



Board of Supervisors Memorandum

Date: December 24, 2014

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 Huckelberry", is written over the printed name of the County Administrator.

Re: Banner Health Proposed Assumption of Agreements between Pima County and University Physicians and University of Arizona Medical Center

Background

In a Memorandum dated July 1, 2014, I told the Board of Supervisors that the University of Arizona Health Network (UAHN) (formerly University Physicians) and the Arizona Board of Regents (ABOR) had entered into exclusive negotiations with Banner Health. In that Memorandum I noted that the University of Arizona Medical Center – South Campus (UAMC-SC) had come a long, long way since Pima County first transitioned out of the direct operations of the hospital in 2004 and that I was optimistic the collaboration with Banner Health will provide for the long-term stability of the hospital operations.

During these intervening months representatives of UAHN, Banner and the University of Arizona have conducted exhaustive negotiations covering all aspects of operations including clinical operations, academic management, care management, human resources, and branding in addition to a wide array of legal and financial considerations. Those negotiations are nearing completion and the purpose of this Memorandum is to convey to the Board of Supervisors the proposed amendments to the lease agreement and Intergovernmental Agreement (IGA) (attached) and to delineate why such a transfer is in the best interest of the people of Pima County.

Transition of Kino Community Hospital to University of Arizona Medical Center - South Campus

Pima County continues to strengthen its commitment to and support for the health and welfare of the residents of this community. In 1974, Pima County voters approved bond funds to replace the County General Hospital with a new hospital on Ajo and Country Club. The Kino Community Hospital as operated by Pima County struggled to provide comprehensive care while experiencing operational losses in the millions per year occasioned in part by the challenges posed by the state Medicaid system. In order to maintain proper stewardship of County resources and provide quality health care in the area served by Kino Community Hospital we entered into a collaboration with University Physicians, Inc. and University of Arizona Health Network.

In June 2004, the Pima County Board of Supervisors voted for the County to cease the operation of the hospital, and transfer the state license to University Physicians, Inc. (UPI), the physician faculty practice for the University of Arizona, College of Medicine. Under this agreement, the County would lease Kino Community Hospital to UPI and monitor service utilization and growth initiatives. UPI operated the hospital under its property lease with the County using various names for the hospital from June 16, 2004 until June 2010.

In June 2010, the clinical practices, hospitals and health care plan affiliated with the University of Arizona reorganized into the University of Arizona Health Network (UAHN). UAHN operates two hospitals now known as the University of Arizona Medical Center – South Campus (UAMC-SC) and the University of Arizona Medical Center – University Campus (UAMC-UC), as well as the provider based clinics and related services.

Now renamed UAMC-SC, the Kino Community Hospital has become a modern full-service teaching facility, training the next generation of health care professionals while providing state of the art trauma, surgical, general medicine and behavioral health services to the residents of Pima County. Working in partnership with Pima County, UAHN has been the recipient of new federal funds, expanded the array of clinics providing services to local residents, and has greatly increased graduate medical education fellowships.

UAMC-SC Patient Service Volume

Table 1 below shows the improvement in patient and service volume and from Fiscal Year 2003 through Fiscal Year 2014 (revised and updated from memo Amendment to Intergovernmental Agreement with Arizona Board of Regents and The University of Arizona Health Network, Inc. dated May 13, 2014).

Table 1: UAMC-SC Patient Volume Comparison - FY 2005 to FY 2014

Category	FY 2005	FY 2014	Change	% Change
Adjusted Patient Days	39,440	88,312	48,872	124%
Total Average Daily Census (ADC)	65	116	51	78%
ICU ADC	2	8	6	300%
Medical/Surgical ADC	13	52	39	300%
Behavioral Health ADC	50	56	6	12%
Total Clinic Visits	48,830	164,746	115,916	237%
Total Emergency Dept. Visits	30,356	43,032	12,676	42%
Total Surgical Procedures	662	3,538	2,876	434%

As shown, there has been significant growth across several sectors of the hospital, especially in surgical volume, clinic visits and medical/surgical patient admissions. The hospital now includes a renovated and expanded emergency department, a Level IV Trauma Center operating in conjunction with the Level I Trauma Center at UAMC-UC, and

The Honorable Chair and Members, Pima County Board of Supervisors
Re: Banner Health Proposed Assumption of Agreements Between Pima County and
University Physicians and University of Arizona Medical Center
December 24, 2014
Page 3

a newly opened medical/surgical inpatient ward which has significantly expanded patient capacity at the facility.

Proposed Transfer of Lease and Intergovernmental Agreement Governing University of Arizona Medical Center – South Campus to Banner Health

For the past decade Pima County has contracted with the University of Arizona either as University Physicians, Inc. or the University of Arizona Health Network (UAHN) to operate UAMC-SC. In addition, Pima County participates in an Intergovernmental Agreement (IGA) to leverage local dollars as a match, which allows the hospital to receive significant federal dollars to benefit our community.

Banner Health Profile

Banner Health is a nonprofit corporation based in Phoenix, Arizona, that operates, owns or leases hospitals, clinics, nursing homes, clinical laboratories, home health agencies, health insurance and other health-related businesses in seven states. In 1999, Lutheran Health Systems, based in North Dakota, and Samaritan Health Systems, based in Phoenix, merged to form Banner Health. The resultant corporation has over 36,000 employees and operates 24 hospitals. Banner Health also operates Banner Medical Group, a 1,000+ physician group, and Banner Health Network, a 300,000 member insurance and managed care organization.

Banner operates 15 hospitals in Arizona as well as 3 research locations and 6 outpatient or specialty care centers. Of the eight Arizona Banner hospitals rated by Hospital Safety Score, four have received "A" rankings while 2 others received "B" scores.

The 2013 financial report for Banner Health shows \$8.2B in total assets, an increase of over \$600M from the previous year. This includes \$133M in cash or equivalent, and receivables in excess of \$500M for the year ending 12/31/2013. Total liabilities are listed at \$3.9B, the majority of which is long-term debt, down from \$4.1B in 2012.

For 2013, expenses (\$4.8B) account for 95% of operating revenue (\$5.1B), but with nearly \$600M in investment income, there was a net gain of \$843M (\$433M in net cash from operations). This gain is an increase of 25% over 2012 figures. Patient service revenue exceeded \$4.4B, a slight gain over the previous year. The "net community benefit" (unpaid public programs, community and professional activities, contributions, etc.) for Banner Health in 2013 was \$444M.

Recently, Banner acquired Casa Grande Regional Medical Center (CGRMC), a 177-bed facility that had recently entered bankruptcy proceedings (December 2013), on June 9, 2014. There is no publically available information on the retention of

CGRMC staff, though the newly re-launched website does suggest maintenance of employment and a news article dated February 6, 2014, quotes Banner as promising to hire all existing employees provided they pass background screening. The facility has been renamed Banner Casa Grande Medical Center following the acquisition. The cost of the acquisition is a reported \$87M. Banner Health has maintained a strong commitment to providing health care services in Arizona, and their proposed expansion to Pima County suggests a continued focus on building their network in the state.

Status of Banner in Pima County

The UAHN – Banner merger has received a number of letters of public support throughout Pima County. Among the community leaders submitting support are the Arizona Board of Regents, community health care providers such as Tucson Medical Center and El Rio Community Health Center, and community organizations such as the Pima Community Access Program.

This merger is a strategic step to increase access to health care for the Pima County residents while leveraging the operational expertise of an established hospital network and capital resources. The merger between UAHN and Banner Health will provide an innovative, state-wide, comprehensive health care delivery capacity that will inherently promote and strengthen the health outcomes of the people of Pima County and the state of Arizona.

The following entities or agencies require approval or notifications pursuant to this merger:

- The UAMC Board has provided required approval;
- The Banner Board has provided required approval;
- AHCCCS authorized transfer of the health plan;
- ADHS must be notified regarding the change in licensure for the facility;
- All other entities (e.g. third-party payers, vendors and contractors, etc.) are to be notified of the change in name/identification but do not have to otherwise authorize the transition.

The merger is slated to take effect before the end of January 2015.

IGA Amendment between Pima County and ABOR for UAMC-SC: Public/University Private Collaborative Initiative

The IGA negotiation process outlined the priorities for the furtherance of the goals and objectives of UAHN and Pima County, increasing the access to care within our community and promoting financial viability and sustainability of the hospital and its associated impact to Pima County residents. Per the outlined requisites of the IGA, the hospital leadership and County staff worked with the leadership of UAHN and both hospitals to develop the proposed amendment to the IGA that affirms the parties' commitment to several tenets and guiding principles.

A. Efficient and Effective Service Delivery & Training of the Healthcare Workforce

As part of this IGA, UAHN has committed to continue development of the health care workforce by maintaining University of Arizona College of Medicine training collaborative, expanding cross-specialty collaboration, and increase resident physician retention programs. This commitment to health professional workforce development will continue to improve access to care in Pima County and provide sustained economic benefit to the community.

B. Public Health and Community Wellness

UAHN has renewed its commitment to continue integration of behavioral and medical health care and provide a more comprehensive service delivery system for Pima County residents. Additionally, UAMC-SC will be developed as a Behavioral Health Center of Excellence, improving patient outcomes and operational efficiencies, maximizing benefit to the community. As the main Pima County partner in the delivery and management of Title 36 evaluation and treatment, UAHN has committed to maintaining its status as the behavioral health hub for the community and developing programs that divert individuals from involuntary treatment to more cost- and outcome-effective options.

Further, UAHN has committed to explore opportunities to develop or enhance programs that positively impact the community access to care and other healthcare needs, as well as continuing to cooperate with first responders to improve timely emergency care.

C. Accountability and Transparency

Funding distribution is tied to compliance with operational and financial reporting requirements for UAMC-SC and UAHN. Regular meetings will continue between the County, UAHN and UAMC-SC leadership and key staff to review the financial status of the hospital and discuss operational or strategic developments and initiatives that improve the value of the facility to the Pima County community.

D. Financial Viability and Sustainability

The independent financial viability of UAMC-SC will remain a priority, and performance improvement will be assessed by key indicators including, but not limited to, daily census, patient mix, staffing costs, service utilization, operating revenue and expenditures, and third party payer contracting. The identification and monitoring of external revenue streams will continue to be a priority, particularly as regards allocation of matching funds for state and federal programs.

Should the Board approve the assignment of the agreements to Banner Health, the facility and leadership will be held to these tenets and operational priorities through the IGA as originally developed.

Federal Funds Generated from Local Match Initiatives and Community Impact

Pima County and Arizona Health Care Cost Containment System (AHCCCS) have entered into two IGAs to secure federal funds from the Centers for Medicare and Medicaid within the United States Department of Health and Human Services. This infusion of federal funds allows the preservation of programs such as Graduate Medical Education (GME) and Disproportionate Share Hospital funding (DSH). Pursuing the local match initiatives with UAHN and AHCCCS supports the County's commitment to expanded access to care, a healthy community and expanded economic development. These initiatives promote a high standard of care in the community and play a vital role to the health and wellness of Pima County.

Nationwide, GME programs are linked to a documented increase in physician retention in the communities providing this training. The likelihood of a physician remaining in the state where they completed a GME program is 23% higher than a physician remaining in the state where they solely completed medical school. Development of residency programs and GME funding systems are cited as key initiatives to address physician shortages and retain doctors trained in the state. The American Medical Association estimates that Arizona needs an additional 850 to 885 residency trainees, approximately 300 of which should be primary care residents, in order to meet national standards for care.

DSH initiatives are federal funds meant to offset a portion of the rapidly increasing indigent care costs. AHCCCS processes a local match for Pima County investment dollars potentially yielding a 2:1 match ratio to protect hospitals and promote access to care initiatives by creating a safety net for our hospitals.

Banner Health's merger with an academic enterprise further promotes the continued integration of Graduate Medical Education and clinician training, enhancing the development and retention of qualified providers throughout Arizona and particularly in medically underserved areas.

Continued County Commitment for UAMC-SC

The "not to exceed" funding for this IGA amendment is set and budgeted at \$30 million. This amount includes base funding of \$15 million per year for FY2015 and FY2016.

Release of base funding is contingent upon continued submission of regular and special reports for review by the County Administrator. Once approved, payment will be issued.

Funding distribution is tied to compliance with operational and financial reporting requirements for UAMC-SC and UAHN. Regular meetings will continue between the County and merged entity leadership with key staff to review the operational and financial

The Honorable Chair and Members, Pima County Board of Supervisors
Re: Banner Health Proposed Assumption of Agreements Between Pima County and
University Physicians and University of Arizona Medical Center
December 24, 2014
Page 7

status of the hospital and discuss strategic developments and initiatives that improve the value of the facility to the Pima County community.

The IGA between Pima County and ABOR for shared funding of GME is contingent upon the continuance of the GME program at the facility following any merger. Should the IGA be terminated, it would result in the dissolution of the lease agreement. Should the lease be terminated for any reason, a bid process would be required to allow another entity to operate the facility and maintain compliance with local, state and federal regulations.

Recommendation

Under the terms of the lease, the lessee (UPH) is prohibited from assigning the lease to any other entity. Thus any merger or acquisition with the intent of operating the UAMC-SC facility would require the agreement of the County as the sole authority to assign the lease to a new organization. Under no circumstance may the lease be assigned to a for-profit entity; however Banner Health is currently incorporated as a non-profit entity and will be the controlling entity of hospital operations.

The IGA between Pima County and the Arizona Board of Regents (ABOR) for shared funding of Graduate Medical Education (GME) is contingent upon GME continuing at the facility following any merger or acquisition. Should the IGA be terminated for any reason, clauses therein will trigger the immediate dissolution of the lease agreement.

I recommend approval of the transfer of the lease agreement and IGA to Banner Health. As described above, the hospital continues to increase patient service, train a new generation of Pima County health care professionals, and improve the health of the community. Pima County staff will continue to monitor the operations of the hospital as they have during the period of sustained improvement under the partnership with the University and physician practice organizations, and Banner Health will be held to rigorous standards as befits an agency receiving Pima County funding.

CHH/cbc

Attachments

c: Jan Leshner, Deputy County Administrator for Medical and Health Services
Francisco Garcia, MPH, MD, Director, Pima County Health Department



BOARD OF SUPERVISORS AGENDA ITEM SUMMARY

Requested Board Meeting Date: **JANUARY 6, 2015**

ITEM SUMMARY, JUSTIFICATION &/or SPECIAL CONSIDERATIONS:

*This is a CONSENT TO ASSIGNMENT of two existing Pima County agreements: an existing Lease agreement (CT# FM 12*2152) with University Physicians Healthcare for the hospital premises located on the Kino Campus and an Intergovernmental Agreement (CT# OMS 14*434) with the Arizona Board of Regents and the University of Arizona Health Network for operation and funding of a hospital on the Kino Campus, authorizing assignment of the rights and obligations associated with the agreements to a new entity, effective January 6, 2015. Additional documentation is attached.*

CONTRACT NUMBER (If applicable):

*University Physicians Healthcare Lease Agreement # FM 12*2152
Arizona Board of Regents Agreement # OMS 14*434*

STAFF RECOMMENDATION(S): APPROVAL

CORPORATE HEADQUARTERS: _____

CLERK OF BOARD USE ONLY: BOS MTG. _____

ITEM NO. _____

PIMA COUNTY COST: \$0* and/or REVENUE TO PIMA COUNTY: \$0*
*no change from existing agreements

FUNDING SOURCE(S): GENERAL FUND (OMS)
(i.e. General Fund, State Grant Fund, Federal Fund, Stadium D. Fund, etc.)

Advertised Public Hearing:

		YES	X	NO
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Board of Supervisors District:

1		2		3		4		5		All	X
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IMPACT:

IF APPROVED:

Pima County will authorize assignment of its agreements related to the lease and operation of the hospital premises located on the Kino Campus to a new entity intending to operate the hospital premises to ensure that hospital operations will continue uninterrupted.

IF DENIED:

Without Pima County's Consent To Assignment of the two agreements listed herein, the rights and responsibilities associated with each agreement will be in jeopardy and the new entity will have no lease to continue operation of the hospital premises on the Kino Campus.

DEPARTMENT NAME: HEALTH

CONTACT PERSON: GARRETT L HANCOCK

TELEPHONE NO.: 724-7833

**CONSENT TO ASSIGNMENT
(LEASE AND INTERGOVERNMENTAL AGREEMENT)**

This Consent to Assignment (this “*Consent*”) is made and entered into as of January ____, 2015 (“*Consent Effective Date*”), by and among Pima County, a political subdivision of the State of Arizona (the “*County*”), University Physicians Healthcare, Inc., an Arizona nonprofit corporation (“*UPH*”), [REDACTED] LLC, an Arizona limited liability company (the “*UAHN Assignee*”) and The University of Arizona Health Network, Inc., an Arizona nonprofit corporation (“*UAHN*”).

RECITALS

A. The County and UPH are parties to an Amended and Restated Lease Agreement, dated June 21, 2011, as subsequently amended, a copy of which is attached as **Schedule A** to this Consent (the “*Lease*”), pursuant to which the County leases certain real property to UPH, including a hospital facility which UPH operates as the University of Arizona Medical Center – South Campus (the “*Hospital*”) (collectively, the “*Premises*”).

B. The County is also a party to an Agreement, dated June 15, 2010, as subsequently amended, a copy of which is attached as **Schedule B** to this Consent, among the County, UAHN and the Arizona Board of Regents, a public body corporate, acting on behalf of the University of Arizona, relating to the operation and funding of the Hospital as part of the University of Arizona College of Medicine Graduate Medical Education Program (collectively, the “*IGA*”).

C. Section 7 of the IGA provides that the County will consent to an assignment of the Lease, or sublease of the Hospital building, from UPH to UAHN or a UAHN subsidiary if requested by UAHN.

D. The UAHN Assignee is a sole member limited liability company subsidiary of UAHN.

E. UAHN is requesting that the County provide the County’s consent to the assignment of UPH’s right, title and interest under the Lease to the UAHN Assignee (the “*Proposed Lease Assignment*”).

F. In addition, UAHN has entered into a Principles of Agreement, dated June 21, 2014, whereby (1) UAHN intends to merge into Banner Health, an Arizona nonprofit corporation (“*Banner Health*”), and (2) UMCC, a sole member nonprofit corporation subsidiary of UAHN, intends to merge into [REDACTED] LLC, an Arizona limited liability company (collectively, the “*Proposed Merger*”).

G. In anticipation of the Proposed Merger, UAHN requests the County’s acknowledgement that Banner Health will assume UAHN’s obligations under the IGA by virtue of UAHN’s merger into Banner Health, and the UAHN Assignee requests the County’s consent to certain changes set forth in this Consent that the UAHN Assignee desires to implement as of the effective date of the Proposed Merger (the “*Merger Effective Date*”).

AGREEMENT

1. Consent to Assignment.

a. Pursuant to Section 19 (Assignment and Subletting) of the Lease and Section 7 (Lease) of the IGA, at UAHN's request, the County hereby consents to the Proposed Lease Assignment, including the UAHN Assignee's assumption of UPH's obligations under the Lease, and acknowledges and agrees that such assignment will not be deemed an event of default under Section 24.1.3 (Exempt Status) of the Lease. The County further waives any and all of the County's right under Section 24.1.3 (Exempt Status) of the Lease to require the UAHN Assignee to maintain status as an exempt organization within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (it being understood, however, that the sole member of the UAHN Assignee shall maintain status as an exempt organization within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended). The terms and conditions of the Lease shall be binding on the UAHN Assignee following such assignment as if it were the original tenant thereunder. If for any reason, the Proposed Lease Assignment does not occur, UPH's interest in the Lease will be retained by UPH.

b. The County does hereby covenant, represent and warrant to the UAHN Assignee as follows:

- (i) The Lease has not been altered, supplemented, amended or modified in any manner whatsoever, except as indicated on **Schedule A** attached hereto. The Lease is in full force and effect and constitutes a valid and binding obligation of the County, enforceable against the County in accordance with its terms.
- (ii) None of the County or, to the County's best knowledge, UPH is in default under the Lease and no event which, with the passage of time would become an event of default, currently exists.
- (iii) All rental payments and other obligations of UPH under the Lease due or owing on or prior to the Consent Effective Date have been paid, performed or satisfied in full.
- (iv) The term of the Lease will expire on June 16, 2029. UPH has not exercised any of the options to renew granted in the Lease.
- (v) Base rent due under the Lease is Ten Dollars (\$10) per year, payable in annual installments on July 1 each year. UPH is not obligated under the Lease to pay any other rent, escrows, charges or fees to the County on a regular basis.

2. Additional Consents (Proposed Merger).

a. IGA. The County acknowledges that as of the Merger Effective Date, the Proposed Merger will result in UAHN merging into Banner Health, with Banner Health being

the surviving entity of the Proposed Merger, and, as such, the terms and conditions of the IGA shall be binding on Banner Health following such merger as if it were UAHN.

b. Signage and Name Change. Pursuant to Section 16 (Name Change) of the Lease, the County hereby consents to the UAHN Assignee's use of the new name, "[REDACTED]" in its operation of the Premises on and after the Merger Effective Date. Pursuant to Section 15 (Signs) of the Lease, the County permits the UAHN Assignee to affix and maintain on the Premises such signs, names, insignia, trademarks and descriptive materials to reflect such change in name and the UAHN Assignee's operations on and after the Merger Effective Date, including those insignias and trademarks attached to this Consent as **Schedule 2.b**.

c. Insurance. Pursuant to Section 21 (Insurance) of the Lease and Section 12.2 (Insurance) of the IGA, the County hereby consents to the insurance policies which the UAHN Assignee anticipates obtaining on and after the Merger Effective Date through certain third party insurers, or through self-insurance, as identified on **Schedule 2.c** of this Consent.

3. Entire Agreement. This Consent constitutes the entire agreement of the parties with respect to the subject matters set forth herein and supersedes all other prior agreements and understandings, both written and oral, with respect to the subject matters hereof. This Consent may be modified or amended only by a written agreement executed by all parties to this Consent.

4. Severability. If any court of competent jurisdiction holds any provision of this Consent invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Consent shall not in any way be affected or impaired thereby.

5. Counterparts. This Consent may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Consent may be executed by facsimile or electronic signature (including signatures in Adobe PDF or similar format).

6. Governing Law. This Consent shall be construed and governed by Arizona law. This Consent shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns.

[REMAINDER OF PAGE INTENTIONALLY BLANK]

Schedule A
Lease

(Copies Attached)

Amended and Restated Lease Agreement between Pima County and UA Healthcare, Inc.,¹ for Kino Hospital Campus [Pima County Contract 04-65-U-134151-604-07], dated June 21, 2011 for reference purposes

*First Amendment to the Amended and Restated Lease Agreement between Pima County and University Physicians Healthcare for Kino Hospital Campus [Pima County Contract #CT FM 12*2152], executed by Pima County August 20, 2012*

*Second Amendment to Amended and Restated Lease Agreement between Pima County and University Physicians Healthcare for Kino Hospital Campus [Pima County Contract FM 12*2152], dated January 2014 for reference purposes, and executed by Pima County May 13, 2014*

¹ Though “UA Healthcare, Inc.” appears in the document’s title, the lease is actually with University Physicians Healthcare as tenant. UA Healthcare, Inc., signed only for the purpose of indicating its consent to the lease.