



STAFF REPORT
7/24/2024

TO: Honorable Mayor and City Council Members

FROM: Dr. Gabriel Martin, City Manager

SUBJECT: Resolution No. 2024-44 - A Resolution Formally Expressing Opposition to the Desert Healthcare District's Proposed Hospital Lease Agreement's "Non-Compete" Provision and Directing the Mayor to Send a Letter to the Desert Healthcare District Board Expressing this Opposition

STAFF RECOMMENDATION:

Staff recommends that the City Council consider adoption of Resolution No. 2024-44, formally expressing opposition to the Desert Healthcare District's proposed hospital lease agreement's "non-compete" provision and directing the Mayor to send a letter to the Desert Healthcare District Board expressing this opposition.

BACKGROUND:

On May 28, 2024, the Desert Healthcare District ("District") Board of Directors received a presentation from Tenet Healthcare ("Tenet") regarding a new Hospital Lease Agreement for Desert Regional Medical Center (the "Lease"). This presentation referenced a new thirty (30) year lease, which would allow Tenet, a Dallas based corporation, to take ownership of Desert Regional Medical Center at the end of the Lease. Additionally, the new Lease would also include a "non-compete" provision similar to one in the current lease. If approved by the District Board of Directors, this item would be put on the November 5, 2024 ballot for District voters to weigh in on.

As mentioned above, the current lease includes a "non-compete" clause, which is generally outlined in Article XIII of the May 30, 1997, Hospital Lease Agreement between the District ("Lessor") and Tenet Health System Desert, Inc. ("Lessee"). This "non-compete" clause currently restricts the use of taxpayer funds within the District's boundaries, requiring Tenet's prior written consent prior to doing so, which Tenet may withhold in its sole and absolute discretion. Due to the expansion of the District's boundaries during the term of the current lease, certain ambiguity has arisen pertaining to the District's ability to engage in potentially competing activities within the District's expanded boundaries. Consequently, the new Lease would restrict such activities within the entirety of the District's boundaries.

DISCUSSION/ANALYSIS:

Staff recommends that the City Council consider directing the Mayor, on behalf of the City and with the assistance of the City Manager, to send a letter to the District Board of Directors detailing the City's objections and concerns to any "non-compete" provision within the new Lease with Tenet. Staff has drafted a resolution setting forth the potential grounds for objecting to any "non-compete" provision in the new Lease as follows:

- 1) The Lease would restrict the activities of the District within its own boundaries;
- 2) The Lease would restrict the use of taxpayer funds within District boundaries and would require Tenet's prior written consent, which Tenet may withhold in its sole and absolute discretion;
- 3) The "non-compete" provision harms communities that lack adequate medical services the most;
- 4) Allowing Tenet, a for profit corporation, to restrict both District activities and the use of taxpayer funds for the next thirty (30) years is unacceptable;
- 5) Future District Board members should be allowed to determine how to best use taxpayer funds;
- 6) The District should be accountable to desert residents, not Tenant's shareholders;
- 7) Any "non-compete" provision in the Lease would raise necessary questions pertaining to what the District will do with taxpayer funds if it is restricted from using them pursuant to the Lease;
- 8) The "non-compete" provision stifles both competition and innovation in healthcare services within the District;
- 9) The "non-compete" provision may result in adverse economic impacts on the community by limiting potential new healthcare facilities and related businesses;
- 10) Restricting the District's ability to develop and support additional healthcare facilities and services could adversely affect public health and safety; and
- 11) The "non-compete" provision of the Lease raises both legal and ethical concerns pertaining to the use of taxpayer funds and the District's obligation to serve the public interest.

Furthermore, on April 9, 2018, the Desert Healthcare District passed Amendment No. 5 to the Hospital Lease Agreement which states in Article XIII – Additional Covenant of Lessor that the restrictions on the Lessor shall not apply to the activities that solely relate to the Expanded Boundaries, which include the City of Coachella.

ALTERNATIVES:

1. Not approve Staff recommendation and decline to act on this item.
2. Continue this item and provide staff with direction.

FISCAL IMPACT:

There will be no impact to the General Fund.

ATTACHMENT(S):

Resolution No. 2024-44 A Resolution Formally Expressing Opposition to the Desert Healthcare District's Proposed Hospital Lease Agreement's "Non-Compete" Provision and Directing the Mayor to Send a Letter to the Desert Healthcare District Board Expressing this Opposition.