

Capitola City Council

Agenda Report



Meeting: December 11, 2025

From: City Manager Department

Subject: Watsonville Community Hospital Grant Funding Support

Recommended Action: Authorize the Mayor to send a letter to the state legislature supporting Watsonville Community Hospital's prioritization for Rural Health Transformation Program funding and designation as a regional hub hospital.

Background: Watsonville Community Hospital (WCH) is one of two hospitals serving residents of Santa Cruz County. In 2021, WCH filed for Chapter 11 bankruptcy. 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.

In 2022, the City of Capitola supported the purchase of the Hospital by the PVHDP by entering into a short-term loan agreement in the total amount of \$5 million. The loan was repaid within 60 days.

On December 3, 2025, WCH approached the City with a request for a letter of support for Rural Health Transformation Program funding. Letters must be submitted by the end of December 2025.

Discussion: Watsonville Community Hospital (WCH) is the primary acute-care, maternity, and emergency facility serving approximately 93,000 residents across Santa Cruz, Monterey, and San Benito counties. With roughly 35,000 annual emergency department visits and 800 births, WCH is a critical safety-net provider for a largely Medi-Cal, uninsured, or underinsured population.

Since transitioning to public ownership in September 2022, WCH has stabilized operations, improved quality metrics, and strengthened partnerships. However, the hospital continues to face structural vulnerabilities common to rural facilities, including staffing shortages, deferred maintenance, and recent cybersecurity and operational challenges.

The Rural Health Transformation (RHT) Program was created under H.R. 1 / Public Law 119-21, enacted on July 4, 2025, as part of the federal government's "largest investment in rural health care." The program allocates \$50 billion to states over five years (FFY 2026–2030) to strengthen rural health systems and ensure equitable access to high-quality care.

RHT funding is designed to help rural hospitals modernize facilities, stabilize operations, expand workforce capacity, implement innovative care models, and adopt technology-driven solutions such as telehealth and data systems. Funding is intended to transform rural care delivery, not supplant Medicare/Medicaid, and supports hospitals, clinics, FQHCs, and other rural providers.

In California, the Department of Health Care Access and Information (HCAI) manages the state application and allocation process. The vision of the California RHT (CA-RHT) program is a connected, resilient rural health system in which every rural and frontier Californian can access timely, person-centered primary, maternal, specialty, chronic condition, and behavioral health care close to home, supported by a sustainable workforce, modern technology, and data infrastructure. The program develops regional coordination and partnerships, applies evidence-based care, deploys tools for low-resource settings, and aligns sustainable payment to fund local readiness and healthcare services.

RHT Program funding would enable WCH to:

- Stabilize operations and ensure continued access to emergency and maternity care.
- Expand primary and specialty care capacity through clinics and partnerships with regional health providers.
- Modernize facilities, implement technology-driven solutions, and strengthen workforce development in alignment with HCAI priorities.
- Support long-term sustainability and regional hub designation, reducing the risk of service disruption for vulnerable populations and regional economic sectors.

Prioritizing WCH aligns with RHT goals of improving access to care, advancing workforce development, strengthening local partnerships, supporting technology-driven solutions, and ensuring sustainable rural hospital operations.

WCH has requested a letter of support from the City Council, which staff has placed on the City Council agenda for consideration and approval.

Fiscal Impact: There is no fiscal impact associated with the recommended action.

Attachments:

1. Letter of Support

Report Prepared By: Julia Gautho, City Clerk

Approved By: Jamie Goldstein, City Manager