SPECIAL JOINT SESSION
SPECIAL HEALTH CARE DISTRICT
March 23, 2005

The Board of Supervisors of Maricopa County, Arizona convened in Special Joint Session with the Special Health Care District Board of Directors at 4:00 P.M., March 23, 2005, in the Supervisors' Conference Room, 301 W. Jefferson Phoenix, Arizona, with the following members present: Max W. Wilson, Chairman, District 4, Don Stapley, Vice Chairman, District 2, Andrew Kunasek, District 3; Fulton Brock, District 1, and Mary Rose Wilcox, District 5. Also present: Fran McCarroll, Clerk of the Board, Shirley Million, Administrative Coordinator. District Board members present: Bil Bruno, Chairman, Charlie Gail Hendrix, Paulina Morris, Vice Chairman, Gerald Cuendet, James Kennedy, CEO. Also present, Vicki Eaton, District Clerk. Present for Maricopa County: David Smith, County Manager and Paul Golab, Deputy County Attorney. Votes of the Members will be recorded as follows: aye-nay-absent-abstain.

INTRODUCTIONS

Max Wilson, Chairman, Maricopa County Board of Supervisors
Bil Bruno, Chairman, Maricopa County Special Health Care District

Chairman Wilson welcomed the visiting board members and mentioned that every Supervisor has served on the Hospital Board at one time or another and that some had served on it for many years. He said that this meeting was called in the "spirit of trying to help recognize some problems that we think our experience might be able to solve early, to try to stop some things from escalating." He added that the County would make some experts available to help solve the problems if the District Board would like this help.

Bil Bruno said he and his members were excited and glad to be attending this meeting and he looked forward to the discussion and was appreciative of the offer of help. He introduced his board members.

MARICOPA COUNTY BOARD OF SUPERVISORS RESOLUTION

Presentation regarding the resolution adopted by the Board of Supervisors at their March 16, 2005, meeting regarding assistance for the Maricopa County Special Health Care District. (ADM4496)
David Smith, County Manager

David Smith said everyone present recognizes that "running public health care in today's healthcare market place may be the most challenging thing you can do in the public sector – and I say that with my 33 years experience in working with three different public hospitals and three different counties." He said the current system has high challenge and perhaps the lowest reimbursement schedules and rates in delivering medical care in today's market.

He reported that trend lines for the healthcare system over the past three months indicate that the district could be entering "a danger zone" as projections indicate that the interest free $15 million line of credit extended by the County in the transition IGA would be overdrawn by May 9th ($17.8 million). He said, "We believe that the top priorities and focus of what the SHCD Board needs to be doing is to maximize efforts to increase revenue and decrease expenses while stabilizing the operation within the projected $40 million appropriation they will receive in the future." He also pointed out the importance of hiring a permanent senior management team as soon as possible. He explained that he would use information from the district's financial statements to illustrate his concern more fully.

Mr. Smith said that the County is offering to provide experts to service the District in budget preparation, finance, preparing next year's FY budget, and monthly reports to monitor the cash situation. He said the reduced cash flow turnaround plan would be commensurate with the reduction in business, which is seen as

partially the result of capping some of the health plans, but was also caused by some unexplained factors that caused less utilization of the system. He advised that right-sizing of staffing, supplies, and other expenses – in proportion to the amount of demand – must be accomplished. The need for a totality of effort to improve process and begin to mine every possible resource available, however small, (Medicare, self-pay, etc.) to increase revenue was also stressed. He added that he and all of the Supervisors want to help the District succeed and will do as much as possible to help get through this crisis.

The County is making $3 million available to the district to hire expert consultants to help alleviate the downfall the system is currently in, and would re-budget additional monies if necessary through the end of November 2005. He stressed the fact that these efforts would only be done at the request of the District and would be under the direct control of the District and not the County. The monies would be available and the work done on a specific job basis, "Where we would come in and do a specific, defined task for a specific period of time for a value that would be paid for from the $3 million fund, and then the engagement would be terminated." He named improvements he felt to be critical that included getting a Chief Financial Officer, Chief Operating Officer and a Chief Executive Officer in place. Mr. Smith added that he has done three financial turnarounds in cities and counties and he is familiar with the kind of problems involved in it. He added that a simple trend can go very negative very quickly. "When you (the hospital) were with the County any deficit was picked up by the General Fund but you are now limited by statute to the $40 million appropriation and you will have to be very cautious about spending that money."

Mr. Smith referenced yesterday's meeting with the City of Phoenix – not a "usual" ally of the Countys – and said that it marked a new era in understanding that the quality of life for the region is dependent on a high level of collaboration between all of the public sector agencies. He advised, "Whatever lingering suspicion there may be about whatever we did do or didn't do for the system – and on everyone's motivation – I assure you that this Board's, and my, intentions are to simply help you succeed . . . nothing more than wishing you the best."

DISCUSSION ON TRANSITION ISSUES

Item: Discussion on Issues related to the transition process between Maricopa County and the Special Health Care District.

Chairman Bruno asked for comments from the Special Health Care District (SHCD) board.

Director Hendrix asked the District's CEO, Dr. James Kennedy, if he saw anything wrong with the District accepting the County's offer, as presented.

Dr. Kennedy responded that he wouldn't say there was anything wrong but he felt some of the numbers, as presented, could be looked at in a "slightly different way and some (people) could come to different conclusions." While appreciating the County's offer of help he said there were "some things they would pick from the 'menu' as unnecessary" because he felt the District had the staff and wherewithal to deal with those things by themselves. He said that the ones they agreed with are included for action later in the day. He suggested a committee of members from both boards be selected to meet and work on these differences.

Director Hendrix asked Dr. Kennedy how long he felt these negotiations would take. Dr. Kennedy replied there was a need to hurry and that it should only take two to three weeks. He pointed out that most of the

services offered by the County have to do with expense management and little to do with revenue. He said they are already cutting expenses but revenue is an equal or larger problem and that the deficient revenue has mostly to do with health plan issues and the "difference in what we think the health plans owe us and when we think the health plans owed us the money." He added that the amount he feels is owed from the health plans is approximately the same amount as the proposed line of credit draw in April, or $3 million.

Director Morris said she would be in favor of voting on the task orders that can be agreed upon today and perhaps work in a smaller committee on those that need more discussion.

Chairman Bruno referenced the 2006 budget by asking if they were restricted by State law to the estimated amounts projected for revenue and expenditures.

Sandi Wilson responded that the District's budget does not have the restrictions that the County budget has and expenditures can be increased at a later date with the District Board's approval. She added, "You can approve a budget and then increase it during the year" and said this flexibility works well for the District because they are more like a business with their fluctuating revenue and expenditures.

Discussion ensued between Chairman Bruno and David Smith on the current status of the relationship between AHCCCS and the health plans. This included the sanctions placed by AHCCCS on MIHS because of the OAO financial crisis, and the anticipated lifting of the sanction on June 1, 2005. Regarding the health plans and the cancellation of Senior Select, Mr. Smith said the deficits of the plans are still being worked on and with the new third-party administrator "we will know how to attribute those costs from July 1 on for each of the individual plans and learn the financial status of each." He added, "Unfortunately we believe they're both still losing money and corrective action continues to be necessary." Mr. Smith explained that improvement in the operation of the health plans brings additional medical managed care than was done in the past. He said, "The number of patients is lowering and the level of reimbursement per patient is also going down because we are managing that care as any other HMO would manage it and so the amount of reimbursement per patient is actually hitting the health system negatively because we're finally doing the job that AHCCCS expects of us."

Chairman Bruno recognized this point and cautioned his board member that it was actually a very important point and was one reason for the looming financial emergency.

Gerald Cuendet questioned David Smith, saying that at the time of the transition the County had told the new board members that they were in pretty good financial shape and now they are learning that they have "gone from using reserves of $5 million, $13 million, and your projection is $17 million" and Director Cuendet asked what had happened. He asked if this means that all revenue streams have stopped and our expenditures have far exceeded expectations. He added, "There should have been a budget someplace that said we are on track – we are not on track." He asked what could be done.

Mr. Smith said that to review the past year's financial history required some detailed analytical research as well as recognizing that the hospital's every-day challenge is to deliver care as their No. 1 mission no matter what. He said that understanding the trend lines or recommending change is when experts need to help do the analysis. His observation in general was that the expenses are the same or higher than a few months ago and the revenue is lower than it was a few months ago, "and that is not a good trend line." He added that in his experience with public hospitals he knows, "That with that kind of a trend line it is very rare that it would ever correct itself." He cautioned that rather than let the worst happen his recommendation would be

to take appropriate action now to bring the revenue and expenditures back into balance as quickly as possible.

Mr. Smith continued by saying there had been substantial revenues, partly as a settlement for back-billings, ($16 and $32 million) from the Health Plans that had practically cleaned up all the back bills. In addition, utilizing the subsidy in the first half of the year provided sufficient cash resources to continue business on a business-as-usual-basis, even as the paying-customer base was declining. He added, "You were, in effect, living off of your savings account of the back-billings that had finally been cashed out and delivered to the system." He said that all of this money had been spent and he saw no sustainability with the current month-to-month revenues against the expenditure patterns that are established, and projecting deficits into the future until something happens to change that.

Dr. Kennedy referenced the "obvious disagreement between the revenues and the Health Plan" that should be discussed later in committee. He said he believed the District is still owed "a considerable amount just from the Senior plan, perhaps even up to $3 million." He felt that the money they have received per month has been halved and he said it wasn't entirely by "strong medical management." He feels it is a crisis now because "the projected budget was such that we would have a profit at the end of the fiscal year and going into the transition it was looking very much that way as far as the profit margin (not cash) was up $7-8 million. It's been sliding ever since as our revenues and business decline because of decreased business with the Health Plans." He said they transitioned with $5 million – or about 5 days of cash reserve which is far too low of a reserve and he felt this had prompted activating the interest-free line of credit. He said, "We can't play catch-up against that." He argued that to make money in "the hospital business" you must spend the money to have people, equipment and other necessities on hand. He added that in the last few days, "we've had to close our doors to trauma, close our doors to the E.D. (Emergency Department) because we didn't have the staffing levels on the floor to be able to admit these paying customers." He explained that they are in the process of "staffing to volume" and added, "we have not been good at that over the last many, many years." He assessed that the Board would have to survive by controlling expenses without affecting the revenue and it would help if their cash reserves were better until they are able to receive tax revenues.

Ms. Hendrix said, "So, you're telling me, Dr. Kennedy, that if on day-1 we'd had 10 days worth of cash on hand we wouldn't have any problems right now?" Dr. Kennedy responded, "No, I'm not saying that at all." He corrected her by saying he had said "40 days of cash on hand."

Ms. Hendrix said, "It seems to me that the reason we don't have cash on hand is because we're spending it and if we cut back on our expenses, and we're expending so much, we might have more cash on hand." She felt that having "a revenue psychoanalysis" now might help this to happen. This discussion continued. Dr. Kennedy finally said, "We'll be able to provide hard data if we put small groups together to look together at what we think we have and County administration thinks that we have/what they think we need, what we think we need. I think the Board needs to be part of that process as we do that."

Discussion continued on both the revenue and expenditure aspects of the hospital's financial picture. After several exchanges the matter was tabled to the District meeting following this dual meeting.

Chairman Bruno said, "I was surprised to hear that the Trauma had been diverted or closed in the last few days, what's that all about – I was not aware of that."

Dr. Kennedy explained that there are several factors that could cause this such as saturation of the Emergency Department … there can be saturation of the Trauma Department … there may be staffing difficulties, particularly in the critical care units, where we don't have the staff to take care of (the number of) critically ill patients." He added, "In this case we could not staff on the floor."

Chairman Bruno said, "So, we didn't have the nurses we needed? . . . they (patients) stayed in the emergency area and so we had to close the doors."

Ms. Hendrix said that seemed odd, "since the financials continuously show that we are staffed over and above the average for an average patient (load)." She asked if this was an internal management problem. Dr. Kennedy responded, "It's an external management problem, it is an internal management problem and it is a problem that relates to the phase of the moon and the day." Discussion on staffing and finances continued.

Ms. Hendrix asked David Smith if the 2005 budget preparation for the District had been done by the County or if staff from MIHS had done it. Mr. Smith responded that FRG and OMB staff members had prepared it.

Chairman Wilson asked if the Supervisors had comments.

Supervisor Stapley explained that the IGA passed by the County before the new District members had taken office had emphasized the need to continue regular communication between the Boards. "In fact I argued, and the Board agreed, that we would require that the two (Boards) meet at least quarterly beginning January 1, 2005, with the specific purpose of discussing the disposition of the Health Plans – that the District chose to leave with the County because they were losing money, and presented difficult accounting problems, which today are still not entirely resolved." He said that this, their first meeting, prompted a suggestion that, "we need to meet again soon relating to the disposition of those two plans . . . as there are many moving and interchanging parts to it. " He said that the Board has to make a final decision on whether or not the County would continue with the Health Plans by September 2005 so that AHCCCS could be notified on the decision. He explained further, "We don't have time to argue about what happened in the past, we have too many hurdles ahead of us in the immediate future and we want to make the right decisions, as it relates to these plans, for the future." He added, "My attitude is, we'll give them (the Health Plans) to you whenever you want them but you have to have the information and you need to know what's going on with those plans on an ongoing basis. He asked that a date be set so the County can report on the disposition of the Health Plans to the District board. He reiterated the County's hope that their offer of help will be accepted since the success of this new district is paramount for everyone involved. He said, "If you choose not to (accept our offer) that's your choice, you are the elected officials for the system." Supervisor Stapley added, "To the extent that we can, we've handed you all of our resources on an emergency crisis basis and we hope that you will accept all of these that you need."

Supervisor Wilcox said the IGA had stated, "that we should have been meeting a lot sooner because there's a lot going on." She said her fear was the reference made to the District's voting to accept only portions of the County's offer and that may not work. She asked rather than accepting only portions of the offer, the work group with people from both boards and staff get together to review it because she felt the offer needed to be looked at holistically. The offer had been drawn on a holistic basis with the various parts crafted to create an intrinsic whole. She said the two boards need to be "welded at the hip for the next year until all of this is worked out."

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Supervisor Kunasek addressed the matter of the $3 million Dr. Kennedy believes the District is owed from the health plans. He said he would like to review all of the plan issues to get more information. He also asked whether there are overstaffing or understaffing issues since he "heard two different things."

Dr. Kennedy said it could be both at the same time depending on the level of people working and the level of patient care needed.

Chairman Wilson reiterated the Board's good intentions and asked the District Board to evaluate the offer carefully and decide if they want to accept or reject it. He asked Supervisors Wilcox and Stapley to work with Mr. Smith and the District Board.

MARICOPA COUNTY SPECIAL HEALTH CARE DISTRICT RESOLUTION

Item: Presentation and possible action by the Special Health Care District regarding a resolution in response to the Board of Supervisor's resolution. (ADM4496)

No action was called for by Chairman Bruno at this time pending further discussion.

MEETING ADJOURNED

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

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Max W. Wilson, Chairman of the Board

ATTEST:

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Fran McCarroll, Clerk of the Board