

# Capitola City Council

## Agenda Report

**Meeting:** August 11, 2022

**From:** Finance Department

**Subject:** Consider a Short-Term Loan Agreement with the County of Santa Cruz for the Purpose of Funding the Purchase of Watsonville Community Hospital



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**Recommended Action:** Authorize the City Manager to execute a short-term (not to exceed 60 days) loan agreement with the County of Santa Cruz in the amount of \$5 million to assist in funding the County's purchase of the Hospital, pending availability of the additional \$20 million in funding needed to complete the purchase.

**Background:** Watsonville Community Hospital (WCH) is one of two hospitals serving residents of Santa Cruz County. WCH filed for Chapter 11 bankruptcy on December 6, 2021. In anticipation of the imminent closure of the community Hospital, a not-for-profit 501(c)(3) was created to advocate for community-led healthcare services by forming a health care district and purchasing WCH to transition it to community ownership and governance.

The nonprofit, the Pajaro Valley Healthcare District Project (PVHDP), is governed by a Board of Directors that includes leadership representing Santa Cruz County, the City of Watsonville, Community Health Trust of Pajaro Valley, and Salud Para La Gente.

A long-term management and ownership plan for the hospital was implemented through urgency state legislation — Senate Bill 418 — brought forward by State Senator Laird and coauthored by California State Assembly members Robert Rivas, Mark Stone, and Senator Anna Caballero. The bill was passed unanimously by the Assembly and Senate, and on Friday, February 4, 2022, Governor Gavin Newsom signed the legislation into law. With his signature, the Pajaro Valley Healthcare District was established with the purpose of bringing Watsonville Community Hospital into public ownership.

In preparation for the hospital's bankruptcy auction, PVHDP finalized an Asset Sale Agreement with Watsonville Community Hospital. PVHDP was approved by the bankruptcy court as the lead bidder to purchase the hospital.

**Discussion:** The State of California has committed to providing Santa Cruz County significant funding towards the purchase of WCH, as reflected in separate line items for ten million dollars and fifteen million dollars (for a total of \$25 million) in the 2022-2023 State Budget Bill.

Due to a drafting error in the State Budget Bill language related to the State's \$25 million grant the wrong entity was inadvertently inserted in place of the County; the intended recipient of the funds.

The result of the error is the County will not receive a portion of the funds necessary to contribute towards the purchase price of the Hospital. This will require an amendment to the original State Budget Bill language, which is forthcoming. However, the necessary correction will not be accomplished quickly enough to accommodate the August 31, 2022, closing deadline. Therefore, the County has requested a five-million-dollar (\$5 million) loan from the City to help close on the purchase of the Hospital.

A wide variety of community benefit organizations, private donors, and public agencies have joined together to fund the purchase price of the Hospital, and the last date to close the sale, as approved by the United States Bankruptcy Court, is August 31, 2022.

If the sale fails to close by August 31, the Bankruptcy Court will either amend the Bankruptcy plan and change the date, which would likely lead to unnecessary exorbitant cost increases, or cancel the sale and terminate the deal. Additionally, not being able to close on August 31 jeopardizes the deal and places the Hospital in danger of closing.

Closing WCH would have negative impacts throughout the County as Dominican Hospital would need to serve the entire county; increasing the time it takes patients to receive emergency care. For this reason, the County is seeking bridge loans from five organizations in the amount of \$5M each. The five organizations are the City of Capitola, the City of Watsonville, the City of Santa Cruz, the Santa Cruz County Community Foundation, and Salud Para La Gente.

Staff has evaluated the City's current and projected cash position and determined there is sufficient available funding for operations as well as ongoing Capital Improvement Projects until construction begins on the Wharf Rehabilitation project. At this time, the earliest the Wharf project could begin is Spring 2023. The County has agreed to pay interest on the loan at the Local Agency Investment Fund (LAIF) rate which is currently 1.21%. Capitola currently has a balance in LAIF of \$12.3 million of which \$5 million would be utilized for the short-term loan.

Therefore, staff recommends Council authorize the City Manager to enter a \$5 million-dollar, short-term loan (not to exceed 60 days) to assist in funding the purchase price of the Hospital. This \$5 million will be pooled with money from other community partners to fund the \$25 million necessary to bridge the gap in funds needed to close the Hospital purchase transaction by August 31, 2022.

Fiscal Impact: There is no fiscal impact associated with this action as the County of Santa Cruz has agreed to reimburse the City for any transactional costs and has agreed to pay interest at the current LAIF interest rate for the term of the loan.

Attachments:

1. Loan Agreement

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Approved By: Jamie Goldstein, City Manager