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| Maricopa County Special Health Care District Board of Directors Meeting Maricopa Medical Center Auditoriums 3 and 4 April 28, 2009 3:00 p.m. |
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Present: William Bruno, Chair, District 1
Susan Gerard, Vice Chair, District 3
Greg Patterson, Director, District 2
Elbert Bicknell, Director, District 4
Alice Lara, Director, District 5

Others Present: Betsey Bayless, MIHS, Chief Executive Officer
Ken Meinke, MIHS, Chief Financial Officer
Bill Vanaskie, MIHS, Chief Operating Officer
Warren Whitney, MIHS, Chief External Affairs Officer
David Wisinger, M.D., MIHS, Interim Chief Medical Officer
Louis B. Gorman, District Counsel
David J. Cantelme, Board Counsel

Recorded by: Melanie Talbot, Clerk of the Board

Call to Order

Chairman Bruno called the meeting to order at 3:03 p.m.

Roll Call

Ms. Talbot called roll. Following roll call, it was noted that all five voting members of the Maricopa County Special Health Care District Board of Directors were present, which represents a quorum.

Call to the Public

Ms. Talbot read aloud the guidelines which have been determined as acceptable by the Board of Directors. Chairman Bruno called for public comment. There were no comments from the public.

General Session Presentation, Discussion and Action:

1. Opening Comments
 - Chief Executive Officer Summary of Current Events

Ms. Bayless stated that the Family Health Centers (FHCs) and Maricopa Medical Center (MMC) have been flooded with calls from the public regarding the swine flu. Staff has also been very busy with media requests related to the swine flu. Doctors, nurses and public affairs staff have spoken to local television and radio reporters and the New York Times.

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General Session Presentation, Discussion and Action (cont.):

1. Opening Comments (cont.)

Ms. Bayless showed a news clip about the son of former Channel 12 television reporter and ex-congressional candidate Mary Kim Titla. He was taken to the Arizona Burn Center after an accident in Chandler. The 18-year-old man was playing with a lighter near a gas pump when an explosion occurred, causing second and third degree burns to his back and arms.

A Channel 12 photographer and reporter spent an evening in the Emergency Department (ED) for a piece that aired around the final episode of the popular drama "ER."

Director Bicknell asked if MMC had any cases of the swine flu.

Ms. Bayless said that at the present time, there were no confirmed cases of the swine flu in Arizona.

Dr. Wisinger added that Maricopa Integrated Health System (MIHS) received a shipment of anti-viral drugs from Maricopa County Emergency Management. Those drugs were distributed to the ED, the Urgent Care Center and the FHCs. MIHS also provided respirator masks to employees who requested them. Good health habits, such as covering your cough and washing your hands often, can help stop the spread of germs and prevent respiratory illnesses like the flu.

Ms. Bayless said the purpose of this meeting was to have senior administration present the latest budget assumptions for the Fiscal 2010 budget.

The capital budgeting process began in the fall of 2008. Senior administration asked for and received input from all department directors and clinical department chairmen. Initially, the capital requests exceeded \$85 million. Over the past several months, senior administration has worked to prioritize the requests. Senior administration will recommend a \$38 million capital budget for the 2010 fiscal year, which will include \$14.8 million continued investment in the ARK project, \$4 million for imaging equipment, and \$4 million for a bed expansion at Desert Vista, which is critical to the behavioral health operations of MIHS.

From an operating perspective, the 2009 fiscal year has been both a challenging and successful year. In December 2008, MIHS successfully obtained full accreditation from the Joint Commission. From a volume and payor mix perspective, MIHS experienced volume declines and a deteriorating payor mix. While the fiscal year was not yet complete, senior administration is anticipating a net margin in excess of \$40 million.

MIHS is facing funding declines of up to \$30 million from current levels. That is in addition to the rate freeze from AHCCCS for the current fiscal year.

Vice Chairman Gerard asked how the proposed cuts to non-Title 19 behavioral health funding would affect the state's ability to receive federal stimulus money due to maintenance of effort requirements.

Mr. Meinke will ask Ms. Whitney to address Vice Chairman Gerard's questions.

Vice Chairman Gerard asked if MIHS was seeking federal stimulus funding for the ARK project.

Mr. Meinke confirmed that MIHS was pursuing federal stimulus funding for ARK.

2. Discuss, Review and Possible Action on the Fiscal Year 2010 Budget Assumptions:
- a. Volumes
 - b. Cash Goals, Revenue, Reimbursement and Expense Related
 - c. Maricopa Health Plan and its Membership

Mr. Vanaskie reviewed the history on acute and behavioral health admissions. MIHS saw an increase in acute admissions from 2007 to 2008 and senior administration was hopeful the increase would be sustained for the 2009 fiscal year. However, MIHS is actually behind budget in admissions for the year.

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General Session Presentation, Discussion and Action (cont.):

2. Discuss, Review and Possible Action on the Fiscal Year 2010 Budget Assumptions (cont.)

Senior administration is projecting acute admissions to end up at 17,612 compared to a budget of 19,894. Length of stay (LOS) is better than budget at 4.6, which is better for the patient because it means they spend less time in the hospital. LOS has a direct impact on patient days. Senior administration budgeted 101,603 patient days for 2009 and is projecting 81,367 for the fiscal year. Based on 2009 projections, the preliminary budget for acute admissions for 2010 is 18,898, or a 7.3% increase over 2009 projections. The preliminary budget for patient days will increase by 5.9% to 86,175 for 2010.

Behavioral health admissions are below budget for the 2009 fiscal year, which is due to the LOS. In 2007 the LOS was 19.9 compared to 23.2 in 2008. In 2009, senior administration budgeted the LOS at 21.0, hoping that more voluntary patients would be admitted. Patients admitted voluntarily average a LOS at 6 to 8 days, compared to court-ordered patients' LOS at 20 days. Due to the higher LOS, patient days are projected to be above budget for 2009. Senior administration does not anticipate that the LOS will improve in 2010 and are budgeting LOS to be 26.2.

Vice Chairman Gerard asked if a longer LOS was financially beneficial to MIHS.

Mr. Meinke said it made no difference. It was not financially better; however, it did not have a negative financial impact either.

Vice Chairman Gerard asked why senior administration wanted more voluntary admitted patients in behavioral health.

Mr. Vanaskie explained that in 2007, two units were opened at Desert Vista with beds for voluntary patients. Those types of patients typically have a payor source and their LOS is much shorter than court-ordered patients because treatment can begin immediately. Senior administration tracks the number of patients ready for discharge and the number of admissions denied due to no beds being available. The number of denied admissions increased during the past year due to the LOS.

Vice Chairman Gerard asked if the increased LOS was due to the fact that the patients had no where to go once discharged.

Mr. Vanaskie said that was correct. Release from Desert Vista was dependent on whether Magellan was able to find an outpatient facility and treatment plan for the patient.

Vice Chairman Gerard ask how senior administration calculated the preliminary acute admissions for 2010 and if they based the figures on an expected change in the economy. She asked how much of the decrease in acute admission was attributed to the decrease in deliveries.

Mr. Meinke said the numbers were preliminary and could change before the final budget was brought to the Board in June for approval. He reminded the Board that 80% of admissions came through the ED.

Vice Chairman Gerard asked what percent of the decrease in acute admissions could be attributed to fewer deliveries.

Mr. Meinke answered approximately 2.6%.

Chairman Bruno said that the information Mr. Meinke gave on the percent of admissions through the ED did not match the figures provided to the Board.

Mr. Vanaskie clarified that it's 80% of medical/surgical admissions that come through the ED.

Mr. Vanaskie reviewed outpatient and ancillary volume assumptions. Projected ED visits for 2009 are 55,311 compared to a budget of 58,186. Preliminary budget for ED visits for 2010 fiscal year are 56,878.

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General Session Presentation, Discussion and Action (cont.):

2. Discuss, Review and Possible Action on the Fiscal Year 2010 Budget Assumptions (cont.)

Changes were implemented to improve ED flow. The length of time in the ED is significantly less than it was in 2008. The average LOS in the ED is 215 minutes.

Non-trauma admissions are on target for the 2009 fiscal year and senior administration will budget for a 4% increase for 2010. Trauma admissions are down at MMC, which is also the trend nationwide; however, for the 2010 fiscal year, senior administration will budget for a 12.8% increase.

Chairman Bruno asked if market share information for the ED and trauma was available.

Mr. Vanaskie said Ms. Joyce Graham would be able to obtain the information.

Chairman Bruno expressed concern with MIHS losing market share. In order for a hospital to be considered a Level 1 trauma center, it needs to have personnel and resources available 24 hours a day, 7 days a week, which can be costly. He asked what senior administration's long term plans were to increase the ED volumes.

Mr. Vanaskie said that if a patient was picked up by Emergency Medical Services (EMS), and the injury was life or limb threatening, EMS is required to take the patient to the nearest trauma center. If the injury was not life or limb threatening, the patient's preference holds weight and MMC was not the destination of choice. Senior administration has met with Phoenix Fire to discuss EMS issues. The goal is to ensure that all EMS providers recognize and utilize ED to the fullest extent possible and work closely with MIHS physicians. The market share in the Pediatric ED was holding steady.

Chairman Bruno questioned how senior administration expected the District to remain viable when it was losing market share.

Mr. Whitney pointed out that Phoenix Fire emphasized that MMC's "wall time," the transfer of ambulance patients to hospital beds, was faster than any other hospital that they measure. Ninety percent of the time, ambulances are back in service within 15 minutes, which is important to EMS.

Chairman Bruno said that the population in MMC's catchment area was decreasing and competitors were advertising and upgrading their facilities. MMC needs to have a plan to maintain market share.

Mr. Vanaskie assured Chairman Bruno that senior administration had a plan to rejuvenate the ED and renovate the Pediatric ED. MMC has the only Emergency Medicine residency program in the valley. Volumes need to be maintained in order to sustain the program.

Vice Chairman Gerard asked if a Level 1 trauma center was required for the residency programs.

Mr. Vanaskie replied that a Level 1 was not required, however, it was better for the programs to be a Level 1 as opposed to a Level 2 or 3 trauma center.

Vice Chairman Gerard asked what percent of the ED visits were from ambulance traffic as opposed to walk-ins.

Mr. Vanaskie said of the 3,300 adult ED visits each month, approximately 600-700 are brought by ambulance.

Vice Chairman Gerard was under the impression that EMS rotated ambulance traffic to the local hospitals. She asked if senior administration had data on the wall time and ambulance traffic of other facilities.

Mr. Whitney confirmed that the data was available and it showed that MMC was in fact getting lower ambulance traffic than other facilities in the area.

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General Session Presentation, Discussion and Action (cont.):

2. Discuss, Review and Possible Action on the Fiscal Year 2010 Budget Assumptions (cont.)

Director Bicknell asked where the closest hospitals to MMC were located.

Mr. Vanaskie stated that St Joseph's, Banner Good Samaritan, and St. Luke's were located within a three-mile radius of MMC.

Mr. Whitney offered to bring a more substantive report in the future on wall times and ambulance traffic.

Chairman Bruno asked for an action plan, not a report, on how senior administration will increase volumes.

Mr. Vanaskie continued to review outpatient and ancillary volume assumptions. The preliminary budget for surgeries in 2010 is 5,291 or an increase in 6.7% compared to 2009. Deliveries are down by 8% which is consistent with trends across the valley. Senior administration does not expect deliveries to increase in 2010.

Mr. Vanaskie said that all ambulatory volume assumptions for 2010 fiscal year showed an increase. This included visits to the FHCs, the Comprehensive Health Center (CHC) and the dental clinics. Senior administration is budgeting visits to the Urgent Care Center to be 20.1% above what they are projecting for the end of the 2009 fiscal year.

Mr. Meinke briefly reviewed payor mix data for inpatient, behavioral health, and outpatient.

Chairman Bruno questioned why senior administration was budgeting for 26% Self-Pay patients in the FHCs. Why would MIHS see patients without a payor source in the FHCs?

Mr. Meinke said that patients cannot be turned away.

Chairman Bruno asked how MIHS could devote 26% of its resources to patients seen in the FHCs who do not pay.

Mr. Vanaskie said that if the Board directs senior administration to turn non-paying patients away, they will.

Chairman Bruno said that just because the state decided it did not want to fund Arizona Primary Care, it doesn't mean that MIHS needed to waiver from its objectives. MIHS could not be overrun with patients who could not pay. MIHS has other missions to fulfill, such as medical education.

Vice Chairman Gerard asked if there was a requirement to have a sliding fee scale in order for the Federally Qualified Health Center (FQHC) designation.

Mr. Vanaskie confirmed that FQHC designation requires a sliding fee scale up to 200% of the federal poverty level (FPL).

Vice Chairman Gerard asked if the FHCs made or lost money and if any of the specialty clinics in the CHC made money.

Mr. Meinke said that the FHCs lose money. Some of the specialty clinics in the CHC make money while others lose money.

Break: 4:31 p.m. – 4:39 p.m.

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General Session Presentation, Discussion and Action (cont.):

2. Discuss, Review and Possible Action on the Fiscal Year 2010 Budget Assumptions (cont.)

Mr. Meinke reviewed revenue assumptions for the 2010 fiscal year. Senior administration is anticipating a 3% rate increase from Medicare. The AHCCCS rate is expected to decrease anywhere from 5-10% from current rates. That equates to a potential \$8-16 million annual loss in revenues to MIHS.

Mr. Whitney said that Magellan sent a letter notifying MIHS that they will no longer pay for non-Seriously Medically Ill (SMI) or non-Title 19 patients effective May 15, 2009. The letter stated that Magellan would pay for the court-ordered evaluation, but not for the seven to nine day time period between the court ordered evaluation and the court ordered treatment. That would be a breach of the current contract MIHS has with Magellan. The Magellan contract expires June 30, 2009. MIHS will negotiate a new contract with Magellan effective July 1, 2009 and the aforementioned will be taken into consideration during the negotiations.

Vice Chairman Gerard asked the if current Magellan contract had a clause stating that the contact was subject to change without notice based funding from the state Legislature.

Mr. Whitney said that he was not familiar enough with the contract to speak to it.

Vice Chairman Gerard added that senior administration may want to rethink the proposed bed expansion at Desert Vista if the patients have no payor source.

Mr. Meinke continued with revenue assumptions for 2010, pointing out state and federal funding is projected to decrease 27% from the current forecasted amount. Major areas of these decreases include AHCCCS Graduate Medical Education (GME) expansion funding, Arizona Primary Care, and Section 1011 funding. Federally Qualified Health Center (FQHC) funding is expected to increase by 17.4% in fiscal year 2010. Mr. Meinke pointed out that although MIHS received AHCCCS Indirect Medical Education (IME) in the 2008 fiscal year and is expecting it in 2009, senior administration will not budget it in the 2010 fiscal year.

Vice Chairman Gerard asked about Disproportionate Share Hospital (DSH) funding for 2010.

Ms. Whitney said that currently the Legislature has not mentioned cutting DSH funding or GME funding in 2010, mostly likely due to maintenance of effort.

Chairman Bruno questioned how senior administration would handle the AHCCCS IME if it was received. Right now, senior administration was not including the potential \$11.9 million in the fiscal year 2010 budget.

Mr. Meinke replied that it was at the Board's request not to include the potential AHCCCS IME in the 2009 fiscal year budget. Senior administration will budget for it in the 2010 fiscal year if that is the direction given from the Board.

Chairman Bruno said that if senior administration budgets for the potential \$11.9 million, and MIHS doesn't receive the funding, MIHS will have to make up the \$11.9 in another area to meet budget. If senior administration doesn't budget for the \$11.9 million, and MIHS receives the funding, he doesn't think that senior administration can use it toward the bottom line to help achieve financial goals.

Mr. Meinke continued with his report, stating that if the property tax was levied at the full amount allowed, it would result in \$53 million additional funds to MIHS. The rate per \$100,000 in property value would be \$9.14. If MIHS were to maintain the current tax rate, the amount received would decrease from \$49.9 million to \$49.6. Senior administration is recommending the Board levy the property tax at the full amount.

Mr. Meinke reviewed salary and other related assumptions for the 2010 fiscal year. Senior administration is budgeting for \$2.9 million in merit increases and \$1.5 million in market adjustments for the 2010 fiscal year.

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General Session Presentation, Discussion and Action (cont.):

2. Discuss, Review and Possible Action on the Fiscal Year 2010 Budget Assumptions (cont.)

Vice Chairman Gerard asked if senior administration was committed to the merit increases.

Mr. Meinke said no, and that senior administration and the Board would have further discussions on FTEs.

MedPro fees are projected to be \$52 million by the end of the 2009 fiscal year, which is less than what was budgeted.

Director Bicknell asked if management was eligible for merit increases.

Mr. Vanaskie said that the merit program was actually a lump sum program. Every employee receives a performance evaluation and based on the results of the evaluation, the employee may be eligible for a one-time lump sum payment as opposed to a salary increase. MIHS does not have salary increases every year.

Mr. Vanaskie reiterated that senior administration took actions to manage costs to be consistent with volumes and revenue. Given the uncertainties of state and federal funding for 2010, MIHS will have to reduce expenses. That includes reductions in FTEs. Reductions will be prioritized.

In summary, Mr. Meinke said that for the 2010 fiscal year budget he is recommending an excess margin of 3.5%, which equates to approximately \$20 million. That figure assumes the maximum tax levy.

3. Discuss, Review and Approve Proposed Fiscal Year 2010 Capital Budget

Mr. Meinke reviewed the 2010 fiscal year capital budget. Twenty-eight million dollars of the budgeted \$40 million is projected to be spent in the current fiscal year. The difference in what was budgeted, compared to the projection, is that \$3 million was budgeted for strategic improvements and another \$7 million was budgeted to develop the orthopedic program. These amounts will not be spent. Also, the budget for ARK in 2009 was \$9.8 and only \$7.4 will be spent.

Vice Chairman Gerard asked if the \$12 million not spent in capital in 2009 would be added to the budget for capital in 2010.

Mr. Meinke said that the deferral of capital has no impact on the bottom line of the budget.

Senior administration is budgeting \$37.9 million for capital in 2010. The subtotal of capital for facilities, clinical equipment and IT equals \$16.1 million. That does not include capital for ARK; however, it does include the bed expansion at Desert Vista. The budget for ARK is \$14.8 million.

Chairman Bruno asked if orthopedic residency program funding was included in the 2010 fiscal year capital budget.

Mr. Vanaskie does not believe MIHS can hire the staff needed and start the program in the 2010 fiscal year.

Ms. Bayless said that senior administration has been working with MedPro to identify a chairman and other faculty needed for the program. This search will continue, however, \$7 million does not need to be budgeted in 2010 for the start up of the program.

Chairman Bruno expressed disappointment that for the fourth year in a row nothing had been done to develop the orthopedic residency program.

Ms. Bayless reiterated that MIHS and MedPro had been working consistently on the development of the program and would continue to do so.

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General Session Presentation, Discussion and Action (cont.):

3. Discuss, Review and Approve Proposed Fiscal Year 2010 Capital Budget (cont.)

Dr. Chundu added that MIHS could not start the program on its own and that it would need a partner.

Mr. Meinke noted that the \$38 million budget for capital in 2010 was based on a combination of what senior administration believed could be spent, based on cash flow, and what should be spent with an investment-grade, bond-worthy credit rating.

Vice Chairman Gerard asked if the amounts budgeted for clinical equipment was for replacement or expansion.

Mr. Vanaskie confirmed it was for replacement of items.

Vice Chairman Gerard encouraged senior administration to look at ways to save money on the PC Refresh program. She also felt that the expansion at Desert Vista needed to be removed from the 2010 fiscal year capital budget due to the uncertainty of behavioral health funding.

Mr. Vanaskie said the reason for the expansion was that there are areas of Desert Vista that are not being utilized. The expansion will help use those areas. There is also an opportunity to develop adolescent psychiatry since Maricopa County is underserved in that area.

Vice Chairman Gerard said that adolescent psych would require a different type of facility than what is used for adult psychiatry.

Mr. Vanaskie said another opportunity would be to move the unit located in the 2619 building to Desert Vista, which would help reduce operating expenses since MIHS is operating psychiatry out of two different locations.

Dr. Olson confirmed that the expansion was not to add beds for court-ordered patients, but to develop adolescent psychiatry and to add more beds for voluntary patients who have commercial insurance.

4. Discuss Future District Strategic Initiatives

Chairman Bruno said that after conferring with Mr. Whitney, the decision was made to table this item until May 2009.

Vice Chairman Gerard expressed concern with the economy and thinks that senior administration and the Board need to look at more cuts in more areas. She would like to see senior administration review what capital items can be postponed or be accomplished in a different way. Because MIHS is a public hospital, there will be lines of business that will lose money. But in order for the Board to make solid financial decisions, the Board needs to know which lines of business lose money, which ones are profitable, and which ones break even.

She added that many people talk about the need for a new facility. Before she can make decisions about capital expenditures and operating budgets, she needs to know where the Board and senior administration stand with building a new facility. That discussion needs to begin and it shouldn't wait on the U of A decision about a medical school.

5. Discuss Future Fiscal Year 2010 Budget Meetings and Budget Town Halls/Public Hearings

Chairman Bruno asked the Board members to work with Ms. Talbot if they would like to schedule a budget town hall in their district.

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Adjourn

MOTION: Director Bicknell moved to adjourn the April 28, 2009 Special Health Care District Board of Directors formal meeting. Director Patterson seconded. **Motion unanimously passed.**

Meeting adjourned at 5:39 p.m.

William Bruno, Chair
Special Health Care District
Board of Directors