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6/25/2020

**TO:** Local Agency Formation Commission

**FROM:** Joshua Altopp, Local Government Analyst III

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**SUBJECT:** LAFCO 2020-13-3&5 - DISSOLUTION OF VALLEY HEALTH SYSTEM

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**EXECUTIVE SUMMARY AND GENERAL RECOMMENDATION:** This report reviews the dissolution of Valley Health System (VHS), formerly Hemet Valley Hospital District, a health care district established pursuant to the Health and Safety Code §32000 et seq. After providing healthcare services for many decades, the District filed for Chapter 9 bankruptcy protection in 2007. The District completed sale of all its assets by the end of 2010 and terminated all its employees. Until recently, the District was involved in protracted litigation regarding its retirement plan, preventing final disbursement of funds to plan participants. While waiting for the pending litigation to conclude the Commission approved a "zero" sphere of influence for the district in February 2019, streamlining the dissolution process. Now that the litigation has been dismissed and disbursement has been completed, the District with all its obligations taken care of filed an application for dissolution. Staff recommends approval of the dissolution of VHS.

**GENERAL INFORMATION:**

**APPLICANT:** Initiated by Valley Health System.

**LOCATION:** The boundaries of the VHS are generally located south of Interstate 10, west of the community of Idyllwild, north of the City of Murrieta and east of the City of Lake Elsinore.

**POPULATION:** The population within the current district boundaries is approximately 300,000 people.

**LAND AREA:** Approximately 882 square miles or 564,480 acres.

**CEQA DETERMINATION:** The LAFCO Commission, as lead agency under the California Environment Quality Act (CEQA), has found the dissolution to be statutorily exempt from CEQA pursuant to Public Resources Code Section 21080(b)(1) and CEQA Guidelines Section 15268, as the filing of the proposed dissolution is a ministerial

action. Furthermore, the dissolution of the District is found to be exempt from CEQA pursuant to CEQA Guidelines Section 15061(b)(3), as it can be seen with certainty that there is no possibility that the activity will have a significant effect on the environment.

EXISTING CONDITIONS: The affected area includes both incorporated and unincorporated urbanized areas of the cities of Hemet, San Jacinto, Menifee, Moreno Valley, Perris and the unincorporated communities of French Valley, Homeland, Romoland, Nuevo, Winchester, Aguanga, Anza and Idyllwild.

LAND USE PLANS: This proposal is not related to land use and does not impact existing or planned land uses throughout VHS territory.

**SIGNIFICANT ISSUES**:

HISTORY: VHS was originally formed as a special district in 1946 under the Local Hospital District Law (Health and Safety Code §32000, et seq.). It was originally formed as Hemet Valley Hospital District to acquire and operate a 20-bed hospital owned by the City of Hemet. Over the years, VHS expanded this hospital facility, building several towers, and ultimately increasing capacity to over 300 beds. In 1989, it opened two additional hospitals in what is now the City of Menifee and in Moreno Valley, as well as a skilled nursing facility in Hemet.

In the late 1980s, VHS incurred significant tax-exempt bond indebtedness to build and expand its facilities. However, during the 1990s, reimbursement to hospital through Medicare and Medi-Cal and other governmental programs, as well as through preferred provider insurance plans and health maintenance organization (HMO's), changed and decreased dramatically. Hospitals also became obligated under the federal Emergency Treatment and Active Labor Act to provide significantly greater levels of emergency and related services to patients without regard to ability to pay, and under State law to provide increasing levels of charity care. Accordingly, uncompensated care costs rose dramatically, with no third-party reimbursement.

Faced with these conditions, in 2007, VHS sought voter approval of a parcel tax to undertake the mandated seismic retrofitting and replacement of its three hospitals. Unfortunately, although most voters approved the assessment, it failed to gain the requisite 2/3 majority. Faced with diminishing reimbursement, increasing annual losses, and the need for large capital expenditures, in December 2007, VHS filed for protection under Chapter 9 of the federal Bankruptcy Act.

BANKRUPTCY AND LITIGATION: In 2008, VHS sold its Moreno Valley hospital to Kaiser (current operator). In 2009, VHS entered into an agreement to sell its remaining hospitals and other facilities to Physicians for Healthy Hospitals, Inc. The sale of all of VHS's facilities was completed in October 2010. Subsequently all the sale proceeds were utilized to pay VHS's secured and unsecured creditors. All VHS employees were terminated. VHS has had no employees since the completion of the sale. The only income which VHS had after the sale was a limited stipend from the buyer pursuant to sale agreement, which ended in 2015. As of writing this report all lawsuits pending against VHS have either been resolved or dismissed.

RECENT DISTRICT ACTIVITIES: VHS remained in existence after the sale of its assets, and the VHS Board continued to carry out its mandate of serving the community. However, without any remaining facilities and without the ability to obtain new tax revenues, its sole function was to expend remaining funds to assist local nonprofit entities serving the communities within VHS's District boundaries. These funds included some remaining District general funds, as well as unexpended funds from a 1977 bequest from a local resident Beatrice Brown (originally \$70,000), the balance of which had accrued to approximately \$800,000 (in 2016 dollars) and which was required to be used for health care related purpose for children. In addition, in 2013, when the nonprofit foundation at VHS's former Menifee hospital dissolved, pursuant to its charter documents and Probate Court order, approximately \$1,500,000 reverted to VHS.

The VHS Board appointed a committee which included several Board members and several community representatives to develop standards for disbursement of these funds to various nonprofit organizations and school districts serving the community, and to make recommendations to the VHS Board for grants. Recommendations were made and some charities receiving funds included the Boys and Girls Club of Menifee Valley, VIP Tots, Voices for Children, Center Against Sexual Assault of Southwest Riverside County, Mt San Jacinto College Foundation, Riverside County CASA Program and the 100 Mile Club all within VHS District territory. As of September 2018, all such designated funds have been disbursed for all intended purposes.

The Commission approved a "zero" sphere of influence for the district in February 2019, to assist in the streamlining of the dissolution process. On February 17, 2020, the VHS Board voted unanimously to dissolve the district.

TAXES AND ASSESSMENTS: The District voluntarily relinquished the right to levy property taxes and assessments during the 1970s, thus it is no longer receiving such taxes or assessments.

JUSTIFICATION: VHS provided healthcare services to the Hemet Valley and surrounding communities for over 60 years. Without any income to maintain operations, the District was forced to declare bankruptcy and by the end of 2010 it had sold off all assets and no longer provided healthcare services to the public. VHS has worked over the past ten years to wind down the Districts outstanding obligations which included multiple lawsuits, disbursement of retirement funds and the distribution of any monies donated by private parties.

If a change of organization consists of the dissolution of a district that is consistent with a prior action of the commission pursuant to Section 56425(SOI), the Commission may, if the dissolution is initiated by the district board, immediately approve and order the dissolution without an election or protest proceedings.

With VHS having satisfied the terms of the bankruptcy, the Commission having approved a zero SOI in February 2019, the dissolution of VHS is appropriate.

SUCCESSOR AGENCY: VHS received approval of their requested bankruptcy in October 2010. The details of the approval outlined how all the remaining assets of VHS would be distributed. All monies have been paid out except for a balance of approximately \$650,000 which will be put in a trust once dissolution takes place. The designated trustee will be VHS current legal firm. The legal firm will maintain the funds for one-year pending any future litigation. If no litigation occurs the funds will be distributed to the former employee retirement fund. Due to the bankruptcy court decision there would be no successor entity to wind up any affairs because all affairs and assets have already been addressed.

COMMENTS FROM AFFECTED AGENCIES: There have been no comments received from any affected agency concerning this proposal.

CONCLUSIONS: VHS has served its purpose as a healthcare district. It filed for Bankruptcy in 2007 and was approved in 2010. This decision outlined how the district would handle all asset distribution, now accomplished, with the Commission approval of a zero SOI in 2019 and the VHS Board approved dissolution in February of this year. Therefore, staff recommends approval of dissolving VHS.

**SPECIFIC RECOMMENDATIONS:**

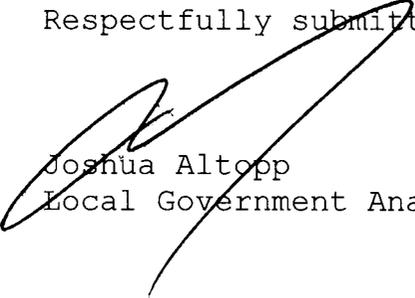
Based upon the factors outlined above, IT IS RECOMMENDED that the Commission adopt a resolution taking the following actions:

1. The LAFCO Commission, as lead agency under the California Environmental Quality Act (CEQA), has found the dissolution to be statutorily exempt from CEQA pursuant to Public Resources Code Section 21080(b)(1) and CEQA Guidelines Section 15268, as the filing of the proposed dissolution is a ministerial action. Furthermore, the dissolution of the District is found to be exempt from CEQA pursuant to CEQA Guidelines Section 15061(b)(3), as it can be seen with certainty that there is no possibility that the activity will have a significant effect on the environment.
2. Determine the following findings:
  - a. The proposed dissolution of Valley Health System is appropriate because The Commission approved a "zero" sphere of influence on February 28, 2019.
  - b. That the Board of Directors of the District has, by unanimous resolution, consented to the dissolution of the district.
  - c. That the Commission has authorized, pursuant to subdivision (a) of Section 57077.1, the dissolution of the district without an election.
3. Approve **LAFCO 2020-13-3&5-DISSOLUTION OF VALLEY HEALTH SYSTEM**, subject to the following terms and conditions:
  - a. Valley Health System, shall defend, indemnify, and hold harmless the Riverside Local Agency Formation Commission ("LAFCO"), its agents, officers, and employees from any claim, action, or proceeding against LAFCO, its agents, officers, and employees to attack, set aside, void, or annul any approval of LAFCO concerning this proposal.
  - b. The effective date of the dissolution shall be the date of recordation of the Certificate of Completion.
  - c. Determine that the legal firm, Lewitt, Hackman, Shapiro, Marshall & Harlan a Law Corporation will address any remaining funds of VHS and within the following year of dissolution approval, if no lawsuit exist or are pending, shall revert those funds to the VHS retirement

fund.

4. Direct the Executive Officer to authorize the dissolution without election pursuant to Section §57102.
5. Direct the Executive Officer to prepare and execute a Certificate of Completion as required by Government Code Section 54902.5 (made payable to the State Board of Equalization).

Respectfully submitted,



Joshua Altopp  
Local Government Analyst III

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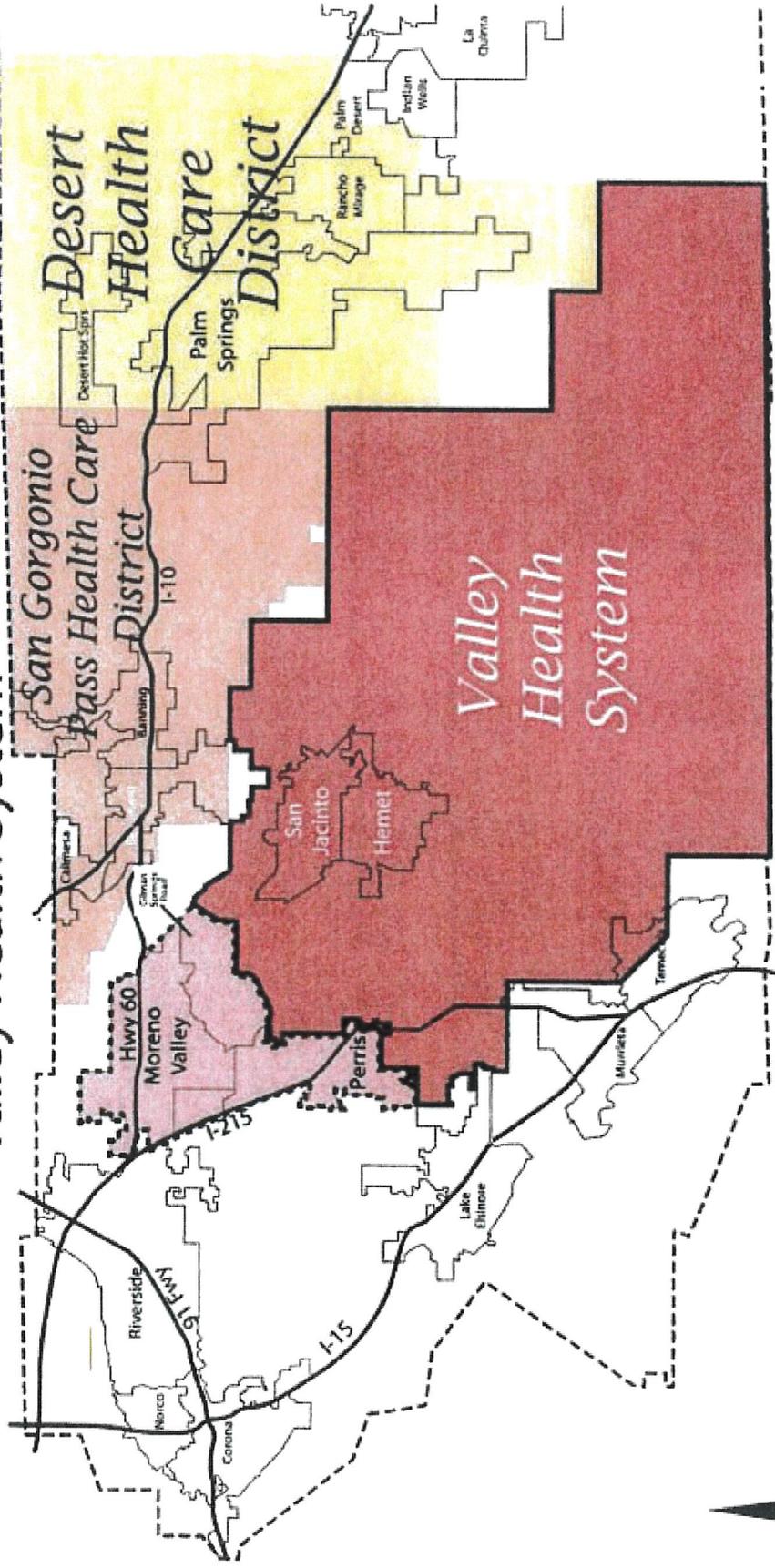
**Map**

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# Sphere of Influence Review & Amendment

## Valley Health System

### Exhibit A



-  Valley Health System
-  Valley Health SOI

Commission approved "Zero" SOI on: February 28, 2019

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**VHS Board Dissolution Resolution**

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**RESOLUTION 2020-1**

**A RESOLUTION OF APPLICATION BY VALLEY HEALTH SYSTEM, A CALIFORNIA LOCAL HEALTH CARE DISTRICT, REQUESTING THE RIVERSIDE LOCAL AGENCY FORMATION COMMISSION TO TAKE PROCEEDINGS FOR THE DISSOLUTION OF THIS SPECIAL DISTRICT**

**RESOLVED**, by the Board of Directors of Valley Health System, a California Local Health Care District, that:

**WHEREAS**, Valley Health System, a California Local Health Care District (hereinafter, "this District"), desires to initiate a proposal pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, commencing with Section 56000 of the California Government Code, for the dissolution of this District;

**WHEREAS**, notice of intent to adopt this resolution of application has been given to the Local Agency Formation Commission (LAFCO), and has not yet been given to each interested agency and each subject agency, at least 21 days prior to the adoption of this resolution;

**WHEREAS**, the territory of this District is both inhabited and uninhabited, and a description of the boundaries of the territory is set forth in Exhibit A attached hereto and by this reference incorporated herein;

**WHEREAS**, this proposal is consistent with the spheres of influence of the affected cities and other districts, and is consistent with the prior determination of the Commission on February 28, 2019, which amended the sphere of influence of this District to a "zero" sphere of influence;

**WHEREAS**, the reasons for the proposed dissolution of this District are as follows:

- This District filed a proceeding pursuant to Chapter 9 of the federal Bankruptcy Law on December 13, 2007, and was granted a discharge effective October 13, 2010. The sale of this District's Moreno Valley Community Hospital was completed in 2008. The sale of this District's Hemet Valley Medical Center, Menifee Valley Medical Center, Medical Arts office building, and all related real and personal property, was approved by the voters of this District in December, 2009, approved by the United States Bankruptcy Court in April, 2010, and completed on October 13, 2010, whereupon this District ceased operating any hospitals or other medical facilities. Accordingly, the purposes for which this District was originally formed pursuant to the Local Health Care District Law (formerly the Local Hospital District Law) were no longer applicable.
- Subsequent to the completion of the sale of this District's hospitals and other facilities in 2010, this District was a defendant in four lawsuits in United States Bankruptcy Court (which at various times were also appealed to the Bankruptcy Appellate Panel, the United States District Court, the Ninth Circuit Court of Appeals, and the United States Supreme Court) relating to this District's defined benefit Retirement Plan. Such lawsuits prevented final distribution of the assets of such Retirement Plan and the dissolution of this District prior to resolution of such litigation. Such litigation was

finally successfully resolved, and there are no further lawsuits pending by or against this District. Distribution of the remaining assets of the Retirement Plan to the participants therein, in accordance with the terms of such Retirement Plan, was recently completed.

- This District retained certain funds which had been bequeathed to this District many years ago, which could not properly be transferred to the purchaser of this District's assets. In addition, funds of a nonprofit hospital foundation affiliated with one of this District's hospitals reverted to this District, in accordance with such foundation's charter documents and an Order of the Riverside County Superior Court. Such funds were required to be utilized only for certain specified purposes. All of such funds have now been distributed by this District's Board of Directors in accordance with each of such purposes, including the Order of the Riverside County Superior Court.
- This District voluntarily relinquished the right to levy property taxes and assessments during the 1970s, thus it no longer receives such taxes or assessments. This District has expended substantially all of its remaining funds for proper purposes and there is no further source available for funding of this District.
- This District retains approximately \$647,000 as of the date of this Resolution, all of which will be held and distributed as provided in the following Resolution.
- Accordingly, all of the purposes and reasons for maintaining this District as a Local Health Care District have now been satisfied and there is no reason to further maintain this District.

WHEREAS, this proposal is exempt from the California Environmental Quality Act (CEQA) Section 21065 and State CEQA Guidelines "Common Sense" Exemption, codified under Public Resources Code Division 13, Chapter 2.5, Public Resources Code Section 21065, and California Code of Regulations Title 14, Articles 5, 19 and 20, Sections 15061, 15301, and 15378. This Resolution for Application meets the criteria for categorical exemption provided for within CEQA Guidelines to projects which have the potential for causing a significant effect on the environment. The dissolution of this District will not result in any direct or indirect physical environmental impacts, since this District no longer holds any real property, conducts no further operations, and dissolution will not result in direct or indirect physical changes in the environment.

**NOW, THEREFORE,** be it

**RESOLVED,** this Resolution of Application is hereby adopted and approved by the Board of Directors of Valley Health System, a California Local Health Care District, and the Riverside Local Agency Formation Commission is hereby requested to take proceedings for the dissolution of this District in the territory described in Exhibit A, according to the terms and conditions stated above and in the manner provided by the Cortese-Knox-Hertzberg Local Governmental Reorganization Act of 2000.

**RESOLVED, FURTHER,** that immediately prior to the effectiveness of dissolution of this District, after payment of all District liabilities then due and payable, this District's remaining funds shall be paid over to the Client Trust Account of this District's General Counsel's law firm,

Lewitt, Hackman, Shapiro, Marshall & Harlan, a Law Corporation, to be held in trust, administered, and distributed subject to the following terms and conditions:

1. This District's remaining funds shall be held in a segregated interest-bearing Client Trust Account in a bank insured by the Federal Deposit Insurance Corporation, for the exclusive benefit of this District, to be held and administered in accordance with Rules of the California State Bar regarding client trust funds.
2. Lewitt, Hackman, Shapiro, Marshall & Harlan, a Law Corporation (the "Law Firm"), is hereby appointed as the trustee, on behalf of this District, to administer such funds in such Client Trust Account, as provided in this Resolution. This District's General Counsel, John B Marshall, Esq., Vice President of the said Law Firm, is hereby appointed as administrator (the "Administrator") of such funds held in such Client Trust Account. In the event that John B. Marshall, Esq., is at any time unable to serve and act as such Administrator, then the President of the said Law Firm shall act as the Administrator of such funds held in such Client Trust Account. The said Law Firm and the said Administrator shall be entitled to indemnification from the funds held in the Client Trust Account for acts or omissions while acting in such capacities.
3. In the event any legal action is filed against any member or members of the Board of Directors of this District in the Board's capacity as Trustee of this District's Retirement Plan, such member or members of the Board of Directors of this District shall be entitled to indemnification for acts or omissions in their capacity as Directors of this District, to the fullest extent provided by law. Nothing herein is intended to limit the immunity of members of the Board of Directors for their official acts to the fullest extent provided by law, including the immunity provided in California Government Code Section 820.2, which provides as follows:

"Except as otherwise provided by statute, a public employee is not liable for an injury resulting from his act or omission where the act or omission was the result of the exercise of the discretion vested in him, whether or not such discretion be abused."
4. The Administrator of such funds held in the Client Trust Account is authorized to tender and such action and defense thereof to the insurer under the fiduciary insurance policy obtained by this District, and to give any instruction required of this District (if any) in connection with any such legal action. The Administrator is further authorized to disburse funds from such Client Trust Account for the payment of any deductible or coinsurance (including attorneys fees to counsel appointed by such insurer, if the fiduciary insurance policy so provides), which are determined by the Administrator to be required pursuant to the terms of the fiduciary insurance policy.
5. Upon the expiration of the term of the said fiduciary insurance policy, except for any actions against a Director which may remain pending at that time (if any), the Administrator is authorized to engage Willis Towers Watson, actuaries, to allocate the amount of funds remaining in the said Client Trust Account among the participant beneficiaries of this District's Retirement Plan entitled thereto, in the same manner as such allocations were made prior to the date of this Resolution, and to pay the expense therefrom the funds held in the Client Trust Account described above. This

Administrator is then authorized to engage PenChecks to distribute such funds to or for the benefit of the participant beneficiaries entitled thereto in accordance with the terms of the Retirement Plan, in the same manner as the distribution to such beneficiaries which were completed during the year 2019, and to pay the expense thereof from the funds held in the Client Trust Account described above.

6. The Administrator is further authorized to pay all out of pocket expenses incurred in carrying out his duties as set forth above, and to pay all fees incurred by the Administrator and such Law Firm in carrying out such duties pursuant to this Resolution, at such Law Firm's usual hourly rates, together with all out of pocket costs incurred. Further, the Administrator is authorized to engage the law firm of Best Best & Krieger, this District's retirement benefits counsel, if deemed necessary by the Administrator, and to pay all fees, at such law firm's customary hourly rate, and costs incurred by such law firm in carrying out such engagement.
7. Upon disbursement of all funds held in the Client Trust Account as set forth above, the Administrator and the Law Firm are hereby released and relieved of all further responsibility for administration of this District's funds.

**RESOLVED, FURTHER**, that, although this District has not operated a hospital or other health care facility since 2010, the Commission is hereby requested to give notice of this Resolution of Application to the following State agencies in accordance with the requirements of Health & Safety Code Section 56131.5:

- The State Department of Health Care Services, including but not limited to the Medical Division
- The Office of Statewide Health Planning and Development, including, but not limited to, the Cal-Mortgage Loan Insurance Division
- The California Health Facilities Financing Authority
- The State Department of Public Health, including, but not limited to, the Licensing and Certification Division

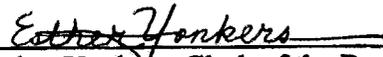
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**PASSED AND ADOPTED** by the Board of Directors of Valley Health System, a California Local Health Care District at a regular meeting thereof held on the 17th day of February, 2020, by the following vote:

Director William Blase	<u>Absent</u>
Director William Cherry	<u>Aye</u>
Director Dean Deines	<u>Aye</u>
Director Mark Fredricksen	<u>Aye</u>
Director Vinay Rao	<u>Aye</u>
Director Myrna Rohr	<u>Aye</u>
Director Thomas Wilson	<u>Aye</u>

The undersigned Clerk of the Board of Directors and the Secretary of the Board of Directors of Valley Health System, a California Local Health Care District, do hereby certify that the foregoing is a true and correct copy of Resolution 2020-1 duly adopted by the Board of Directors of this District on February 17, 2020.

  
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Esther Yonkers, Clerk of the Board  
of Directors

  
\_\_\_\_\_  
Myrna Rohr, Secretary of the Board  
of Directors

**ATTEST:**

  
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VINAY RAO, Chair of the  
Board of Directors