

**SPECIAL SESSION  
January 17, 2003**

The Board of Supervisors of Maricopa County, Arizona convened at 1:30 p.m., January 17, 2003, in the Supervisors' Conference Room, 301 W. Jefferson, Phoenix, Arizona, for a Joint meeting with the Citizens' Task Force on the Maricopa County Health Care System with the following members present: Fulton Brock, Chairman; Don Stapley and Mary Rose Wilcox (entered late). Absent: Andy Kunasek, Vice Chairman; and Max W. Wilson. Task Force members present: Merwin Grant, Chairman; Ted Williams, Marco V. Canulla, Leonard J. Kerschner, Charles Shipley, Pam Wight, Merlin DuVal, Ken Johnson, and Dr. Ray Woosley who attended by phone, Dr. Jackie Chadwick was in attendance for Dr. Woosley. Also present: Fran McCarroll, Clerk of the Board; Shirley Million, Administrative Coordinator; David Smith, County Administrative Officer; and Paul Golab, Deputy County Attorney.

### **WELCOME AND OVERVIEW OF ISSUES FACING THE TASK FORCE**

After welcoming Board Members and others in attendance, Chairman Brock directed Clerk of the Board Fran McCarroll to administer the oath of office to the Task Force Committee Members. He introduced guest, Tim Olson, who will serve as a new member on the MIHS (Maricopa Integrated Health System) Committee.

Chairman Brock said that the primary purpose of this Committee will be to evaluate a number of factors and make specific recommendations to the Board of Supervisors concerning the current and future status of the Maricopa Integrated Health System. He stated that Maricopa County Hospital has some of the finest healthcare professionals in the world and that they have been handling some tremendous challenges because we have one of the busiest hospitals in the State and the Arizona burn Center serves patients from throughout Arizona, neighboring states and foreign countries." He explained that at this 30-year old, very honorable facility the plumbing is leaking, it's operationally obsolete, and there are multiple challenges in acquiring monies from the State and federal governments on disbursements and reimbursements. He indicated his belief that the patient payor-mix is mostly lower income because there are no private rooms at the hospital, and the bathrooms, apart from not being private, are found at the end of the hallways. Violent crime in Maricopa County is more than four-times the national average. More than 70,000 people go to the County's emergency room every year.

He listed many other financial woes at the hospital and stated that barriers are present that make it nearly impossible to borrow money to correct the many deficiencies in the physical plant, laboratories and equipment. A particular hardship for the healthcare system is indicated by a Deloitte and Touche study finding that MIHS may be the only publicly funded hospital in America that does not get Disproportionate Share (dispro funds) reimbursement funding directly from the federal government. He indicated that it would take \$250M to replace the hospital and clinics and said the system is literally in "dire straits and out of cash." He said that citizen input may eventually be needed to determine what residents want. In the meantime, he assured the Committee that the Supervisors have been looking for a solution for so long and are requesting new ideas, methods and options so they may make the best decision on the best course of action to take.

### **INTRODUCTORY COMMENTS AND STATEMENT OF PURPOSE**

Merwin Grant, Chairman, Citizens Task Force, thanked Chairman Brock for illustrating the breadth of the task this Committee faces – which he sees as a directive to review information, to communicate, to listen and ultimately to simply recommend. He said that each member must set aside any personal agenda and to release any preconceived ideas on what should happen to the hospital because it is important to start afresh and consider all information in a fiscally responsible manner. He indicated that today's meeting would be directed towards the County level and the next meeting would look at the matter from the doctors' and hospital administrator's points of view. He cautioned that their inquiries could take them into areas that others might consider too personal and he stated that no one or thing would be under attack but they did

need to get a clear and complete picture. He asked for approval on having Dr. Merlin DuVal conduct future meetings if he could not be present for all of them and this was moved, seconded and unanimously carried.

#### **Self-Introduction of Task Force Members**

The Task Force members all introduced themselves and gave a brief summary of their background and experience following Mr. Smith's presentation.

#### **Expectations regarding this Task Force**

David Smith, County Administrative Officer, said that this is a community system that needs the very best ideas to help it through a changing and challenging environment. He asked the Committee to focus on three issues that are critically important on which the County seeks recommendations. If these recommendations should lead to a public process later he would like the members to choose to be involved in that as well. The three issues are: Mission, Financing and Governance. He explained the MIHS financial situation and from what state and federal actions the issues had evolved. He touched on the difficulties caused by the deed restriction with the State which could prohibit any lender participation for renovation, building and new state of the art instruments and equipment. He added that private hospitals do not have to contend with such borrowing restrictions. Competition is becoming more fierce and at the same time the obstacles are reaching an overwhelming stage. The funds to fight both of these issues are dwindling. He pointed out that it may seem hopeless and overwhelming, but added that there is so much excellence and expertise involved, as well as singular dedication from hospital staff and management, that a solution needs to be found to improve the facility and keep it operational.

Mr. Smith explained that several options have already been discussed – various special districts have been looked at and the Task Force is being asked to solve the dilemma of what should be done and how it should be accomplished for the best interests of residents in Maricopa County. In addition, Mr. Smith listed all the bioterrorism issues that have recently arisen and the possibility of combining MIHS and Public Health, to partner against the risks that arise. He cited the threat to the County's General Fund and budgeting necessities to other departments besides the healthcare system in County government. He remarked that any solution would have to deal with the "political realities of our elected officials, the realities of what the public wants and is willing to accept, and the realities of what we can afford."

Dr. DuVal asked for more information about two subjects mentioned by Mr. Smith. The first is for specifics of the deed restriction and the second was on disproportionate share disbursements.

Mr. Smith explained the complex legal arrangement going back to the 1880's. Land was deeded from the County to the State and then the State assigned 50 acres back to the County under a restrictive covenant to provide some version of health care and medical education or the land would revert back to the State. He said that this restriction "clouds the title" and obstructs the financing of bonds or loans, from banks and underwriters because without a clear title to the land as security they would be at risk and no one is willing to take that risk.

Chairman Grant interjected that there was a one-page summary of this restriction in the member's backup and that this subject would be discussed in much greater detail at later meetings.

Mr. Smith informed the Task Force members that the disproportionate share funds are a federal reimbursement funding stream for most urban hospitals in America and is based on the theory that those hospitals must offset costs for a disproportionate number of poor and indigent individuals presenting for treatment without a payor-source. The federal government recognizes this and makes proportionate

reimbursement to those hospitals according to the documented number of such patients seen at each. The State of Arizona combined MIHS and Pima County Hospital to the state hospitals to maximize its ability to collect those dollars. The federal reimbursement money is sent to the State and they disburse it. MIHS qualifies for around \$70M but hasn't received more than \$13M from the State and that has now been lost in the deal to remove the ALTCs program from the County to the State level. The General Fund sends this "relief amount" of \$13M to MIHS in compensation for that loss.

**PRESENTATION: FISCAL AND BUDGET ISSUES FACING MARICOPA COUNTY**

Sandi Wilson, Deputy County Administrator, said she would explain the County budget at this time and defer any talk about the MIHS budget problems for a later meeting. She cited the different funding sources for the County and said that 24% of the County's total revenue comes from patient revenues. She felt that learning what a huge piece MIHS provides to the Maricopa County budget would be a surprise to most. Property taxes provide 15%, state-shared sales tax provides 14%. She explained that this shared sales tax money is what the "State of Arizona 'blesses' us with" and can be adjusted at will by the State so there is never an "assured" amount that the County can be sure of receiving. She enumerated the other revenue sources and also the fund percentages on how revenue is spent by the County – with both balancing out at \$2.5 billion.

She explained that one billion dollars, or 45% of the total yearly budget expenditure, is slotted for Health, Welfare and Sanitation. Of this billion dollars, the majority, 57% or \$626.8M, goes to MIHS and 31%, or \$334.6M, goes to Health Care Mandates and this essentially goes back to the State for ALTC (Arizona Long Term Care Plan), the acute plan and for the seriously mentally ill. She explained that 98% of Maricopa County activities are mandated by State statute as the County is an arm of State Government. Of the two percent, or \$20M, that is not mandated, 68% of that two percent covers the \$13M subsidy that is sent to the Maricopa Medical Center (MMC). She said the General Fund has also had to support MMC losses in varying amounts from \$55M in 1994 to \$8.8M in 2002. She also said that the budget currently has \$53M held in reserve for the health system.

Chris Bradley, Deputy Budget Manager, said all levels of government are experiencing tough economic times at present with the State facing a deficit of \$1.3 billion, after having made some drastic budgetary cuts. The City of Phoenix reportedly is experiencing a \$70M deficit. Maricopa County is in a relatively strong position that has been built up over the last 8 years but will inevitably be affected by the State's situation. He reported that at the beginning of the last fiscal year the County had determined to take a cautious, even pessimistic, approach to budgeting and only planned for a 3% growth in sales taxes. However, sales tax growth turned out to be only .3% and the next fiscal year percentage also appears pessimistic.

**~ Supervisor Stapley left the meeting ~**

Mr. Bradley explained that the biggest impact is from the State budget as the State has the ability to shift costs to the counties and even to take away certain revenues that the counties have been receiving. He gave the latest trends for the State budget, which show that the escalating structural shortfall between on-going revenue and expenditures is expected to increase by one billion dollars next year, increasing their overall budget shortage to approximately \$1.5 billion. The recently released Governor's budget could negatively impact Maricopa County by as much as \$35 to \$40 million dollars. He listed some of the County's other 2003-04 budgetary increases that are expected to total as much as \$67.4M. Because of this all County departments are being asked to submit two budgetary reductions estimates of 5% and 10% for FY 2003-04.

With regards to the disproportionate share monies he said that even if the State wanted to do so, it would now be very difficult if not impossible for them to reverse what has been done, and give up the benefits they

have enjoyed at the County's expense during previous years of unbalanced distribution of the dispro funds. He advised that there is no potential relief from the State.

**~ Supervisor Stapley returned to the meeting ~**

Mr. Bradley concluded by saying that Maricopa County tries to avoid risky spending scenarios and the situation in the health care industry is quite risky, albeit with good cause. Unfortunately, most of those causes are outside the control of the County. When asked by Chairman Grant if there wasn't any "good thing" he could report as the County's Budget Director, he said that "it is positive that we're not in any worse shape than we are," which was interpreted by the Chairman as being "in really good shape for the shape we're in." Mr. Bradley said that the Board of Supervisors has set a course of fiscally conservative policies that had finally built up a certain reserve of fiscal health for the County. He stated that the problem results from the fact that this hasn't been done by other elected officials, and the County is not immune to the results of the actions or inactions that they have taken. He indicated that many of the situations happening to the health care system are driven by events that are well outside the control of Maricopa County.

Sandi Wilson said that the County administration tries to work closely with the Integrated Health System and neither the County nor the Health System is able to control what happens to them. She said that perhaps the good news is the \$53M that is being held in reserve. She explained that what is needed is a permanent long-term solution and this is what they hope this Task Force will produce.

Mr. DuVal asked if the \$13M the County sends to MIHS is a pure subsidy or if something is received in return for it and it is partially a purchase. Ms. Wilson replied that the County gives MIHS a mission to work toward and also purchases services for correctional health but the \$13 does not enter into this and so could be termed a subsidy. She added that the additional monies that have had to be taken from the General Fund for the hospital's yearly shortfalls are what causes the most headaches.

Mr. DuVal then asked Ms. Wilson about the dispro funds and if CMS (Center for Medicare & Medicaid Services) is in agreement with the way Arizona handles the reimbursement to the counties. Ms. Wilson replied that she does not know how CMS regards this but it has been done in states other than Arizona (and challenged by some). She did indicate that these lack of funds plays a huge role in preventing the hospital from doing as well as they would otherwise do and puts them at a big disadvantage that most public hospitals do not have to deal with. The County "would love to see a policy change with CMS in the future."

**PRESENTATION: GOVERNANCE OPTIONS**

William Sims, Esq., Outside Counsel, referenced a handout on healthcare system options and said it could be used as a tool in evaluating the different options as the Task Force members focus on options in future meetings. He explained that there are 28 criteria listed down the left column of the table. He also admitted that the list may not be exhaustive. Listed across the top of the chart are options that County Counsel feels are worth considering. The first six pages are options that do not necessarily require legislation. The last pages contain options that do require legislation for them to be effective. Option "G" requires only minor legislation and Options "H" and "I" require fairly significant legislation. He said that these tables could be considered as the MIHS "rubic cube" because anytime something is "moved" in one of the options it has an impact on other options. He indicated that the one basic tension is the fact that these options require the use of public funds and this has been the hold-up in looking deeply at any of them. He explained that the public law constraints in the use of public funds include: voter approval; governmental control; procurement; public records; joint venture powers; options allowing partnership with the doctors; open meeting law requirements; deed restrictions; and dispro share. He advised that it might appear to the committee members to be an improbability to line up all the colors in this particular "rubic cube."

SPECIAL SESSION  
January 17, 2003

Chairman Grant reiterated to members that today's presentation was just an overview and all of these topics will be delved into in much greater depth. Questions may be asked and answered in subsequent meetings as the Task Force's agenda is developed.

**PRESENTATION: LEGISLATIVE HISTORY AND CURRENT LEGISLATIVE STATUS**

Diane Sikokis, Director, Government Relations, said that they have talked often to legislative members about the creation of this Task Force. They are very interested in the future solutions for the hospital and healthcare system and are looking forward to any recommendations that come from this Committee.

Rory Hayes, Esq., Contract Lobbyist, representing the County for the past ten years and specializing in healthcare issues, said that as she had become more deeply aware of the healthcare issues in Arizona she realized that the County's role has tended to be disconnected and dysfunctional. Her goal is to somehow make needed changes that make sense and would be more cost effective. She stressed the importance of making the public more aware of the importance of the County Hospital and the conditions surrounding it because public support will be needed to make the necessary changes. She gave a brief history of actions between the hospital and the legislature during the past ten years. The most important current issue is that as the law currently in effect is written, the hospital, including emergency services must be maintained commensurate with community need and good business practices until July 1, 2006. But a caveat was added that unless the legislature enacts legislation to authorize Maricopa County to transfer the hospital to a special district or non-profit corporation prior to July 1, 2003, the maintenance of effort requirement for the County to operate and maintain a health system becomes defunct. This means that the hospital could legally be closed. The County first lobbied for "district" legislation in 2000 – unsuccessfully. HB 2215 has now been introduced to clarify the ability of the County to operate clinics in other than underserved areas. Any solution this Task Force identifies pertaining to a hospital district, etc., can be attached to that bill. She indicated that the Committee had until approximately the last week in March to finalize legislative proposals for consideration during this session of the legislature.

**Schedule of Future Meetings**

Chairman Grant called for public comment but there was none. He indicated that the next meeting would be in the hospital auditorium after which members would tour the hospital to see for themselves what some of the needs are and how many different things need to be addressed despite the fact that \$80M has been spent on renovations during the past few years.

Motion was made by Mr. Shipley, seconded by Mr. Johnson and unanimously carried to adjourn the Task Force.

**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