



MEMORANDUM

Date: August 14, 2015

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "CH", is written over the printed name "C.H. Huckelberry".

Re: **Maricopa County Hospital District**

Attached is an August 11, 2015 article from the *Arizona Capitol Times* regarding the Maricopa County hospital system defaulting on a loan.

As you know, the County hospital in Maricopa County was an extension, through a separate taxing district, by special legislation approved by the Arizona Legislature. The article discusses the default on the loan which is calculated at \$16.5 million. The Maricopa Integrated Health System will operate with a \$26.5 million deficit in Fiscal Year 2016/17.

Our experience is somewhat different. We got out of the business of operating a hospital in 2004, and the former Kino Hospital South Campus is now long-term leased to Banner-University Medical Center. The lease with Banner-University Medical Center still has 14 years of service with the possibility of an additional 25-year extension; and the physical facilities, property and certain capital equipment belong to the taxpayers of Pima County.

Banner's financial performance and medical service has been better than expected. For Fiscal Year (FY) 2015 through April:

- Adjusted patient days (the statistical measure of overall hospital utilization) are up 10 percent over the previous year and 9 percent above budget for the year;
- Admissions have increased by 6 percent in Medical/Surgical and Behavioral Health admissions are up 17 percent;
- Total Inpatient Patient Days have increased 1percent;
- Emergency Department visits continue an upward trend, up 13 percent over FY 2014 year-to-date and 12 percent above budget;
- Total physician clinic volumes are up 6 percent, with significant increases reported in the psychiatric clinic, diabetes center, and orthopedic clinic;

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- Average monthly losses are -\$466,837, which is a significant reduction from FY 2014 year-to-date with an increase in revenue; and
- New federal funds totaled \$5,821,239 YTD for Safety Net Care Pool, Disproportionate Share Hospital, Arizona Health Care Cost Containment System and Graduate Medical Education funds.

Our experience with leasing our hospital has been positive.

CHH/anc

Attachment

c: Jan Leshar, Deputy County Administrator for Medical and Health Services

CAPITOL TIMES

County hospital system defaults on \$15.4 million loan

By: Gary Grado August 11, 2015 , 4:37 pm



Maricopa Medical Center

The county's hospital system for indigent patients has defaulted on a 10-year-old, \$15.4 million loan from Maricopa County.

Maricopa County gave Maricopa Integrated Health System the loan in 2005 as seed money for the voter-approved health system, which was established as a separate government body to relieve the county of the financial burden of running Maricopa Medical Center at 26th and Roosevelt streets.

The hospital was losing \$15 million a year for a decade before the creation of the special hospital district.

MIHS is partially funded through property taxes and has forecast \$67 million in revenue from the tax levy in its fiscal-year 2016 spending plan. Besides Maricopa Medical Center, the district also has a burn unit and a network of neighborhood clinics.

Michael Murphy, an MIHS spokesman, said the loan was to be paid in full on Aug. 1 but no payments have been made over the 10-year period.

With interest, the amount due is now \$16.5 million. Included in the total is \$433,000 to pay for the 2004 election of the original MIHS board of directors.

Fields Mosely, a county spokesman, said the county has been working with the hospital district to hash out a repayment plan. It's expected to be done by the end of August.

He said there was no payment plan in the original agreement requiring payments on specified dates throughout the 10-year-period.

"It was simply a 10-year note," Mosely said.

Mosely said supervisors are agreeable to a short-term repayment plan of three or four installments.

“They don’t want it to be another 10-year deal,” he said.

The note comes due at a time of financial hardship for MIHS.

The MIHS Board of Directors has approved a \$26.5 million deficit for fiscal-year 2016.

Murphy said both staffs have been working on a repayment plan that won’t have a negative impact on patient care.

He said MIHS lost \$50 million in annual funding with the 2014 expiration of the Safety Net Care Pool, a fund to pay for uninsured and Medicaid recipients.

The Arizona Tax Research Association, a tax watchdog group funded by utilities and large corporations, has been a constant critic of the hospital district since its inception.

The group’s president, Kevin McCarthy, said he sees the unpaid loan as ironic because the Board of Supervisors knew in 2003 that running a county hospital was not profitable, and decided to push for the creation of a special taxing district instead of eliminating the hospital.

“That’s why they no longer wanted to carry it under the county banner,” McCarthy said. “If it was going to be profitable, there wouldn’t have been any need to do what they did with the whole special district.”

The district board of directors on Aug. 3 approved the issuance of \$106 million in bonds to pay for debt and soft capital.

The bond issuance is part of the \$935 million in financing voters approved in November.

The 30-year finance plan would pay for rebuilding the 42-year-old Maricopa Medical Center, which would be smaller than the current building. The project would also upgrade and expand 11 neighborhood clinics, consolidate two mental health centers to expand capacity, increase services for seriously mentally ill residents, and build new specialty care clinics in the East Valley and Northwest Valley.

LOAN TIMELINE

November 2003: Voters approved Proposition 414, creating a special hospital district to run Maricopa Medical Center and the county’s financially ailing health care system for the indigent.

November 2004: Election of the first MIHS board of directors.

August 2005: Maricopa County Board of Supervisors approve a \$15.4 million loan to MIHS to pay for working capital and the November 2004 election.

Aug. 1, 2015: The loan, which includes \$1.1 million in interest becomes due.