Cost Report for the years 2004, 2005, 2006, 2007 is expected to bring in additional revenue that will hopefully enhance the cash flows in the next fiscal year.**

*In late 2010, the reopened Cost Report did bring in additional funds.

The District has experienced increased Medicare reimbursement for hospital outpatient services as a result of becoming certified as a Critical Access Hospital (CAH) in 2002. Three of the four acute beds were certified as swing beds in September 2003, allowing utilization of these beds for acute patients or skilled nursing patients. Financial viability has been a struggle for the Hospital, stemming from recent Medicare audits. The tax assessment was approved by the voters in June 2006, increasing the assessment from \$150 to \$225 per household. In June 2010, the assessment passed permanently. The tax assessment represents approximately 3% of the District's annual budget.

In 2011, the District employs four part-time physicians and one part-time Family Nurse Practitioner.³³

With continuity of care and in increase in utilization of services, the District has experienced an increase in revenue for all patient care services. Recruitment efforts for certificated staff members continue to be a challenge because of our rural location and limited employment opportunities for spouses.

The availability of grant funding of the State and Federal level continues to decline. We were fortunate to be the recipient of new grant funds totaling \$44,855 most of which were obtained through private foundations or organizations. Expenditures of grant funds over the year totaled \$52,426.³⁴

4.9.2 Audit Notes

The Audited Financial Statements for the Surprise Valley Health Care District for June 30, 2010 also note the following:

Compensated Absences:

The Hospital's employees earn paid-time-off (PTO) at varying rates depending on years of service. Benefits can accumulate up to specified maximum levels. Employees are paid for accumulated PTO if they leave either upon termination or retirement. Accrued PTO liabilities as of June 30, 2010 and 2009 were \$74,468 and \$81,192, respectively.³⁵

Risk Management:

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and

³³ Surprise Valley Health Care District, Wanda Grove, Hospital Administrator, Phone 530-279-6111, August 26, 2011.

³⁴ Surprise Valley Health Care District, Audited Financial Statements June 30, 2010, Prepared by TCA Partners, LLP Certified Public Accountants, 1111 E. Herndon Avenue, Suite 211, Fresno, CA 93770, Ph 559-431-4408, Fax 559-431-7685, "Management's Discussion and Analysis", Page 1.

³⁵ Surprise Valley Health Care District, Audited Financial Statements June 30, 2010, Prepared by TCA Partners, LLP Certified Public Accountants, 1111 E. Herndon Avenue, Suite 211, Fresno, CA 93770, Ph 559-431-4408, Fax 559-431-7685, "Notes", Page 9.

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omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters.

Charity Care:

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off entirely as an adjustment to net patient service revenues.³⁶

Net Patient Service Revenues:

Gross and net patient service revenues summarized by payer are as follows:

Surprise Valley Health Care District Service Revenues³⁷		
	2010	2009
<i>Daily hospital services and other inpatient services</i>	\$2,372,074	\$1,930,666
<i>Outpatient and clinic services</i>	1,176,541	1,435,064
<i>Gross patient service revenues</i>	3,548,615	3,365,730
<i>Less contractual allowances</i>	(138,703)	(180,623)
<i>Net patient service revenues</i>	\$3,409,912	\$3,185,107

The above table shows that greater revenues are derived from inpatient services than from outpatient services.

Employees' Retirement Plans

The Hospital has available to its employees a 403(b) annuity plan (the Plan). Employees eligible to participate in the Plan have reached the age of 21, and have completed one year of service. Plan assets are held by an administrator and are under individual control of the Plan participant. The Hospital makes no contributions to the Plan.³⁸

³⁶ Surprise Valley Health Care District, Audited Financial Statements June 30, 2010, Prepared by TCA Partners, LLP Certified Public Accountants, 1111 E. Herndon Avenue, Suite 211, Fresno, CA 93770, Ph 559-431-4408, Fax 559-431-7685, "Notes", Page 9.

³⁷ Surprise Valley Health Care District, Audited Financial Statements June 30, 2010, Prepared by TCA Partners, LLP Certified Public Accountants, 1111 E. Herndon Avenue, Suite 211, Fresno, CA 93770, Ph 559-431-4408, Fax 559-431-7685, "Notes", Page 11.

³⁸ Surprise Valley Health Care District, Audited Financial Statements June 30, 2010, Prepared by TCA Partners, LLP Certified Public Accountants, 1111 E. Herndon Avenue, Suite 211, Fresno, CA 93770, Ph 559-431-4408, Fax 559-431-7685, "Notes", Page 12.

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Debt Borrowings

As of June 30, 2010, the Hospital was indebted to various creditors and in different forms of debt instruments as follows:

Debt Borrowings for Surprise Valley Health Care District³⁹		
	2010	2009
<i>Bank line of credit; principal due December 31, 2009; interest due monthly at 10.25%, collateralized by patient accounts receivable</i>		\$64,000
<i>Note payable to a bank; due in monthly principal installments; interest at 11.75% also due monthly; matures June 30, 2010; secured by patient accounts receivable</i>	\$46,045	64,181
<i>Total debt borrowings</i>	46045	128,181
<i>Less current maturities of debt borrowings</i>	(46,045)	(128,181)

Health Care Reform:

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.⁴⁰

Extraordinary item

During the June 30, 2009 fiscal year, an extraordinary item arose from an individual's forgiveness of the Hospital's debt. The debt was forgiven in full at the amount of \$70,773.⁴¹

³⁹ Surprise Valley Health Care District, Audited Financial Statements June 30, 2010, Prepared by TCA Partners, LLP Certified Public Accountants, 1111 E. Herndon Avenue, Suite 211, Fresno, CA 93770, Ph 559-431-4408, Fax 559-431-7685, "Management's Discussion and Analysis", Page 14.

⁴⁰ Surprise Valley Health Care District, Audited Financial Statements June 30, 2010, Prepared by TCA Partners, LLP Certified Public Accountants, 1111 E. Herndon Avenue, Suite 211, Fresno, CA 93770, Ph 559-431-4408, Fax 559-431-7685, "Management's Discussion and Analysis", Page 15.

⁴¹ Surprise Valley Health Care District, Audited Financial Statements June 30, 2010, Prepared by TCA Partners, LLP Certified Public Accountants, 1111 E. Herndon Avenue, Suite 211, Fresno, CA 93770, Ph 559-431-4408, Fax 559-431-7685, "Management's Discussion and Analysis", Page 16.

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5 MUNICIPAL SERVICE REVIEW

Modoc LAFCO is responsible for determining if an agency is reasonably capable of providing needed resources and basic infrastructure to serve areas within its boundaries and, later, within the Sphere of Influence.

LAFCO will do the following:

1. Evaluate the present and long-term infrastructure demands and resources available to the District.
2. Analyze whether resources and services are, or will be, available at needed levels.
3. Determine whether orderly maintenance and expansion of such resources and services are planned to occur in line with increasing demands.

The Final Municipal Service Review Guidelines prepared by the Governor's Office of Planning and Research recommend issues relevant to the jurisdiction be addressed through written determinations called for in the Cortese-Knox-Hertzberg Act.

Determinations are provided for each of the five factors, based on the information provided in this Municipal Service Review.

5.1 Growth and Population Projections for the Area

Purpose:

To evaluate service needs based on existing and anticipated growth patterns and population projections.

5.1.1 **Population Growth in the Last Frontier Health Care District Area**

The Modoc County population estimate for 2009 is 9,107 people. This represents a decline from April 1, 2000 of 3.6%.⁴² A continuing population decline in Modoc County is expected. The following table of age groups in Modoc County shows that there are fewer younger people in the County than in California as a whole and there are more old people in the County than in California as a whole. For both health care districts in the County this means there are lots of health care needs and few people to pay the costs.

Age Groups in Modoc County and in California⁴³

Age	Modoc County	State of California
Persons under 5 years old, percent, 2009	5.0%	7.5%
Persons under 18 years old, percent, 2009	20.4%	25.5%
Persons 65 years old and over, percent, 2009	19.8%	11.2%

⁴² US Census Bureau, <http://quickfacts.census.gov/qfd/states/06/06049.html>, January 14, 2011

⁴³ US Census Bureau, <http://quickfacts.census.gov/qfd/states/06/06049.html>, January 14, 2011

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5.1.2 MSR Determinations on Growth and Population for Last Frontier Health Care District and Surprise Valley Health Care District

- 1-1) There will be a continuous need for the Last Frontier Health Care District to provide health care for the residents of western Modoc County; and for the Surprise Valley Health Care District to provide health care for the residents of the Surprise Valley.
- 1-2) The population in both Districts will rely more and more on Medicare and Medi-CAL to fund the health care needs.
- 1-3) The residents and voters both Districts were courageous and foresighted to establish the Districts to meet the health care needs in the area and to comply with the State Law in a timely manner.
- 1-4) Since each District has a tax it is better for the Districts to remain separate so that the tax-payers know that their taxes are going to the local district.
- 1-5) It is difficult to predict whether or not the Last Frontier Health Care District special tax will be continued after 2014-15 since another 2/3 approval vote will be required.⁴⁴

5.2 Capacity and Infrastructure

Purpose:

To evaluate the infrastructure needs and deficiencies in terms of supply, capacity, condition of facilities and service quality.

5.2.1 Infrastructure Background

The Last Frontier Health Care District has a building but the facility does not meet the requirements of the State Law. The District has until 2020 to build a new facility which will meet the needs of the District and the State Law. The Surprise Valley Health Care District has adequate facilities.

5.2.2 MSR Determinations Regarding Capacity and Infrastructure for Last Frontier Health Care District and Surprise Valley Health Care District

- 2-1) The provision of a suitable facility by 2020 will be an important goal for the Last Frontier Health Care District.

⁴⁴ Steyer, Dick, March 15, 2012.

- 2-2) It is possible that the new Modoc Medical Center facility may be smaller than the existing facility because the costs per square foot will be higher the cost at the time that facility was built.
- 2-3) Both Districts need a Capital Improvement Plan.

5.3 Financial Ability

Purpose:

To evaluate factors that affect the financing of needed improvements and to identify practices or opportunities that may help eliminate unnecessary costs without decreasing service levels.

5.3.1 Financial Considerations

Both the Last Frontier Health Care District and the Surprise Valley Health Care District have the power to tax the landowners with 2/3 voter approval every five years⁴⁵ in each district but financing for health care will require astute management and knowledge of the changing regulations. The fact that the voters have voted to tax themselves for health care shows how important this is to each community.

5.3.2 MSR Determinations on Financial Ability for Last Frontier Health Care District and Surprise Valley Health Care District

- 3-1) Both Districts maintain websites which are used to provide information on district finances (budget, audit) for the public.
- 3-2) Both Districts have reasonable budgets for 2011-2012 and funds are budgeted for audits.
- 3-3) The Last Frontier Health Care District will have to plan for a new parcel tax when the five years for the first tax expires.
- 3-4) The existence of health care facilities in the area will enhance property values.

⁴⁵ Mason, Judy, E-Mail: which2@yahoo.com, March 5, 2012.
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5.4 Opportunities for Shared Facilities

Purpose:

To evaluate the opportunities for a jurisdiction to share facilities and resources to develop more efficient service delivery systems.

In the case of annexing new lands into a District, LAFCO can evaluate whether services or facilities can be provided in a more efficient manner if the District or some other entity provides them (i.e., the County of Modoc, a County Service Area, or a special district). In some cases, it may be possible to establish a cooperative approach to facility planning by encouraging the District and the County to work cooperatively in such efforts.

5.4.1 Facilities

The Modoc Medical Center is located in Alturas. There are no other comparable health care facilities nearby. The Surprise Valley Health Care District facilities are located in Cedarville. Although in the past these facilities were operated by Modoc County, neither community was satisfied with the services provided. Health care provision is complicated and the districts have benefitted from having individual boards devoted to health care.

The best way to assist the public is to provide as many services as possible in each location.

5.4.2 *MSR Determinations on Shared Facilities for Last Frontier Health Care District and Surprise Valley Health Care District*

- 4-1) Use of contracted services is a way of coordinating services with other agencies.
- 4-2) Coordinating the services of a clinic, hospital and skilled nursing facility is another way of sharing facilities.
- 4-3) The two districts and the Mayers Memorial Hospital District work together to provide for education for board members and executive staff as evidenced by the educational meeting held on August 4, 2011 to explain HR laws, trends and litigation and best practices.⁴⁶
- 4-4) The two districts work together to share laboratory services as needed, to share information and some of the same staff members work for both districts.⁴⁷

⁴⁶ Mayers Memorial Hospital District, Memo from Marlene Mc Arthur to Monica Derner, June 6, 2011.

⁴⁷ Surprise Valley Health Care District, Wanda Grove, Hospital Administrator, Phone 530-279-6111, August 26, 2011.

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5.5 Government Structure and Accountability

Purpose:

To consider the advantages and disadvantages of various government structures that could provide public services, to evaluate the management capabilities of the organization and to evaluate the accessibility and levels of public participation associated with the agency's decision-making and management processes.

5.5.1 Government Structure

The Last Frontier Health Care District was formed to provide a District focused on the provision of health care with all funds dedicated to that purpose. The Surprise Valley Health Care District was formed to provide for health care facilities in the Surprise Valley.

5.5.2 *MSR Determinations on Government Structure and Accountability for Last Frontier Health Care District and Surprise Valley Health Care District*

- 5-1) The Board of Directors are introduced to the public on each website.
- 5-2) All Board agendas and minutes should be shown on the website.
- 5-3) The Board agendas are posted and the meetings are open and accessible.
- 5-4) There is evidence of public interest in the health care district management, policies and operations.
- 5-5) The Boards see the value of working together on certain specific projects but are dedicated to maintaining health care facilities in each community.

6 SPHERE OF INFLUENCE

6.1 Sphere of Influence Overview

6.1.1 Sphere of Influence Requirements

In determining the Sphere of Influence for each local agency, LAFCO must consider and prepare a written statement of determinations with respect to each of the following:

1. The present and planned land uses in the area, including agricultural and open space lands;
2. The present and probable need for public facilities and services in the area;
3. The present capacity of public facilities and adequacy of public services which the agency provides, or is authorized to provide; and
4. The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.

6.1.2 Possible Approaches to the Sphere of Influence

LAFCO may recommend government reorganizations to particular agencies in the county, using the SOIs as the basis for those recommendations. Based on review of the guidelines of Modoc LAFCO as well as other LAFCOs in the State, various conceptual approaches have been identified from which to choose in designating an SOI. These seven approaches are explained below:

- 1) Coterminous Sphere:
A Coterminous Sphere means that the sphere for a city or special district that is the same as its existing boundaries.
- 2) Annexable Sphere:
A sphere larger than the agency's boundaries identifies areas the agency is expected to annex. The annexable area is outside its boundaries and inside the sphere.
- 3) Detachable Sphere:
A sphere that is smaller than the agency's boundaries identifies areas the agency is expected to detach. The detachable area is the area within the agency bounds but not within its sphere.
- 4) Zero Sphere:
A zero sphere indicates the affected agency's public service functions should be reassigned to another agency and the agency should be dissolved or combined with one or more other agencies.
- 5) Consolidated Sphere:

A consolidated sphere includes two or more local agencies and indicates the agencies should be consolidated into one agency.

6) Limited Service Sphere:

A limited service sphere is the territory included within the SOI of a multi-service provider agency that is also within the boundary of a limited purpose district which provides the same service (e.g., fire protection), but not all needed services. Territory designated as a limited service SOI may be considered for annexation to the limited purpose agency without detachment from the multi-service provider.

A limited service sphere is generally adopted when the following conditions exist:

- a) The limited service provider is providing adequate, cost effective and efficient services.
- b) The multi-service agency is the most logical provider of the other services.
- c) There is no feasible or logical SOI alternative.
- d) Inclusion of the territory is in the best interests of local government organization and structure in the area.

Government Code §56001 specifically recognizes that in rural areas it may be appropriate to establish limited purpose agencies to serve an area rather than a single service provider, if multiple limited purpose agencies are better able to provide efficient services to an area rather than one service district.

Moreover, Government Code Section §56425(i), governing sphere determinations, also authorizes a sphere for less than all of the services provided by a district by requiring a district affected by a sphere action to “establish the nature, location, and extent of any functions of classes of services provided by existing districts” recognizing that more than one district may serve an area and that a given district may provide less than its full range of services in an area.

7) Sphere Planning Area:

LAFCO may choose to designate a sphere planning area to signal that it anticipates expanding an agency’s SOI in the future to include territory not yet within its official SOI.

6.1.3 SOI Update Process

LAFCO is required to establish SOIs for all local agencies and enact policies to promote the logical and orderly development of areas within the SOIs. Furthermore, LAFCO must update those SOIs every five years. In updating the SOI, LAFCO is required to conduct a municipal service review (MSR) and adopt related determinations. Development of actual SOI update will involve additional steps as follows:

- Opportunity for public input at a Modoc LAFCO public hearing
- Consideration of changes requested by LAFCO Commissioners

LAFCO must notify affected agencies 21 days before holding a public hearing to consider the SOI and may not update the SOI until after that hearing. The Modoc LAFCO Executive Officer must issue a report including recommendations on the SOI amendments and updates under consideration at least five days before the public hearing.

6.1.4 SOI Amendments and CEQA

LAFCO has the discretion to limit SOI updates to those that it may process without unnecessarily delaying the SOI update process or without requiring its funding agencies to bear the costs of environmental studies associated with SOI expansions. Any local agency or individual may file a written request for an SOI amendment. The request must state the nature of and reasons for the proposed amendment, and provide a map depicting the proposal.

Certain types of SOI amendments are likely exempt from CEQA review. Examples may include SOI expansions that involve territory already within the bounds or service area of an agency, SOI reductions, and zero SOIs, or annexable Spheres where the City already provides services.

SOI expansions for limited purpose agencies that provide services (e.g., fire protection, levee protection, cemetery, and resource conservation) needed by both rural and urban areas are typically not considered growth-inducing and are likely exempt from CEQA. Similarly, SOI expansions for districts serving rural areas (e.g., irrigation water) are typically not considered growth-inducing.

Remy et al. write as follows:

In City of Agoura Hills v. Local Agency Formation Commission (2d Dist.1988) 198 Cal.App.3d480, 493-496 [243 Cal.Rptr.740] (City of Agoura Hills), the court held that a LAFCO's decision to approve a city's sphere of influence that in most respects was coterminous with the city's existing municipal boundaries was not a "project" because such action did not entail any potential effects on the physical environment.⁴⁸

⁴⁸ Remy, Michael H., Tina A. Thomas, James G. Moose, Whitman F. Manley, Guide to CEQA, Solano Press Books, Point Arena, CA, February 2007, page 111.

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6.2 Present and Planned Land Uses in the Area, Including Agricultural and Open Space Lands Land Use

6.2.1 Land Use in the Last Frontier Health Care District Area and in the Surprise Valley Area

Land uses in the unincorporated area are determined by the County of Modoc. Land uses within the City of Alturas are determined by the City's General Plan. The City of Alturas is served by public sewer and water systems and can grow in the future. Cedarville also has sewer and water provided by the Cedarville County Water District. Growth in the unincorporated area is limited by the lack of infrastructure even though there are several small communities within each District.

6.2.2 SOI Determinations on Present and Planned Land Use for Last Frontier Health Care District and Surprise Valley Health Care District

- 1-1] Land use planning and economic conditions will limit the population growth within the Last Frontier Health Care District and the Surprise Valley Health Care District.
- 1-2] The successful operation of the Modoc Medical Center and the Surprise Valley Hospital and Clinic will provide employment and economic stimulus to the area.
- 1-3] The Sphere of Influence for each district should be the same as the boundary for the district. If Last Frontier Health Care District proposes to annex additional areas in the future (such as Adin) the Sphere of Influence can be amended at that time.

6.3 Municipal Services: Present Need

6.3.1 Health Care Services: Present Need

There clearly is a need for the Modoc Medical Center and Surprise Valley Health Care District as shown by the number of clients served.

6.3.2 SOI Determinations for Facilities and Services: Present and Probable Need

- 2-1] There is a need for the Last Frontier Health Care District and the Modoc Medical Center.
- 2-2] The distance and driving conditions from Alturas to other health care facilities would prohibit many residents of the District from obtaining health care if the Modoc Medical Center were not in operation.

- 2-3] There is a need for the Surprise Valley Health Care District and the Surprise Valley Hospital and Clinic.
- 2-4] The distance and driving conditions from Cedarville to other health care facilities would prohibit many residents of the District from obtaining health care if the Surprise Valley Hospital and Clinic were not in operation.

6.4 Public Facilities Future Capacity

6.4.1 Facilities and Capacity

The facilities of the Last Frontier Health Care District will need to be replaced by 2020. The capacity of the District includes the ability of the Board, Staff and residents to meet this challenge. The Surprise Valley Health Care District was able to increase the tax rate to maintain the District.

6.4.2 SOI Determinations on Public Facilities Present and Future Capacity for Last Frontier Health Care District and Surprise Valley Health Care District

- 3-1] The significant approval of the measures to form the Last Frontier Health Care District and the tax rate show that there is support in the community to provide the facilities for health care.
- 3-2] The approval of a tax rate increase for the Surprise Valley Health Care District shows that there is community support for this District.

6.5 Social or Economic Communities of Interest

6.5.1 Last Frontier Health Care District and Surprise Valley Health Care District

The Last Frontier Health Care District includes both a social and an economic community of interest. The Modoc Medical Center is an important part of the community and the residents are willing to support it with patronage, tax revenue and volunteer efforts.

The Surprise Valley Health Care District includes both a social and an economic community of interest located in Cedarville. The Surprise Valley Hospital and Clinic is an important part of the community and the residents are willing to support it with patronage, tax revenue and volunteer fundraising efforts.

6.5.2 SOI Determinations for Social or Economic Communities of Interest for Last Frontier Health Care District and Surprise Valley Health Care District

- 4-1] The Sphere of Influence for the Last Frontier Health Care District could include the community of Adin or other areas such as Doris Creek and Madeline Plains in the future but at this time the Sphere of Influence for the Last Frontier Health Care District will remain the same as the District boundary.
- 4-2] The Last Frontier Health Care District serves a definite community of social and economic interest and is important to this community.
- 4-3] The Sphere of Influence for the Surprise Valley Health Care District should be the same as the District Boundary.
- 4-4] The Surprise Valley Health Care District serves a definite community of social and economic interest and is important to the community.

APPENDIX A LOCAL GOVERNMENT ISSUES

1 Municipal Financial Constraints

Municipal service providers are constrained in their capacity to finance services by the inability to increase property taxes, requirements for voter approval for new or increased taxes, and requirements of voter approval for parcel taxes and assessments used to finance services. Municipalities must obtain majority voter approval to increase or impose new general taxes and two-thirds voter approval for special taxes.

Limitations on property tax rates and increases in taxable property values are financing constraints. Property tax revenues are subject to a formulaic allocation and are vulnerable to State budget needs. Agencies formed since the adoption of Proposition 13 in 1978 often lack adequate financing.

1.1 California Local Government Finance Background

The financial ability of the cities and special districts to provide services is affected by financial constraints. City service providers rely on a variety of revenue sources to fund city operating costs as follows:

- Property Taxes
- Benefit Assessments
- Special Taxes
- Proposition 172 Funds
- Other contributions from city or district general funds.

As a funding source, property taxes are constrained by Statewide initiatives that have been passed by voters over the years and special legislation. Seven of these measures are explained below:

A. Proposition 13

Proposition 13 (which California voters approved in 1978) has the following three impacts:

- Limits the *ad valorem* property tax rate
- Limits growth of the assessed value of property
- Requires voter approval of certain local taxes.

Generally, this measure fixes the *ad valorem* tax at one percent of value; except for taxes to repay certain voter approved bonded indebtedness. In response to the adoption of Proposition 13, the Legislature enacted Assembly Bill 8 (AB 8) in 1979 to establish property tax allocation formulas.

B. AB 8

Generally, AB 8 allocates property tax revenue to the local agencies within each tax rate area based on the proportion each agency received during the three fiscal years preceding adoption of Proposition 13. This allocation formula benefits local agencies, which had relatively high tax rates at the time Proposition 13 was enacted.

C. Proposition 98

Proposition 98, which California voters approved in 1988, requires the State to maintain a minimum level of school funding. In 1992 and 1993, the Legislature began shifting billions of local property taxes to schools in response to State budget deficits. Local property taxes were diverted from local governments into the Educational Revenue Augmentation Fund (ERAF) and transferred to school districts and community college districts to reduce the amount paid by the State general fund.

Local agencies throughout the State lost significant property tax revenue due to this shift. Proposition 172 was enacted to help offset property tax revenue losses of cities and counties that were shifted to the ERAF for schools in 1992.

D. Proposition 172

Proposition 172, enacted in 1993, provides the revenue of a half-cent sales tax to counties and cities for public safety purposes, including police, fire, district attorneys, corrections and lifeguards. Proposition 172 also requires cities and counties to continue providing public safety funding at or above the amount provided in FY 92-93.

E. Proposition 218

Proposition 218, which California voters approved in 1996, requires voter- or property owner-approval of increased local taxes, assessments, and property-related fees. A two-thirds affirmative vote is required to impose a Special Tax, for example, a tax for a specific purpose such as a fire district special tax.

However, majority voter approval is required for imposing or increasing general taxes such as business license or utility taxes, which can be used for any governmental purpose. These requirements do not apply to user fees, development impact fees and Mello-Roos districts.

F. Proposition 26

Proposition 26 was approved by California voters on November 2, 2010, requires that certain state fees be approved by two-thirds vote of Legislature and certain local fees be approved by two-thirds of voters. This proposition increases the legislative vote requirement to two-thirds for certain tax measures, including those that do not result in a net increase in revenue. Prior to its passage, these tax measures were subject to majority vote.

However, majority voter approval is required for imposing or increasing general taxes such as business license or utility taxes, which can be used for any governmental purpose. These requirements do not apply to user fees, development impact fees and Mello-Roos districts.

G. Mello-Roos Community Facilities Act

The Mello-Roos Community Facilities Act of 1982 allows any county, city, special district, school district or joint powers authority to establish a Mello-Roos Community Facilities District (a "CFD") which allows for financing of public improvements and services. The services and improvements that Mello-Roos CFDs can finance include streets, sewer systems and other basic infrastructure, police protection, fire protection, ambulance services, schools, parks, libraries, museums and other cultural facilities. By law, the CFD is also entitled to recover expenses needed to form the CFD and administer the annual special taxes and bonded debt.

A CFD is created by a sponsoring local government agency. The proposed district will include all properties that will benefit from the improvements to be constructed or the services to be provided. A CFD cannot be formed without a two-thirds majority vote of residents living within the proposed boundaries. Or, if there are fewer than 12 residents, the vote is instead conducted of current landowners.

In many cases, that may be a single owner or developer. Once approved, a Special Tax Lien is placed against each property in the CFD. Property owners then pay a Special Tax each year.

If the project cost is high, municipal bonds will be sold by the CFD to provide the large amount of money initially needed to build the improvements or fund the services. The Special Tax cannot be directly based on the value of the property. Special Taxes instead are based on mathematical formulas that take into account property characteristics such as use of the property, square

footage of the structure and lot size. The formula is defined at the time of formation, and will include a maximum special tax amount and a percentage maximum annual increase.

If bonds were issued by the CFD, special taxes will be charged annually until the bonds are paid off in full. Often, after bonds are paid off, a CFD will continue to charge a reduced fee to maintain the improvements.

H. Development Impact Fees

A county, cities, special districts, school districts, and private utilities may impose development impact fees on new construction for purposes of defraying the cost of putting in place public infrastructure and services to support new development.

To impose development impact fees, a jurisdiction must justify the fees as an offset to the impact of future development on facilities. This usually requires a special financial study. The fees must be committed within five years to the projects for which they were collected, and the district, city or county must keep separate funds for each development impact fee.

1.2 *Financing Opportunities that Require Voter Approval*

Financing opportunities that require voter approval include the following five taxes:

- Special taxes such as parcel taxes
- Increases in general taxes such as utility taxes
- Sales and use taxes
- Business license taxes
- Transient occupancy taxes

Communities may elect to form business improvement districts to finance supplemental services, or Mello-Roos districts to finance development-related infrastructure extension. Agencies may finance facilities with voter-approved (general obligation) bonded indebtedness.

1.3 *Financing Opportunities that Do Not Require Voter Approval*

Financing opportunities that do not require voter approval include imposition of or increases in fees to more fully recover the costs of providing services, including user fees and Development Impact Fees to recover the actual cost of services provided and infrastructure.

Development Impact Fees and user fees must be based on reasonable costs, and may be imposed and increased without voter approval. Development Impact Fees may not be used to subsidize operating costs. Agencies may also finance many types of facility improvements through bond instruments that do not require voter approval.

Water rates and rate structures are not subject to regulation by other agencies. Utility providers may increase rates annually, and often do so. Generally, there is no voter approval requirement for rate increases, although notification of utility users is required. Water providers must maintain an enterprise fund for the respective utility separate from other funds, and may not use revenues to finance unrelated governmental activities.

2 Public Management Standards

While public sector management standards do vary depending on the size and scope of an organization, there are minimum standards. Well-managed organizations do the following eight activities:

1. Evaluate employees annually.
2. Prepare a budget before the beginning of the fiscal year.

3. Conduct periodic financial audits to safeguard the public trust.
4. Maintain current financial records.
5. Periodically evaluate rates and fees.
6. Plan and budget for capital replacement needs.
7. Conduct advance planning for future growth.
8. Make best efforts to meet regulatory requirements.

Most of the professionally managed and staffed agencies implement many of these best management practices. LAFCO encourages all local agencies to conduct timely financial record-keeping for each city function and make financial information available to the public.

3 Public Participation in Government

The Brown Act (California Government Code Section 54950 et seq.) is intended to insure that public boards shall take their actions openly and that deliberations shall be conducted openly. The Brown Act establishes requirements for the following:

- Open meetings
- Agendas that describe the business to be conducted at the meeting
- Notice for meetings
- Meaningful opportunity for the public to comment

Few exceptions for meeting in closed sessions and reports of items discussed in closed sessions.

According to California Government Section 54959

Each member of a legislative body who attends a meeting of that legislative body where action is taken in violation of any provision of this chapter, and where the member intends to deprive the public of information to which the member knows or has reason to know the public is entitled under this chapter, is guilty of a misdemeanor.

Section 54960 states the following:

(a) The district attorney or any interested person may commence an action by mandamus, injunction or declaratory relief for the purpose of stopping or preventing violations or threatened violations of this chapter by members of the legislative body of a local agency or to determine the applicability of this chapter to actions or threatened future action of the legislative body,...

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ABBREVIATIONS

AB	Assembly Bill
ACHD	Association of California Hospital Districts, Inc
AMSL	above mean sea level
BLM	Bureau of Land Management
CAH	Critical Access Hospital
CEO	Chief Executive Officer
CEQA	California Environmental Quality Act
CFD	Mello-Roos Community Facilities District
CHDP	Child Health and Disability Prevention
CHFFA	California Health Facilities Financing Authority
CKH	Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000
CNA	Certified Nursing Assistant
CPR	Cardiopulmonary Resuscitation
CT	Computerized Tomography (Scan)
CVA	cerebrovascular accident
dba	doing business as
DMV	Department of Motor Vehicles (California)
DOT	Department of Transportation (California)
EKG	Electrocardiogram
EMR	Electronic Medical Record
EMT	Emergency Medical Technician
ERAF	Educational Revenue Augmentation Fund
ESRD	End Stage Renal Disease
FICA	Federal Insurance Contributions Act (Social Security and Medicare)
FNP	Family Nurse Practitioner
FUI	Federal Unemployment Insurance

FY	Fiscal Year
HCD	Health Care District
HIPAA	Health Insurance Portability and Accountability Act
HR	Human Resources
IRS	Internal Revenue Service (Federal)
IVP	intravenous pyelogram
JPA	Joint Powers Agreement
LAFCO	Local Agency Formation Commission
LAIF	Local Agency Investment Fund
LVN	Licensed Vocational Nurse
MD	Medical Doctor
MMC	Modoc Medical Center
MSR	Municipal Service Review (LAFCO)
OB	Obstetrics
OPR	Office of Planning and Research (California)
PAD	Peripheral Artery Disease
PERS	Public Employee Retirement System (California)
PL	Public Law
PTO	paid-time-off
RN	Registered Nurse
SOI	Sphere of Influence (LAFCO)
SUI	State Unemployment Insurance

DEFINITIONS

Bond: An interest-bearing promise to pay a stipulated sum of money, with the principal amount due on a specific date. Funds raised through the sale of bonds can be used for various public purposes.

California Environmental Quality Act (CEQA): A State Law requiring State and local agencies to regulate activities with consideration for environmental protection. If a proposed activity has the potential for a significant adverse environmental impact, an environmental impact report (EIR) must be prepared and certified as to its adequacy before taking action on the proposed project.

Local Agency Formation Commission (LAFCO): A five-or seven-member commission within each county that reviews and evaluates all proposals for formation of special districts, incorporation of cities, annexation to special districts or cities, consolidation of districts, and merger of districts with cities. Each county's LAFCO is empowered to approve, disapprove, or conditionally approve such proposals. The LAFCO members generally include two county supervisors, two city council members, and one member representing the general public. Some LAFCOs include two representatives of special districts.

Medicare:⁴⁹ Medicare is health insurance for the following:

- People 65 or older
- People under 65 with certain disabilities
- People of any age with End-Stage Renal Disease (ESRD) (permanent kidney failure requiring dialysis or a kidney transplant)

Proposition 13: (Article XIII A of the California Constitution) Passed in 1978, this proposition enacted sweeping changes to the California property tax system. Under Proposition 13, property taxes cannot exceed 1% of the value of the property and assessed valuations cannot increase by more than 2% per year. Property is subject to reassessment when there is a transfer of ownership or improvements are made.⁵⁰

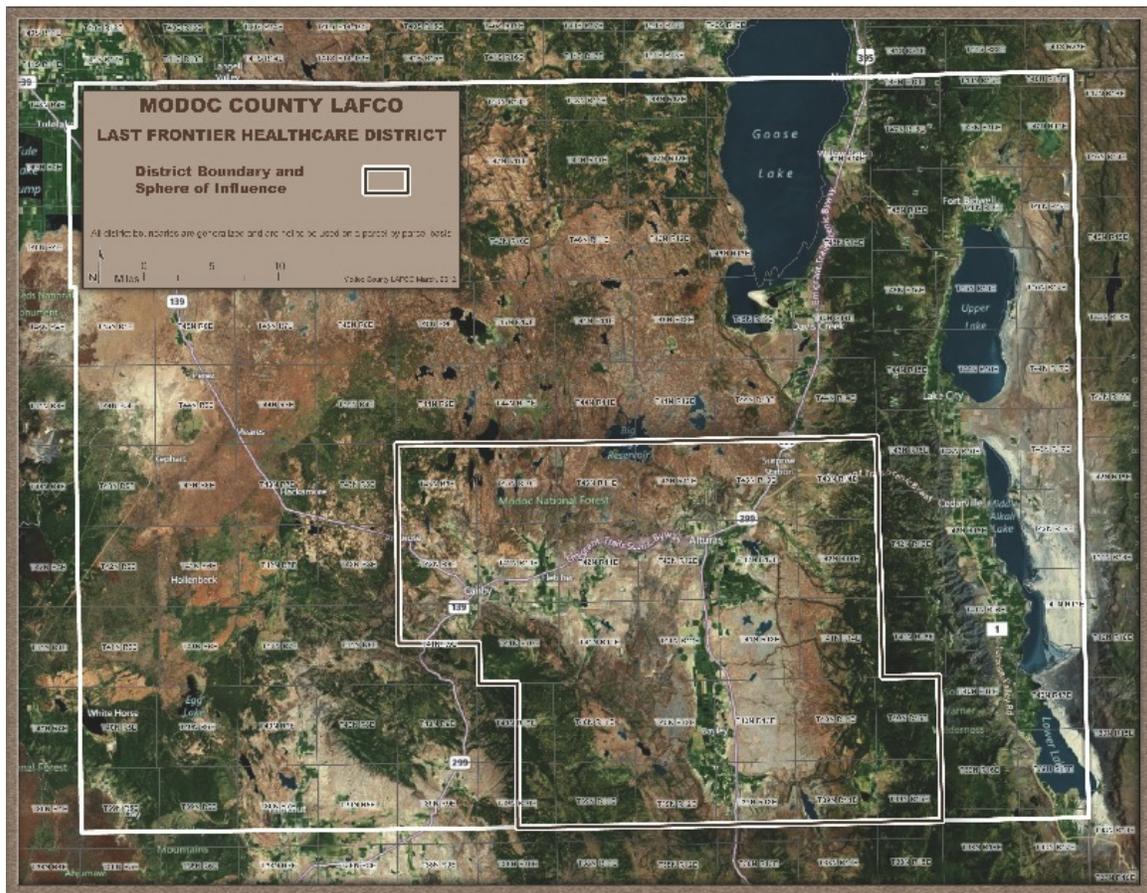
Proposition 218: (Article XIII D of the California Constitution) This proposition, named "The Right to Vote on Taxes Act", filled some of the perceived loopholes of Proposition 13. Under Proposition 218, assessments may only increase with a two-thirds majority vote of the qualified voters within the District. In addition to the two-thirds voter approval requirement, Proposition 218 states that effective July 1, 1997, any assessments levied may not be more than the costs necessary to provide the service, proceeds may not be used for any other purpose other than providing the services intended, and assessments may only be levied for services that are immediately available to property owners.⁵¹

⁴⁹ <http://www.medicare.gov/navigation/medicare-basics/medicare-benefits/medicare-benefits-overview.aspx>, June 21, 2011.

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MAPS



Adopted April 10, 2012
Modoc LAFCO Healthcare MSR and SOI
Resolution 2012-0004 – MSR
Resolution 2012-0005 – SOI



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 Resolution 2012-0004 – MSR
 Resolution 2012-0005 – SOI