



COUNTY ADMINISTRATOR'S OFFICE

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C. H. HUCKELBERRY
County Administrator

April 28, 2009

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Re: Your February 23, 2009 Letter Regarding Continuing County Financial Support of University Physicians Healthcare Hospital at Kino Campus

Dear Messrs. Crist, Goldschmid, and Aldrich:

Thank you for your letter of February 23, 2009. I agree with your observations that there is now more collaboration and opportunity for improving medical service delivery, as well as the financial viability of UPH Hospital (UPHH). The analysis that has been undertaken by a variety of consultants with national healthcare reputations is impressive. Understanding that the principals involved - the University of Arizona College of Medicine, University Physicians Healthcare, University Medical Center, Arizona Health Sciences Center and University Physicians Healthcare Hospital - will be directly involved in an ongoing and active planning process to develop a going-forward strategic plan by the fall of 2009 is very encouraging.

I appreciate all of the medical service program advances that have been made at UPHH over the last five years. I understand and will convey to the Board of Supervisors the necessity of remaining engaged in this long-term hospital management transition.

With regard to the points in your letter:

1. Increasing our financial support to \$30 million for fiscal year 2009/10 will be a difficult task. However, it may be achievable. Included in the County base budget is the scheduled \$10 million lease payment for this coming fiscal year to University Physicians Healthcare (UPH). In addition, I have set aside an additional \$15 million to be dispersed to UPH through an agreed upon and legally approved process. Finally, as discussed under Point 4 of this letter, favorable construction bids on the behavioral health facilities should allow the County to consider purchasing some of the more costly hospital capital equipment. We do believe hospital functions are improving, but more needs to be done to improve not only medical services, but also fiscal performance. It is our expectation in future years that all reasonable measures will be taken to reduce County financial support. Thus, management efforts at UPH Hospital, supplemented by an array of consulting expertise focused on the financial and business operations as well as clinical services, are expected to achieve operational improvements that should lead to a reduction in the level of financial support being requested of the County.
2. A form of base funding for future support in the following fiscal years will be based on continued improvement of performance, and completion of a strategic plan by all parties, including UMC, by the Fall of 2009. We commend each of you for spearheading the significant academic health system performance improvement initiative represented in the Chartis Group proposal. We fully expect that the resulting structure under the leadership of the newly created position of Vice President of Health Affairs at the University will support UPH Hospital's full transition into a vital member of the University's two-hospital teaching system. This significant change in focus and integration of the entire academic health system will enable UPH Hospital to fully benefit from critical economies of scale, thereby experiencing cost reductions and revenue improvements that will enable improved financial performance and expansion of clinical services. With continuing performance improvement and a very specific and goal-achievable strategic plan, it is probable that the County will commit to some level of continued supplemental funding in future fiscal years.
3. We would like to reach an agreed upon future funding level based on the variables referenced in your letter, with the key variable being the amount of disproportionate care of uninsured and under-insured patients provided by the hospital. All area hospitals provide some level of care to the under-insured and uninsured due to these individuals having legal access to medical care services through each hospital's respective emergency department. We agree that there should be some mechanism for reimbursement for the disproportionate care to uninsured and under-insured patients over and above the regional hospital average and the payments UPH Hospital could receive for disproportionate share from federal and state sources. We believe this additional financial burden experienced by UPHH requires verification and documentation as well as comparison with other hospitals in this region. I would suggest that we ask the Arizona Hospital Association to verify these costs and their disproportionate impact on UPHH.

William Crist/Steve Goldschmid/Larry Aldrich

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4. I have directed that our Facilities Management Director initiate the bidding process for the construction of additional behavioral health facilities on the Kino Campus, including an expanded Emergency Department and Crisis Recovery Center. Given the current economic conditions in the building industry, it is an appropriate and advantageous time to seek competitive bids for this construction work. A positive bidding response will allow the County additional financial flexibility regarding capital equipment, investment and replacement equipment within the amount of bond funds established for these facilities.
5. The County remains committed to the graduate medical education expansion at the Kino Campus. It should be noted that County support for the GME Program is considered a key reason for continuing support. In addition, an increase in County-funded AHCCCS payments for GME should help reduce the direct support for the hospital needed from the County. The County also remains absolutely committed to any other activities that would increase revenues to the Kino campus in order to expand services or increase medical education and training opportunities, including but not limited to those opportunities now available through the federal stimulus such as disproportionate share hospital (DSH) payments for indigent care.
6. Regarding medical office building space, it should be noted that the present plans for expanding the behavioral health facilities contain significant shell space that could, under the proper circumstances, be used during an interim period as medical office space.
7. As you know from our meeting of March 31, 2009, additional payments to UPHH by the County have been complicated by a recent Court of Appeals decision named *Turken v. Gordon*, involving a parking garage constructed for a developer in Phoenix. This case involves the gift clause of the Arizona Constitution. As difficult as it is to believe that a parking garage is connected to hospital services, the County Attorney does have concerns over additional financial payments to UPHH because of this case. I am hopeful that with additional information and facts we will find a legal mechanism, approved by the County Attorney, to make the additional payment to UPHH that I have reserved in the County budget.
8. As we can all agree, continuation of past practice and financial performance at UPHH cannot continue. I was very encouraged by our recent April 14, 2009 meeting with the Chartis Group to discuss their ongoing engagement for developing a strategy for going forward to improve the College of Medicine, University Medical Center and University Physicians Healthcare hospitals. Understanding one of their first study emphasis will be to review the operation and performance of UPHH with a key process outcome to reduce the financial losses occurring at UPHH is a significant factor in my continuing support for County financial commitment. A hospital successful in providing critical healthcare and medical services for the community as well as expanding the physician base in Pima County, with reasonable financial support, is our common goal.

William Crist/Steve Goldschmid/Larry Aldrich
Your February 23, 2009 Letter Regarding Continuing County Financial Support of University
Physicians Healthcare Hospital at Kino Campus

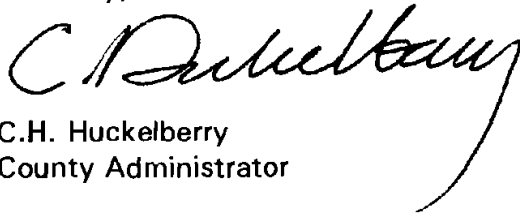
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I also believe the Board clearly understands the path that has been taken in the partnership with the University of Arizona College of Medicine, UPH, and others to achieve a viable and functioning hospital at the Kino Campus. I will continue to make the success of this facility a County priority as I believe it is essential that we continue to focus on the primary goal, which is to expand the University of Arizona College of Medicine through the development of a successful two-hospital teaching system. The expansion of the original partnership to include both the University of Arizona College of Medicine and University Medical Center is considered critical to the success of the venture and we expect meaningful progress on that front as the strategic plan is executed over the next several months.

Finally, as we move our partnership in this endeavor to a new level, we pledge open and honest dialogue as well as the free and transparent exchange of information. I am confident that we can rely on you for the same.

Sincerely,



C.H. Huckelberry
County Administrator

CHH/jj

Attachment

- c: The Honorable Chairman and Members, Pima County Board of Supervisors
Dennis Douglas, Deputy County Administrator for Medical and Health Services
Honey Piviroto, Assistant County Administrator for Medical and Health Services
President Robert Shelton, Ph.D., The University of Arizona
Provost Meredith Hay, Ph.D., The University of Arizona
Gregory Piviroto, President and CEO, University Medical Center
Judy Gignac, Chair, University Medical Center Board of Directors
Grant Lasson, Consulting Director, The Chartis Group

February 23, 2009

Chuck Huckelberry, County Administrator
130 W. Congress St., 10th Floor
Tucson, Arizona 85701-1317

Dear Mr. Huckelberry:

It is our pleasure to become directly involved with The University of Arizona College of Medicine's contribution to the UPH Hospital at Kino campus (UPHH). As you know, the University shares the county's goal of providing outstanding health services to citizens of Pima County regardless of their ability to pay for these services. Also, we share the County's interest in training health care workers, many of whom will remain in Pima County to practice. We are committed to these goals for the long term, as is the County. These fundamental values and goals form the basis for our productive relationship. It is appropriate at the five-year anniversary of our partnership to reflect on progress to date, and to develop a Strategic Plan that will serve as a blueprint to follow as we move forward. We believe that only with a specific Strategic Plan can we move forward in a well thought out way that is transparent to all partners, provides some level of predictable cost, and maximizes our chance of success in achieving all of our goals. We request that the County commit to continuing financial support based on our track record of progress to date and commitment to develop and execute an exciting Strategic Plan by September 1, 2009. Commitment to deliver the plan will come from Dr. Crist (representing the President of UA, Dr. Robert Shelton and the Arizona Board of Regents), the Dean of the UA College of Medicine, Dr. Steve Goldschmid, Mr. Larry Aldrich, CEO of UPH, and the Department Chairs from the Departments who are developing clinical programs at UPHH.

To move forward rapidly with our new plans we must proceed in two steps. First, we must develop and sign-off on a one year budget requesting Pima County support to cover estimated costs above revenues projected for the FY10 budget year. This must be accomplished by March 31, 2009. This step is needed to assure financial stability. Without this agreement, there will be great difficulty in the recruitment of faculty, residents, staff and leadership for UPHH. Our budget request for FY10 will be in your hands for consideration by February 27, 2009, and will request only funds we believe are essential for provision of services to patients and steady growth of programs during this time period. Although we seek an agreement in principle for an additional four years, we acknowledge that the exact budget for those years will be renegotiated after our Strategic Plan is completed on September 1, 2009. We have asked Chartis, Inc. to assist in the development of a Strategic Plan for our Health System, including the College of Medicine, UPH, UMC and UPHH. Funds flow agreements among all partners will be a part of the deliverables. We have confidence that Chartis Group, Inc. can facilitate development of the plan expeditiously, and that the plan will be sufficiently detailed to assure all partners that a path to success is clear. We also understand that they will facilitate, but the plan will come from the parties mentioned above including the Clinical Chairs. Dr. Crist will oversee the engagement. With the Strategic Plan for the Arizona Health Science Center in hand, we can better anticipate what will be required in the subsequent many years of our partnership.

As we consider renewal of the lease for UPHH and the transition to a long-term working relationship with Pima County, we believe it is worthwhile to first reflect upon the successes and challenges that have occurred during the last five years, as well as the opportunities for the future.

Some of the key successes in providing health services to the County's population over the past five years (FY04 to FY08) include annual growth in:

- Emergency visits from 26,329 to 40,983
- Hospital's average daily census from 58 to 107 patients
- Outpatient clinic volume from 41,968 to 71,618
- Surgical procedures from 304 to 2,103

In addition the campus now enjoys special expertise in Family and Community Medicine, Neurology, Women's Health, Orthopedics and Sports Medicine, Surgery and Cardiology.

The UA/UPHH Graduate Medical Education (GME) Consortium program is adding to the breadth of expertise and significantly addressing the physician workforce shortage in Arizona by expanding to include 121 residents at program cap in the following specialties: Emergency Medicine, Family Medicine, Internal Medicine, Neurology, Ophthalmology, Psychiatry, Radiology and Surgery.

Despite these impressive gains, there is much more to be done. In FY10 we have the following service expansion plans and expect to recruit physicians in the following specialties:

- Cardiology
- Endocrinology/Diabetes
- Family Medicine
- Gastroenterology
- General Internal Medicine
- Hematology/Oncology
- Nephrology
- Neurology
- Orthopedics
- Psychiatry
- Pulmonary and Critical Care Medicine
- Radiology

Although we are all proud of these accomplishments, we realize that the key to our long-term relationship and success is development and deployment of a Strategic Plan for the Arizona Health Sciences Center (UMC and UPHH, the College of Medicine/UPH) in partnership with Pima County. As mentioned earlier, this process will be facilitated by the Chartis Group, Inc. Dr. Ernie Schloss (a professional planner) and Mr. Jerry Miron, Interim CFO of the Health Sciences Center, have recently joined the staff of the Vice President for Health Affairs office to provide coordination among the partners. A goal of the strategic planning process will be to define clear roles with and for our partners, including Pima County, and to promote the smooth interaction and flow of patients throughout our system. This process should result in a more stable platform for recruiting and staffing at UPHH. We expect the planning process to be completed by September 1, 2009, at which time we will have a basic understanding of the funding needs for UPHH going forward and how Pima County, UMC, UPH, and The University of Arizona will be able to develop an even stronger partnership in the delivery of care to the residents of Pima County, in the education of our future health care workforce, and the creation of new knowledge through patient-based research.

To accomplish this level of service, we humbly request your agreement on the following key imperatives for The University of Arizona, and its College of Medicine/UPH: (1) financial support for our joint efforts in training physicians for our community through our GME programs on the Kino Campus, and (2) care to the uninsured and underinsured of our community:

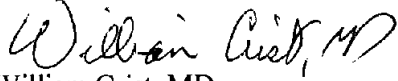
- Financial support of approximately \$30 million for our FY10, beginning July 1, 2009, based on an approved budget.
- “Base funding” financial support for the following four fiscal years, of something less than \$30 million a year. The details of this (and any additional) support will be based on approved budgets that are derived after we complete the comprehensive strategic plan for our academic health center, including our teaching hospitals, in partnership with Pima County (July 1, 2009).
- Language that will allow for adjustments to funding going forward based on key variables including actual costs for indigent care subsidy based upon previous years experience and projections of likely actual costs to be incurred, hospital staffing needs as we grow, physician support as we grow, to be agreed upon. These adjustments, however, will need to be in place before the completion of the new facilities on the campus, which likely will not occur until FY12/13. It must be understood that increasing the amount of patients we serve will likely increase the costs associated with delivery of that care after we have maximized efficiency if we provide a disproportionate amount of care to underinsured patients. We have remained at ~11-12% for several years.
- Agreement on the timing of construction of behavioral health facilities on the Kino Campus, including an expanded ED and CRC agreements in place. We also need to agree on how to fund the equipment and interior improvements of the facilities – the financial support discussed above does not include additional capital equipment other than replacement equipment. We believe that capital equipment should be requested annually in the UPHH budget, the costs borne by the Hospital, and the ownership of the equipment should reside with the Hospital.
- Continuing commitment by the County to the “Rev Max” project to maximum allowable by the State’s upper payment limit; this language should be flexible and include “maximum possible” language based on funds available through AHCCCS. This will be a critical need to maintain funding for the indigent and GME on the campus in the face of likely state budget cuts.
- If possible, an agreement regarding completion of appropriate medical office building space on the campus for expanded clinics and faculty offices.
- Agreed upon completion date of March 31, 2009 for the 2010 fiscal year and an agreement in principle for the subsequent four years.

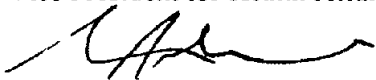
Vice President Crist has been in touch with the CEO of Parkland Hospital in Dallas, Dr. Ron Anderson, to learn more about how that large County Hospital works with the College of Medicine and other medical center partners to achieve so much for patients in that region. We plan to learn all we can about questions including optimal governance, appropriate levels of support to be expected, and others. We will also review the work done previously by Ernst and Young regarding efficiency of business practices at UPHH. We will share the report with you and our Steering Committee. A more comprehensive and updated review may be needed to assure that we are doing all that is possible to maximize revenue generation and reduce costs. If we decide to seek additional outside consultant help, we will need to address the funding needed to cover the cost of review. We will also review, in detail, the operation of Maricopa Integrated

Health Systems in Phoenix. In summary, we plan to do all that is possible to support our partnership with Pima County in the future.

We also agree to again look at other needs of Pima County for health services including those for the prison population. Dr. Crist has obtained a commitment from Mr. Greg Pivrotto, the President and CEO of UMC to meet regularly with the CEO at UPHH to seek opportunities to work together to (1) benefit patients, and (2) plan for the future together so that we maximize complementation between the UA College of Medicine's teaching hospitals. Mr. Pivrotto informed his Board Members (Dr. Crist is on the UMC Board) of his plans regarding UPHH and his intent to fully participate in Strategic Planning for the Arizona Health Sciences System. We will learn together, implement together, and succeed together in the years to come. We look forward to creating a high level of success with Pima County for its residents.

Sincerely,


William Crist, MD
Vice President for Health Affairs


Steve Goldschmid, MD
Interim Dean, UA College of Medicine


Larry Aldrich
President/CEO University Physicians Healthcare

cc: President Robert Shelton, Ph.D., The University of Arizona
Provost Meredith Hay, Ph.D., The University of Arizona