



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 8/18/2020

To: Board of Supervisors

Department or Agency Name(s): Auditor-Controller-Treasurer-Tax Collector and County Administrator

Staff Name and Phone Number: Amanda Ruch 565-3274 and Peter Bruland 565-3086

Vote Requirement: Majority

Supervisorial District(s): 5th District

Title:

Fiscal Year 2020-21 Property Tax Rates and Budget for the Palm Drive Health Care District

Recommended Action:

1. Approve a Resolution of the Board of Supervisors acting in its capacity as Successor to Palm Drive Health Care District to adopt the Fiscal Year 2020-21 Ad Valorem Tax Rate.
2. Approve a Resolution of the Board of Supervisors acting in its capacity as Successor to Palm Drive Health Care District to adopt the Fiscal Year 2020-21 Parcel Tax Rate.
3. Approve a Resolution of the Board of Supervisors acting in its capacity as Successor to Palm Drive Health Care District to adopt the Fiscal Year 2020-21 Budget.

Executive Summary:

The Palm Drive Health Care District (District) was formed by voters in 2000 and was formally dissolved by the Sonoma Local Agency Formation Commission (LAFCO) on August 5, 2020. The District has outstanding General Obligation and Parcel Tax Bonds, bankruptcy settlement payments and other obligations that are funded by ongoing ad valorem and parcel tax revenues. California Government Code §57450-57463 of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 require that upon dissolution of the District, the County of Sonoma will be the successor agency with the responsibility of winding up the affairs of the District. The County of Sonoma Board of Supervisors shall have the same powers and duties as the legislative body of the District including setting ad valorem and parcel tax rates levied to pay annual bond principal and interest, bankruptcy settlement payments and other obligations.

Discussion:

Palm Drive Health Care District Overview and Dissolution

The Palm Drive Health Care District (the District) was a local health care district formed by voters in 2000 pursuant to the California Local Health Care District Law. The District was formed to purchase and operate the Palm Drive Hospital, and to ensure local access to emergency, acute care and other medical services to residents and visitors of the West Sonoma County communities of Sebastopol, Graton, Occidental, Bodega Bay, Forestville and Freestone.

In 2000, 2001 and 2005, voters passed property tax measures that, collectively and through the issuance of bonds, funded the purchase of Palm Drive Hospital, facility improvements, equipment and technology

improvements, and hospital, emergency, and acute care services. The District filed for Chapter 9 bankruptcy protection in 2007 and subsequently exited bankruptcy in 2010 using \$11 million in funds raised through the issuance of Certificates of Participation (COPs). The District filed for Chapter 9 bankruptcy protection for a second time in 2014 and exited bankruptcy in 2019 with an \$8 million settlement primarily funded by future parcel tax revenues. 2019 bankruptcy settlement payments are expected to be paid in-full by 2028.

In 2017, by Sonoma Local Agency Formation Commission (LAFCO) action, 8,899 parcels of real property were detached from the territory within the District (Detached River Parcels), but remain obligated, under Government Code §57354, to pay the principal, interest and any other amounts which become due on account of any bonds, including revenue bonds, or other contracts or obligations of the District as were outstanding on the effective date of detachment by way of the levying and collection of the Tax. □

In 2019, by LAFCO action, 1,643 parcels of real property were detached from the territory within the District (Detached Bodega Bay Parcels), but remain obligated, under Government Code §57354, to pay the principal, interest and any other amounts which become due on account of any bonds, including revenue bonds, or other contracts or obligations of the District as were outstanding on the effective date of detachment by way of the levying and collection of the Tax. □

On May 12, 2020, the District Board of Directors voted unanimously to dissolve the District, and on August 5, 2020, LAFCO approved the dissolution. Pursuant to Government Code §57451, the successor of a dissolved district that is located in both the incorporated and unincorporated territory of a county shall be the city or county with the greater assessed value of all taxable property with the territory of the dissolved district. Approximately 87% of the District's FY 2019-20 assessed value is from the unincorporated area and 13% is from the City of Sebastopol; therefore, the County shall be the successor to the District.

For the sole and exclusive purpose of winding up the affairs of the District, the Board of Supervisors and County officers shall have the same powers and duties as the District's legislative body and officers including adopting an annual budget, and ad valorem and parcel tax rates to pay annual bond principal and interest, bankruptcy settlement payments and other obligations. Additional powers and duties include the authority to compromise and settle claims of every kind and nature, and to sue or be sued in the same manner and to the same extent as the District, the officers and legislative body of the District. These powers and duties commenced on August 5, 2020 and shall continue until the affairs of the District have been completely wound up.

Operationally, the Auditor-Controller-Treasurer-Tax Collector's Office (ACTTC) will assume tax rate calculations, accounting and financial reporting responsibilities, and assist with the budget development; County Counsel will provide legal services; Human Resources will manage the employment records of former District employees and insurance matters; the Department of Health Services will manage medical records of the dissolved District; and the County Administrator's Office will provide general oversight and assist with budget development.

Ad Valorem Tax

In 2000, the voters of the District approved Measure G, which authorized the sale of up to \$5,900,000 in General Obligation (GO) Bonds to finance the acquisition of Palm Drive Hospital, make seismic safety retrofits

and upgrades and the modernization, improvement, construction and renovation of health care facilities. The GO Bonds were backed by ad valorem taxes rather than a direct parcel tax. An ad valorem tax is levied based on the taxable assessed value of parcels. □

In 2019, the District issued GO Refunding Bonds in the amount of \$2,931,338 and proceeds were used to pay of the previously outstanding GO Bonds. The 2019 GO Refunding Bonds have a final maturity of August 2030.

As required by Government Code §57458, the County shall continue to levy and collect an annual ad valorem tax until payments for all general obligation bond principal and interest has been made. The annual levy shall be in an amount sufficient to pay any principal and interest, and ad valorem tax rates will fluctuate based on scheduled increases or decreases in principal and interest payments, changes to assessed values and adjustments to reserve requirements.

The FY 2020-21 recommended rate is 0.003%, or \$3 per 100,000 in taxable assessed value, and represents no change from the prior year. □

Parcel Tax

In 2001, the voters of the District approved Measure D, which authorized an annual parcel tax of up to \$60.00 per parcel for five (5) years to ensure access to locally owned and operated community hospital services and to be used for medical services, including emergency, medical/surgery, intensive care, and outpatient services. The District subsequently issued 2004 Series A and Series B Notes in the amount of \$1,312,500 and \$1,300,000, respectively.

In 2005, the voters of the District approved Measure W, which repealed the existing parcel tax and authorized an annual parcel tax of up to \$155, excluding low value parcels, to ensure survival of Palm Drive Hospital and access to local emergency, acute care, medical and physician services, and provide for ongoing expenses, repair and improvements to equipment and technology. Subsequently, the District issued \$9,800,000 in Parcel Tax Revenue Bonds, the proceeds of which were used in part to pay off the outstanding 2004 Notes.

In 2010, the District issued COPs in the amount of \$11,000,000 to raise funds in order to exit from its first bankruptcy. The COPs were secured by parcel tax revenues.

In 2019, the District issued Parcel Tax Refunding Bonds in the amount of \$12,763,114 and proceeds were used to pay off the previous outstanding Parcel Tax Bonds and COPs. The 2019 Parcel Tax Refunding Bonds have a final maturity of February 2034.

As required by Government Code §57458, the County shall continue to levy and collect an annual parcel tax until payments for all parcel tax bond principal and interest, bankruptcy settlements and any other obligations payable from such taxes have been made. The annual levy shall be in an amount sufficient to pay any principal, interest, and any other obligations, as they become due. Property owners in the attached territory are responsible for their share of all obligations of the District and property owners in the two detached territories remain responsible for their share of District debt incurred to the date of detachment, including bankruptcy settlement payments.

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In FY 2020-21, staff recommends a rate of \$113.80 per parcel for all parcels that remain within territory of the District and a rate of \$94.18 per parcel for each Detached River Parcel and each Detached Bodega Bay Parcel, and excluding all low value parcels. In FY 2019-20, a rate of \$155.00 per parcel was levied on attached parcels and a rate of \$108.60 was levied on detached parcels, and low value parcels were excluded. The rate decreases are primarily due to a larger beginning cash balance in FY 2020-21 than in the prior year. Staff anticipates that both rates will decrease again in FY 2021-22 due to a \$2.3 million decrease in bankruptcy payments in FY 2021-22. Any excess funds will be used to expedite payment of obligations in a manner that benefits taxpayers (e.g. - call higher interest bonds).

Annual Budget

As required by Health and Safety Code § 32139(a) and Government Code § 57458, the Board of Supervisors shall by resolution adopt an annual budget for the now dissolved District. The FY 2020-21 Budget Schedule is included as Attachment 4. The County as Successor Agency - Palm Drive Health Care District Fund has been established as a Private Purpose Trust Fund in the County's financial system and will not be reported in the County's government-wide financial statements. This fund utilizes the accrual basis of accounting, and liability payments (e.g. - bankruptcy and bond principal payments) will be recorded directly to respective liability accounts rather than expense accounts in the budget. To provide budgetary transparency, liability payments will also be recorded to administrative control expense accounts in the budget, which will net to zero. In FY 2020-21, Bankruptcy and bond principal payments total \$3,803,354, which equals the administrative control account and clearing account balances in the budget (see Attachment 4).

FY 2020-21 anticipated sources and uses are summarized as follows:

Budgeted Revenues	2,797,231
Use of Unrestricted Net Position	<u>2,022,146</u>
Total Sources	4,819,377
Budgeted Expenses	1,016,023
Liability Payments (Bankruptcy & Bond Principal)	<u>3,803,354</u>
Total Uses	4,819,377

Prior Board Actions:

n/a

FISCAL SUMMARY

Expenses	FY 19-20 Adopted	FY20-21 Projected	FY 21-22 Projected
Budgeted Expenses and Liability Payments		4,819,377	
Additional Appropriation Requested			
Total Expenses and Liability Payments		4,819,377	
Funding Sources			
General Fund/WA GF			

State/Federal			
Fees/Other		2,797,231	
Use of Fund Balance		2,022,146	
Contingencies			
Total Sources		4,819,377	

Narrative Explanation of Fiscal Impacts:

The Palm Drive Health Care District has moved under the control of the Board of Supervisors in its capacity as Successor to the District, however, because of the County’s fiduciary role over the District, the District will not be included in the County’s government-wide financial statements. If, while winding up the affairs of the District, revenues and available fund balance are insufficient to pay obligations in a given fiscal year, the County will be required to provide bridge financing until such time that tax revenues can be levied to make up for the shortfall. The County shall be fully reimbursed for the administrative costs of winding up the affairs of the District and any bridge financing. Staff does not anticipate that obligations will exceed revenues and available fund balance in the current year or at any time in the future.

Funding raised by this tax, in combination with cash on hand transferred with the District, will be sufficient to fund debt service and remaining obligations to be carried out by County Departments. While it is moving under the control of the Board of Supervisors, The Palm Drive Health Care District remains a separate legal entity during the dissolution process, and should revenues prove insufficient to meet demands that County would not be responsible for any shortfall.

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

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Attachments:

Attachment 1 - Resolution approving the FY 2020-21 Ad Valorem Tax Rates

Attachment 2 - Resolution approving the FY 2020-21 Parcel Tax Rates

Attachment 3 - Resolution adopting the FY 2020-21 Budget

Attachment 4 - FY 2020-21 Budget Schedule

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Related Items “On File” with the Clerk of the Board:

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