

The Board of Supervisors of Maricopa County, Arizona convened in Informal Session at 1:30 p.m., January 3, 2005 in the Board of Supervisors' Conference Room, 301 W. Jefferson, Phoenix, Arizona, with the following members present: Max W. Wilson, Chairman, District 4, Fulton Brock, District 1 (entered late); Don Stapley, District 2 (entered late), Andrew Kunasek, District 3 and Mary Rose Wilcox, District 5. Also present: Fran McCarroll, Clerk of the Board; Monica Farine, Minutes Coordinator; David Smith, County Manager; and Paul Golab, Deputy County Attorney. Votes of the Members will be recorded as follows: (aye-no-absent-abstain).

~ This is a Joint Meeting with the Maricopa County Special Health Care District Board ~

Chairman Wilson convened a joint meeting with the Special Health Care District. The following items were presented to both Boards.

David Smith, County Manager, said this new year brings change of governance for the Health Care District and at this meeting, details tracked over the past year will be discussed as well as the partnership of FRG, County staff, hospital staff and the new Health Board.

~ Supervisor Stapley entered the meeting ~

FINAL PRESENTATION OF TRANSITION PHASE SPECIAL HEALTH CARE DISTRICT

Tom Manos, Chief Financial Officer, Transition Team Leader said from the 2003 Citizens Task Force Committee Meeting for the Health Care District to its transition on January 1st, there were 14 months. In retrospect Mr. Manos felt every objective set forth by the Board of Supervisors was accomplished in an equitable manner for the County and the District. For his presentation of the Transition Phase for the Special Health Care District, Mr. Manos outlined the following facts:

HISTORY

- APRIL 2003 – MIHS Citizen's Task Force recommends a "Special Health Care District" for Maricopa County.
- June 2003 – State legislature passes HB 2530, authorizing the formation of a special district, subject to voter approval. Governor signed on 6/26.
- November 2003 – Maricopa County voters approve Prop. 414.

TRANSITION OBJECTIVES

- Equitable to County and District.
- Results in a clean hand-off of operations to the new District.
 - Ensures all health care delivery and business systems are operating effectively.
- As "transparent" as possible to employees.
 - Benefits and basic personnel policies should remain in place during the transition.
- Public process with Community input.

~ James Chavez entered the meeting ~

EMPLOYEE IGA PROVISIONS

- A. The District agreed to provide employment to all County employees who are employed by MIHS as of the Transfer Date.
- B. The District agreed to adopt the Maricopa County Merit System Resolution and Rules by reference.
- C. The District agreed to adopt the Maricopa County Compensation Plan by reference.
- D. The District agreed to provide employees with a comparable benefit plan design.

- E. All District employees will retain membership and coverage in the Arizona State Retirement System.
- F. The District agreed to offer its employees the option to participate in an IRS 457 deferred compensation plan.

~ Supervisor Brock entered the meeting ~

Equitable to County and District

- County transferred all assets to the District at no cost.
- County retained responsibility for pre-transfer tort liability, contract liability and liability resulting from violation of law.
- DSH provisions do not penalize the District and only reinforce the statutory protection.
- District and County buy services from each other as long as it makes sense.
 - Risk Management—win/win.
- Established interest free line of credit to ensure the district has sufficient cash.

Public Process

- 6 Public Forums conducted at MIHS
- Drafts of Term sheets and contracts circulated for comment before adoption.
- All-inclusive transition website.
 - Public Forum presentations
 - Board of Supervisors presentations
 - MIHS financial information
 - Library of other materials

FRG Efforts

- Initial Assessment
 - Conducted during February and March, 2004
 - MIHS's situation was complex, resulting from numerous internal and external issues
 - "OAO" claims processing system and related issues
 - Leadership issues
 - Inadequate operational, financial and clinical information
 - Physician relationship issues
 - JCAHO survey was fast approaching

FRG Efforts

- Post-assessment
 - Increased role in interim management and filling vacant leadership positions
 - Unwinding of the health plans from delivery system.
 - JCAHO required tremendous efforts
 - Performance improvement
 - Transition activities – IGAs & related activities
 - Governance work and Board education

Performance Improvement

- What we will achieve: Doing it Right!
 - The right thing (Quality, Integrity, Compassion)
 - In the right place (Setting/Level of care)
 - At the right time (When the customer needs it)
 - In the right way (in concert w/PI goals)
- Why?
 - Become a credit-worthy organization. Improve working capital and invest in OUR future
 - Transform MMC into a competitor in our market
 - The culture needs to change: we need to raise the bar on performance

Performance Improvement Goals

- ❑ \$30 M Improvement target; \$21 M identified:
 - ❑ Supply chain = \$7 M target
 - ❑ Productivity improvements = \$7 M target
 - ❑ New/Improvement Revenue = \$8 M target
 - ❑ Process/IT Improvements = \$8 M target
- ❑ What guides our process: decisions and actions that will improve MMC for patients

Prerequisites for Transfer

- ❑ Third-Party Approvals
All required third-party consents and approvals required to transfer title to the District and for the District to operate the Delivery System
- ❑ Appraisal
The county and the District shall have received a fair market value appraisal of the Delivery System.
- ❑ Licensure
The District shall have received from the appropriate licensing or permitting agencies assurances that there is no impediment to the issuance or transfer of licenses and permits to the District.
- ❑ MedPro
The County, the District and MedPro shall have executed and delivered an assignment and assumption agreement assigning to the District the contract by and between the County and MedPro.
- ❑ Tenant Leases
The County shall have obtained the consent of the lessor to the assignment and assumption of the lease.
- ❑ Leased Personal Property
The county shall have obtained lessors' consents to the assignment and assumption of leases and/or subleases.
- ❑ Encumbered Real Property
The County shall have obtained the consent of lenders to lease or sublease the encumbered real property.
- ❑ Environmental Assessment
The County shall have obtained Phase I and Phase II (as appropriate) Environmental Site Assessments.
- ❑ State Requirement System
The County shall provide written documentation evidencing the County's application to the Arizona State Requirement System.

To Be Done

- ❑ Complete Phase II Environmental reports
- ❑ Deliver County Representations and Warranties
- ❑ Engage Independent Auditor to audit January 1, 2005 balance sheet.

Ted Shaw, FRG Consultants, Chief Executive Officer, Maricopa Integrated Health System, said FRG is evaluating the seriously challenged health plans; leadership issues, inadequate financial data, and the failing claims process are all factors contributing to the financial problems. Changes were necessary for the organization to become creditworthy including incorporating his philosophy of "doing it right the first time with the right care in the right place" in an older building. Taxpayers passed the ballot issue, and today, 30 million dollars worth of needed improvements have been identified. Mr. Shaw explained that the delivery system would be transferred to the new District but the County will retain the Health Plans until they are stabilized.

Mr. Manos said the hospital currently has a cash balance of \$5.2 million. This is better than previous reports of deficits of 80 to 90 million dollars.

The transition team reviewed the contracts currently in place involving the health system and discovered that more than 1200 contracts would need to be assigned before the transfer date. They also had to research and deal with how to transfer the license for all facets of The Health System. As of just last week, the licensure issue was resolved and the new District has all of the necessary licenses for each of the facilities.

An independent auditor, American Appraisal, has been engaged to review the January 1 balance sheet for the Health System. Mr. Manos explained that this was another effort to provide assurances of the true value of the property being transferred to the new District. He will continue to work with the transition team and the new District officers to finalize the transfer of the MedPro contract. In addition, they have finalized the assignment of leases to the District including leased personal property and the Desert Vista property, formerly owned by the Maricopa County Finance Corporation. The State Retirement System issue was also resolved with the system voting to accept the District into their plans last November.

The final piece of the transition hand-off is the completion of the environmental surveys. Mr. Manos reported that all Phase One and Two reports have been done with the exception of some drilling to be completed in Glendale. Both the County and the District have agreed to an extension of the deadline to accommodate the full environmental review.

In concluding his report, Mr. Manos gave credit to the people who worked on the transition team, David Smith, and the entire Board for their dedication to the monumental task of this hand-off to the new Special Health Care District. He also extended an offer to the new District directors to assist them with any additional issues that might arise.

Supervisor Kunasek returned the praise for the success of the project to Tom Manos. He explained that the Board has specifically asked that Mr. Manos be the project leader for this huge undertaking.

Supervisor Wilcox thanked Mr. Manos, Mr. Smith, and the staff. She offered the Board's assistance in knowledge and willingness to share all the institutional history with the new Board of Directors. Supervisor Stapley also thanked the team and pledged his assistance and support to the new Board. He encouraged the new Board to look into the idea of partnering with the community partners and leaders especially regarding the proposed medical school in downtown Phoenix. Supervisor Brock thanked the Office of Management and Budget and the legal team for their work on this project. He encouraged the Board to pursue the medical school prospect.

Chairman Wilson stated that the new Board could rely on the Board of Supervisors to offer assistance as the process continued. He also recognized the hard work of several of his colleagues in keeping the hospital operational.

Mr. Smith agreed with all commentary including praise for his senior staff who participated in the transition team. He encouraged the new Board to use the ideas of Supervisors Brock and Stapley to seek partnership with a new medical school, as it may be the key to passing a future bond issue.

Mr. Bruno extended an invitation to his Board for comments. Paulina Morris thanked all for leadership in transition. She stated that she looks forward to working with the Board of Supervisors. James Chavez offered a tribute to the dedication of the Board of Supervisors in making the transition a smooth one. Mr. Bruno said the health system mission is to provide medical service to the less fortunate, to support the training of doctors, and to provide excellence to the burn, trauma and pediatric centers. He said the Board of

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Supervisors was brilliant in setting up this project, seeking thoughtful, esteemed citizens for a task force to create solutions and carrying it through to this final transition stage. Mr. Bruno said he was inspired when the citizens of this county, believing in the work going on, voted for a 40 million dollar tax. With that, Mr. Bruno was encouraged to run as a Director on this Board. He noted Mr. Manos' fairness and guidance throughout the process.

In conclusion, Chairman Wilcox presented a gift box to Mr. Bruno containing a key to the hospital.

MEETING ADJOURNED

There being no further business to come before the Board, the meeting was adjourned.

Max W. Wilson, Chairman of the Board

ATTEST:

Fran McCarroll, Clerk of the Board