

The Board of Supervisors of Maricopa County, Arizona convened in Informal Session at 9:00 a.m., December 1, 2003, in the Board of Supervisors' Conference Room, 301 W. Jefferson, Phoenix, Arizona, with the following members present: Fulton Brock, Chairman, District 1; Andy Kunasek, Vice Chairman, District 3; Don Stapley, District 2, Max W. Wilson, District 4, and Mary Rose Wilcox, District 5. Also present: Fran McCarroll, Clerk of the Board; Shirley Million, Administrative Coordinator; David Smith, County Administrative Officer; and Paul Golab, Deputy County Attorney. Votes of the Members will be recorded as follows: (aye-no-absent-abstain).

BUDGETING FOR RESULTS GUIDELINES AND PRIORITIES FOR FY 2004-2005

Item: Approve the Budgeting For Results Guidelines and Priorities for FY 2004-2005 that provide direction from the Board of Supervisors to the Office of Management and Budget (OMB) and all departments so that a structurally balanced budget is developed for the upcoming fiscal year. (C49040128) (ADM1825)

Sandi Wilson, Deputy County Administrator
Chris Bradley, Deputy Budget Director
Brian Hushek, Deputy Budget Director

Ms. Wilson reported that the County could expect another year without much revenue growth, mostly because of the effect the slow economy has on the County's share of the State Shared Sales Tax. Her presentation focused on the budget outlook, the opening of the new detention facilities, FY 2004-05 budget guidelines and priorities and the calendar of budgetary priorities and deadlines. (The calendar is subject to change.)

In FY 2005, Ms. Wilson foresees moderate revenue growth but she warned that it won't be close to the double-digit growth that was enjoyed before the recession. She said that there would be several formula-driven increases for state mandated programs – health care (ALTCS) and the Maintenance of Effort (MOE) for the jail tax that was passed several years ago. She indicated that there is also the possibility of MIHS liabilities occurring during the transfer of MIHS to the new Health District. High cost increases for issues that are difficult to control are expected to continue, these would include employee benefits and the cost of fuel. OMB is hopeful that performance based increases can be approved since there have been no employee salary increases for the past two years. Many department costs continue to increase dramatically, primarily in the criminal justice area. She said that those demands will have to be dealt with on a priority basis as they occur.

Ms. Wilson emphasized the concern over the State's budget crisis, saying that it is projected to continue for some time and will have additional impact on the County's financial wellbeing. She said that the County has "already given the State approximately \$50 million over the last two years and the deal cut with them last year calls for the County to give them another \$30-plus million." She said the amount could change for the better but the probability is that it would become worse. She concluded by restating the fact that for several years the County had reserved \$50 million in operating and reoccurring revenues to support the new jail operations. With the recent voter approval of the jail tax extension, that money was freed-up and used to help balance the County and State budgets. She reminded the Board that without that reserve, "We would have had some very, very difficult budget seasons in the last couple of years, and now that money has been depleted and there are no reserve funds left. Future budgets will depend on new revenue received by the County."

Chris Bradley spoke on the General Fund Operating Base forecast for FY 2004-05. The forecast is based on known factors. He reported a total of \$36.8 million in estimated baseline spending growth and a total of \$37.9 million baseline revenue growth. With all the unknowns affecting finances since the recession, this is a very narrow difference of \$1.1 million. He explained the five groups that make up the growth predictions (in millions): Jail Maintenance of Effort (MOE) at \$12.3; ALTCS (Arizona Long Term Care System), \$5.2; (both the Jail MOE and ALTCS are formula driven expenses); Employee Health, \$8.6; Annualized Mid-year Adjustments, \$4.7; and Indigent Representation at \$6.0. He said that the ALTCS amount could increase, even double, because of the State's ongoing budget problems. It was stressed that the \$1.1 million differential is tentative.

Supervisor Stapley asked about the ALTCS Shared Growth statute enacted in late 1997 or 1998, that set the base amount. He asked if the base was affected when the State changed the County's contribution for one year last year. If so, he wanted to know details on how the base was affected. He said, "Will they do it again to us in the upcoming year or was it for just the one year?"

Mr. Bradley said the change was enacted for FY 2002-03 in session law and the underlying statute that drives the percentage each year was not changed. He replied that they did "stick with it this year but what was shifted over in '02-03 stayed in the base and we are stuck with that other half of the growth that went into the base that year moving forward – unless they went back and changed it."

Supervisor Stapley asked that our legislative liaisons address this issue and make certain that the base doesn't change. "These should be one-time hits, not permanent hits that will affect us forever."

Mr. Bradley said that a big issue this year will continue to be the opening of the new detention facilities. The Jail Tax funding stream will need to pay for the remaining capital improvement program "probably about \$70 million going into next fiscal year." He added that because of the start-up costs, "we could have as much as a \$20 to \$30 million deficit within the jail fund and would have to look at different ways of financing that, deferring operating costs, or spreading out the one-time expenditures." He said that the one-time costs are still being paid off at the same time the operating costs are beginning to impact the budget, and this is a problem. After this initial start-up period they feel the tax revenues will be sufficient to cover ongoing costs. The jail population is continuing to grow and recently peaked at a high of 8,700 inmates per day. Full capacity of 9,300 beds (with double-bunking) should be reached within the next few years.

Supervisor Stapley asked how many of the 8,700 inmates were in the tents. Mr. Bradley replied that it is approximately 1,500 people at any given time.

Supervisor Stapley pointed out that if the Sheriff continues to house inmates in Tent City the actual variance is really "a bigger gap of new hard cells that we have – from the 7,200 up to the 9,300," Mr. Bradley agreed.

Sandi Wilson said that once the new jail is completed and operational "we will still be in need of new jail space." It will then be a challenge to devise a plan to build new jails beyond that time and find ways to fund the operational costs. She said, "That will be a continuing crisis for us."

Mr. Bradley discussed suggested FY 04-05 budget guidelines and priorities for consideration. He mentioned that one difference this year is the proposal for compensation funding to be budgeted in a central reserve for all county departments. This will keep individual issues from impacting the decision making process. Any emergency issue would come before the Board for determination.

Brian Hushek reviewed the budget priorities and guidelines of the coming calendar year beginning with the Board's approval of the budget guidelines today through the adoption of the tentative budget on May 15, 2004, and the final adoption of the FY 2004-05 budget on June 21, 2004. The Board is scheduled to set the tax rates for the coming year on August 16, 2004.

Supervisor Wilcox agreed that employee salaries should be the top priority. She also cited a close watch on legislative action as being a top priority.

Motion was made by Supervisor Stapley, seconded by Supervisor Kunasek, and unanimously carried to approve the Budgeting For Results Guidelines and Priorities for FY 2004-2005 as stated above.

**MARICOPA COUNTY
BUDGETING FOR RESULTS GUIDELINES AND PRIORITIES
FOR FY 2004-05**

The purpose of these guidelines and priorities is to provide direction from the Board of Supervisors to the Office of Management and Budget and all departments so that a structurally balanced budget is developed for FY 2004-05.

Base Budget Targets:

Budgets for all departments and funds will be prepared within target amounts equal to their current budgets plus authorized adjustments. The Office of Management and Budget is directed to adjust budget targets for the following:

1. the annualized cost of FY 2003-04 approved Results Initiative Requests;
2. the annualized impact of FY 2003-04 mid-year appropriation adjustments;
3. the annualized impact of other items including intergovernmental agreements approved by the Board of Supervisors if the impact was disclosed at the time of Board approval; and
4. other technical adjustments as required.

All departments must submit base budget requests within their budget targets.

Employee Related Budget Adjustments

The Office of Management and Budget, in coordination with the Total Compensation Department, is directed to allocate funding for salary and health care increases. Therefore, departments should not include funding for these items in their budget submissions.

Requests for Additional Funding (Results Initiative Requests):

Only Results Initiative Requests that are funded by the original \$900 million of Jail Excise Tax for phased-in operation of new facilities will be considered, as authorized by A.R.S. §42-109 and approved by the voters of Maricopa County in November 1998.

THANK YOU LETTER FOR HOSPITAL BOARD AND TASK FORCE

Motion was made by Supervisor Stapley, seconded by Supervisor Kunasek, and unanimously carried to approve Thank You Letters be sent to the Hospital and Health Systems Board and the Citizen's Advisory Task Force. List on file in the Office of the Clerk of the Board. (ADM2203) (ADM2112)

PRESENTATION REGARDING MIHS TRANSITION OPERATIONS POLICIES AND RISK TOLERANCE

David Smith, County Administrative Officer
Mark Hillard, CEO, Maricopa Integrated Health System

David Smith said he would continue previous discussions held with the Board on guidelines for the MIHS transition to the independent Hospital District. Today he spoke on operational principles he described as "high maintenance, low risk." He said that during the transition period the Board's primary objective would be to preserve and maintain the assets of MIHS in essentially the same form they were on November 4, 2003, (election day) to accomplish a clean hand-off of the organization to the District and at the same time protect the County from any possible liabilities. Any proposed new or expanded services will be critically evaluated by the interim Board of Directors prior to the transfer and any changes made must be demonstrated as being beneficial for future operations. Any new capital construction or purchases will generally be limited to replacement of existing equipment or facilities considered to be beyond repair. Capital projects requiring non-MIHS funding must be prioritized with other County projects. Contracts should be negotiated to provide the maximum flexibility to the new Board and should be timed to end within the first year after the new District Board takes office, if possible, and end dates on contracts should be staggered. All agreements must include assignment language insuring that Maricopa County is held harmless from damages for actions taken by the District after its formation. He termed this a fairness, common-sense principle.

Supervisor Wilcox expressed concern about being too cautious and rigid and thereby missing beneficial opportunities or stopping forward progress on projects that are unfinished by being too conservative.

Mark Hillard, Director of MIHS, said that he had been through a number of similar transitions during his career and he noticed a slightly different "twist" to this one that he felt was beneficial, and was something that would not have been done in his previous experience. He explained that since the Supervisors will have the luxury of serving as both entities in effecting the transfer, this will help assure the easiest possible transition and give them the opportunity to make decisions for the maximum benefit to the District. Prior to this transaction, his "side" (as the seller) had already received their purchase price and they had little concern with what happened to the hospital in the future. He indicated that it was gratifying in this case to be in a position where decisions can be made that are beneficial to both entities. To give the Supervisors the benefit of his experience he reported on five long-term suggestions he felt would be beneficial to the hospital and the new District, as follows:

- Centerre – a hospital within a hospital
- Abrazo – Networking hospital contracts (Vanguard)
- G.E. – MRI settlement and relocation
- Modular Building – relocation of AOP (Airport Office Park)
- FQHC – FHC (Family Health Center) alternate funding mechanism for Federally Qualified Health Centers

Centerre involves an eight-year lease of the 7th floor of the hospital to operate as a rehabilitation hospital and the lease will generate a \$3 million cash flow during that time period. There would be a \$1 million up-front renovation of the 7th floor that will allow the relocation of the Endoscope Gastroenterology unit to the first floor. He said that a rehabilitation hospital will be a huge benefit that has long been needed for patients in the Burn Center. The negative is that the space would be lost for hospital patient overflow purposes and they now are having to turn-away patients for lack of critical care beds. However, regardless of the need, renovation would have had to be done to upgrade facilities in that space for use. Mr. Hillard said that this is a long-term decision that the Board is being asked to make. He feels that it would be beneficial to the Hospital District. He said he would never have presented this to his former employers because they always had a "date certain of extinction" and it would have been futile.

Mark Hillard reported that any contracts with Abrazo (hospital contractors, formerly Vanguard) will probably have to be drawn for three-year periods rather than for one-year. He considers these contracts as beneficial as they would contain deep discounts on hospital rates currently being paid by the health plan, and also expand the network for those who wish to choose their hospital of treatment. He said that it does pose a risk of losing patients, but he didn't consider it a serious risk.

Regarding the MRI problem: The hospital owns one MRI, purchased from G.E. along with a metal building. The warranty has expired on this purchase. The roof of the building leaked and the building was infected with mold. The mold has spread in the building rendering the MRI unusable in that location, although it is still operational. To replace it, the hospital has been leasing another MRI that is on wheels and is housed in the hospital. In the future they want to turn the old transportation portion of the hospital building into an MRI suite of rooms and move the first MRI out of the moldy building and into the hospital proper. However, this renovation would take funds that they have not had. Mr. Hillard said they haven't completed their renovation needs and plans but he wanted to inform the Board of the problem.

The Chairman asked Mr. Hillard about replacing the moldy building with a steel building. Mark Hillard replied that he would hesitate to put a large-scale magnet into a steel building as shielding costs would be horrendous and added that the MRI really belongs inside the hospital. He reported that a lack of space is one of the biggest problems facing renovation of the hospital facility. They have been leasing outside space because they do not have enough buildings. He hopes building projects will be a high priority with the new Hospital District.

The FQHC (Federally Qualified Health Centers) is a cost-based reimbursement model for all Family Health Centers (FHC). Cost – based means costs are reimbursed using the Federal model, and this would help alleviate expenses in the centers now. Mr. Hillard said he has been interested in achieving this for a long time.

Chairman Brock apologized for not announcing sooner that former Hospital Board member, Bill Bruno, and Ted Williams, formerly on the Citizen's Task Force, were in the audience, as was MedPro Director, Dr. Marco Canulla. He invited them to comment on the transition. Bill Bruno, Ted Williams and Dr. Canulla came forward to speak with the Board. Mr. Williams commented on Mr. Smith's issue of the Board taking action on long-term contracts and concerns that the Board of Supervisors may be subject to criticism for inappropriately attempting to limit the discretion of the new District Board. He indicated this had never been a problem in his thinking and said that all new members of any board are faced with dealing with long-term contracts and decisions made by previous Boards and he saw no conflict in that. He did question the fairness issue of the same body acting as Boards to both constituencies. He said he assumed this interim board, when seated, would establish District budget priorities for the new members to use as they become oriented to their new duties that first year.

Mr. Williams thanked the Board, David Smith and MIHS for their hard work to get the new Hospital District question before the public for the vote. He said he admired the transition principles set forth by David Smith as well as the positive and serious attitudes displayed by the Supervisors who are being forced into taking the responsibility of acting as both boards during the changeover by Legislative directive. He indicated that he had been in similar positions and recognized the "perception of the difficulty of fairness" and understood that the Supervisors were in an "unenviable position." He shared Supervisor Wilcox's concern that viable opportunities not be lost by being too cautious. He said he had faith that the County would follow the principles as laid out by Mr. Smith. With regards to the MRI problems mentioned by Mr. Hillard, he commented that the revenue generated by the use of two MRI machines should be considered when deciding on spending the money to renovate and move it, "if Mr. Hillard's analysis of the whole determines this needs to be done." He offered his services in any way they could be of benefit.

Dr. Canulla said MedPro looked forward to being able to truly partner with the Health Care District. He said they were approached about opening a rehabilitation center at Memorial Hospital last March but held off because "County is our home and we prefer to see that occur there." He said that MedPro was looking forward to working with the Board of Supervisors and the new Hospital District Board in finding new and better ways of doing business. "We pay taxes too and are very concerned as a corporation in how our tax dollars are spent."

Chairman Brock responded that all the Supervisors are intent on making the best possible decisions and are committed to being fair and open about what is being done.

COMMITTEES FOR THE HEALTH CARE DISTRICT TRANSITION AND MIHS OPERATION

Item: Initial Discussion Regarding Possible Committees for the Health Care District Transition and MIHS Operation

Mr. Smith said that two Supervisors had served on the Hospital Board and were familiar with ongoing actions such as credentialing staff at MIHS. He indicated that operations would be ongoing on two levels as it was important to hold to the status quo in operating the hospital and equally important to do the additional workload for the transition. There will be routine agenda items as well as transition agenda items and he and his staff are prepared for the necessary work in both areas with or without additional staff. He said he may request temporary staffing if it becomes necessary to assist in the transition.

Supervisor Kunasek said he believed the committees should only serve in an advisory capacity and the decisions made by the Board of Directors. He also expressed concern about having the CEO, CFO and other employees in the Health District as voting members on the standing committees. He wants everyone serving on them to have a very objective point of view.

Supervisor Wilcox told the Chairman she would like to be on the Business Planning and Strategic Directives Committee and also the Professional Practice Committee. She said she had years of experience as a representative at Hospital Board meetings and has worked with most of the people who would be on those committees.

Discussion ensued and Chairman Brock suggested tabling this to give everyone more time for study and consideration, and Supervisor Wilson agreed.

Supervisor Wilcox said that the Professional Practice Committee approves credentialing and she wondered if that committee should be meeting soon since credentialing has deadlines to meet. She felt that committee might have to be established quickly even if time is taken to study the other committees.

Supervisor Stapley said it appeared that all the committee recommendations were essentially made up of the same people that were on the old Hospital Board. He confirmed that the Hospital Board had made recommendations and those recommendations were then submitted to the Board of Supervisors for action. Mark Hillard affirmed this.

Mr. Hillard added that several new committees are being considered, one being the Joint Conference Committee for the new District Board. He indicated that they would be heavily involved with the medical staff. He added that he believed the By-Laws Committee would be a critical one to appoint now so the new Board's bylaws can be developed. The By-Laws for the old Hospital Board are written for an ad-hoc committee and would not be suitable to reference.

Supervisor Stapley said everyone had full calendars and suggested utilizing the talents of former Hospital or Task Force Board members who are continuing their interest and involvement by attending the interim meetings to be considered for committee appointments.

Mr. Hillard responded that the committees could be constructed any way the Board found suitable. He supported Supervisor Wilcox's statement by acknowledging that they had fallen behind on credentialing and said that it did need to be addressed as soon as possible. He speculated that the voting process could be lengthy this time because votes would be taken for new members to the health plan as well as to the hospital.

Chairman Brock asked David Smith to be the coordinator for these committees and to meet with members of the public or former members of either the Task Force or Hospital Board who would like to be involved with any of the six or more committees needed to transition the new Hospital District. He asked that this be put on an agenda during the coming week for further discussion. The number of Supervisors sitting on each committees was discussed and it was determined that every committee must have one or more Supervisors on it.

Supervisor Kunasek advised of the importance of having any operating budget priorities for the District set by the Board and not by an advisory committee who could not have complete knowledge of finances that would be involved.

EMERGENCY MANAGEMENT – ARIZONA EMERGENCY MANAGEMENT MASTER MUTUAL AID AGREEMENT WITH THE STATE OF ARIZONA

Item: Discussion regarding the Arizona Emergency Management Master Mutual Aid Agreement between the State of Arizona, the 14 other counties in the state, and Maricopa County. This mutual aid agreement provides a mechanism for Maricopa County and the other counties in Arizona to assist each other in the event that a disaster should occur. The agreement also provides a means to decline rendering assistance if doing so is not in the best interest of the county. If the agreement is put into effect as a result of a disaster, there could be either a cost to the county for assisting another county or a gain from receiving assistance from other participants, depending on the location of the damaged area. Assistance rendered during a state declared disaster is eligible for reimbursement according to the terms of ARS §35-192 and ARS §26-311. Assistance rendered during a federally declared disaster is eligible for reimbursement according to federal guidelines. There is no cost to Maricopa County for participating in the agreement. (C15040410)

Bob Spencer, Director of Emergency Management, attending with Susan Nicholas, County Counsel, reported that a new Mutual Aid Agreement had been drawn that would allow a greater sharing of resources with other counties and municipalities in times of emergency. He reminded the Board that in 1997 Maricopa County was one of two counties who refused to sign the initial aid agreement because it basically said, "you will provide" rather than "may" or "could" provide assistance. It was felt that, as the richest county in the state, Maricopa would be the perpetual giver and rarely the receiver. The Rodeo Chedeski fire was one of the biggest recent disasters faced by the state and it highlighted the lack of a mutual agreement for management of resources. Ms. Nicholas worked with others to write the new agreement, which solves the participation and reimbursement problems. This agreement does not require all counties in the state to participate but it was thought that most would do so.

Supervisor Stapley, along with all the Supervisors, agreed this was a good re-write of a much needed document and they would support it at the Formal meeting on December 3rd when it comes before them for a vote.

EXECUTIVE SESSION CALLED

Pursuant to A.R.S. 38-431.03, motion was made by Supervisor Stapley, seconded by Supervisor Kunasek, and unanimously carried (5-0) to recess and reconvene in Executive Session to consider items listed on the Executive Agenda dated December 1, 2003, as follows.

LEGAL ADVICE; PENDING OR CONTEMPLATED LITIGATION -- A.R.S. §38-431.03(A)(3) AND (A)(4)

Compromise Cases – Jesus Balaguer-Rabago, Patsy Brown, William Carpenter, Ignacio Guzman, Cyarra Jones, Angela May, Hadley Nielsen, Reshea Patyon, Joshua Robertson, JoAnne Sandoval, Hang Thi Tran, Maritza Velazquez, Michael Wilson
Barbara Caldwell, Outside Counsel

Write-Off Cases – Alex Binder, Ian D. Dale, Timothy L. Dishner, Timothy L. Dishner, Jacquelyn A. Chaliotis, Garnella V. Itule, Ryan Root, Lorie Rivas, Lorie Rivas, Cherry Diane, Treat-Conger
Barbara Caldwell, Outside Counsel

LEGAL ADVICE; CONTRACTS SUBJECT TO NEGOTIATION; PURCHASE, SALE OR LEASE OF REAL PROPERTY -- A.R.S. §38-431.03(A)(3), (4) AND (7)

Centerre Rehabilitation Hospital of Arizona, LLC

Mark Hillard, MIHS, Chief Executive Officer
Pat Walz, MIHS, Chief Financial Officer
Steve Ellis, MIHS, Director of Materials Management
Christopher Keller, Chief Counsel, Division of County Counsel
Bill Sims, Esq., Outside Counsel
Sandi Wilson, Deputy County Administrator
Tom Manos, Chief Financial Officer

MARICOPA COUNTY BOARD OF SUPERVISORS MINUTE BOOK

INFORMAL SESSION
December 1, 2003

LEGAL ADVICE – A.R.S. §38-431.03(A)(3)

Special Health Care District: Governance

Richard M. Romley, Maricopa County Attorney
Chris Keller, Chief Counsel, Division of County Counsel
Bill Sims, Esq., Outside Counsel
Mark Hillard, MIHS, Chief Executive Officer
Sandi Wilson, Deputy County Administrator

MEETING ADJOURNED

There being no further business to come before the Board, the meeting was adjourned.

Fulton Brock, Chairman of the Board

ATTEST:

Fran McCarroll, Clerk of the Board