



Municipal Service Review

Palo Verde Healthcare District

LAFCO 2025-06-4

Public Hearing Report

September 25, 2025

(Released for Review September 3, 2025)

This Public Hearing MSR Report is being circulated for consideration by the Riverside LAFCO Commission at the September 25, 2025 Commission meeting. Any agencies and members of the public wishing to provide comments on the Public Hearing MSR Report will be taken in writing prior to the meeting date or at the public hearing.

Written comments can be submitted by email at info@lafco.org, or mailed/delivered to the LAFCO office- 6216 Brockton Ave, Suite 111-B, Riverside, CA 92506.

Written comments received prior to September 16, 2025 will be included in the agenda package with the MSR. Written comments received after that date will be provided to the Commission at the Public Hearing.

PREPARED FOR:

RIVERSIDE LOCAL AGENCY FORMATION COMMISSION

COMMISSIONERS

Michael Vargas, Chair, City Member
Yxstian Gutierrez, Vice Chair, County Member
Agustin Arreola, Public Member
Stephen J. Corona, Special District Member
V. Manuel Perez, County Member
Steven Sanchez, City Member
Bruce Underwood, Special District Member

ALTERNATE COMMISSIONERS

Harvey Ryan, Special District Member
Jim Love, Public Member
Jose Medina, County Member
Linda Molina, City Member

STAFF

Gary Thompson, Executive Officer
Crystal Craig, Assistant Executive Officer
Melissa Cushman, Legal Counsel
Elizabeth Valdez, Commission Coordinator/Clerk
Michael Henderson, GIS Analyst
Rebecca Holtzclaw, Executive Assistant

Prepared by: Gary Thompson, Executive Officer

Table of Contents

I. EXECUTIVE SUMMARY	1
PVHD MSR Goal.....	1
Previous MSR for PVHD.....	2
Current Status of PVHD.....	3
MSR Determinations, Available Options for PVHD and Potential Actions.....	4
II. INTRODUCTION.....	9
Municipal Service Reviews.....	9
Disadvantaged Unincorporated Communities	10
Riverside County Healthcare Districts.....	10
Table II-1- PVHD Location & Authorized Services.....	11
COVID-19 Pandemic	11
General Background Information on Rural Hospitals.....	12
MSR Approach and Review Opportunities.....	12
III. PALO VERDE HEALTHCARE DISTRICT.....	13
Overview / Background	13
Table III-1- Profile – Palo Verde Healthcare District.....	16
Figure III-1- Boundary/SOI Map – Palo Verde Healthcare District.....	17
Growth and Population Projections.....	18
Accountability and Governance.....	18
Services - Facilities- Infrastructure.....	21
Financial Overview	23
Table III-2- Financial Information.....	27
Disadvantaged Unincorporated Communities.....	31
Status of Issues Identified in Most Recent MSR.....	31
Government Structure Alternatives	31
Recommended Municipal Service Review Determinations	31

IV. OPTIONS & RECOMMENDATIONS	35
Options	35
Observations & Recommendations	36
ACRONYMS	38

I. EXECUTIVE SUMMARY

This Municipal Service Review (MSR) for the Palo Verde Healthcare District (PVHD) has been generated as directed by the Riverside Local Agency Formation Commission (LAFCO) at the June 26, 2025 Commission meeting as a result of the current dire financial situation at PVHD. This situation has forced suspension of many services on May 24, 2025, including surgical and in-patient admittance services, provided by the Palo Verde Hospital located in the City of Blythe. The Commission was specifically requested by the City of Blythe to conduct this MSR due to the significant impact the suspended services has had on the City of Blythe and surrounding communities population.

California state law establishes Local Agency Formation Commissions (LAFCOs) within each county for the purpose of establishing jurisdictional boundaries and spheres of influence (SOIs) for cities and special districts under their purview, and to authorize the provision of services within the approved service areas. Additionally, the purpose of an MSR is a periodic, or special circumstance comprehensive study of services provided by cities and special districts within a designated geographic area. The service review requirement is codified in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH), Government Code section 56000 et seq.

The MSR process does not require LAFCOs to initiate changes of organization based on service review findings. It only requires that LAFCOs make determinations regarding the provision of public services per Government Code section 56430. MSRs are not subject to the provisions of the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines section 15306.

CEQA Guidelines section 15306 consists of “basic data collection, research, experimental management, and resource evaluation activities which do not result in a serious or major disturbance to an environmental resource. These may be strictly for information gathering purposes, or as part of a study leading to an action which a public agency has not yet approved, adopted, or funded.” **The ultimate outcome of conducting an MSR, however, may result in LAFCO making recommendations on a change of organization or reorganization.**

PVHD MSR GOAL

The overall goal to achieve with respect to PVHD and the Palo Verde Hospital is a fully restored and operational hospital with financial sustainability for the long-term.

The ultimate goal of this MSR is to provide relevant information that provides options available, and potential actions that should be considered to resolve the financial and administrative issues that have been plaguing PVHD for several years resulting in the ultimate financial crisis, and bring the Palo Verde Hospital back to a fully operational facility for the long-term.

Previous MSR for PVHD and Grand Jury Investigations

The last MSR for PVHD was performed in 2020, utilizing Fiscal Year 2017/2018 financial information. The Palo Verde Hospital was found to be operating as a fully functional hospital while looking to improve services, and looking for additional funding opportunities. The financial status of PVHD was positive having worked out of some prior financial struggles the previous few fiscal years. However the MSR notes that PVHD was concerned about the future financial health of the hospital due to evolving reimbursement structures of federal, state and private payers, in particular uncertainty in Medicare payments.

The PVHD MSR Determinations in the 2020 MSR for PVHD included references to the concerns of future financial viability, and although at the time, the financial condition of PVHD and services had improved, there remained a high risk for financial distress in the future. The determinations also noted that based on the hospital rating systems utilized at the time, the indicators for the hospital appeared to be marginally adequate. Additionally, PVHD was struggling with obtaining funding for required earthquake safety structural retrofits to the Palo Verde Hospital.

There have been several Grand Jury Investigations into the PVHD over the last 20 years. All have addressed issues related to administrative and financial situations. For the most part, PVHD has over the years addressed many of those issues, however, the financial viability of the Palo Verde Hospital has remained an ongoing problem.

The 2002/2003 Grand Jury noted issues at PVHD and the Palo Verde Hospital Association (PVHA) regarding operations and financial liabilities with several recommendations provided regarding interaction and legal and financial record keeping by the PVHD. The PVHD response concurred with the Grand Jury findings and recommendations and took steps to implement the recommendations.

The 2007/2008 Grand Jury noted significant issues related to services, Medi-Cal staffing, financial issues and fee structure problems, and Board administrative items. A significant recommendation was to terminate the contract with the hospital management firm retained to operate the hospital after a near bankruptcy in 2005. The PVHD response was generally negative toward the Grand Jury's report and efforts, disagreeing with most of the findings and recommendations. A few were acknowledged, however it was clear that the PVHD Board at that time was not receptive to anything the Grand Jury had to say. A lengthy rebuttal to the PVHD response was submitted by the medical staff of the hospital agreeing with virtually all of the Grand Jury findings and recommendations.

The 2017/2018 Grand Jury noted that Palo Verde Hospital has "historically experienced extreme staff shortages and lack of physician support...", and many operational problems servicing the Palo Verde Valley region. A key recommendation included reference to enlisting the Riverside University Health System (RUHS) to assist in improving services at the hospital and re-establishing its partnership with RUHS.

The PVHD response to the Grand Jury articulated a detailed overview of the past several years of issues that compounded the struggles the PVHD had been facing, and noting measures they had been taking to improve services, achieving accreditation as a “Critical Care Hospital” through the federally recognized certification authority DNV, and providing justifications why certain service recommendations were unfeasible to implement at that hospital. The PVHD also noted the collaborative efforts ongoing with RUHS.

Current Status of PVHD

With the advent of the COVID-19 pandemic in 2020-2021 and the subsequent impacts on PVHD, the hospital reached a point where operations and services were in serious jeopardy. However for a period of time, the hospital was able to maintain services relying on COVID-19 federal reimbursement funds and grants under the Coronavirus, Aid, Relief, and Economic Security Act (CARES Act) and the Paycheck Protection Program. One significant affect of the COVID-19 pandemic on hospital revenue was the restrictions placed on elective surgeries in 2020, and also an estimated 30 percent average cost increase in supplies.

Beginning in 2023, however, the PVHD experienced significant financial distress and deficit budgets which has resulted in the current recent financial crisis resulting in suspension of various services at the Palo Verde Hospital in May of this year. It is apparent that COVID-19 related financial issues, along with what could be considered the classic “train wreck” of events beginning in 2023 through the present time created what could be considered, a “no win” situation for PVHD.

Several events occurred during this time frame all contributing to creation of the situation today. These included a reduction in Medicare rates, and the litigation costs associated with the lawsuit against the company Altera to recover massive lost patient health data as a result of software failures of their medical record system. This resulted in delays in ability to invoice and receive reimbursements from insurance and other sources, in particular, Medicare and Medi-Cal. Additionally, implementation of a new electronic record system and the cost of consultants to install the new system contributed to significant costs which were never anticipated. The turnover of four Chief Financial Officers during an 18-month period, a cyberattack on the financial system, and additional costs for a third-party billing service to assist in resolving the invoicing backlog all contributed to the financial deterioration.

The PVHD has implemented a 60-day Emergency Plan in an attempt to reduce the short-term impact of the deficit situation. However, PVHD staff has related that resumption of the suspended services may take time as the hospital needs to reach a consistent revenue stream to support those services without creating more deficit spending.

Recently it was announced by the local state senator for the Palo Verde and Blythe region that the state had assisted in funding for the hospital. However, according to PVHD management staff, the state did not provide any additional direct funding for the hospital to maintain operations. The state did defer payments of one outstanding bridge loan of

approximately \$600,000 for three years, with a possible loan “forgiveness”, and extended another bridge loan for \$8.5 million whereby a portion of this loan may be “forgiven” each year. According to PVHD staff, these concessions, although helpful, do not resolve the current significant revenue and cash flow problem, even in the short-term.

Further, the PVHD has experienced a significant turnover in Chief Financial Officers (CFOs) in the last few years. The current CFO is the 4th CFO since 2023. This has contributed to issues with financial management and getting the bi-annual audits completed. Recently, the PVHD has retained a very good and dedicated CFO who is diligently working to financially right the ship, both short-term and long-term.

PVHD has initiated appropriate staff reductions and furloughs related to the suspension of services, cancellation and/or re-negotiation of various support services and products contracts due to the lesser need, and deferral of certain facility maintenance as part of the 60-Day Emergency Plan. PVHD management staff has indicated that no debt or accounts payable are currently in a default status. PVHD management staff has reported that all remaining hospital and PVHD staff are working diligently and very hard to as they say to “get the ship righted and back on track.”

Riverside University Health System staff have taken an active role in assisting the population served with services, as well as conducting community meetings and have created three community groups working to address specific needs. They include the Workforce Group supporting workers impacted by the suspension of services, the Healthcare Workgroup to address needs the hospital clinic cannot provide, and the Supportive Services Group primarily coordinated by the County Department of Public Social Services for Medi-Cal and social services support to the community.

MSR Determinations, Available Options for PVHD and Potential Actions

Following lists the required MSR Determinations based on the review of all documentation provided and obtained through arduous research and interviews with appropriate personnel knowledgeable of the financial and administrative issues facing the PVHD at this time.

MSR Determinations

1) Growth and Population Projections

- The PVHD currently serves an estimated population of approximately 18,000 over a geographical area of approximately 1,022 square miles. The District encompasses the City of Blythe, and the unincorporated communities of Mesa Verde, Ripley and Midland (currently an unpopulated ghost town).
- The general population is mainly low to middle income residents and a diversified ethnic mix, with the largest being Hispanic followed by Caucasian ethnicity.

- PVHD's service area most likely has some potential for growth most notably within the City of Blythe, however, recent history from the California Department of Finance reflects population stagnation mostly and a recent significant decrease in the City of Blythe population over the last few years. Some of the population decline was the recent closure of the Chuckawalla State Prison.
- Although the PVHD does not retain any land use planning and entitlement authority as those functions are reserved the cities, and the county for unincorporated areas, the PVHD must anticipate and forecast future demands.
- Although the population of the City of Blythe has decreased fairly significantly recently, the PVHD must be prepared to anticipate that hospital services will see increased demands proportionate with any future population growth that may occur.

2) *Location and Characteristics of Disadvantaged Unincorporated Communities Within or Contiguous to the District's SOI.*

- There are nine disadvantaged unincorporated communities (DUCs) associated to the City of Blythe and/or within the PVHD boundaries.

3) *Present and Planned Capacity of Public Facilities and Adequacy of Public Services, Including Infrastructure Needs and Deficiencies Related to Disadvantaged Unincorporated Communities*

- The PVHD and the Palo Verde Hospital do not maintain the financial capacity for long-term provision of all services the hospital normally provides at this time.
- The PVHD is not meeting the level of service delivery the community not only desires, but is highly necessary for public health issues of a critical and non-critical nature.
- The hospital facility is in need of significant renovations for meeting current state earthquake standards.
- There are no additional deficiencies related to the nine DUCs identified within the PVHD SOI other than that already identified.

4) *Financial Ability of the District to Provide Services*

- Overall, the financial position of the PVHD is clearly considered very unstable at this time, with significant cash flow issues due to lack of ongoing revenues resulting in major service reductions and resultant expenditure reductions for staffing and other support services.
- The PVHD is in serious financial distress and does not have the financial ability to provide the full services of the Palo Verde Hospital.
- Available cash assets are nearly depleted as PVHD works to cut costs as quickly as possible to support cash flow requirements.

- Surgical services and in-patient services have been suspended forcing patients to travel approximately 100 miles to the closest California hospitals.
- The PVHD Board of Directors has implemented a 60-Day Emergency Plan to address some of the short-term financial issues.
- **The immediate need is a significant cash infusion to the PVHD to sustain the short term**, and eventually, a stable long term revenue stream sufficient to support a fully operational and staffed hospital as is needed in the Blythe and Palo Verde region.
- The state did not provide any additional direct funding for the hospital to maintain operations. The state did extend the Non-Designated Public Hospital Bridge Loan Program debt for \$8.5 million for PVHD whereby a portion of this loan may be “forgiven” each year. The state also deferred payments of one other outstanding state bridge loan of approximately \$600,000 for three years, with possible loan forgiveness. According to PVHD staff, these concessions, although helpful, do not resolve the current significant revenue and cash flow problem, even in the short-term.
- The PVHD is not in default on any debt obligations at this time.
- The PVHD normally conducts an independent audit bi-annually, however, PVHD staff notes that as a result of the recent financial crisis and the heavy turnover of CFOs in the last 18 months, the FYE June 30, 2023 and 2024 audits just recently got underway and are not yet available. The most recent previous audit for FYE June 30, 2021 and 2022 do reflect an “unmodified” opinion.

5) *Status of, Opportunities for Shared Facilities*

- There is no foreseeable opportunity for shared facilities as the hospital is unique to the type of services provided, and no other facility is within any reasonable distance to provide the services.
- Options are available for other governance or operational opportunities for the hospital.

6) *Accountability for Community Service Needs, Including Governmental Structure, and Operational Efficiencies.*

- The PVHD is governed by a five-member Board of Directors elected at large to four-year staggered terms by the registered voters within the PVHD boundaries.
- Hospital staffing is normally approximately 120-125 personnel, however during the suspension, layoffs and furloughs have resulted in a significant staffing reduction.
- The Palo Verde Hospital website acts as the PVHD website and provides various types of information related to hospital services and activities, and for PVHD Board and administrative activities.

- The website lacks transparency from the aspect of searching for agendas, meeting minutes and financial information as the link to the page for such is at the very bottom of the home page where most residents would not notice. That link should be much more visible on the website.
- There is no direct email contact information listed for Board members, nor the PVHD CEO on the website. Phone and email contact information for most staff is provided however very difficult to find.
- Meeting agendas with staff reports are posted on the website, however, no meeting minutes have been posted since March of 2025 as the Board of Directors has been unable to approve the minutes from the last several Board meetings.
- Only the FY 2021 & 2022 bi-annual audit is provided on the website, and financial information is mostly limited to monthly reports. The current PVHD draft budget for FY 2025/26 is listed on the website.
- Several alternative government structure options should be considered if the current PVHD management structure and the Board of Directors cannot correct the long-term structural issues of maintain a fully operational hospital.

7) *Any Other Matter Related to Effective or Efficient Service Delivery, as Required by Commission Policy.*

- The Commission has concerns regarding the overall financial and management status of the PVHD, and particularly the Palo Verde Hospital.
- The Commission has requested an assessment of the PVHD's ability to return the hospital to full operational status long-term, and other options available for governance and operation of the hospital if necessary.

The following are several Options available for the PVHD and other governmental agencies to consider in order to reach the ultimate desired goal of a fully operational hospital with long term sustainability. Section IV further on at the conclusion of this MSR report provides a more comprehensive discussion of these available Options, and Recommendations available to the PVHD for potentially resolving the short-term and long-term financial situation, and to return the Palo Verde Hospital to a fully functional facility.

Available Options/Potential Actions

- 1) PVHD continue with implementing the Board of Directors adopted recovery plan.
- 2) Obtain state or county funding to restore solvency, restore all suspended services, and clear all outstanding debt.
- 3) Obtain commercial funding to restore solvency, restore all suspended services, and clear all outstanding debt.
- 4) Lease the hospital to a public hospital agency or private hospital system.

- 5) Form a Joint Powers Authority with the PVHD, the City of Blythe and the County of Riverside.
- 6) The City of Blythe or the County of Riverside assume ownership and operation of the hospital & dissolve the PVHD.
- 7) Consolidate PVHD with Desert Healthcare District & dissolve the PVHD.
- 8) Sell the Hospital to a private provider & dissolve the PVHD.
- 9) File for Chapter 9 Bankruptcy proceedings.

II. INTRODUCTION

Beginning in 2001, LAFCOs in each county in California were required to review and, as necessary, update the SOI of each city and special district. SOIs are boundaries, determined by LAFCOs, which define the logical, ultimate service area for cities and special districts. No SOI can be updated, however, unless LAFCOs first conduct an MSR.

Historically, MSRs and SOI updates have been sporadic at best and not performed as intended by the statutes. Although LAFCO completed an initial round of MSR/SOI updates after the initial requirements were implemented, updates have occurred somewhat sporadically since, with some agencies not having had an MSR or SOI update in 15 years or more. As part of the Five-Year Strategic Plan adopted in January of 2020, a schedule was developed to bring these agencies current with respect to the statutes governing these reviews. The new Five-Year Strategic Plan adopted in June of 2024 continues with the schedule of the five-year MSR/SOI review and update process. The MSR process for the three Riverside County Healthcare Districts is scheduled to begin later this fiscal year, however, the PVHD MSR has been accelerated due to the current financial and services issues being experienced.

Municipal Service Reviews

CKH requires LAFCOs to review and update SOIs not less than every five years and to conduct MSRs before updating SOIs. The service reviews provide LAFCOs with a tool to study existing and future public service conditions comprehensively and to evaluate organizational options for accommodating growth, preventing urban sprawl, and ensuring that critical services are provided efficiently. Additionally, MSRs may be conducted when special circumstances arise that warrants an immediate MSR such as the current status of the PVHD located in the City of Blythe.

Government Code section 56430 requires as a mandatory component of an MSR, a written statement of determinations with respect to each of the following topics:

1. Growth and population projections for the affected area.
2. The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.
3. Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged unincorporated communities within or contiguous to the sphere of influence.
4. Financial ability of agencies to provide services.
5. Status of, and opportunities for, shared facilities.
6. Accountability for community service needs, including governmental structure and operational efficiencies.
7. Any other matter related to effective or efficient service delivery, as required by commission policy.

Disadvantaged Unincorporated Communities

On October 7, 2011, Governor Jerry Brown signed SB 244, which made two principal changes to CKH. SB 244 requires LAFCOs to: (1) deny any application to annex to a city territory that is contiguous to a disadvantaged unincorporated community (DUC) unless a second application is submitted to annex the disadvantaged community as well; and (2) evaluate disadvantaged unincorporated communities in an MSR upon the next update of an SOI after June 30, 2012. The intent of the statute is to encourage investment in DUCs that often lack basic infrastructure by mandating cities to include them in land use planning, and LAFCOs when considering annexation proposals. SB 244 defines a DUC as any area with 12 or more registered voters, or as determined by commission policy, and where the median household income is less than 80 percent of the statewide annual median household income.

Although DUCs are applicable primarily to cities, it is important to consider them with respect to services provided by special districts, in particular those special districts that provide water, wastewater and fire protection services. However, districts providing other services, such as services provided by PVHD into a DUC warrant being identified and reviewed.

Riverside County Healthcare Districts

A special district is a separate local government that delivers a limited number of public services to a geographically limited area. Special districts have four distinguishing characteristics. They are a form of government, have governing boards, provide services and facilities, and have defined boundaries. Healthcare Special Districts generally provide several types of medical and related services, including owning and/or operating hospitals, medical clinics, outpatient facilities, emergency services, and other related services that are authorized under federal regulations and the state Health & Safety Code section 32000-32492. Services specifically authorized to be provided are generally identified at the formation of the Healthcare District and as authorized under the statute.

There are three independent Healthcare Districts within Riverside County:

- 1) Palo Verde Healthcare District which covers a vast segment of the eastern part of the County including the City of Blythe and the unincorporated communities of Mesa Verde, Ripley and Midland.
- 2) Desert Healthcare District which covers the entire Coachella Valley, including the Cities of Coachella, Indio, La Quinta, Rancho Mirage, Palm Springs, Palm Desert, Cathedral City, Indian Wells and Desert Hot Springs, and the unincorporated communities of Mecca, Bermuda Dunes, Oasis, North Shore and Vista Santa Rosa.
- 3) San Geronio Memorial Healthcare District which generally covers the Cities of Banning, Calimesa and Beaumont, and the unincorporated community of Cherry Valley.

As this MSR is focused solely on the PVHD, only MSR determinations for the PVHD are provided in this report. Options/Recommendations are discussed in detail in Section 4 of this MSR.

An outline of the PVHD,s service area and authorized services are listed in **Table II-1** below. Detailed discussion of the PVHD operations, services and financial status are included in Section 4.

Table II-1- PVHD Location & Authorized Services

LOCATION	AUTHORIZED SERVICES
City of Blythe and North to the San Bernardino County Line, South to the Imperial County Line, East to the Arizona Border and West to the State Prison, including the unincorporated communities of Mesa Verde, Ripley and Midland	Full range of hospital services, including Medi-Cal and surgery services, radiology and laboratory services, ambulance services, clinical and outpatient services. PVHD owns and operates one 51 bed hospital in the City of Blythe

COVID-19 Pandemic

During the two-year period of 2020-2021 of the COVID-19 virus pandemic, the virus had exponentially spread throughout the world and the United States, resulting in the infection of large segments of populations in all states, including California. Additionally, the death rate from the virus was significantly greater than previous COVID type viruses with no immediate treatment remedies nor vaccines available.

The state implemented several measures to attempt to control the spread of the virus including a statewide stay-at-home order, alternating shutdowns and partial re-openings of many parts of the economy. The impact on the economy, in particular small businesses and employment, was massively significant. As a result, with the economic downturn, local governments began seeing significant decreases in various revenues and in many cases, service impacts. In the case of the Healthcare Districts in Riverside County, the epidemic did result in significant increases in workload due to the high infection rate associated with the disease requiring significant hospital services.

Although federal stimulus funding was provided to local governments to assist in offsetting some revenue losses, special districts were not included in most of the initial funding that was authorized in 2021 for recovery purposes. Therefore Healthcare Districts did not receive any of that funding. However, as services provided by Healthcare Districts are largely funded by insurance payments, Medicare and Medicaid payments, and service charges to customers/clients, Healthcare Districts in general became economically strained due to the tremendous amount of additional resources required to be utilized for treatment during the pandemic, with follow-on reimbursements lacking enough timeliness to maintain financial stability throughout the pandemic.

General Background Information on Rural Hospitals

The PVHD has noted in the District's recently revised Strategic Narrative and Goals the following information relevant to rural hospitals in general:

“Over the past decade, the threat of hospital closures in small, remote communities has increased. Hospitals are closed entirely, with some only providing access to outpatient services, including clinics. Complex and diverse causes have led to these closures, including increasing regulations under the Affordable Care Act. Other factors include shrinking populations, uninsured patients, outdated facilities, and the inability to transition into new care delivery models, frequently due to a lack of financial and human resources. The U.S. Department of Agriculture estimates 46.1 million Americans live in rural areas, representing 14% of U.S. residents. Of 1,825 rural hospitals in the United States, these facilities may be classified as critical access, county hospitals, district hospitals or for-profit hospitals.”

MSR Approach and Review Opportunities

A collaborative approach has been used throughout the preparation of this MSR report. Initially, an introductory questionnaire was distributed to PVHD on July 1, 2025 advising of the upcoming MSR process and requesting specific information related to general administrative and operational functions, services provided, financial information including recent budgets and audits, and specific information regarding the recent financial struggles which has resulted in significant suspension of key hospital services and real time fiscal insolvency. All information readily available in historical files or on the PVHD website was reviewed for applicability to the MSR update technical analysis and report. Follow up on the responses to the questionnaire and website information were performed when necessary. Additionally, staff conducted data collection discussions with City of Blythe elected and staff personnel, the Riverside County 4th District Supervisor and staff, the Riverside University Health System Executive Director, PVHD's Chief Executive Officer and Chief Financial Officer, and the Chief Executive Officer of the Desert Healthcare District.

Once the PVHD information in hand was considered sufficient to develop the MSR report, an Administrative Draft Report was generated and then sent to the PVHD management staff for review and comments. All comments received were considered and incorporated where appropriate. The Public Hearing Report was then completed and released to the public on September 3, 2025, and noting written comments were being accepted. Additional comments will be taken during the public hearing and addressed as necessary. Upon final action by the Commission for the MSR determinations and recommendations, a Final Report incorporating any revisions and/or direction provided by the Commission will be completed and published.

III. PALO VERDE HEALTHCARE DISTRICT

This Section provides a comprehensive review of the current status of the PVHD as follows:

- A brief background/history of the agency
- A general profile of agency services, infrastructure, and financial information
- A boundary map with a sphere of influence boundary overlay
- A detailed discussion of agency operations and finances
- Recommended MSR Determinations

Section IV further on is a list and discussion of Options and Recommendations available to the PVHD for potentially resolving the short-term and long-term financial situation and to return the Palo Verde Hospital to a fully functional facility.

OVERVIEW / BACKGROUND

The PVHD was officially formed in 1948 as a special district in accordance with the State of California Health & Safety Code, and currently operates under Health & Safety Code section 32000 et seq. The District encompasses approximately 1,022 sq. mi. including the City of Blythe, and the unincorporated communities of Mesa Verde, Ripley and Midland. Population served within the District is estimated at approximately 18,000.

PVHD's SOI is primarily coterminous with its current service boundary, with the exception of an extension to the west to the Desert Healthcare District boundary as the PVHD is the most logical service provider for the unincorporated communities of Desert Center, Eagle Mountain, and Lake Tamarisk.

Historical Information (PVHD Website and Riverside LAFCO Documents)

In 1925, the American Legion turned over its clubhouse to be used as a hospital named Palo Verde Health Center. In 1937, the facility now called Palo Verde Hospital opened its doors as an official unit of the County Medi-Cal Administration as the Blythe Branch of Riverside County Hospital. Over the years, the hospital has changed hands and on more than one occasion was temporarily closed – especially during the hot summer months. In 1948, a non-profit corporation was formed to create what is now known as the Palo Verde Healthcare District.

The Palo Verde Healthcare District was created for the purpose of purchasing and reopening and operating the Palo Verde Hospital, owned at the time by the Palo Verde Healthcare Association. In the 1990s, the hospital encountered financial difficulties, and because of which, PVHD leased it to Brim Healthcare, Inc. for management and operation. In 2002, the newly elected PVHD Board of Directors challenged the lease and made the decision to terminate the lease agreement. Lifepoint Hospital Inc. took over the operations of the hospital under the new lease agreement. However, in 2005, Lifepoint

Hospital, Inc. terminated the lease, and PVHD took back control of the hospital operations. PVHD continues to be responsible for operating the Palo Verde Hospital.

Mission Statement:

“To deliver and strengthen the provision of safe, effective, and quality healthcare services, for our patients and a diverse community, through integrated partnerships that advance care coordination, wellness, and prevention.”

Vision Statement

“We want to be recognized as a preferred provider of healthcare services, achieved through continual implementation of our core values.”

Core Values

“Our mission and vision are guided by our core values and principles.”

Purpose

Respect

Integrity

Dedication

Engagement

The Palo Verde Hospital is designed and originally staffed as a fully functioning hospital providing all outpatient, emergency and surgical services and support activities. The hospital is also accredited as a Critical Access Hospital, a key element of receiving higher reimbursement rates for some inpatient and outpatient services and allows for the hospital to operate with “swing beds.” Additionally, the hospital operates the Palo Verde Hospital Community Clinic, a clinic licensed as a Rural Health Clinic.

Over the last 20 years, the PVHD has experienced periods of financial stress and several Riverside Grand Jury reviews which resulted in improvements made over the years in services and financial resiliency. However, with the advent of the COVID-19 pandemic in 2020-2021 and the subsequent impacts on PVHD, the hospital reached a point where operations and services were in serious jeopardy.

It is apparent that COVID-19 related financial issues, along with what could be considered the classic “train wreck” of events beginning in 2023 through the present time created what could be considered, a “no win” situation for PVHD. Several events occurred during this time frame all contributing to creation of the situation today. These included a reduction in Medicare rates, and the litigation costs associated with the lawsuit against Altera to recover the massive lost patient health data as a result of software failures of their medical record system resulting in delays in ability to invoice and receive reimbursements from insurance and other sources, in particular, Medicare and Medi-Cal. Additionally, the turnover of four Chief Financial Officers during an 18-month period, a

cyberattack on the financial system, and additional costs for a third-party billing service to assist in resolving the invoicing backlog all contributed to the deterioration.

The result of these issues occurring essentially at the same time has forced the PVHD to suspend surgical and admittance/inpatient services, significantly reduce staff, and issue a Board of Directors resolution to declare a Fiscal Emergency to allow for authorization for filing of a Chapter 9 Bankruptcy Petition if it is inevitable to be necessary.

In an attempt to recover, the PVHD has adopted a 60-day Emergency Plan to take certain measures to stabilize the budgetary and cash flow issues and implementing the suspension of the surgical and admittance services. The Emergency Department, Radiology & Laboratory Departments, the Clinic and support functions for these departments remain available.

Further discussion on the financial status of PVHD and the PVHD efforts planned for obtaining solvency are discussed in the FINANCIAL OVERVIEW section following further in this report.

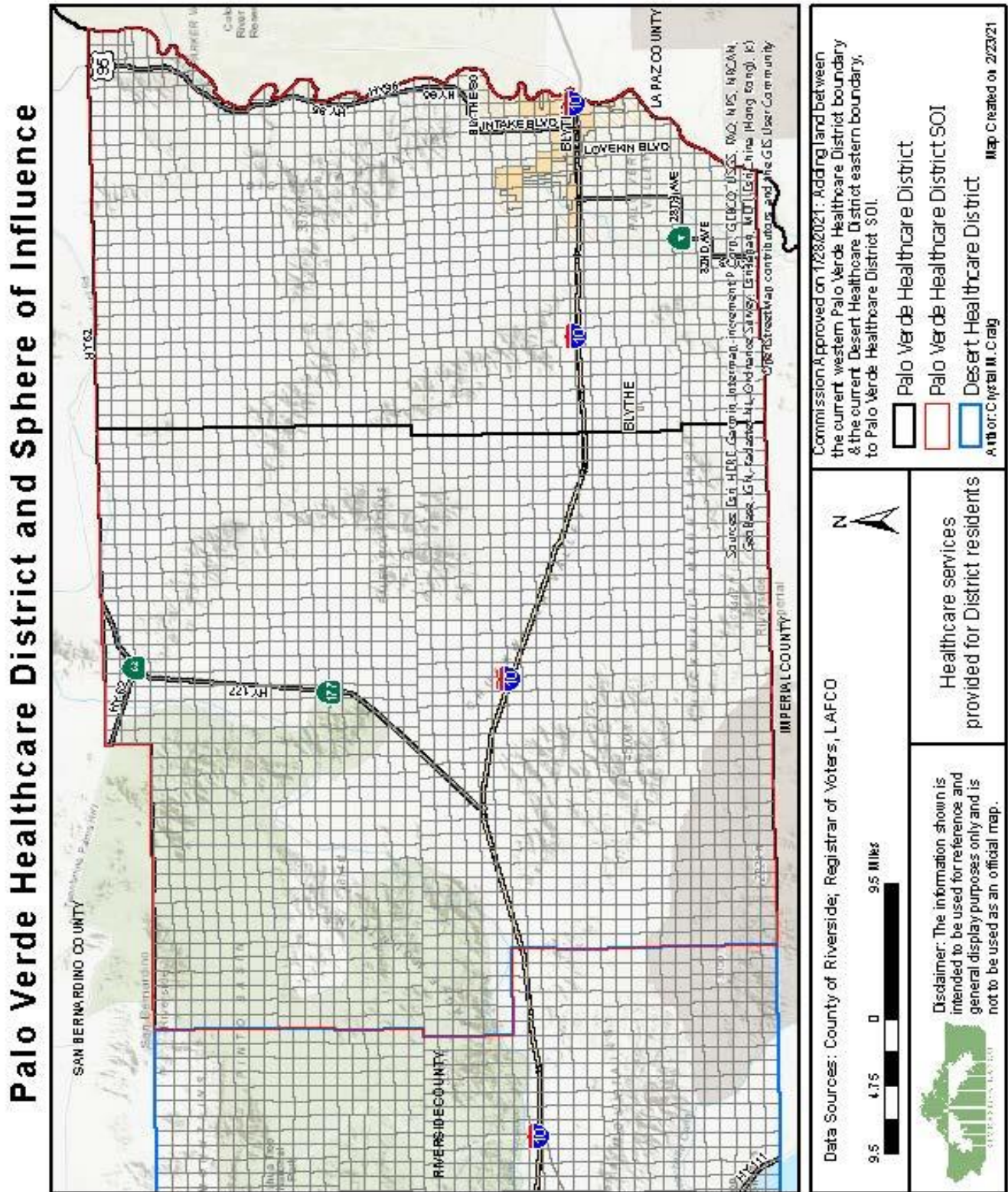
On the following pages, **Table III-1** provides a snapshot profile of the PVHD, and **Figure III-1** provides a map of the PVHD current boundary and SOI.

Table III-1 reflects information for the most recent audit for Fiscal Year Ending June 30, 2022. However, due to the lack of audited information for FYE 2023/2024, unaudited end of year actual and/or projected financial information is provided in **Table III-2** under Financial Overview with a full discussion.

Table III-1- Profile- Palo Verde Healthcare District

General Information			
Agency Type	Municipal – Local Healthcare District		
Principal Act	California Health & Safety Code section 32000-32492		
Date Formed	1948		
Services Provided	Hospital services- surgical, emergency, radiology, laboratory, support functions		
Location	PVHD Office & Hospital- 250 N. First Street, Blythe, CA 92225 (760) 922-4115		
Sq. Miles/Acres	Approximately 1,022 sq. miles within the PVHD boundaries.		
Contact	Sandra J. Anaya, Chief Executive Officer: Sj.anaya@paloverdehospital.org		
Website	www.paloverdehospital.org		
Population Served	Estimated 18.000 (City of Blythe and communities of Mesa Verde & Ripley)		
Last SOI Update	2021		
Governance/Staffing			
Governing Body	5-member Board of Directors, elected at large		
Terms	4-year staggered terms		
Meeting Information	Recently- Last Wednesday of the month at 6:00pm at the Blythe City Hall City Council Chambers, 235 N. Broadway, Blythe, CA 92225.		
Total Staff	Approximately 120-125 employees (when fully staffed)		
Staff Categories	Chief Executive Officer, Administrative Staff, Hospital Staffing including physicians, nursing, laboratory, clerical and patient support staff.		
Facilities/Other Infrastructure			
Facilities	Hospital Facility- Palo Verde Hospital		
Other Infrastructure	None		
Financial Information- FY 21/22 Actuals (Audited Financial Statements) Latest Available			
	Revenues	Expenditures	Net Surplus/(Deficit)
Proprietary Fund	\$23,404,709	\$21,203,727	\$2,200,982
	FY 21/22	Long-term Planned Expenditures	
Capital Expenditures	None	Hospital Building retrofits for Earthquake Safety standards pending funding	
Unrestricted Net Position (Fund Balance)	\$13,678,899	June 30, 2022 Financial Statement	
Capital Assets (Net)	\$3,416,650	June 30, 2022 Financial Statement	
Net Position	\$16,713,366	June 30, 2022 Financial Statement	
Debt & Unfunded Pension/OPEB Liabilities- Year Ending June 30, 2022			
Long-term Liabilities	\$2,474,322- loans with the California Health Facilities Financing Authority		
Unfunded Pension Liability	None		
Unfunded Other Post-Employment Benefits (OPEB) Liability	None		
Note: The Palo Verde Healthcare District has not had an Audit since FY 21/22, however PVHD staff indicates audits for FY 22/23 and 23/24 are in progress.			
Note: The loans carried as long term liabilities are reported as subject to eventual forgiveness.			

Figure III-1- Boundary/SOI Map – Palo Verde Healthcare District



GROWTH AND POPULATION PROJECTIONS

The PVHD currently serves an estimated population of approximately 18,000 over a geographical area of approximately 1,022 square miles. The PVHD encompasses the City of Blythe, and the unincorporated communities of Mesa Verde, Ripley and Midland (currently an unpopulated ghost town).

The general population is mainly low to middle income residents and a diversified ethnic mix, with the largest being Hispanic followed by Caucasian ethnicity. It is noted that there are nine (9) disadvantaged unincorporated communities within the PVHD boundaries. The service area most likely has some potential for growth most notably within the City of Blythe, however, recent history from the California Department of Finance reflects population stagnation mostly and a recent significant decrease in the City of Blythe population over the last few years.

<u>Blythe</u>	<u>4/1/20</u>	<u>1/1/21</u>	<u>1/1/22</u>	<u>1/1/23</u>	<u>1/1/24</u>	<u>1/1/25</u>
	18,778	17,403	17,285	17,250	17,447	15,400

The data over the last 6 years represents an overall population decrease of approximately 18 percent. Additionally, the populations of the unincorporated communities of Mesa Verde and Ripley combine at approximately 1,625. The PVHD also services Ironwood State Prison housing approximately 3,280 inmates, and was servicing the Chuckawalla State Prison until its closure in 2024 contributing to the loss of population services for the hospital.

Although the PVHD does not retain any land use planning and entitlement authority as those functions are reserved for the cities, and the county for unincorporated areas, the PVHD must anticipate and forecast future demands. Although the population of the City of Blythe has decreased fairly significantly recently, the PVHD must be prepared to anticipate that hospital services will see increased demands proportionate with any future population growth that may occur.

ACCOUNTABILITY AND GOVERNANCE

Governance

PVHD is governed by a five-member Board of Directors (Board), elected at large to four-year staggered terms. The selection of Board members is through an election within the PVHD and is consolidated with other statewide elections. The candidates receiving the highest number of votes for the positions to be filled are elected. Board members each serve for a period of four years. It should be noted that due to insufficient candidates submitting for election to the Board in 2022 and 2024, the current Board members were automatically appointed to the Board with the current term expiration dates.

The PVHD Board has reported that it meets every 4th Wednesday of the month at 6:00pm at the City of Blythe City Hall, City Council Chambers located at 235 N. Broadway, Blythe,

CA 92225. However, past meetings have taken place at the Palo Verde Hospital-Conference Room at 5:00pm every 4th Wednesday of the month.

The PVHD's Board consists of a President/Treasurer, Vice President, Secretary/Director, and two (2) Directors. There are no current vacancies on the Board. All ethics trainings are current for four Board members, recently completed in 2025, with one Board member current until August of 2025. Form 700 filings are current for all but one Board member. Additionally, a Parliamentary training for the Board was held on February 21, 2025, and was open to the public All but one Board member attended this training.

<u>PVHD Board of Directors</u>	<u>Term Expires</u>
Sandra Hudson	2028
Trina Sartin	2028
David Brooks	2026
Carmela Garnica	2026
Rosalie Rowell	2026

The PVHD maintains four committees considered standing committees- Finance/Audit, Legal, Personnel and Facilities. Each committee contains two Board members. These committees only meet when necessary, however the PVHD notes that the Finance Committee does generally meet as frequently as necessary and preferably on the 2nd Wednesday of the month at 5:00pm.

Additionally, On May 30, 2025, the City of Blythe established a Palo Verde Hospital Ad Hoc Committee to work with the PVHD as they work to resolve the situation with the hospital suspension of services. The City Council appointed Vice Mayor Joey Rodriguez and Councilman Sam Burton to the Committee, with Mayor Joey DeConinck as an alternate. The PVHD Board appointed three representatives to serve on the Committee: President Carmela Garnica, Vice President Rosie Rowell, and Interim Chief Financial Officer Michael Rose. This Committee has met several times since establishment and is working together toward the mutual goal of a fully functional hospital.

Website Transparency

The PVHD (Palo Verde Hospital) website is the primary vehicle for disseminating information to the PVHD constituency. As the PVHD solely provides hospital services, the website is primarily focused and sufficiently organized to provide relevant information related to those operations.

Access to information relevant to PVHD administrative operations and information is listed under the link titled "Board Agendas & Minutes" which is located at the very bottom of the Home Page under a Quick Links heading. It should be noted that the manner in which this link is set up and is not a direct access link to the most current Board agenda, appears to be inconsistent with Government Code section 54954.2, and should be resolved by including a direct link to the most current Board agenda in a prominent place on the website Home Page.

Meeting agendas and written staff reports are posted on the website, however, Board minutes have not been posted since March as the Board continues to postpone adopting the minutes for several Board meetings. The website does not contain direct email addresses to contact Board members nor for the PVHD & Hospital CEO for direct access. There is direct email access for PVHD administrative staff and some for certain hospital personnel. The website does maintain a Contact link in two places for accessing phone numbers and hospital departments.

Pertinent financial information for the PVHD including budgets, budget update information and the last audit for Fiscal Years ending June 30, 2021 and 2022 are included on the website under the Board Agendas link and sub-links. The Board Agendas link and sub-links also include agendas for the Finance Committee meetings, and links to other informative documents. There is no PVHD staff compensation information available on the website.

Customer/Constituency Communication

The PVHD reports that “the Palo Verde Hospital website is regularly updated with the latest information, offering the community a reliable and accessible source for updates. The PVHD also distributes public notices to the local radio station, KJMB-FM, to further broaden outreach. Community members are encouraged to reach out with any questions, comments, or concerns. Inquiries can be directed to the Clerk of the Board.”

Customer/Constituency Accountability

The PVHD notes: *“The Palo Verde Healthcare District remains committed to transparency and keeping its constituents and the broader community informed about the District’s activities, including the current financial situation and its impact on services, employees, and the community as a whole.”*

The PVHD further notes: *“to ensure ongoing communication, the District posts agendas for regular meetings 72 hours before the meeting and for special meetings at least 24 hours before the meeting.”* Since the PVHD has been experiencing a fiscal crisis, there has been a standing agenda item to provide updates on such things as operations and financial matters.

PVHD also notes: *“Since November 2025 (2024), all budget discussion of the Board are conducted in open session, also since that time there has been staff reports for every agenda item in an effort to keep both the Board and the public fully appraise of the items under consideration. Also, since that time the PVHD reports that closed session is limited only to those items that are properly discussed in closed session pursuant to the Brown Act, the Healthcare District Law, and other applicable laws. These meetings are open to the public and serve as a key platform for sharing important developments.”*

With respect to financial transparency, refer to the discussion in the FINANCIAL OVERVIEW section which follows further in this report.

SERVICES – FACILITIES- INFRASTRUCTURE

Service Overview

Significant planning documents for many healthcare districts are the Community Healthcare Needs Assessment (CHNA) and Community Healthcare Implementation Plan (CHIP) that are required as part of the Affordable Care Act. As an alternative to these planning documents, PVHD maintains a strategic plan developed in 2014 and recently updated, and annual strategic goals to guide future program and service efforts. The Strategic Plan notes:

“The hospital is licensed for 51 acute care beds and is designated as a sole community government hospital offering a continuum of Medi-Cal, surgical, and obstetrical services. The hospital also provides basic emergency services with a physician on duty at all times. Patients of all ages are evaluated and treated in the ED. Major trauma patients are not routed to the facility by EMS providers. The hospital operates twenty-four hours a day, seven days a week for bedded services, and employs or contracts with approximately 150 full time equivalents.”

“General acute medical, surgical, and obstetrical services are offered on an inpatient or outpatient basis. The hospital does not perform invasive, interventional cardiac or surgical procedures. Pediatric patients with non life threatening conditions are admitted to the facility on an infrequent basis. Pediatric patients or newborns needing Intensive Care Services are transferred from the ED to facilities providing those services...”

As noted, the Strategic Plan outlines the overall menu of services that a rural hospital generally provides and is not considered a “trauma facility.” Additionally, the PVHD has recently implemented a policy document “Scope of Services/Plan for Provision of Care and Service.” This new policy identifies in great detail leadership and patient services responsibilities for a variety of administrative functions and patient services.

General hospital services provided prior to the suspension included Medical-Surgical, Radiology, Emergency Department, Cardiopulmonary, ICU/Critical Care, Surgical Recovery Room, Laboratory, and Pharmaceutical services.

Services suspended as noted by the hospital include Medical-Surgical Services and Surgical Recovery Room services. Additionally, the Strategic Plan does note that the ICU/Critical Care services have not been provided in the past. These suspended services represent the most important aspect of service delivery impact as the closet other hospitals that provide these services are a significant distance away.

The PVHD currently holds an Accreditation as a “Critical Care Hospital” through DNV, the federally designated certification authority for this level of accreditation. This allows for utilization of “swing beds” in a total of 25 beds in the hospital.

Although the PVHD has budgeted for the current fiscal year 2025/26, necessary

resources to provide all services not under the suspension, the PVHD notes that restoration of those suspended services will be a long-term process until an adequate cash flow to support elimination of deficit spending is achieved.

The PVHD currently contracts security, anesthesia, laboratory, radiology reporting, and as needed legal support and audit services. Additionally, the PVHD does maintain individual service contracts with various medical/surgical professionals. The PVHD notes that the currently suspended services also impact the contracts for these medical/surgical providers and the security and anesthesia contracts. The PVHD does not provide contract services to other agencies.

Facilities/Infrastructure & Required & Planned Improvements

PVHD operates one 51 bed hospital (Palo Verde Hospital) and clinic consisting of five (5) separate structures located at 250 N. First Street, Blythe, CA 92225. The PVHD administrative activities are consolidated at the hospital. The PVHD does not possess any other facilities or infrastructure.

The five-building complex is inherently old and requires ongoing maintenance, Buildings A, D and E were constructed in 1937. Buildings B and C were constructed in 1961 and 1978 respectively. The primary need for the hospital buildings are earthquake safety renovations to bring the hospital buildings up to current state earthquake standards. However, as sufficient funds to perform these renovations is not available, the hospital will remain in the current state.

The PVHD reports that it has been actively engaged in obtaining funding for the necessary renovations, however, has not been successful in obtaining sufficient funds for the needed improvements.

The PVHD also notes that due to the current financial situation, routine maintenance to the hospital building such as stucco work and painting and updating the employee entrance have been placed on hold, Additionally the Building D roof project has been placed on hold.

Service Adequacy

As noted above, with the current suspension of surgical and admittance/inpatient services, the hospital is no longer providing these services that they were providing, and should be providing given this is the only hospital within 100 miles of another hospital in the state. The closest hospitals that provide the suspended services are more than an hour drive, although there is a closer hospital across the Arizona border in Quartzsite, AZ.

Prior to the onset of the current financial crisis, the hospital was providing the services it has intended to provide, although has been challenged with financial issues for a number of years. Several hospital services continue to be provided- Radiology, Emergency

Services, Laboratory, and Pharmaceutical and support function for these services, and the Community Clinic services.

Cooperative Programs

The PVHD reports that there are no specific cooperative type programs that the District/Hospital is affiliated, however the District/Hospital does work with the Palo Verde Hospital Foundation, a 501c(3) non-profit organization formed in 2006 with the purpose of fundraising and creating a donor base to support hospital operations.

FINANCIAL OVERVIEW

PVHD carries all operational budgeting and accounting consolidated in one enterprise “Proprietary” Fund, and includes all assets and liabilities of the PVHD in accordance with Governmental Accounting Standards Board (GASB) pronouncements, all Financial Accounting Standards Board (FASB) Statements and Interpretations, all Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs), no matter when issued, except those that conflict with a GASB Pronouncement, as noted in the Fiscal Year Ending June 30, 2021 & 2022 (FYE 2021/2022) audit documents.

The PVHD normally conducts an independent audit bi-annually, however, PVHD staff notes that as a result of the recent financial crisis and the heavy turnover of CFOs in the last 18 months, the FYE June 30, 2023 and 2024 audits just recently got underway and are not yet available. The most recent previous audit for FYE 2021/2022 does reflect an “unmodified” opinion:

“In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palo Verde Health Care District as of June 30, 2022 and 2021, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.”

The audit for FYE 2021 and 2022 also reflects adjustments made due to implementation of GASB 87 for reflecting lease revenues and expenditures, and lease liabilities.

The operating loss for FYE 2022 increased by \$3,656,800 as compared to FYE 2021 as noted in the FYE 2021/2022 audit. This significant change is primarily attributable to the continued effects of the coronavirus pandemic on net patient revenue. However, the infusion of the one-time CARES Act Provider Relief Fund grant revenue allowed for an overall net surplus for FYE 2022 and resultant increase in Net Position. Additionally, the Paycheck Protection Program loan revenue from 2021 was eventually forgiven.

The PVHD reports that the significant Unrestricted Net Position (fund balance) at the end of FY 2022 of \$13,678,899 included a total of \$10.1 million in grants from the post

COVID-19 CARES Act. PVHD reports that much of these funds were expended in FYE 2023 and 2024.

The PVHD also reported in the FYE 2021/2022 Audit Management Discussion and Analysis (MD & A), as required by GASB, bad debts and charity care are reported as components of net patient revenues rather than as operating expenses. The PVHD experienced \$2,211,329 in 2022 and \$1,619,934 in 2021 provision for bad debt expense, and provided \$76,734 and \$153,955 in charity care for the years of 2022 and 2021, respectively. This is common for all medical/hospital service providers but clearly has exacerbated the situation at PVHD.

The financial performance of the PVHD as a whole is reflected in its current unaudited FYE June 30, 2024 financial statements developed by PVHD staff. PVHD notes completion of FY 23/24 with its Proprietary Fund reporting an overall operating deficit of \$8,161,534, with a current Net Position of a negative \$3,007,176 and an estimated Unrestricted Net Position of \$5,154,358.

The projected status for FYE June 30, 2025 is reflected in its current 3rd Quarter report developed by PVHD staff. PVHD notes a projected completion of FY 24/25 with its Proprietary Fund reporting an overall operating deficit of \$4,347,984, with a projected Net Position of a negative \$7,355,161 and an estimated Unrestricted Net Position of \$803,374.

This significant reduction in Unrestricted Net Position during FY 23/24 projected through FYE 2025 is a result of the deficit spending the PVHD has experienced in the last two years overall.

The primary revenue sources for PVHD are derived from charges for services and some non-operating income which take the form of:

- Reimbursement for allowable charges from Medicare, Medi-Cal, private insurance, and self-pay patients.
- Cost-based allowable reimbursements as component of the Critical Access Hospital designation by Medicare and Medi-Cal which reimburse the hospital based on actual costs incurred for allowable services.
- Monthly payments from managed care organizations (Medi-Cal managed care or Medicare Advantage) which support outpatient and preventive care services.
- Supplemental Payments Programs through Medi-Cal such as Intergovernmental Transfers (IGTs) and Quality Assurance Fee (QAF) provide additional funds to offset under-reimbursement from Medi-Cal.
- Non-operating revenue is derived from property tax, rentals, cafeteria, investment earnings, or leased Medi-Cal office space.

Some specific actions are being taken to reduce costs associated with the overall financial situation and the current suspension of services, the most significant being staff reductions:

- Implemented temporary furloughs, shift reductions, and/or elimination of per-diem and overtime hours for nurses, and radiology staff, and eliminated vacant positions, all as a result of fewer patients due to suspended services.
- Halted regular ordering of medical supplies not needed when elective procedures, inpatient care, or diagnostics are paused.
- Decreased spending on electricity, water, laundry/linen services, and environmental services due to fewer rooms and departments in use results in lower operating costs.

Two loan programs that the PVHD has entered into through the California Health Facilities Financing Authority (CHFFA) have assisted in allowing the hospital to provide the current services, however, cannot support the suspended services for the short or long term. The loans are:

- \$8.5 million- Distressed Hospital Loan Program- this is a loan that was part of a \$300 million dollar package for loans to rural distressed hospitals throughout the state. The PVHD has been utilizing proceeds from this loan since approved August 31, 2023. Payments on the loan had a 180-day grace period which has recently expired, however no loan repayments have been made at this time.
- \$591,121 Non-designated Public Hospital Bridge Loan Program II bridge loan- The original loan amount of \$600,000 has been slightly paid down however, payments have been suspended.

Following is the current status of these two loans as relayed by the PVHD management staff which has allowed these two loans to no longer remain in default.

As noted in the Executive Summary, it was announced that the state had assisted in funding for the hospital. According to PVHD staff, the state did not provide any additional direct funding for the hospital to maintain operations. The state did extend the Non-Designated Public Hospital Bridge Loan Program debt for \$8.5 million for PVHD whereby a portion of this loan may be “forgiven” each year. Additionally, the state also deferred payments of the other outstanding state bridge loan of approximately \$600,000 for three years, with potential “loan forgiveness.” According to PVHD staff, these concessions, although helpful, do not resolve the current significant revenue and cash flow problem, even in the short-term. As a result of these actions, the PVHD reports that they are currently not in technical default on any debt obligations at this time.

It should also be noted that although deferrals for the two bridge loans were authorized by the state, the financial statements will still reflect the loans as long-term liabilities. However, from a cash flow perspective, the operational budget is unaffected. It is noted that at the end of FY 2024, the PVHD noted that Cash & Equivalents & net Accounts Receivable totaled \$9,399,812. For FY 2024/2025, as of March 2025, these same accounts totaled \$14,547,498. Additionally, for FY 2024/2025, PVHD has been drawing down portions of the \$8.5 million loan to try and sustain the services still being provided while downsizing the staffing and support functions not required.

The PVHD District currently has no current debt service requirements due to the deferrals of the state loans, no other significant long-term liabilities, and no pension or OPEB liabilities.

Overall, the financial position of the PVHD is clearly considered very unstable at this time, with significant cash flow issues due to lack of ongoing revenues resulting in major service reductions and resultant expenditure reductions for staffing and other support services. The short-term outlook is an unknown as to ability to meet the goals of the 60-Day Emergency Plan implemented, and the revenue projections in the FY 2025/2026 budget. Additionally, the long-term outlook is also considered questionable unless sufficient long-term cash flow requirements for sustainability and eventual restoration of the suspended services can be achieved.

The immediate need is a significant cash infusion to the PVHD to sustain the short term, and eventually as noted, a stable long term revenue stream sufficient to support a fully operational and staffed hospital as is needed in the Blythe and Palo Verde region.

Table III-2 on the following page provides a snapshot of key financial data from the last three fiscal years. An analysis of the data related to several key financial status and financial health indicators follows.

Due to the lack of audited information for FYE 2023/2024, unaudited end of year actual and/or projected financial information is provided in **Table III-2** for FYE 2024, and current projections for FYE 2025.

Table III-2- Financial Information – Palo Verde Healthcare District

Financial Information (2022 Actuals- Audited Financial Statements, 2024 & 2025- Unaudited End of Year and Projected Actuals)			
	FY 21/22	FY 23/24	FY 24/25
Proprietary Fund Revenues/Transfers	\$23,404,709	\$17,020,283	\$20,633,117
Proprietary Fund Expenditures/Transfers	\$21,203,727	\$25,181,817	\$24,981,101
Proprietary Fund Surplus/(Deficit)	\$2,200,982	(\$8,161,534)	(\$4,347,984)
Capital Outlay	None	None	None
Debt Service Expenditures	None	None	None
Long-term Liabilities	\$2,474,322	\$10,178,017	N/A
Unrestricted Net Position (Fund Balance)	\$13,678,899	\$5,154,358	\$803,374
Restricted Net Position (Fund Balance)	None	None	None
Capital Assets (Net of Depreciation)	\$3,416,650	\$6,267,684	N/A
Unfunded Pension Liability	None	None	None
Unfunded OPEB Liability	None	None	None
Net Position	\$16,713,366	(\$3,007,176)	(\$7,355,161)
Note- N/A means Not Available as audited financial statements are unavailable, and amounts could not be estimated from unaudited end of year documents. None means not applicable to PVHD. Note- Unrestricted Net Position (Fund Balance) for FY 23/24 & 24/25 is an estimate calculated from the FYE 2022 audit and the FY 23/24 & FY 24/25 unaudited revenue/expenditure estimates. Note- Capital Outlay excludes maintenance items that are listed as operating expenditures. Note- PVHD incurs no Pension or OPEB liabilities.			

There are nine primary areas of criteria that have been utilized for this report to assess the present and future financial condition of any Special District's ability to provide efficient service operations as discussed following:

1. 3-Year Revenue/Expenditure Budget Trends
2. Ratios of Revenue Sources
3. Ratios of Reserves or Fund Balance to Annual Expenditures
4. Annual Debt Service Expenditures to Total Annual Expenditures
5. Net Position
6. Pension and OPEB Unfunded Liabilities
7. Capital Assets and Capital Improvement Plan
8. Fee Structure for Services Provided
9. Cost Avoidance Programs

3 Year Revenue/Expenditure Budget Trends

A trend analysis of revenues and expenditures provides a relatively quick snapshot of financial stability, and financial management of budgetary ebbs and flows over a short period of time.

For PVHD, the Proprietary Fund revenue is heavily dependent on patient charges for services, which in turn primarily comes from Medicare and Medi-Cal reimbursements along with insurance company payments making up 85-90% of the PVHD revenues. Patient co-payments make up a lesser portion, and grant revenue supplements when it is available. PVHD does receive a very small (less than one percent of annual budget) amount of general property tax. The trend currently reflects a downward trend of revenue based on the suspension of services recently implemented and resultant foregone revenue from those services.

Ratios of Revenue Sources

Diversity of revenues is an indicator of any public agency's ability to withstand a major loss in one revenue stream without a significant impact to operations and services. Ideally, an agency should have 3-4 revenue streams that are as equally balanced as possible, however, that isn't always possible in some agencies.

As noted before, there is virtually no opportunity for diversification of revenues as the nature of the healthcare/hospital industry is driven by reimbursement rates for patient services set by Medicare, Medi-Cal and insurance companies, regardless of the actual cost of those services.

The PVHD does not maintain any Benefit Assessment or Special Assessment districts, and to create one for a special assessment to help fund operations would require a ballot measure under Prop 218. The only true opportunity for PVHD to gain additional revenue would be through a negotiated greater share of the property tax increment it currently receives.

Ratio of Reserves or Fund Balance to Annual Expenditures

An indicator of the ability to absorb an unexpected loss of revenue in a given fiscal year is exhibited by the amount of unrestricted cash reserve or fund balance the service fund maintains in relation to the annual fund expenditures. A ratio of 30% or greater of fund balance/reserve to annual expenditures is generally considered an adequate ratio to maintain.

As PVHD has virtually no reserves at this point in time, there is no ratio to assess. Although maintaining reserves for emergency situations such as this is a paramount necessity, achieving capacity to build reserves over the years has been elusive for PVHD.

Annual Debt Service Expenditures to Total Annual Expenditures

The ratio of annual debt service to total fund annual expenditures is an indicator of the District's ability to meet debt obligations in relation to service provision expenditures. Ideally, a ratio of 10% or less would reflect a very stable ratio.

PVHD has no bond or secured debt. Therefore no ratio to assess, which in turn is a positive aspect to overall financial stability. However, as noted, PVHD does currently maintain two state loan obligations totaling over \$9 million which are currently in a deferred status.

Net Position

An agency's "Net Position" as reported in its audited financial statements represents the amount by which assets (e.g., cash, capital assets, other assets) exceed liabilities (e.g., debts, unfunded pension and OPEB liabilities, other liabilities). A positive Net Position generally provides an indicator of financial soundness over the long-term. However, Net Position also includes the value of capital assets that may or may not be easily liquidated. Therefore, Net Position could potentially be skewed when viewing it in the aspect of liquidity.

PVHD's FY 21/22 ending net position was calculated by the auditors at \$16,713,366 with \$13,678,899 as unrestricted. As compared to annual revenues and expenditures, this is a significant amount of net position, indicating stability with its ongoing activities at that time. However, as noted over the recent past, this situation has significantly deteriorated for the foreseeable future.

The operating loss for 2022 increased by \$3,656,800 as compared to 2021. This significant change is primarily attributable to the continued effects of the coronavirus pandemic on net patient revenue. However, the infusion of the Provider Relief Fund grant revenue allowed for an overall net surplus for FYE 2022 and resultant increase in Net Position.

Since then the Net Position for the PVHD has declined to a point where the current projection at the end of FY 2025 is estimated to be a negative \$7,355,161, clearly a trend that is not sustainable for the PVHD to remain functional.

Pension and OPEB Unfunded Liabilities

Unfunded pension and OPEB liabilities present one of the most serious fiscal challenges facing many public agencies in California today. When reporting required under Government Accounting Standards Board (GASB) Statement #68 was implemented, many public agencies were awakened by the reality of the long-term unfunded liability aspect of their respective pension and OPEB obligations.

The PVHD has no unfunded pension or OPEB liabilities.

The Palo Verde Hospital 401(a) Retirement Plan is a defined contribution money purchase retirement savings plan established to provide retirement benefits for all eligible employees. The hospital makes a matching contribution equal to 100 percent of eligible employee contributions, up to a maximum of three percent of employee compensation.

Additionally, the PVHD does not provide post-employment benefits to retirees that would accrue an unfunded liability.

Capital Assets and Capital Improvement Program

Capital assets must be adequately maintained and replaced over time and expanded as needed to accommodate future demand and respond to regulatory and technological changes. Depreciation typically spreads the life of a facility over time to calculate a depreciation amount for accounting purposes. The actual timing and amount of annual capital investments require detailed engineering analysis and will differ from the annual depreciation amount, although depreciation is a useful initial indicator of sustainable capital expenditures.

PVHD's capital assets include the hospital facilities comprising five separate buildings. As of June 30, 2022 the District had \$10,603,257 in capital assets and \$7,186,607 in accumulated depreciation, resulting in \$3,416,650 net capital assets.

The PVHD does not utilize a formal Capital Improvement Program as it is not necessarily warranted for the infrastructure necessary for the services provided. However, there is a significant amount of structural modifications required to bring the hospital buildings up to current earthquake safety standards. The PVHD has struggled over the years to obtain funding for the required retrofits.

Fee Structure for Services Provided

Most public agencies charge fees for various direct benefit services provided. Fees are required to reflect the general overall cost of a specific service provided to individual constituents.

The PVHD charges fees for all the individual services which are available. As the primary source of revenue for operating and maintaining the hospital, and providing the hospital services, a comprehensive internal fee schedule is maintained and is subject to change based on private insurance providers, and Medicare and Medi-Cal reimbursement rates.

It should be noted that reimbursement rates from the aforementioned providers generally are significantly less than the hospital charge rates. Co-payments by patients do not always get recovered creating a large volume of bad debt write offs.

Cost Avoidance Programs

The PVHD notes that necessary cost cutting and cost avoidance measures are being implemented due to the current situation, however, no formal programs exist. As a regulated hospital subject to strict regulations regarding Medi-Cal services and pharmaceuticals provided to patients, the hospital is sometimes at the mercy of the suppliers.

DISADVANTAGED UNINCORPORATED COMMUNITIES

There are a total of nine DUCs within the PVHD boundaries. Three are associated with the City of Blythe, and six others are outside the City of Blythe SOI, however within the PVHD boundaries.

STATUS OF ISSUES IDENTIFIED IN MOST RECENT MSR

The previous MSR completed in 2020 notes that PVHD was concerned about the future financial health of the hospital due to evolving reimbursement structures of federal, state and private payers, in particular uncertainty in Medicare payments.

GOVERNMENT STRUCTURE ALTERNATIVES

There are various governmental structure alternatives that would be available for consideration if determined necessary to restore a fully functioning hospital. These alternatives are discussed in Section IV following below.

RECOMMENDED MUNICIPAL SERVICE REVIEW DETERMINATIONS

Based on the information, issues, and analysis presented in this report, proposed MSR determinations pursuant to Government Code section 56430 are presented below for the LAFCO Commission's consideration:

1) *Growth and Population Projections*

- The PVHD currently serves an estimated population of approximately 18,000 over a geographical area of approximately 1,022 square miles. The PVHD encompasses the City of Blythe, and the unincorporated communities of Mesa Verde, Ripley and Midland (currently an unpopulated ghost town).
- The general population is mainly low to middle income residents and a diversified ethnic mix, with the largest being Hispanic followed by Caucasian ethnicity.
- PVHD's service area most likely has some potential for growth most notably within the City of Blythe, however, recent history from the California Department of Finance reflects population stagnation mostly and a recent significant decrease in the City of Blythe population over the last few years. Some of the population decline was the recent closure of the Chuckawalla State Prison.
- Although the PVHD does not retain any land use planning and entitlement authority as those functions are reserved the cities, and the county for unincorporated areas, the PVHD must anticipate and forecast future demands.

- Although the population of the City of Blythe has decreased fairly significantly recently, the PVHD must be prepared to anticipate that hospital services will see increased demands proportionate with any future population growth that may occur.

2) *Location and Characteristics of Disadvantaged Unincorporated Communities Within or Contiguous to the District's SOI.*

- There are nine disadvantaged unincorporated communities associated to the City of Blythe and/or within the PVHD boundaries.

3) *Present and Planned Capacity of Public Facilities and Adequacy of Public Services, Including Infrastructure Needs and Deficiencies Related to Disadvantaged Unincorporated Communities*

- The PVHD and the Palo Verde Hospital does not maintain the financial capacity for long-term provision of all services the hospital normally provides at this time.
- The PVHD is not meeting the level of service delivery the community not only desires, but is highly necessary for public health issues of a critical and non-critical nature.
- The hospital facility is in need of significant renovations for meeting current state earthquake standards.
- There are no additional deficiencies related to the nine DUCs identified within the PVHD SOI other than that already identified.

4) *Financial Ability of the District to Provide Services*

- Overall, the financial position of the PVHD is clearly considered very unstable at this time, with significant cash flow issues due to lack of ongoing revenues resulting in major service reductions and resultant expenditure reductions for staffing and other support services.
- The PVHD is in serious financial distress and does not have the financial ability to provide the full services of the Palo Verde Hospital.
- Available cash assets are nearly depleted as PVHD works to cut costs as quickly as possible to support cash flow requirements.
- Surgical services and in-patient services have been suspended forcing patients to travel approximately 100 miles to the closest California hospitals.

- The PVHD Board of Directors has implemented a 60-Day Emergency Plan to address some of the short-term financial issues.
- **The immediate need is a significant cash infusion to the PVHD to sustain the short term**, and eventually, a stable long term revenue stream sufficient to support a fully operational and staffed hospital as is needed in the Blythe and Palo Verde region.
- The state did not provide any additional direct funding for the hospital to maintain operations. The state did extend the Non-Designated Public Hospital Bridge Loan Program debt for \$8.5 million for PVHD whereby a portion of this loan may be “forgiven” each year. The state also deferred payments of one other outstanding state bridge loan of approximately \$600,000 for three years. According to PVHD staff, these concessions, although helpful, do not resolve the current significant revenue and cash flow problem, even in the short-term.
- The PVHD is not in default on any debt obligations at this time.
- The PVHD normally conducts an independent audit bi-annually, however, PVHD staff notes that as a result of the recent financial crisis and the heavy turnover of CFOs in the last 18 months, the FYE June 30, 2023 and 2024 just recently got underway and is not yet available. The most recent previous audit for FYE June 30, 2021 and 2022 does reflect an “unmodified” opinion.

5) *Status of, Opportunities for Shared Facilities*

- There is no foreseeable opportunity for shared facilities as the hospital is unique to the type of services provided, and no other facility is within any reasonable distance to provide the services.
- Options are available for other governance or operational opportunities for the hospital.

6) *Accountability for Community Service Needs, Including Governmental Structure, and Operational Efficiencies.*

- The PVHD is governed by a five-member Board of Directors elected at large to four-year staggered terms by the registered voters within the PVHD boundaries.
- Hospital staffing is normally approximately 100-125 personnel, however during the suspension, layoffs and furloughs have resulted in a significant staffing reduction.

- The Palo Verde Hospital website acts as the PVHD website and provides various types of information related to hospital services and activities, and for PVHD Board and administrative activities.
- The website lacks transparency from the aspect of searching for agendas, meeting minutes and financial information as the link to the page for such is at the very bottom of the home page where most residents would not notice. That link should be much more visible on the website.
- There is no direct email contact information listed for Board members, nor the PVHD CEO on the website. Phone and email contact information for most staff is provided, however very difficult to find.
- Meeting agendas with staff reports are posted on the website, however, no meeting minutes have been posted since March of 2025.
- Only the FY 2021/2022 bi-annual audit is provided on the website, and financial information is mostly limited to monthly reports. The current PVHD draft budget for FY 2025/26 is listed on the website.
- Several alternative government structure options should be considered if the current PVHD management structure cannot correct the long-term structural issues of maintain a fully operational hospital.

7) *Any Other Matter Related to Effective or Efficient Service Delivery, as Required by Commission Policy.*

- The Commission has concerns regarding the overall financial and management status of the PVHD, and particularly the Palo Verde Hospital.
- The Commission has requested an assessment of the PVHD's ability to return the hospital to full operational status long-term, and other options available for governance and operation of the hospital if necessary.

IV. OPTIONS & RECOMMENDATIONS

OPTIONS: As noted in the Executive Summary, the GOAL is to restore the Palo Verde Hospital to a fully functional facility providing all services as previously provided and ensure long-term financial sustainability. So how do we get there?

The following governmental and non-governmental options are available for consideration:

- 1) PVHD continue with implementing the Board of Directors adopted recovery plan.
 - a. County of Riverside should exercise significant oversight of PVHD's implementation of the recovery plan.
 - b. County of Riverside should provide all necessary assistance from the appropriate departments to ensure PVHD recovery plan is successful.
 - c. Continue engagement by the Riverside University Health System for assistance in providing the current community support services.
- 2) Obtain state or County of Riverside funding to restore solvency, restore all suspended services, and clear all outstanding debt.
 - a. Funding should be sufficient to effectuate these items and achieve sustainability for a minimum of one year or such time as appropriate cash flow over time has allowed the suspended services to be maintained.
 - b. State and County of Riverside should continuously monitor the financial status and activities of PVHD to ensure appropriate actions required to restore services are undertaken and managed.
 - c. Provide a permanent property tax augment sufficient to maintain a basic level of financial support.
- 3) Obtain commercial loan funding guaranteed by the state or the County of Riverside to restore solvency, restore all suspended services, and clear all outstanding debt.
 - a. Funding should be sufficient to effectuate these items and achieve sustainability for a minimum of one year.
 - b. State and County of Riverside should continuously monitor the financial status and activities of PVHD to ensure appropriate actions required to restore services are undertaken and managed.
 - c. Any commercial funding should have a deferral component and a long-term payment term.
- 4) Lease the hospital to a public hospital or private hospital system.
 - a. Lease agreement should return all suspended services within a given timeframe, and provide sufficient revenue to PVHD to cover any outstanding debt obligations and administrative functions of the PVHD.

- b. PVHD to provide direct oversight of the hospital services and financial status of the hospital.
- 5) Form a Joint Powers Authority with the PVHD, the City of Blythe and the County of Riverside.
 - a. Allows for issuance of debt for operations and for the earthquake retrofit requirements.
 - b. Provides the best representative partnership for oversight of the hospital operations for all PVHD constituents.
- 6) City of Blythe or the County of Riverside assume ownership and operation of the hospital & dissolve the PVHD
 - a. LAFCO is authorized by statute to dissolve a special district.
 - b. City of Blythe or the County of Riverside would have to have the capacity and financial ability to support absorbing the hospital.
- 7) Consolidate PVHD with Desert Healthcare District & dissolve the PVHD.
 - a. LAFCO is authorized by statute to initiate a district consolidation and dissolution.
 - b. DHD would have to have the capacity and financial ability to support absorbing the hospital.
- 8) Sell the Hospital to a private provider & dissolve the PVHD.
 - c. LAFCO is authorized by statute to dissolve a special district.
- 9) File for Chapter 9 Bankruptcy proceedings.

OBSERVATIONS & RECOMMENDATIONS: From the perspective of the LAFCO Executive Officer, the following recommendations are provided for consideration of a combination of governmental and non-governmental options that would be considered the best options to less preferable options at this time:

- 1) Options 1 & 2- The PVHD continue working to right-size the hospital given the current funding constraints and adjusting the recovery plan as appropriate. The County of Riverside and the state must engage in obtaining significant cash grant funding, in the short term to assist in the recovery, no new loans, grant funding only, and all current state loans should be immediately forgiven. **This combined Option should be considered the preferable option.**
- 2) Option 5- Formation of a Joint Powers Authority with PVHD, the City of Blythe and the County of Riverside. Due to the benefits for obtaining funding, oversight abilities for representing all constituencies, and the multiple agency oversight of the

hospital operations, this is an appropriate Option to consider. **This Option has significant strengths from several perspectives and should be given strong consideration.**

- 3) Option 4- Lease the hospital to a public or private hospital provider under terms that the hospital would be allowed a certain period of time to return to a fully functional facility with all suspended services restored. Additionally, the lease terms should include sufficient funds for administrative oversight by PVHD. **This Option would essentially place full responsibility of restoring the hospital to a fully functional status and maintain a fully functional hospital for the long term.**
- 4) Option 3- Obtain commercial loan funding guaranteed by the state or the County of Riverside to restore solvency, restore all suspended services, and clear all outstanding debt. This option is not a strong option due to the nature of the lending market and the lending organizations qualification requirements, even with County of Riverside or state guarantees. **This Option should only be considered if the preferred Options are discarded.**
- 5) Options 6, 7 & 8 essentially dissolve the PVHD and assign successor agencies or a commercial hospital provider for restoring the suspended services and operating the hospital. **Although these are options that are available, they are not necessarily preferable.**
- 6) Option 9- Chapter 9 Bankruptcy- Clearly this would be a last resort and would not necessarily ever result in restoring the hospital to a fully functional facility. Additionally, it could result in the hospital closing altogether. **This Option is the worst-case Option and should only be considered if all else fails.**

ACRONYMS

ARB	Accounting Research Bulletin
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CEQA	California Environmental Quality Act
CHFFA	California Health Facilities Financing Authority
CHNA	Community Healthcare Needs Assessment
CHIP	Community Healthcare Implementation Plan
CKH	Cortese-Knox-Hertzberg Reorganization Act of 2000
DUC	Disadvantaged Unincorporated Community
FPPC	Fair Political Practices Commission
FTE	Full-Time Equivalent
FY	Fiscal Year
FYE	Fiscal Year Ending
GASB	Government Accounting Standards Board
IGT	Intergovernmental Transfer
LAFCO	Local Agency Formation Commission
MSR	Municipal Services Review
PVHA	Palo Verde Hospital Association
PVHD	Palo Verde Hospital District
OPEB	Other Post-Employment Benefits
QAF	Quality Assurance Fees
RUHA	Riverside University Health System
SOI	Sphere of Influence