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August 24, 2009

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**SAN DIEGO
COUNTY GRAND JURY**

The Honorable Kenneth K. So
Presiding Judge, to be filed with Clerk of Court
San Diego County Superior Court
Main Courthouse, Department SD-P
220 West Broadway, Third Floor
San Diego, CA 92101

Re: Tri-City Healthcare District Board of Directors Response to Civil Grand Jury
Report Issued June 2, 2009 Regarding Certain District Matters

Dear Judge So:

In accordance with Penal Code §933.05, this letter presents the comments of the Board of Trustees of the Tri-City Healthcare District upon the "Findings" and "Recommendation" made by the 2008/09 San Diego Civil Grand Jury in its June 2, 2009 report. The contents of this letter were considered and approved by the Board at its meeting of August 27, 2009.

Comments on Finding No. 1.

The Board of Directors of the Tri-City Healthcare District and its committees hold more than 60 open and public regular and special meetings in compliance with the Brown Act every year. These meetings provide tremendous transparency regarding the operations of the District and the hospital. The Board of Directors relies upon its experienced General Counsel and Board Secretary to provide proper notice and help it prepare agenda materials that meet the letter and spirit of the Brown Act.

Compliance with the complex provisions of the Brown Act, as well as the special provisions of the Local Healthcare District Law, challenges all local agencies and healthcare districts. Newly-elected, but not-yet-seated Board members are subject to the Act for some purposes, even though they have yet to take office.

Recognizing the need for continuing education, the Board of Trustees at its July 30, 2009 meeting has asked General Counsel to provide additional training on the Brown Act as part of a Board retreat on governance issues planned for this fall.

The Board of Trustees disagrees with the Grand Jury's "finding" regarding the "possibility" that the Brown Act might have been violated at a single meeting in December of 2008. Certainly the Grand Jury's suspicion about a single meeting does not reflect any systemic



issue. The District has held dozens of public meetings since that time without any accusations that the Board does not respect the public's rights to transparency in government under the Brown Act. Moreover, there have been significant changes in legal support for the Board. In June 2009, the Board has hired new General Counsel to advise it on its meetings. On July 31, 2009, the District also hired a new in-house attorney with public and private sector healthcare experience to advise the agency on legal compliance matters.

The District and a number of its current Directors are vigorously contesting in court allegations that the December 18, 2009 special meeting of the Board did not comply with the requirements of the Brown Act. The District expects its position to be vindicated. This reply is not the proper forum for a complete explanation of those circumstances.

Comments on Finding No. 2.

Since mid-December, Tri-City Healthcare District has hired a Chief Executive Officer with deep experience in running the complex operations of a modern hospital. With the support of the Board of Trustees, he coordinated a successful effort to address the biggest financial challenge facing the District: a looming 2013 deadline for ensuring that the hospital meets California's earthquake safety standards. State regulators recently agreed that the main hospital facilities may be used through 2030—saving District taxpayers hundreds of millions of dollars. This was a major change in direction. Prior management had three times unsuccessfully sought voter approval to raise some \$600 million in tax-supported bonds to rebuild hospital facilities. Although each ballot measure failed to achieve 2/3 voter approval by very narrow margins, the actions taken by new management have put the District in a stronger position to plan for future growth.

Under new leadership, the District has also increased monthly revenues and reduced its monthly operating deficit nearly every month since January. Efforts to refinance the auction rate debt that saddles the District with high interest rate payments are underway. Cash Collections for the past four months have broken all historic records of the hospital, notwithstanding the fact that, 65 primary care physicians formerly servicing Tri-City, were purchased by Scripps Health, effective January 1, 2009.

Current management has taken a number of steps to improve employee morale. For example, staffing levels have been increased, and costs reduced, by replacing temporary nurses and other allied health professionals with full-time employees. A Collective Bargaining Agreement was signed with the Service Employees' International Union ("SEIU"), within six weeks of the appointment of new leadership. Previously, the SEIU had been the certified bargaining representative for almost a year with no meaningful progress toward a new contract. These measures have vastly improved the quality and consistency of patient care. The District has also initiated a "Walk-About" program where senior management visits each department to emphasize quality and team work. With an open door policy, and fewer levels of administration,

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management has given employees greater access to senior management. Surveys show that employee morale is improving.

Although litigation was recently initiated by certain management employees whose services were terminated after the December 18, 2008 meeting, the District expects to successfully defend itself against the claims asserted. Again, this reply is not the proper forum for a complete explanation of those circumstances.

In sum, the Board of Directors disagrees with Finding No. 2, because much has been accomplished by the District since December 2008.

Comments on Finding No. 3.

The Board of Directors partially agrees with Finding Nos. 3, in that the District does compete with other health care organizations, and regulations under which the District operates have increased in complexity over time. It is also true that San Diego County has become increasingly urbanized. However, as noted above, the District's business operations are stable and strengthening.

More generally, healthcare districts and other governmental hospitals remain vital community resources in San Diego County and throughout the state. Within San Diego County there are six other public operators of hospitals: University of California, San Diego, Veterans Administration, the Navy, Fallbrook Healthcare District, Grossmont Healthcare District and Palomar Pomerado Healthcare District.

The Board of Directors is familiar with the different paths taken by the other healthcare districts. Fallbrook—still in a rural area—is operated under a contract with a for-profit organization. Grossmont has a long-term operating lease with a nonprofit healthcare provider. Palomar Pomerado remains a free-standing district governed by an elected board of trustees—just as Tri-City Healthcare District is today. In fact, several new healthcare districts have been formed in the past decade in both urban and rural parts of the state¹—showing that healthcare districts still play a key role in the health of many communities.

Thus, while the challenges faced by modern health care organizations have changed since 1961, those challenges have been successfully met by many different hospitals, both public and private.

¹ Examples are the City of Alameda Healthcare District, North Sonoma County Healthcare District and Palm Drive Healthcare District.

Comments on Finding No. 4.

The Board of Directors disagrees with Finding No. 4. The Tri-City Healthcare District is a thriving and vital community resource. The Board of Trustees has undertaken a number of steps since December 2008 to evaluate various governance issues.

First, the Board of Trustees received extensive testimony, both written and oral, regarding a proposal that the District form a task force composed of community representatives to examine various governance models which healthcare districts have used. The Board heard from physicians, nurses, community leaders, and others, including the Executive Director of the Association of California Healthcare Districts. Although the idea had substantial support from some quarters, at its meeting of May 28, 2009 the Board did not endorse the idea.

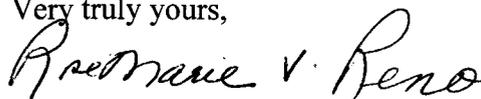
Many members of the Board—both new and long-tenured—were already familiar with the alternative governance arrangements available to healthcare districts, including entering into joint powers agreements, joint ventures, and other operating agreements and leases. As a result, the Board determined that no further study would be productive at this time. Moreover, having just selected new invigorated leadership for the hospital, the Board chose to provide the new leadership an opportunity to have an impact on its operations, prior to addressing the issue of any task force. It would seem that, based on the results so far, this was a correct and well thought out decision.

However, at its June 30 2009 meeting, the Board approved the planning of two retreats at which governance and long-range strategic planning for the District will be discussed. The public will have ample opportunities for input and to observe the manner in which the District conducts its business. The Board recognizes that it is ultimately answerable to the electorate. Indeed, healthcare districts, by law, are created and dissolved only upon a vote of the people.

Comments on Recommendation 09-40.

As noted above, the Board of Trustees considered and rejected an essentially identical recommendation put forward at its meeting of May 28, 2009. No further action is planned on the proposal. For the reasons described throughout this letter, the Board of Trustees believes that the Tri-City Healthcare District is headed in the right direction for the health, welfare and benefit of the communities it serves.

Very truly yours,



RoseMarie V. Reno, Vice Chair
Board of Directors
Tri-City Healthcare District