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A storm in Southern California

Tri-City Medical beset by infighting, money woes

By Rebecca Vesely

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A public district hospital north of San Diego is in turmoil, with the board of directors suspending nine top administrators; physicians in revolt over how the hospital is being run; patient census and revenue dropping; and investors, donors and the public spooked.

The drama rocking Tri-City Medical Center, a 330-bed hospital in Oceanside, Calif., exemplifies the larger debate happening around the nation about how far the public will go to support a district hospital and whether the district model still works in a rapidly changing and competitive era of healthcare.

"What is happening at Tri-City is being replicated throughout the country," said Monte Dube, partner with Proskauer Rose law firm in Chicago, who was hired by Tri-City physicians to consult on the issue.

The number of district hospitals has declined 35% nationwide to about 1,100 from about 1,700 20 years ago; in California 46 remain.

At Tri-City, a series of events could lead to a change in its governance structure. In a closed-door session last December, a newly elected seven-member board of directors suspended with pay the longtime CEO of the hospital, along with eight other executives. Last month, former CEO Arthur Gonzalez settled with the hospital out of court for about \$1 million over his suspension, and other director lawsuits are pending.

In the wake of the executive suspensions, physicians at the hospital together donated about \$50,000 to hire independent consultants, including Dube, to explore other governance options. "This was an abuse of the process and no way to run a \$300 million-a-year business," said Richard Burruss, an emergency room physician at Tri-City and chief of the medical staff.

The physicians put before the board a proposal to form a community task force to explore alternate governance options, including a possible partnership with a private not-for-profit system.

The task force idea was supported by the League of Women Voters, local county supervisors, other local officials and many hospital staff members. The board rejected the idea in a 4-3 vote at a May 28 meeting. After the vote, they were loudly booed by the audience.

At the meeting, Ralph Ferguson, CEO of the Association of California Healthcare Districts, defended the district model. "What I see is too many corporate flags flying over healthcare," he said. "If you allow this hospital to pass into other hands, you will lose an enduring connection to the community."

Last week, a San Diego County grand jury issued a report also calling for an independent committee to look at other governance options, citing board infighting and the way the board handled the dismissal of the nine top administrators. County officials or mayors of the three cities served by the district hospital could form such a committee without approval of the hospital board.

There may be a limited window of opportunity to change the hospital's governance. The California Assembly is now considering a bill that would restrict the sale of district hospital assets to public entities and allow voters to weigh in on sale decisions, after several controversial district hospital sales to not-for-profit systems in recent years.

Burruss and other Tri-City physicians argue that board members, elected to four-year terms, lack the expertise needed to oversee a hospital, and is beset by infighting. At a monthly board meeting in April, one board member accused another of ordering hospital staff to spy on her. The board then took time to hear testimony from facility staff attesting they never spied or followed any board members.

"This is a competitive marketplace," Burruss said. "It's not the same industry it was in 1961," when the hospital opened. The physicians will soon take a no-confidence vote in the board, he added.

But board member George Coulter said that other district conversions in the state have failed and that what the board needs is "the support of the people to continue to do what we've been doing."

Meanwhile, Tri-City is losing about \$1 million a month, while bad debt and charity care are at 6.9% of gross revenue, up from 5.4% a year ago. It is seeking to refinance \$58 million in outstanding construction bonds, and now is paying 14.5% in interest, down from a previously refinanced rate of 17.5%. Morgan Stanley withdrew as an investor in April, in part citing leadership turmoil, and MidCap also has bowed out of a possible deal.

The hospital's construction plans are in limbo, as voters have rejected three bond measures in recent years to rebuild the facility, which faces a deadline of 2015 to retrofit some buildings to more stringent seismic-safety requirements under state law. The hospital is seeking an exemption to the seismic mandate through the Legislature.

At board meetings, which are televised, interim CEO Larry Anderson has said leadership is doing a good job amid tough circumstances. "We are in the midst of a turnaround that is under way," he told the board on May 28. Anderson and his spokesman did not return repeated calls seeking comment.

But the hospital is also losing patients. Tri-City has seen a 6.5% decline in inpatient surgeries from a year ago, and a drop of 27.8% in outpatient surgeries over last year, according to interim Chief Financial Officer Reid Hollyfield.

Competitors are making inroads into the stretch of seaside between Long Beach and San Diego.

Palomar Pomerado Health, a public hospital district with two hospitals in the area, is constructing new state-of-the-art facilities to replace one of its hospitals, and is seen as a strong competitor.

Last August, Scripps Health, a four-hospital system in San Diego, purchased Sharp Mission Park Medical Group to form Scripps Coastal Medical Center, with 100 physicians at eight offices in the region. About 65 physicians switched from Tri-City to Scripps hospitals as a result of the merger. Last month, Scripps Health got final approval to move forward with its \$200 million expansion of 134-bed Scripps Memorial Hospital Encinitas, just south of Tri-City Medical Center, including building a new ER.

Last week, Tri-City filed a lawsuit against Scripps Health accusing the system of poor patient care and

of illegally diverting patients to Scripps facilities.

Chris Van Gorder, president and CEO of Scripps Health, said that he was “surprised, frankly shocked,” by accusations of patient-stealing, some made at public meetings by Anderson. He said Scripps’ changes in north San Diego County have been in the works for years.

Van Gorder added he is open to merger possibilities. “If Tri-City ever wanted to have a discussion with us,” he said, “they know where we are.”
