



**Santa Cruz Local Agency Formation Commission**

Date: January 4, 2023  
To: LAFCO Commissioners  
From: Joe Serrano, Executive Officer  
Subject: **“Pajaro Valley Health Care District Sphere of Influence Designation”**

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**SUMMARY OF RECOMMENDATION**

State law requires LAFCO to develop and determine a sphere of influence boundary for the newly formed Pajaro Valley Health Care District within one year of the district’s date of formation. The healthcare district was formed on February 4, 2022 following the Governor’s approval of Senate Bill 418. A sphere of influence means a plan for the probably physical boundaries and service area of a local government agency (Government Code Section 56076).

It is recommended that the Commission adopt the draft resolution (No. 2023-03) approving the sphere of influence designation for the Pajaro Valley Health Care District.

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**EXECUTIVE OFFICER’S REPORT**

Senate Bill 418 was signed into law on February 4, 2022, resulting in the formation of the Pajaro Valley Health Care District<sup>1</sup>. The District was formed to provide adequate governmental oversight to the Watsonville Community Hospital, which filed for Chapter 11 bankruptcy on December 21, 2021. A subsequent bill, Senate Bill 969, was also signed into law on July 1, 2022 to clearly outline LAFCO’s purview over the newly formed district<sup>2</sup>.

Senate Bill 969 requires LAFCO to develop and determine a sphere of influence for the district within one year of the district’s date of formation and conduct a municipal service review regarding the health care provision in the district by December 31, 2025 and by December 31 every five years thereafter. The bill also requires the District to annually report to LAFCO regarding health care provision in the district in 2023 and 2024. This information will be helpful in completing LAFCO’s future service review in 2025. For purposes of today’s meeting, staff will focus on the proposed sphere designation.

**Sphere Determinations**

In accordance with Government Code Section 56425, the Commission is required to consider and prepare a written statement of its determination of a sphere boundary based on five different factors. Below is LAFCO staff’s analysis of each factor.

**1) The present and planned land uses in the area, including agricultural and open space lands.**

The Pajaro Valley Health Care District is primarily located in unincorporated territory in two counties (Monterey and Santa Cruz). The District’s jurisdictional boundary also

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<sup>1</sup> Senate Bill 418: [https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill\\_id=202120220SB418](https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220SB418)  
<sup>2</sup> Senate Bill 969: [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202120220SB969](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB969)

encompasses the City of Watsonville. The City and the two counties have full authority on the present and planned land uses. At present, the land use designation within the District's service area varies from agricultural to urban residential.

**2) The present and probable need for public facilities and services in the area.**

The Pajaro Valley Health Care District was formed due to the essential services and facilities offered by the Watsonville Community Hospital. Due to various ownership turnover and lack of proper governance, the District was formed through special legislation to prevent the hospital from going bankrupt resulting in the closure of the vital medical facility. The hospital was successfully purchased in September 2022.

**3) The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide, including the funding of capital, debt, service, and operations.**

Pursuant to state law, which formed the Pajaro Valley Health Care District, LAFCO is required to conduct a municipal service review regarding the health care provision by December 31, 2025. This extensive report will examine the current and future services, financial performance, and operations to ensure that the District is fulfilling its statutory requirements and providing the best level of service possible.

**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.**

The Watsonville Community Hospital is a 106-bed facility that provides acute care and emergency services to residents in the Pajaro Valley, which spans across southern Santa Cruz and northern Monterey counties. The hospital currently employs over 600 people including 200 physicians. The hospital also has a contract with Kaiser Permanente to provide hospital services for Kaiser patients. The hospital serves significant numbers of low income, underinsured, and patients of color. As such, 43% of the hospital's gross revenue comes from the Medi-Cal program for low-income Californians, and 30% comes from the Medicare program that serves aged and disabled Californians.

**5) For an update of a sphere of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere.**

The Pajaro Valley Health Care District does not provide sewer, municipal and industrial water, or structural fire protection services. The District's primary purpose is to provide proper governmental oversight to the Watsonville Community Hospital, which offers essential medical services to the general public.

**Proposed Sphere Boundary**

The District's jurisdictional boundary is situated in the Counties of Monterey and Santa Cruz and follows the boundary of the Pajaro Valley Unified School District, with the exception of certain areas described in Senate Bill 418. **Attachment 1** provides a vicinity map of the District's jurisdictional boundary.

Pursuant to state law, and the Commission's adopted sphere policy, there are several types of sphere boundaries that the Commission may adopt:

- a) **Coterminous Sphere:** A sphere of influence may be coterminous, or identical, with the agency's current jurisdictional boundary;
- b) **Larger-than-Jurisdiction Sphere:** A sphere of influence may be larger than the agency's current jurisdictional boundary. This designation identifies areas that should be annexed into the agency in the foreseeable future.
- c) **Smaller-than-Jurisdiction Sphere:** A sphere of influence may be smaller than the agency's current jurisdictional boundary. This designation identifies areas that should be detached from the agency in the foreseeable future.
- d) **Zero Sphere:** A sphere of influence may be removed entirely if the Commission determines that the service responsibilities and functions of the agency should be reassigned to another local government, and that the agency assigned a "zero sphere of influence" should be dissolved.

Since LAFCO has not conducted a service review, staff is recommending that the Commission adopt a coterminous sphere, as shown in **Attachment 2**. The Commission may consider modifying the sphere boundary when discussing the findings and recommendations identified in the December 2025 service and sphere review. However, adopting a coterminous sphere at this time will fulfill the requirements under Senate Bill 969.

### **Environmental Review**

LAFCO staff has conducted an environmental review for the proposed sphere designation in accordance with the California Environmental Quality Act (CEQA). Staff has determined that the proposed sphere boundary is exempt because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, and the activity is not subject to CEQA (Section 5061[b][3]). A Notice of Exemption, as shown in **Attachment 3**, will be recorded after Commission action.


### **Public Hearing Notice**

Pursuant to Government Code Section 56879(c), the Commission's action associated with this sphere designation must occur following a public hearing. To meet the legal notice requirements, LAFCO provided notice of the hearing by means of publishing in the Sentinel Newspaper on December 13, 2022, as shown in **Attachment 4**.

### **Conclusion**

The formation of the Pajaro Valley Health Care District in February, and subsequent purchase of the hospital in September, has allowed the Watsonville Community Hospital to continue operation with adequate governmental oversight. Special legislation required LAFCO to designate a sphere boundary for the newly formed district. Staff is recommending that the Commission adopt the draft resolution (refer to **Attachment 5**), approving the establishment of a coterminous sphere of influence for the Pajaro Valley Health Care District.

Respectfully Submitted,



Joe A. Serrano  
Executive Officer

Attachments:

1. [Vicinity Map](#)
2. [Proposed Sphere Boundary Map](#)
3. [Environmental Determination – Categorical Exemption](#)
4. [Public Hearing Notice](#)
5. [Draft Resolution No. 2023-03](#)

cc: Santa Cruz County Administrative Office  
Pajaro Valley Health Care District  
Monterey LAFCO