



MEMORANDUM

Date: November 12, 2013

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

From: C.H. Huckelberry
County Administrator

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

Re: **The University of Arizona Medical Center–South Campus: the Eight-year Transformation Report**

I am pleased to provide the attached eight-year status report on The University of Arizona Medical Center (UAMC)–South Campus hospital initiative.

Today's opportunities at this campus are in stark contrast to circumstances the County faced more than 10 years ago when I provided the Board of Supervisors with a report detailing the fiscal and operational condition of the Kino Community Hospital. Kino's disproportionate share of uncompensated care and impending reductions in state and federal reimbursement under Medicaid, as well as other safety net programs, ensured that continuing County operation of the facility was untenable. In light of the fiscal situation and increasing complexity of healthcare service delivery, as well as the expanding need for medical services and providers in the region, the options identified were to close the hospital, convert it to a psychiatric facility, or lease it to another healthcare organization capable of establishing and operating a full-service facility.

While other counties throughout the nation were struggling with similar situations and many opted to simply close their hospitals, it was clear our community continued to recognize the value of a full-service hospital at this site and the need for a robust emergency room to handle the growing demand and access to primary and specialty care. With so much of Pima County, including the site of this hospital, designated by federal agencies as a medically underserved and health professional shortage area, access to care at this site was a critical initiative. Further, the hospital provided the closest emergency room access for many residents of southern Arizona.

While the needs of this community for expanded access to a full range of services was significant in 2002 when I presented my report, they are even greater today and will be heightened further as a result of the Affordable Care Act. Beginning January 1, 2014, people in our community who have previously been uninsured will have the ability to secure insurance coverage. The expectation that 138,000 uninsured individuals in Pima County will enroll over the coming year for healthcare coverage and will then have the ability to seek preventive care, as well as chronic care services, offers an opportunity to

The Honorable Chairman and Members, Pima County Board of Supervisors
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further leverage the investment by all parties in the hospital now known as The University of Arizona Medical Center–South Campus and its dedicated physicians.

Since our transition of operations in June 2004, the hospital has become a modern full-service facility, now training 110 physicians and fellows in one of the largest, if not the largest, expansion of physician training at The University of Arizona College of Medicine in Arizona. The hospital has also expanded training for the next generation of nurses and allied health professionals, expanding its affiliations to include Pima Community College.

The commitment to continued service development to meet the needs of a growing and aging community is of significant value to the residents of Pima County and surrounding communities. This commitment has preserved and expanded jobs for our community.

Additionally, through close collaboration with Pima County, as well as state and federal regulators, The University of Arizona Health Network (UAHN) has received over \$200 million of new federal funds from local match initiatives funded substantially from the County's financial commitments to this initiative. Additionally, UAHN has embraced the opportunity to utilize voter-approved bond funds at the UAMC-South Campus to expand the array and size of primary and specialty physician clinics, diagnostic services, the continuum of behavioral health services and commit to transform its emergency department to a Level III trauma service as an extension of the only Level I trauma center in southern Arizona based at the sister hospital, UAMC–University Campus.

It is clear that while this initiative took longer than originally anticipated, this collaborative and creative strategy has been a success for the community, The University of Arizona and its academic medical center in southern Arizona. Our community now has the benefit of a full-service hospital that is increasingly responsive to our needs with a focus on improving the health status of our residents and recognition of the importance of its role in successful economic development initiatives.

CHH/mjk

Attachment

c: Jan Leshar, Deputy County Administrator for Medical and Health Services
Honey Pivrotto, Assistant County Administrator for Health
Ellen Wheeler, Assistant County Administrator for Justice and Law Enforcement



**UAMC- South Campus: The Eight Year Transformation
FY 2005 through FY 2013**



Prepared by:

Office of the Assistant County Administrator for Health

November 6, 2013

I. Background

Pima County has had a commitment to the health and welfare of the residents of this community for over 100 years. The County has strengthened that commitment over the last 35 years with the development and expansion of what is now the Kino Campus. In 1974, Pima County voters approved bond funds to replace the County General Hospital on Sixth Avenue with a new hospital on the south side of Ajo and Country Club. Kino Community Hospital opened its doors on Ajo Way in 1977.

With the approval of Proposition 204 in 2000, the financial responsibility of the provision of health care to the indigent population transitioned from the Counties to the State, Arizona Health Care Cost Containment System (AHCCCS). AHCCCS began offering individuals relying on public support for health care the opportunity and ability to choose any physician or hospital for their care, eliminating the need for a County Hospital focused solely on meeting the County's obligation to provide health care to an indigent population. This development, along with increasingly complex reimbursement systems from the Federal, State and commercial payors, challenging regulatory requirements, and a lack of a dedicated physician base, significantly complicated the County's ability to maximize the value of Kino Community Hospital. By 2004 Pima County was losing in excess of \$30 million per year operating the hospital. Community reliance on the hospital for services was limited to the emergency department and crisis or acute psychiatry.

University Physicians, Inc. (UPI), the physician faculty practice for the University of Arizona, College of Medicine, recognized that the 203-bed Kino Community Hospital presented an opportunity for the University of Arizona to expand its training programs in a way that was not possible at its primary teaching hospital, then known as University Medical Center, due to space constraints. UPI emphasized the need to expand the bed capacity by creating separate inpatient capacity for individuals with behavioral health services so existing inpatient beds could be used for medical and surgical inpatients. The ability to increase the number of available medical and surgical beds and associated patients was essential to support the facility's financial viability goals as well as optimize healthcare workforce development with clinical rotations and incorporate important research.

A. Decision to Lease the Hospital to UPI

In June 2004, the Board of Supervisors voted for the County to cease the operation of the hospital, to transfer the state license to UPI and approve a 25-year lease of the property. The lease required certain performance measures including maintaining a set of essential services. This included provision of behavioral health services critical for the County to meet its statutory obligations related to civil commitments defined in Title 36 and a set of service expansion goals supporting revitalization of the hospital. The lease also provided a schedule of funding commitments by the County to UPI over a period of ten years in support of the initiative. UPI operated the hospital under its lease with the County using various names from June 16, 2004 until June of 2010. During this period, the County provided funding of \$120 million.

B. Establishment of the Two-Hospital Integrated Academic Medical System

In June 2010, agreement was reached with the respective corporate leadership and Boards that the physician faculty practice along with the hospital on the Kino campus and the primary teaching hospital, University Medical Center, would reorganize into a new company representing a single system with a new corporate and operational framework. This new corporation would utilize

strategies and synergies from their combined strengths and assets of \$1.2 billion to maximize efficiencies and outcomes for the system. This single entity was subsequently named The University of Arizona Health Network (UAHN) and represented a two-hospital academic medical center as well as more than 700 physicians and a Medicaid health plan. The two hospitals are now known as UAMC – South Campus and UAMC – University Campus. The reorganization accompanied a request to the County to provide additional funding and a commitment to integration of the activities across both hospitals.

The County entered a two year Intergovernmental Agreement (IGA) with the Arizona Board of Regents (ABOR) and UAHN committing additional funding totaling \$50 million (\$15 million more for FY 2010 operations; \$20 million for FY 2011 and \$15 million for FY 2012). The IGA prescribed funding from Pima County to ABOR to be used as matching funds to leverage available federal funds to support graduate medical education and offset rising costs of uninsured patients. These initiatives would generate a stream of new federal funds in a ratio of at least 2:1 for every dollar of County matching funds provided. Executing the IGA with ABOR as a party to the Agreement permitted the County to provide the funding without violating the Arizona Constitution's "Gift Clause" as interpreted by the Court of Appeals in the case of *Turken v. Gordon*.

In June of 2012, the County extended this IGA for two more years through fiscal year 2014 with a total base funding of \$15 million for each year or an additional \$30 million for the two year period. The current IGA between the County, ABOR and UAHN was built on four guiding principles: Efficient and Effective Service Delivery and Training of Healthcare Workforce; Public Health and Wellness; Financial Viability and Sustainability; and Accountability and Transparency.

C. Enhancement of UAMC – South Campus through Voter Approved Bond Funds

As of June 30, 2014, Pima County's investment in this collaborative initiative with the University of Arizona and its academic medical center, UAHN, will total \$200 million. Additionally, bond funds approved in 2004 and 2006 totaling \$66 million will have been utilized to expand and enhance the campus to 245 licensed beds. The bonds funded the construction of a new three story Behavioral Health Pavillion (BHP) containing a new emergency department on the first floor with specially equipped rooms for emergency psychiatric patients and trauma cases. The second floor contains 48 inpatient psychiatric beds for individuals requiring acute behavioral health services. The third floor is shelled for future programs. The Crisis Response Center (CRC), adjacent to the BHP, provides behavioral health crisis and stabilization services for adults and children and includes a 15 bed sub-acute unit for short term stays. Additionally, the bonds funded a lighted landing pad and helicopter parking area known as the helipad and a new GI lab at the hospital expanding capacity from one to three procedure rooms.

These bonds also funded the renovation of the first floor of Herbert K. Abrams Public Health Center to provide sizeable expansion for Family and Community Medicine, 36 exam rooms, and the Diabetes Center with 11 exam rooms, a teaching kitchen and fitness center. All of the bond projects focused on increasing the community's access to a full array of essential care utilizing an integrated model in which the mind and body can be treated in one location with cost effective options across the continuum of care.

II. Operational Transformation

Significant transformation has occurred since the operation of the hospital was leased to UPI in June of 2004. UPI, as the new licensed provider at the hospital, assumed responsibility for a provider site with approximately 50 Level 1 acute psychiatric inpatients, less than 10 medical/surgical patients, and a closed intensive care unit (ICU). The hospital had discontinued its base hospital status in the County wide emergency medical system. The lack of staffed operational ICU beds, combined with the loss of base hospital status, resulted in reduced utilization of the emergency department for critical care services by the community. While certain primary and specialty physicians were at the site prior to June 2004, the hospital did not have a robust, fully committed and engaged physician team essential to meaningful hospital operation.

The leadership of UAHN, the University of Arizona College of Medicine, and UAMC - South Campus, particularly a number of dedicated physicians, have been instrumental in the revitalization of the hospital. Efforts have been undertaken to align incentives and opportunities within the academic medical system through restructuring and expansion of clinical programs and other operations. The integrated system structure has been key to these efforts and offers significant future opportunities. In addition, the physicians across primary and specialty practices have clearly demonstrated the energy and vision critical to meeting the education, research and clinical goals underpinning this collaboration.

A. Financial and Clinical Indicators

Financial and clinical indicators are the focus of a joint Oversight Committee that meets twice a month to examine actual progress against milestones for UAMC – South Campus as detailed in the IGA. **Attachment 1**, titled *Executive Management Overview, Eight Year Analysis: FY 2005 through FY 2013* provides a summary of the profitability and expansion of services at UAMC – South Campus.

1. Profitability

The actual results from operations as of June 30, 2013 reflect a loss from service operations of \$39.9 million (excludes County support and new federal funds). However, UAMC – South Campus closed FY 2013 with an overall profit of \$4.6 million as a result of County support and new federal funds made available to UAMC - South Campus utilizing the County funding as local match ($-\$39.9\text{m operating loss} + \$14.4\text{m County support} + \$30.0\text{m new federal funds} = \4.55m).

While the hospital continues to incur significant operating losses from its services (\$39.9 million), when adjusted for volume the amount of loss is improving. Between FY 2005 to FY 2013, volume adjusted operating losses improved 32% (from \$(678.62) to \$(460.65) per adjusted patient day).

Federal Financial Participation Funds Generated from Local Match Initiative

A major initiative since the formalization of the collaboration between the County, the hospital leadership and the University has been coordination with AHCCCS to identify strategies for leveraging the local funding, provided at this point by the County and the University, to be used in lieu of State match to generate new federal funds. The result of this collaboration has been development of an ongoing initiative which leverages a dollar of the County's investment in the South Campus with up to three dollars of new federal funding. The three major initiatives identified during the past few years

are the 1) Graduate Medical Education (GME) Program; 2) Disproportionate Share Hospital (DSH); and 3) Safety Net Care Pool (SNCP).

Beginning in FY 2008 and continuing through FY 2013, the County and the University of Arizona have provided \$94.1 million in local match from for these three initiatives which has generated \$208.1 million in new federal funds for the UAHN hospitals. Without the infusion of these new federal funds from local match, UAMC – South Campus would have incurred an additional \$85.1 million in losses between FY 2008 and FY 2013.

Unfortunately SNCP is not a permanent answer to the uncompensated care issue. SNCP is scheduled to end in December 2013 requiring a new strategy by the organization to address the level of uncompensated care likely to continue in some part even with the implementation of the Affordable Care Act. UAHN leadership continues to identify strategies for this gap. Without SNCP funding the operating loss for UAMC – South Campus in FY 2013 alone would have been approximately \$15.5 million.

2. Expansion of Services

A transformation of the hospital, as measured by the community's utilization of its services, has clearly occurred. Adjusted patient days are a statistic that reflects overall patient utilization of both inpatient and outpatient services. For FY 2013 adjusted patient days were 86,508, a 119% increase over FY 2005.

Admissions

Hospital admissions have increased 73% from 4,220 admissions in FY 2005 to 7,249 admissions in FY 2013. The composition of admissions also shows a clear shift. In FY 2005, 37% of the admissions to UAMC – South Campus were for medical/surgical and ICU services while 63% of the admissions were for behavioral health services. In FY 2013, the composition of admissions changed to 66% for medical/surgical and ICU services and 34% for behavioral health. It is clear, from the growth and composition of admissions, the hospital has transitioned from treating primarily behavioral health patients to a hospital treating medical, surgical and ICU patients while remaining the hub of the community's behavioral health hospital services.

Surgical Procedures

Surgery is a critical gateway for admissions to any hospital and is widely recognized as a key revenue stream essential to the organization's overall financial viability. Both inpatient and outpatient surgeries are performed at UAMC – South Campus. Surgical procedures have increased 406% from 662 procedures in FY 2005 to 3,350 procedures in FY 2013. Dedicated surgeons and renovations to the operating rooms as well as pre- and post-operating facilities have accelerated continuing growth in surgical procedures at this site which offers a viable alternative to the overburdened operating rooms at UAMC – University Campus.

Physician Clinic Visits

Primary care clinics (family medicine and internal medicine) and specialty care clinics have grown and expanded services since 2005. Physician clinic volume has increased 233% from 48,830 visits in FY 2005 to 162,821 visits in FY 2013. A few of the physician clinics added to UAMC – South Campus

include: diabetes clinic, outpatient psychiatry, orthopedics, OB/GYN, and toxicology. Physician clinics staffed by UAMC – South Campus physicians have also been added to other locations such as the Alvernon clinic which includes family medicine, neurology and internal medicine. The increase in volume can be attributed to the dedicated physicians supporting and staffing expansion of services available to the community.

Emergency Department (ED)

From FY 2005 to FY 2013 ED visits increased 38%. During this same time period the level of acuity also increased. Historically patients would present to the ED for a range of services from urgent care to emergency. With the closure of the urgent care in 2011, the care today is focused on true emergency services and the hospital has evolved as a strong community partner with the emergency management team. In FY 2013, 25% of all patients presenting to the ED were via ambulance. The hospital's ongoing work to achieve its trauma designation is also a factor in the increasing acuity.

In February 2012, the State granted UAMC-South Campus a provisional Level III trauma designation. In August 2013, the provisional designation expired and UAMC - South Campus received a Level IV provisional license from the State while leadership and the trauma team revised their approach to achieving a permanent Level III designation. To receive a permanent designation, UAMC – South Campus must meet the requirements of the American College of Surgeons (ACS). UAHN is committed to achieving permanent Level III designation for the South Campus to compliment the University Campus as the only Level I trauma hospital for Southern Arizona. September 2014 is the target date to achieve this milestone.

B. Workforce Development

The health care workforce is inadequate for the demographics of the community and to meet the projected needs related to the growth of the percentage of the population older than 65 with chronic health conditions. Policy changes such as those in the Affordable Care Act (ACA) are also driving the need for workforce development in health care. Studies indicate the ACA will increase the number of covered lives by an additional 32 million in 2014 (Zywiak, 2010) meaning that an additional 32 million individuals will be insured and able to present for primary, specialty and preventive care that is part of the essential benefits package mandated in the ACA. These changes are expected to require an increase of approximately 52,000 additional primary care physicians by 2025 (approximately 33,000 to meet population growth, 10,000 to meet population aging, and 8,000 to meet insurance expansion) (Peterson, et al., 2012).

Recognizing there are existing workforce shortages today and these shortages will increase, workforce development has been, and continues to be, a significant driver of the collaboration between the County, the University and hospital leadership. UAMC – South Campus successfully achieved its goal of accreditation for a brand new physician training program now accredited across seven programs with 110 physician residents training in the program. The Graduate Medical Education (GME) program began in July 2009 with 17 residents training in two specialties – psychiatry and internal medicine. The number of physicians training in the program has increased 547% from 17 in FY 2005 to 110 in FY 2013. The seven training programs at UAMC – South Campus include the following specialties: internal medicine, psychiatry, neurology, ophthalmology, emergency medicine, family medicine and toxicology.

This new physician training program, made possible by the ongoing transformation of the South Campus hospital, is aiding in alleviating the current and projected physician shortage that adversely impacts access to care by individuals who choose to live in this region of the state particularly with the fast growing population over the age of 60. These 110 physicians would not be training in this community had the County, the University and the UAHN collaboration not leveraged the clinical training site on the South Campus.

Additional Workforce Development Provided at UAMC – South Campus

The South Campus hospital leadership recognizes, along with the County and other community leaders, there is an urgent need for workforce development not only for physicians, but for the array of health care professionals and provides multiple training opportunities. Training strategies are targeted at providing a career ladder of employment with livable and competitive wages for individuals throughout the community. Training partners identified by the South Campus hospital Administrator include: U of A College of Nursing, U of A College of Pharmacy, U of A College of Public Health, Arizona State University, Brookline College, Brown Mackie College, Grand Canyon University, Lutheran Medical Center, New York College of Podiatric Medicine, Northern Arizona University, Pima Community College, Pima Medical Institute, University of Minnesota, Rock Mountain University of Health Professionals, Tucson College, University of Phoenix, and University of St. Francis. Studies focus on: nursing, nurse practitioner, pharmacy, patient care techs, phlebotomists, medical technicians, physical therapy, medical coding, physician assistants and behavioral health technicians.

C. Stabilization of UAHN Leadership

Significant changes in leadership have occurred at both UAHN and the University that have an impact on UAMC – South Campus operations. Sarah Frost continues to be a stable force for the UAMC – South Campus in her role as the Administrator. In July 2012, Dr. Ann Weaver Hart assumed the position of the President at the University of Arizona. In January 2013, Dr. Michael Waldrum assumed the position of CEO and President of UAHN. In September 2013 Dr. Joe G.N. 'Skip' Garcia began the position of Vice-President for Health Services at the University of Arizona. Dr. Garcia will provide academic leadership for the Arizona Health Sciences Center colleges, which include: the UA College of Medicine – Tucson; UA College of Medicine – Phoenix; UA College of Pharmacy; UA College of Nursing; and the UA Mel and Enid Zuckerman College of Public Health - all of which impact the future strategies with UAHN and our community.

III. Future

This innovative collaboration, which began as a concept more than ten years ago, has accomplished most of the envisioned transformation goals. The challenge is to agree upon a vision of the future and a complementary strategic and economic development plan that will leverage these resources and lead to even greater accomplishments for the people of this community and the University of Arizona.

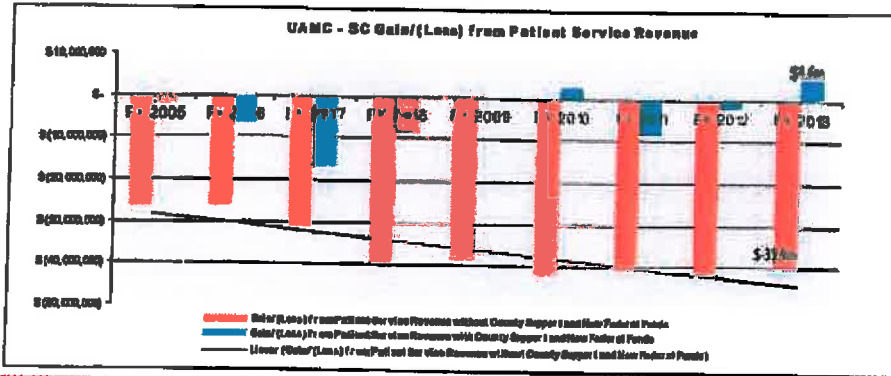
It is clear UAMC – South Campus will need to rely on the County for a fixed amount of continued financial support. At my direction, County staff have begun discussions with UAHN leadership to extend the IGA between the County, ABOR and UAHN with County support budgeted at \$15 million annually. In addition, I have put a placeholder for a bond initiative at UAMC – South Campus for the 2015 bond election. I expect UAMC – South Campus to work with key stakeholders in the community to prepare a proposal for the bond committee focused on further development of the campus.

Attachment # 1
Executive Management Overview
Eight Year Analysis

EXECUTIVE MANAGEMENT OVERVIEW EIGHT YEAR ANALYSIS: FY 2005 THROUGH FY 2013

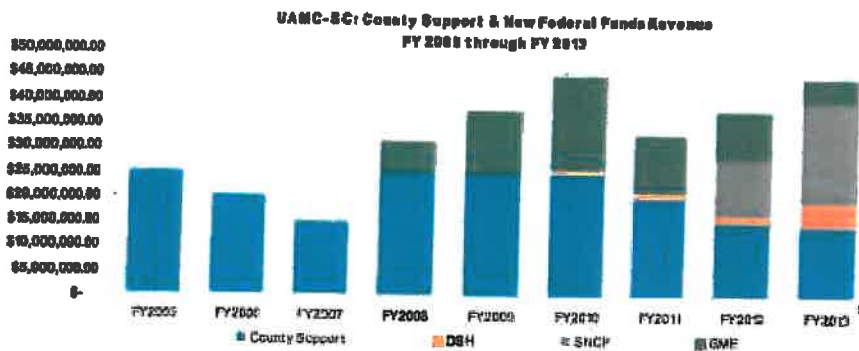
UAMC-SOUTH CAMPUS
PERFORMANCE TRACKING REPORT

PROFITABILITY



Operating Gain/(Loss) From Patient Service Revenue (Before County Support & New Federal Funds) Adjusted to reflect volume per APD	
FY 2005	\$(-678.62)
FY 2013	\$(-460.65)
Improvement in Operating Loss from Service Revenue per APD \$217.97*	
32% Improvement	

LOCAL MATCH COLLABORATORS GENERATING NEW FEDERAL FUNDS



% Composition of Revenues other than Patient Service Revenue: FY 2013	
DSH	11%
GME	11%
SNCP	45%
Pima County Contribution	32%

*FY 2013 includes New Federal Funds received and accrued



*These amounts do not include the full amounts accrued for FY 2013

Special Points of Interest:

- The hospital completed FY 2013 with a profit of \$4.6 million.
- The actual results from operations were a loss of \$39.9 million. While operating losses from service revenue continue to grow, when adjusted for patient volume there is a 32% improvement.
- The loss was offset by County support of \$14.4 million which is used as a local match projected to generate another \$30 million in new federal funds resulting in the \$4.6 million profit. ($\$-39.9m + 30m + 14.4m = \4.55 million)
- Overall profitability has improved as a result of new federal funds, secured through local match, which total \$85.1 million since 2008.
- The largest component of the new federal funds, known as SNCP, is projected to total \$20.1 million for FY 2013 and will not be available after December 31, 2013. At this time there are no other initiatives to replace SNCP.

EXECUTIVE MANAGEMENT OVERVIEW

EIGHT YEAR ANALYSIS: FY 2005 THROUGH FY 2013

UAMC-SOUTH CAMPUS
PERFORMANCE TRACKING REPORT

EXPANSION OF SERVICES



CLINIC VOLUMES

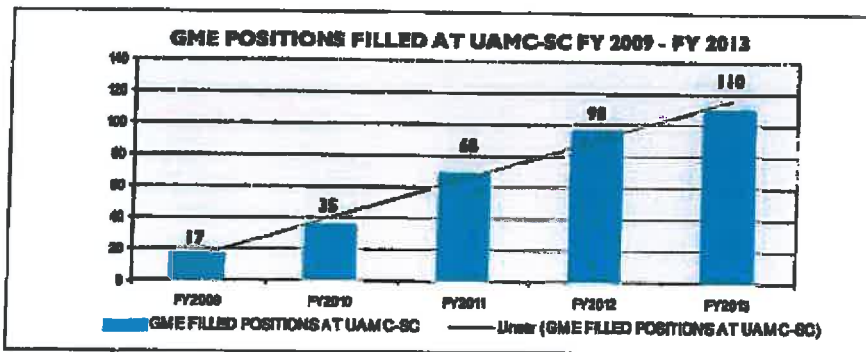
Volumes for Clinics Operating since FY 2005

Clinic	Total Vis FY 13	% Growth FY 13 vs FY 05
Family Medicine—UAMC-SC	38,287	78%
Internal Medicine <small>*Cardiology, Endocrinology, Rheumatology, Gastroenterology, Renal and Infectious Disease</small>	15,290	33%
Multi-specialty—UAMC-SC <small>*Surgery, Urology, Pediatric and Pain Management</small>	8,236	281%
Neurology	10,939	527%
Ophthalmology (UAMC-SC & Alvernon)	27,455	632%
Pediatrics	11,850	-14%

Clinic Specialties Added Since FY 2005

Specialty	Total Vis FY 13
Diabetes—UAMC-SC	2,265
Specialty—Alvernon <small>*Neurology & Plastic/Reconstructive, Internal Medicine</small>	7,664
Infusion—Wilmot	2,472
Psychiatry	5,552
Family Medicine—Alvernon	20,861
Orthopedics	7,660
OB/GYN	5,581
Wilmot Clinic <small>*Oncology, Gastroenterology, General Med, Internal Med, INR and Cholesterol</small>	8,686
Toxicology	23

WORKFORCE DEVELOPMENT— PHYSICIAN TRAINING, ALSO KNOWN AS GME



UAMC-SC
Graduate Medical Education
547% Growth
in GME program placement.

Special Points of Interest:

- Overall volume has increased 119%.
- It is clear, from the growth and composition of admissions, the hospital has transitioned from treating primarily behavioral health patients to a hospital treating medical, surgical and ICU patients while remaining the hub of the community's behavioral health hospital services.
- Primary care clinics (family medicine and internal medicine) and specialty care clinics have grown and expanded services since 2005.
- Emergency Department: visits increased 38%. UAMC-SC has achieved Level 4 Trauma designation and is working toward a Level 3 Trauma designation.
- The hospital successfully achieved its goal of accreditation for a brand new physician training program now accredited across 7 programs with 110 physician residents training in this program.