MEMORANDUM

Date: March 9, 2017

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

From: C.H. Huckelberry
      County Administrator

Re: Indigent Healthcare and Medical Services in Pima County

Background

At the March 7, 2017 Board of Supervisors meeting, Addendum Item 7, Facilities Management Lease to add $3 million to the Banner–University Medical Center South Campus, LLC (Banner–UMC South) contract Amendment 4, was discussed. This amendment is to fund major facility and/or building-related improvements dealing with hospital accreditation for fire safety, fire alarms and air handlers. The total cost of these specific building improvements is estimated at $1.2 million.

In addition, $1.8 million is allocated to build out the Third Floor of the Behavioral Health Pavilion (BHP). The BHP was constructed with vacant space using voter-authorized bonds from a 2006 authorization approved by 63 percent of the voters. The original bonds for the hospital were approved in 1974 by 73 percent of the voters. The purpose of the BHP build out is to provide for the consolidation of Banner University Medical Center Tucson and Banner–UMC South Department of Psychiatry clinic operations. The clinic will provide adult psychiatric services, serve as a training clinic for third and fourth year residents, and relocate child psychiatric services from a temporary structure on the Banner–UMC South Campus to a permanent clinic space in the BHP.

Several questions from the Board of Supervisors arose regarding this contract amendment, and those questions are addressed below.

1. Why did the County not contract directly for the improvements?

   The County has directed the Facilities staff at Banner–UMC South to use required statutory contracting provisions, including competitive bidding. The improvements have all been competitively bid and comply with State law. The primary purpose in having Banner Facilities employees manage the work is to ensure compliance with hospital-related access and safety standards. It has been and always will be our preference to have contract improvements made to leased County buildings, particularly in a highly regulated hospital environment, conducted under the direct supervision of the hospital operator. To do otherwise places the County in a much higher risk environment with unnecessary jeopardy.
2. Is the County simply giving Banner public money?

No. As stated previously, based on our lease agreement, Banner is operating a County public building, constructed with County funds and which remains on County property. Major facility maintenance and repair remains the obligation of the County, while day-to-day operating and maintenance activities rest with Banner. Our investments are being made in our buildings; they are not reducing Banner’s standard annual operating or maintenance obligations. These necessary improvements have been identified as potential licensing jeopardy by the Joint Commission for Hospital Accreditation.

3. Why was the Board of Supervisors not advised of this earlier?

The Board was advised of the need to make these facilities investments in leased County property in my September 21, 2016 memorandum on this subject (Attachment 1).

4. Was this not an emergency, since Contingency Funds are being transferred?

No. This issue has been discussed for some time with Banner University Medicine as our hospital operator. Attached are my February 25, 2016 letter to Banner (Attachment 2) and an August 5, 2016 letter from University Medical Center Tucson and Banner—UMC South Chief Executive Officer Tom Dickson (Attachment 3).

5. If the funding is from the Contingency Fund, was it an unplanned expenditure?

No, it has been known since before the start of this fiscal year that these expenditures would be required. They were reserved as part of our overall Fiscal Year (FY) Contingency of $72,063,990. Because of the Board’s approval of the contract amendment on March 7, 2017, it is likely that half or more of the funds reserved in contingency will remain unspent at the end of this fiscal year and will be carried forward into FY 2017/18, particularly those improvements related to the buildout of the BHP.

6. Are counties required to provide indigent medical services?

The short answer is no; but the response requires more comprehensive policy considerations, particularly as they relate to the general provision of health and medical services throughout Pima County.

Since Territorial days, or 1864, until approximately 1980, Pima County provided direct patient care for the indigent. In the early Territorial days, the Board retained the services of a specific physician to provide healthcare to a specific indigent person. In 1934, Pima County contracted with the Pima County Medical Society to provide medical staff free of charge at the County hospital. A County hospital board of
governors was established in 1939 for the provision of these indigent medical services that evolved into a County hospital built for the specific purpose of providing medical services to the indigent. The County remained in the hospital business through the State’s first entry into indigent care with the creation of the Arizona Healthcare Cost Containment System (AHCCCS), Arizona’s alternative form of Medicaid and Medicare. At that point, counties could have potentially exited the overall direct delivery of hospital services to the indigent; however, in our case, we remained in the hospital business until 2004. At that time, we decided to lease our facilities to a succession of University-based healthcare providers affiliated with The University of Arizona College of Medicine.

Finally, in 2000, voters passed Proposition 204, which reorganized AHCCCS to assume responsibility for the administration of indigent healthcare and shifted some costs from counties to AHCCCS; and a statute enacted by the Arizona Legislature specifically excluded counties from any liability in providing indigent medical services. This was 18 years after AHCCCS was created to assume this responsibility in 1980.

With the Affordable Care Act (ACA), which is now under repeal, the federal government assumed a broader role in providing medical and healthcare services for all; not only the indigent who qualified for a state program such as AHCCCS in Arizona or federal Medicare/Medicaid in other states, but also for what has become known as the notch group (those individuals who have enough income so they do not qualify as indigent but who do not have enough income to afford regular medical or health insurance). This group was targeted for insurance by the ACA.

Previously, this notch group obtained medical care by reporting to an emergency department operated by a hospital because of the Emergency Medical Treatment and Labor Act (EMTALA); a federal law that requires any individual presenting to an emergency room, regardless of the ability to pay, receive medical services. These individuals were often billed at established rates, often had no means to pay, and became known as a hospital’s bad debt. In fact, prior to the expansion of AHCCCS and the implementation of the ACA, uncompensated care at Banner–UMC South was in excess of 13 percent. With the ACA, it currently runs between 3 and 4 percent annually. Should the State roll back the expansion, it will ultimately have the effect of increasing everyone else’s medical costs.

Leasing our hospital to a competent provider provides significant community medical and health services. Doing so substantially lowers the costs incurred by Pima County or the taxpayer than when the County operated the hospital. By 2004, Pima County was losing in excess of $30 million per year operating the hospital. In 2005, Pima County made the decision to lease the facility and provide annual support from the General Fund. Between FY 2005 and FY 2010, the County provided approximately $25 million annually to help enhance the hospital operations on the South Campus. This support tapered to $20 million in FY 2011 and then $15 million for FYs 2012 through 2017. An amendment in June 2015 decreased the funding for FY 2016 by
$2.5 million. Had the County continued to support the hospital at a cost to taxpayers of approximately $35 million per year, the total cost since 2005 would have been $420 million, which means the County saved approximately $172.5 million and enhanced the quality of care.

The South Campus also provides a center of psychiatric services, alleviating the dysfunction that occurred at many other area hospital emergency rooms when medical and behavioral health patients were intermingled with patients who presented in emergency rooms exclusively for medical-related services.

7. These improvements were rejected by the voters of Pima County

Quite to the contrary, the improvements to the BHP are a long planned buildout of a building constructed with $54 million in bonds authorized by the voters in 2006. These bonds built both the Crisis Response Center and the BHP. Both of these facilities are dedicated to providing much needed community behavioral and mental health services.

If you would like additional information about our partnership with University of Arizona-based healthcare providers for indigent healthcare and medical services, please refer to the following memoranda:

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
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<tbody>
<tr>
<td>08/12/16</td>
<td>Arizona Board of Regents Health Affairs Committee Meeting Regarding The University of Arizona College of Medicine and Banner Health Affiliation Agreement</td>
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<td>04/22/16</td>
<td>Fourth Amendment to the Agreement for Continued Operations and Funding of Banner-University Medical Center South Campus and The University of Arizona College of Medicine Graduate Medical Education Program</td>
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<td>04/19/16</td>
<td>Banner-University Medical Center South Campus Graduate Medical Education Program</td>
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<td>12/24/14</td>
<td>Banner Health Proposed Assumption of Agreements Between Pima County and University Physicians and the University of Arizona Medical Center</td>
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<tr>
<td>07/01/14</td>
<td>Banner Health Potential Assumption of Lease Agreement of The University of Arizona Medical Center-South Campus and the South Campus Operating and Funding Agreement with Pima County</td>
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<tr>
<td>11/12/13</td>
<td>The University of Arizona Medical Center-South Campus: the Eight-year Transformation Report</td>
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</table>

CHH/anc
Attachments

c: Jan Lesher, Chief Deputy County Administrator
MEMORANDUM

Date: September 21, 2016

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

From: C.H. Huckelberry
      County Administrator

Re: Facility Investments in County-leased Property Banner-University Medical Center South Campus

As the Board of Supervisors knows, the County has leased the former Kino Community Hospital to a private medical provider since 2004. Other than the bond-funded capital improvements, which were primarily building expansion, we have not made any significant capital investment in our facilities since they were originally leased.

To retain full accreditation of the hospital for continued use, the County has made and will make several capital investments before the end of Fiscal Year 2016/17. These investments relate primarily to improvements to fixed building assets belonging to the County, including an upgraded fire alarm system, air handlers, electrical systems, building energy management system and other HVAC systems. Improvements are already underway for the upgraded fire alarm and air handling system, which are critical. Additional improvements will be made before the end of this fiscal year that total approximately $1.5 million; these will be funded by our Facilities Renewal Fund with transfers from the anticipated unbudgeted surplus in the FY 2015/16 ending fund balance. As the details of the improvements are determined, I will bring to the Board additional information and a lease amendment to reflect the proposed work.

It is important to realize Banner is also making capital investments to the South Campus. Attached is a memorandum dated September 19, 2016, along with a companion September 12, 2016 memorandum from Deputy County Administrator Jan Lesher, summarizing their capital improvements to the Banner Campus, primarily for medical equipment, which can be extraordinarily costly. For Calendar Years 2015 and 2016, Banner will invest in excess of $10 million primarily for medical equipment, as contained in the itemized list of capital acquisitions.

Our investments, primarily in facilities maintenance of County-owned assets and Banner’s investments in medical equipment, ensure Banner-University Medical Center South Campus remains an accredited hospital offering both emergency and psychiatric services.

CHH/lab

Attachments

c:  Jan Lesher, Deputy County Administrator for Community and Health Services
    Tom Burke, Deputy County Administrator for Administration
    Lisa Josker, Director, Facilities Management
MEMORANDUM
Community and Health Services

Date: September 19, 2016

To: C.H. Huckelberry  
County Administrator

From: Jan Lesher  
Deputy County Administrator

Re: Update to September 12, 2016 Memorandum regarding Banner University Medical Center – South Campus Request for Capital Investments

In a Memorandum to you dated September 12, 2016 I responded to your August 9 Memorandum in which you forwarded to me a letter from Mr. Tom Dickson and asked that I inquire what additional medical service investments will be made by Banner in the South Campus facility.

The September 12, 2016 Memorandum included a spreadsheet that delineated a total of $7,787,984 spent by BUMC – South Campus during 2015 and to date in 2016 in capital and related equipment expenditures. On September 14, I was informed that the list provided did not include magnetic resonance imaging (MRI) equipment recently purchased for $2,300,000. This brings the total capital and related equipment expenditures made by BUMC-South Campus during 2015 and 2016 to $10,087,984.

As noted in the September 12, 2016 Memorandum, Banner’s capital investment addressed a myriad of issues related to surgery, radiology, cardiology, physician based clinic and general hospital operations. (Two lines items totaling $196,841 are listed as “expenses to a different facility”. The expense for this dialysis related equipment was charged to a different facility – the Foundation – but remain at the South Campus.)

JL/cbc

Attachments

c: Tom Burke, Deputy County Administrator for Administration  
Lisa Josker, Director, Facilities Management
MEMORANDUM

Community and Health Services

Date: September 12, 2016

To: C.H. Huckelberry
    County Administrator

From: Jan Leshner
      Deputy County Administrator

Re: August 9, 2016 Memorandum regarding Banner University Medical Center – South Campus Request for Capital Investments

In a letter to you dated August 5, Banner University Medical Center (BUMC) - Tucson & South Campus CEO Tom Dickson acknowledged the mutual interest BUMC and Pima County have in maintaining the South Campus facility in a manner that allows us to guarantee the highest standard of care. He noted the recent provision of the fire alarm system and air handlers by Pima County and noted that we also discussed providing an additional approximately $1.5 million for additional equipment repair and/or replacement.

Your August 9 Memorandum forwarded to me the letter from Mr. Dickson and asked that I inquire what additional medical service investments will be made by Banner in the South Campus facility. The attached spreadsheet delineates the $7,787,984 spent by BUMC - South Campus during 2015 and to date in 2016 in capital and related equipment expenditures. Banner's capital investment addressed a myriad of issues related to surgery, radiology, cardiology, physician based clinic and general hospital operations. (Two lines items totaling $196,841 are listed as “expenses to a different facility”. The expense for this dialysis related equipment was charged to a different facility – the Foundation - but remain at the South Campus.)

I believe this list of expenditures clarifies that the capital investment made by Banner Health at the South Campus indicates a commitment to the long term viability of that facility.

JL/cbc

Attachment

c: Tom Burke, Deputy County Administrator for Administration
Lisa Josker, Director, Facilities Management
<table>
<thead>
<tr>
<th>Year</th>
<th>Total $'s Spent</th>
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<tr>
<td>2015</td>
<td>5,645,259.00</td>
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<tr>
<td>2016</td>
<td>2,142,750.00</td>
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<td>Grand Total</td>
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<td>0484-2015-Replace Cooling Tower for Kitchen Equipment- 2015</td>
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<td>0484-2015-ABG Machines</td>
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<td>0484-2015-SC Symphony Plus, C ice and water dispes</td>
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<td>0484-2015-Digital Radiography - South Campus</td>
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<td>0484-2016-Olympus GI scopes-South campus</td>
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</table>
February 25, 2016

Kathy Bollinger, President
Banner-University Medicine
Hospital Administration Office
1501 N. Campbell Avenue
Tucson, Arizona 85724

Re: Physical Plant Improvements at Banner-University Medical Center South

Dear Ms. Bollinger:

Thank you for meeting with me recently to discuss accreditation deficiencies that have been noted and which require capital improvements in the physical facilities at the County-owned hospital at the Kino Health Complex, which is leased to Banner-University Medical Center (Banner).

As we discussed, I have instructed our Facilities Management Director to review each of these deficiencies brought to our attention to determine an appropriate plan to resolve the concerns or replace the deficient systems. I have asked that Facilities Management review and begin planning to resolve each of the identified areas of physical plant deficiency and to begin appropriate budget planning to correct these issues within the next 10 to 18 months.

In addition to the current intergovernmental Agreement (IGA) the County has with Banner for annual funding, I will be asking the Board of Supervisors to approve supplemental funding necessary for the improvements identified in the most recent Joint Commission Accreditation. Given the time necessary to review with your staff, develop detailed implementation plans and costs of same, I would anticipate this amendment to the IGA being placed before the Board the latter part of this calendar year for implementation as soon as practically possible.
Ms. Bollinger  
Re: Physical Plant Improvements at Banner-University Medical Center South  
February 25, 2016  
Page 2

I appreciate you and your staff’s efforts to operate the County-owned hospital in the most cost-effective manner while serving the medical needs of the community.

Sincerely,

C.H. Huckelberry  
County Administrator

CHH/lab

Enclosure

c:  Tom Dickson, Chief Executive Officer, Banner-University Medical Center Tucson and South
    Sarah Frost, Chief Operating Officer, Banner-University Medical Center Tucson and South
    Jan Lesher, Deputy County Administrator for Community and Health Services
    Tom Burke, Deputy County Administrator for Administration
    Lisa Josker, Interim Director, Facilities Management
Fire alarm system - Main Building

- Current system is obsolete.
- No indications of pump failure and pump off - specifically cited by JC for this - EC.02.03.05 Elements of Performance EP 1
- False alarms
- Wires and bungee cords to hold things together - shared with Carter during the tour
- Staffing issue
- $280,000

Air Handler

- Flow and pressurization. Doing engineering study - assess current conditions and current capacity.
- Infection control issues
- No redundant fan - new air handlers have a second line of defense if fails. One fan versus many.
  OR as an example
- Don’t want to break and then fix
- Do preventative regular maintenance
- Can spread over a couple years in the following order of priority
  - Operating Room
  - SPD
  - Floor 2
  - ICU
- $500,000 per air handler.

Transfer Switches

Can spread over a couple of years in the following areas of priority:

- One in trouble currently
- When lose power - need to run out to ensure it throws manually.
- Standard piece of equipment
- Replaced 2 already few years back - able to fix a few and now obsolete with parts not available
- 5 switches per year - perform over 3 year period
- $304,000

Building Energy Management - Pressure Monitoring

- Same issues as fire alarm. Still functioning
- If down in trouble - no monitoring required for SPD or OR for pressurization.
- Main priority areas of SPD and OR
- Estimated at $200,000
**Cooling Tower**

- Kitchen refrigeration – failing
- Getting worse and accelerating need for repairs--- we are patching as we can
- Keeps all walk in coolers cold
- Actual cost $38,000

**Sewer Election Station**

- Replace final (emergency) pump, get a spare and level controls
- Do not want back up in kitchen
- Have already replaced 2 pumps already
- Can be done over 12 -18 months
- Estimated cost $30,000

**Future needs**

1. Energy Management system replacement all other areas- 1.5 million spread over 6 years
2. Hospital Flooring
3. Ceiling Tiles/Lighting---- EP- 18 LS.020130- ceiling tiles- fyi
5. Chiller
6. Roof- by power plant. We recently did clinic roof, and main hospital
7. Elevators
8. Cart Washer
August 5, 2016

Mr. Chuck Huckelberry  
Pima County Administrator  
130 W. Congress St. 10th Floor  
Tucson, AZ 85701

Dear Chuck:

Thank you for taking the time to meet with Kathy Bollinger, Sarah Frost, and me on July 7, 2016. I appreciate that we have a mutual interest in ensuring that the South Campus facility is equipped in a way that allows us to continue to provide excellent patient care to our patients. My thanks for ensuring that the fire alarm system and air handlers are replaced as a high priority. I have been receiving reports on the progress of these improvements and it seems that the project is progressing well.

Thank you, in addition, for agreeing to fund the remaining items we discussed. Specifically:

* Transfer switches  
* Air Handlers - 2 remaining  
* Building energy management – pressure monitoring  
* Cooling tower  
* Sewer ejection station

As we discussed, the estimated cost of these items is approximately $1.5 million. I recall that you committed to fund these items prior to the end of the year. Please let me know if there are issues to discuss regarding this matter.

Chuck, we appreciate the partnership we have with you, Jan and Dr. Garcia with regard to helping develop the South Campus facility to its fullest potential. With your support, we are providing excellent medical and behavioral health care services to the residents of Pima County. Thank you again for working with us on the needed infrastructure improvements for the South Campus.

Sincerely,

Thomas C. Dickson  
Chief Executive Officer  
BUMC – Tucson & South Campuses

CC: Kathy Bollinger  
Sarah Frost