

## **Proposition H: Grossmont Hospital 30-Year Operations Lease Extension**

*March 2014*

**SDCTA Position:**

**SUPPORT**

**Rationale for Position:**

Since 1991, the Grossmont Healthcare District has been taking advantage of the economies of scale offered by Sharp HealthCare to operate Grossmont Hospital. While the non-profit operator runs the day-to-day operations of the Hospital, the elected board continues to provide the oversight necessary to protect taxpayers and ensure constituents are receiving quality services. Extending the lease will allow for Sharp to continue providing award winning service and investing into facilities at Grossmont Hospital rather than taxpayers.

**Title:** Grossmont Hospital 30-Year Operations Lease Extension

**Jurisdiction:** Grossmont Healthcare District

**Type:** Proposition

**Vote:** Majority of public vote

**Status:** Yet to be put on ballot

**Issue:** Hospital operator

**Description:** The Grossmont Healthcare District is asking voters to approve a lease agreement allowing Sharp HealthCare to continue operating and managing the Grossmont hospital until May 29, 2051.

**Fiscal Impact:** The proposed lease extension would allow Grossmont Hospital to continue to operate in the current manner. The extension will not change the level of taxation or government revenues.

**Background:**

The Grossmont Healthcare District (District) is a government entity existing to maintain and improve the physical and mental health of its constituents. The Grossmont Healthcare District owns Grossmont Hospital and currently oversees the contract with the Grossmont Hospital Corporation which is a wholly-owned nonprofit subsidiary of Sharp HealthCare.

Grossmont Hospital is a taxpayer owned facility that opened in 1955 and is now the largest healthcare facility in East County maintaining 536 hospital beds and employing 3,000 full-time employees including 719 doctors.

In 1991, the District (then the Grossmont Hospital District) turned over the hospital operations to Sharp HealthCare which established the Grossmont Hospital Corporation as a non-profit public corporation. The Grossmont Hospital District and the Grossmont Hospital Corporation agreed to a 30-year lease in which the hospital was transferred to the Grossmont Hospital Corporation in an agreement in which the Grossmont Hospital Corporation would take advantage of Sharp's economies of scale to operated the facility, improve the facilities, and servicing the district bond debt.

Sharp operates the hospital on a not-for-profit basis allowing profits to be reinvested in services and facilities. Since the transfer of operations responsibilities, the Grossmont Healthcare District has continued to invest into Grossmont Hospital infrastructure including

\$4 million toward the new Emergency Department. In 2006, voters approved Proposition G which resulted in over \$230 million in facilities improvements.

Sharp Grossmont has repeatedly received recognition each year for excellence including the Malcolm Baldrige National Quality Award in 2007. The lease will expire on May 30, 2021.

Prior to 2005, leases such as the one for operations at Grossmont Hospital were not permitted to extend beyond 30 years. Assembly Bill 1155 (La Suer - La Mesa) passed in 2005 allowing for an exception for Grossmont Hospital if approved by voters.

#### *SDCTA Past Position*

In 2006, SDCTA supported Proposition G – Grossmont Healthcare District Bond – contingent on the Grossmont Healthcare District Board of Directors’ adoption of two resolutions requiring the adoption of SDCTA’s criteria for the Independent Citizen’s Oversight Committee (ICOC) and the requirement for a two-thirds vote of the Board of Directors to amend the Master Plan. Grossmont Healthcare District subsequently adopted both resolutions as requested by SDCTA.

#### **Proposal:**

The Grossmont Healthcare District is continuing negotiations for a 30-year extension to the operations lease with Sharp HealthCare. This lease agreement will allow Sharp to continue operating and managing the hospital until May 29, 2051. The current lease will expire May 30, 2021. Grossmont Hospital will remain a taxpayer owned facility.

The ballot language will tentatively read:

*“In order to continue providing high quality, comprehensive medical and emergency healthcare services at Grossmont Hospital and to ensure that future hospital repairs and improvements are completed at no additional cost to taxpayers, shall the Grossmont Healthcare District enhance and extend the existing Lease Agreement with the nonprofit corporation operated by Sharp HealthCare in accordance with Resolution No. 02-14 of the Grossmont Healthcare District Board of Directors adopted March 3, 2014?”*

Grossmont Healthcare District Board of Directors believes that the lease extension will allow the hospital to continue to take advantage of efficiencies by embracing the economies of scale provided by Sharp HealthCare.

The Grossmont Healthcare District will maintain its discretion over service availability while the agreement ensures that the operator, rather than taxpayers, will pay for hundreds of millions of dollars to repair, maintain and improve our public hospital facilities during the lease period including \$26 million to complete the new Heart and Vascular Center. This will help ensure that the operator will pick up the cost of needed improvements rather than go back to taxpayers for an additional bond.

#### **Policy Implications:**

The Grosmont Healthcare District Board of Directors argue that extending the lease is “essential to the survival of Grossmont Hospital” because the lease is what allows the

hospital to compete in today's healthcare environment." This is believed to be the case because Sharp is a large healthcare nonprofit that is much better equipped to manage the operations of a hospital on a day-to-day basis than the Grossmont Healthcare District. The certainty provided by deciding to maintain the current provider seven years in advance of the expiration of the lease, allows the current provider to continue to make investments into the facilities by ensuring they will benefit from those investments.

*State and/or Local Government*

The proposed lease extension would allow Grossmont Hospital to continue to operate in the current manner. The extension will not change the level of taxation or government revenues.

If the lease extension is not ultimately agreed to, the Grossmont Healthcare District would be responsible for ensuring operations continue. Potential courses of action prior to 2021 could be to go back to the voters again with the same question or to go back to the voters to approve a lease with another operator. If voter approval is not secured on either option prior to 2021, the Grossmont Healthcare District would have to operate the hospital directly or close the hospital.

**Fiscal Impact:**

The proposed lease extension would allow Grossmont Hospital to continue to operate in the current manner. The extension will not change the level of taxation or government revenues.

**List of Proponents:**

- Grossmont Healthcare District Board of Directors

**Proponent Arguments:**

- Extending the lease with Sharp is essential to the survival of Grossmont Hospital. Without a lease extension, the District would likely go back to voters to approve another operator's lease. If an operator was not approved by the voters, the Hospital would have to be operated directly by the district which would be make it difficult for the hospital to successfully compete in today's healthcare environment, or close.
- By having Sharp operate the hospital, it saves taxpayers millions of dollars. The employees of the hospital are not receiving public pensions.

**List of Opponents:**

- Grossmont Healthcare District Board Member Betty Stieringer

**Opponent Arguments:**

- We should be looking at other potential operators to make sure we are getting the best service at the best price.
- Sharp should be paying rent to the Grossmont Healthcare District to support health and wellness programs in the community.



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- It's too soon. With seven years remaining on the lease, there is plenty of time that could be used to open discussions with other operators creating competitive offers.
- It has been rumored that some doctors feel neglected compared to Sharp Memorial.