

Futures Committee  
Arizona Children's Hospital

Report  
to Suzanne Dandoy, Director  
Arizona Department of Health Services

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## Arizona Children's Hospital

### The Futures Committee

#### CHAPTER 1 Background Statement

In 1973 the Crippled Children's Services (CCS) were relocated from Garfield Avenue in Phoenix to the former State Tuberculosis Sanatorium in Tempe. The new facility had a bed capacity of 162 as compared to 82 in the old facility. It was anticipated that the service would expand in three to five years into the majority of those 162 beds. In the meantime, space on the third floor of the Arizona Children's Hospital (ACH) was provided for forty medically-at-risk, severely retarded patients from the Department of Economic Security under the special mental retardation program.

During the legislative session in 1978, a decision was made to transfer these retarded patients out of ACH and back to the supervision of the Department of Economic Security. Anticipated increases in space needed for hospitalization of crippled children had not developed due to changes in length of stay, ambulatory surgery, and new methods of treatment. Therefore, the Department of Health Services was faced with a decision about future use of the beds and space. With the space becoming available in June of 1980, and in view of other pressures in the community, it was felt that a process of citizen involvement, with an opportunity for all opinions to be expressed, was the preferable way to analyze future needs. Some of the concerns that had surfaced prior to the appointment of the Futures Committee were:

1. The pediatric community has been concerned over the lack of a comprehensive children's hospital in the Phoenix area, and the largely surgical orientation of the program at ACH. The Maricopa County Pediatric Society had commissioned a study by a private consulting group around the issue of a general full-service pediatric hospital and the pediatric needs of the Phoenix Metropolitan area. The results of this study, the Ross Report, are outlined elsewhere in this document.
2. A second area of pressure related to the needs of the rest of the State for crippled children's services. A shortage of funds in FY 1978-79 forced a curtailment of service in provider hospitals other than ACH, particularly in southern Arizona, centering in Tucson. Some physicians, legislators, and citizens felt that the operation of ACH provided a disproportionate share of services in the Phoenix service area.
3. A third area of concern was the lack of a complete range of services at ACH, which prevented ACH from being a full-service facility. Lack of an intensive care unit and respiratory therapy unit, among others, makes the hospitalization of some children at ACH incompatible with their needs, and often forces transfer of acutely ill children out of ACH to other hospitals.
4. Still a further issue to be faced was the apparent surplus of hospital beds, both adult and pediatric in the Valley. Private provider hospitals as well

as ACH were operating at less than optimal utilization rates. While ACH was licensed for 162 beds, only 78 were staffed and usable and occupancy averaged around 40 beds.

5. Other elements entering into the equation were the need for expansion of the CCS clinic on the first floor of the hospital, the multiple locations of bureaus within the Division of Family Health Services, need for expansion of the Maternal and Child Health Program into an Improved Pregnancy Outcome Project, inadequate space for storage and medical records at ACH, and the inadequacies of the basement location for the Child Evaluation Center at the Hospital.

The Futures Committee was appointed to review the elements listed above and to advise the Director on the most appropriate utilization of the ACH building in both the short term and long term, so that the most effective use of the building could be assured, while maintaining a high quality and effective Crippled Children's Service.

Confusion exists among some people between the Bureau of Crippled Children's Services and the Arizona Children's Hospital. Announcement of the Committee's appointment aroused in some the fear that a change in the status of ACH would end services to handicapped children. It must be emphasized that the ACH is not the same as CCS and a change in utilization does not indicate a diminution of quantity or quality of service to the handicapped children of Arizona. The CCS Program utilizes six hospitals in the State for inpatient services and operates two fixed clinic sites, one at ACH and one in Tucson, and many traveling clinics.

## CHAPTER 2 Arizona Children's Hospital - Problem or Solution?

ACH is a modern facility which is staffed and operated with a dedication to children who are chronically handicapped. It provides a valuable and needed service for segments of the population that might not otherwise receive such care. Included in the building are a 78-bed inpatient unit, a 40-bed mental retardation unit, a CCS outpatient clinic, a child evaluation clinic for children with apparent delays in development, a newborn follow-up clinic, and offices of the Division of Family Health Services.

The Children's Hospital is not without problems, many of which are related to the State system, which is not geared to the operation of an acute medical service. These problems can be outlined briefly below:

1. ACH is not a full-service general hospital. The present facility lacks such services as intensive care units, respiratory therapy unit, emergency services, 24-hour laboratory and pharmacy, and an adequate blood bank. Acutely or critically ill children must be transferred to other facilities, often under urgent conditions. Such conditions as respiratory cases, heart disease, cystic fibrosis, hyperalimentation and infectious disease cannot be treated at ACH.
2. Because nursing staff fall under the merit system rules, the ability to replace staff quickly and respond to changes in salary levels in the community is not available. As a result, registry nurses are often employed at higher rates than regular employees.
3. The State budgetary process does not provide a timely method for obtaining the capital equipment needed to keep the hospital "up to date." The lead time on adding or replacing equipment may be up to two years because of budget and legislative cycles.
4. Any revenue generated by increasing services in the Hospital or caring for patients who have medical insurance or other sources of payment must be deposited in the State General Fund. The Hospital cannot use earned revenue to expend services, staff, or equipment.
5. Sited at an island between three communities, the Hospital is not served by any mass transportation system, making access very difficult for people who do not have private transportation.

## CHAPTER 3 Chronological Review of Committee Activities

### January 1979

In January 1979, an internal report on the Crippled Children's Services (CCS) program was presented to the Director, Arizona Department of Health Services, recommending that the future operation of the Arizona Children's Hospital (ACH) be reviewed and that a cost comparison study of ACH costs compared to costs for similar services at other hospitals be undertaken.

### March 1979

Individuals and organizations, representing voluntary health organizations, the medical and hospital communities, business, Governor's Council on Children, Youth & Families, government agencies and the State Legislature, were invited to serve on the Futures Committee; a list of the members is attached.

A request for proposals (RFP) was prepared for a cost comparison study of the ACH and was sent out to all likely accounting firms for consideration.

### April 25, 1979

Opening the first meeting, the charge to the Futures Committee was presented and discussed by Dr. Suzanne Dandy. The charge reads as follows:

"The Futures Committee will be advisory to the Director, Department of Health Services, and will recommend a position for the Department to present to the Governor and to the Legislature at the beginning of the 1980 Legislative Session.

#### CHARGE TO THE COMMITTEE:

1. To review the history and present uses of the Arizona Children's Hospital.
2. To consider all reasonable alternatives for use of the Arizona Children's Hospital.
3. To recommend specific uses for the third floor of the Arizona Children's Hospital when the Child Development Center phases out its operation on July 1, 1980.
4. To recommend future uses of the ACH building as a whole to best meet the needs of children's health care in Arizona in 1980.
5. To present a final report to the Director, Department of Health Services by December 21, 1979."

A history of CCS and ACH was presented by Dr. Warren Colton, Medical Director, ACH (see Chapter 8, part w.). The present status of CCS was presented by Dr. Lyman Olsen (see Chapter 8, part v.), while Dr. Rich Carroll described the Child Development Center on the third floor of the hospital, its patients and the plans to move them from ACH.

The hospital is located on about 20 acres of land given to the City of Tempe by the Federal government and then to the State of Arizona for use as a hospital.

"This patent is issued upon the express condition that the land so granted shall be used only for municipal, park, recreation, or public convenience purposes and if the lands or any part thereof, shall be abandoned for such use, such lands, or such part, shall revert to the United States." (See Chapter 8, part t.).

The building was built with Hill-Burton funds that require the facility to provide about \$11,000 per year of service to the poor. This 20-year commitment expires on August 25, 1982. The volume of service rendered in the outpatient department alone would cover the Hill-Burton commitment.

Crippled Children's Services accepts Federal Title V money in the form of a Formula grant of over \$900,000 yearly. Title V requires CCS to follow certain federal guidelines regarding type and quality of care, although 80% of the CCS budget is State monies.

Four states operate CCS hospitals: Arizona, Pennsylvania, New Mexico and Minnesota. All states operate crippled children's programs, but the organization of the service varies widely from state to state with many providing care for all medical and surgical conditions that can potentially cause long-term illness or disability.

May 1979

Arthur Young and Company was one of two firms to present a proposal for a Cost Comparison Feasibility Study and was selected to do the study.

May 23, 1979

The Committee received a summary of the internal DHS report on CCS entitled, "The Report on the Arizona Crippled Children's Services Program," January 1979, (see Chapter 8, item l.), as well as an explanation of the findings by Charles Downing. Highlights of the report touch on the appropriate role of the State in delivery of health care services, the utilization of ACH and funding. He stressed the need for a comprehensive statewide CCS program, readily available to all those in need, covering all crippling conditions affecting children, not just surgical ones. He said the question was whether the State should provide hospital service or whether the State role should be to administer a program in such a manner as to obtain the greatest possible benefit from available funds. He suggested that consideration be given to an increased role of provider hospitals in the provision of CCS services, including the possible termination of the use of ACH as a provider of medical/surgical inpatient services. Consideration of alternative uses such as pediatric rehabilitation, convalescent care, or long-term care should be undertaken.

Dr. Lyman Olsen, Chief, Crippled Children's Services, outlined some of the deficiencies in the ACH and CCS programs currently and how he would remedy them (see Chapter 8, item q.). More effort must be put into outreach, into traveling clinics, and into comprehensive pediatric services so that the program can serve all the areas of the State and all crippling conditions rather than just some surgically oriented ones.

The case for the Central Arizona Children Evaluation Center (CACEC) was presented by its Director, Linda Keel. Miss Keel clearly and emphatically pointed out the problems of a cramped, windowless, unventilated space in the present CACEC basement location. She made a strong appeal for adequate third-floor space.

A proposal to use the third floor for a convalescent and/or rehabilitation center for children was presented by Dr. Warren Colton, ACH Medical Director (see Chapter 8, item m.). Convalescent care could be provided at ACH at a considerable cost savings compared to keeping children in acute care hospital beds. Rehabilitation would be most beneficial for meningomyelocele cases who frequently develop bed sores and contractures because the family was not instructed in exercises and proper nursing care. The proposal was for 30 beds and included a minimal renovation cost of \$60,000.

June 26, 1979

Dr. Vincent Fulginiti, Professor and Chairman of the Department of Pediatrics, Arizona Health Sciences Center, University of Arizona, spoke to the Committee expressing his ideas on the ACH, which he stressed were not necessarily those of the University. Dr. Fulginiti felt that CCS should be a funding agency. He felt that better care could be rendered in facilities providing more comprehensive care than was possible at ACH, which he believes should be closed as a hospital. He recommended using the building for clinic space, office space for children's programs, education and counseling functions or, possibly, as a full-service children's hospital for all children, not just crippled children.

Maricopa County problems in placing long-term care patients were documented by Phyllis Biedess, Director of Planning and Assistant Director of Long Term Care, Maricopa County Health Department (see Chapter 8, item k.). She indicated that there were over 100 patients hospitalized in Maricopa County General and other hospitals that could be discharged if there were nursing home beds available. She proposed turning the entire ACH into a long-term care facility for the elderly indigent.

Doris Blauvelt, President of the Auxiliary of ACH, spoke persuasively to the Committee about the good work done by the hospital, the many children helped to enjoy fuller lives, and the need to keep the hospital open to continue caring for those in need. The role of the Auxiliary in the operation of the hospital was stressed as well as the benefits to patients and the State by voluntary work of Auxiliary sponsors (see Chapter 8, item y.).

Ted Baum, M.D., Chief, Bureau of Maternal and Child Health, described the Maternal and Child Health activities, how the Newborn Intensive Care Program and others overlap with the CCS program and how both benefit by being in the same building. He described present space requirements and how the Bureau expected to expand following approval of the Improved Pregnancy Outcome grant application.

Staff recommendations for future use of the ACH building were summarized by Dr. Perry Stearns, Assistant Director for Family Health Services. The needs of the Bureaus of Nutrition and Dental Health were included. Nutrition is presently located in private office space in downtown Phoenix, is isolated from the rest of the Division, and costs over \$29,000 a year in rent which could be saved if the bureau were moved to ACH.

Additional needs for the current CCS program at ACH were also emphasized. ACH medical staff performs major surgery on infants and children yet does not have an intensive care unit to take care of the patient in case a medical emergency develops. If ACH is to continue treating patients, an intensive care unit staff round the clock is needed. (See Chapter 8, item n.) Ambulatory surgery is constantly increasing in patient load, creating need for a separate operating room, recovery room and holding room for these outpatients. The outpatient clinics urgently need new examining rooms, better x-ray facilities, improved cast room space, and more room for records.

Alternate solutions for these problems include renovation of space on the third floor or construction of a new wing (see Chapter 8, item o.). Architectural advice is that construction of a new wing is considerably less expensive than renovation. New outpatient facilities would run about \$51.00 per sq. foot compared to renovation at \$71.50 per sq. foot. Total cost of required improvements to make ACH a complete facility for treating the types of patients that are presently under care would be about three million dollars, including staff. To add treatment of additional medical conditions, such as asthma or juvenile diabetes, would necessitate a respiratory unit and emergency treatment facilities at considerable additional cost.

A summary of staff suggestions for space needs can be found in the addenda (see Chapter 8, item r.).

July 1, 1979

Arthur Young & Company officially began the Cost Comparison Study and assigned Mr. Richard Hausley and a staff of three to review records, expenditures, staffing and procedures to determine costs at ACH. A second stage would determine billed charges for equivalent procedures at other hospitals in Arizona.

July 25, 1979

In response to questions by Committee members, Eugene Joubanc, Administrator, ACH, gathered information showing that the two other hospitals presently utilized by CCS in Phoenix would have difficulty handling the inpatients from ACH if the hospital were to close today (see Chapter 8, item p.). Both hospitals are expanding their physical plant but, even after expansion, would probably have difficulty during peak season in handling all ACH patients. Operating room space is thought to be adequate to handle the influx but neither hospital has the outpatient clinic facilities needed to handle the CCS clinics presently being held at ACH. Also, neither hospital has the organized team of medical-surgical specialists that are gathered for certain ACH clinics.

A letter from C. Peter Crowe, Jr., M.D., President of the Tucson CCS Medical Staff, indicated that Tucson was self-sufficient and had little need for ACH services and, therefore, little knowledge of the program (see Chapter 8, item h.). In Tucson, CCS patients are treated in the community's hospitals, principally the University Hospital and Tucson Medical Center; outpatients are seen in a free-standing clinic building donated and maintained by the Square and Compass Organization.

The position of the ACH Medical Staff was presented by its President, Paul E. Palmer, M.D., Orthopedic Surgeon (see Chapter 8, item j.). He stressed the history of excellence of care, the Orthopedic and Plastic Surgery residency programs; the cranio-facial, meningomyelocele, scoliosis, and hip and hand clinics, which have no counterpart in Arizona. He pointed out how the entire staff working with the doctors created a team effort and esprit de corps which resulted in excellence of patient care. He proposed that, rather than close the hospital, additional services be added to make maximum use of the building.

The Ross Report was presented at this meeting (see Chapter 8, item d.), introduced by Dr. Paul Bergeson, Director of Pediatric Education at Good Samaritan Hospital. The Ross Report is covered separately in Chapter 4 of this report. The Committee asked specifically why the present ACH building could not be used for the proposed new children's medical center. The reasons given by the Ross Consultant were:

- a. ACH is not built as a pediatric hospital. Renovations to change the wards from single corridor to modern, efficient double corridor wards with nursing station and services in the middle would be almost impossible.
- b. The ACH location is not central and, thus, not convenient for most pediatricians who have their offices and practice in downtown Phoenix.
- c. ACH has a reputation of giving indigent care and, thus, would not be acceptable to private patients.
- d. Access to ACH by patients is difficult due to location and lack of public transportation.

Dr. Robert Ganelin addressed the Futures Committee as Chairman of the Arizona Pediatric Society and Chief, Department of Pediatrics, Maricopa County General Hospital. He stated that ACH is surgically oriented, although it should be both medical and surgical. He felt that the CCS program has minimized input of pediatricians over the years, resulting in a primarily surgical program which does not give comprehensive pediatric care. He also complained that limitations on ACH staff membership have denied participation in the CCS program to fully qualified physician applicants.

Dr. Ganelin emphasized that these were problems of degree rather than presence or absence and that there has been considerable improvement recently. He stressed that the many good things done at the ACH hospital would have to be continued and that CCS program expansion was needed to treat all children suffering from crippling conditions. Nevertheless, both he and the Arizona Pediatric Society feel strongly that the ACH

should not exist as a free-standing hospital but should be closed. The services should be transferred to a comprehensive, full-service children's medical center, not state owned, where all children could receive excellent care for all medical and surgical conditions.

August 23, 1979

Health planning agencies have a significant influence over allotment of beds and over changes in the use of health facilities. Therefore, Milt Gan, Executive Director of the Central Arizona Health Systems Agency (CAHSA) was invited to speak to the Futures Committee. Since he was not familiar with ACH operations, he spoke in general terms. He stated that presently there are excess hospital beds in the community and that CAHSA was not expecting to allocate additional beds before 1985. Limiting beds is an effective way to control the increase in hospital costs. ACH is licensed for 162 beds and, if these licensed beds are not being used or if the ACH is recommended to be closed, there will be great pressure from existing hospitals and from groups planning new hospitals to take those beds away from ACH and assign them to other hospital projects. In some ways, the ACH licensed beds are more valuable than the building.

Presently, the CAHSA bed plan makes no distinction between types of beds. General hospital beds, psychiatric beds and pediatric beds are all counted together in one lump sum. Therefore, ACH beds could be transferred to other needs and be lost to the care of children.

Mr. Gan pointed out that there has been no survey of Arizona to determine the number of children with crippling conditions. He offered to work with the Futures Committee on such a survey. He suggested that the Committee should have this kind of information and should assess the effect of possible National Health Legislation before making a final decision.

Norman Page, Architect with the Arizona Department of Health Services, explained to the Committee some of the architectural requirements for a hospital and why renovation was generally more expensive than new building. He added that costs for a children's hospital would be higher than for general hospital construction. For Type One construction satisfactory to the Uniform Building Code, the following cost estimates apply today in Arizona:

1. Hospital Construction - \$71.50 per sq. ft.
  2. Outpatient facilities - \$51.00 " " "
  3. Office structures - \$41.00 " " "
  4. Convalescent Nursing - \$55.00 " " "
- Home

He stated that the ACH building would convert easily to an office building. For a hospital, it would be less expensive to build a new wing rather than to renovate existing wings. He pointed out that the building was well built and maintained and had passed the Joint Commission on Accreditation of Hospitals' inspection last year for a two-year period.

At the conclusion of the presentations, each member of the Committee was asked to write down five alternative uses for the Hospital and five criteria that should be used in determining the final recommendations. The Alternatives and Criteria were grouped and consolidated by staff.

September 26, 1979

This meeting was attended by 15 parents of patients and some staff members who were concerned by reports that a decision was imminent to close the hospital and eliminate services. Dr. Dandoy explained that CCS clinics and services would continue regardless of the decision on the hospital building. The reasons for the formation of the Futures Committee were again explained, and it was pointed out that the final decision would be made, not by the Committee, but by the Legislature.

A proposal was then presented by the Committee to use the ACH building for a general hospital (see Chapter 8, item e.). Presentation was made by Virginia McGill and Charles J. Mueller of McG., Inc., a Phoenix hospital consulting firm for Safeco Corporation, a conglomerate which constructs, owns, or manages multiple health care facilities.

Safeco Corporation, through a subsidiary, would like to buy ACH to run as a general hospital, with or without pediatric services. They made a case for the need of a general hospital in the Tempe-Scottsdale area and offered \$6,000,000 for the building and land. Problems with the sale of State property were mentioned.

A preliminary report by the Arthur Young & Company was made by Mr. Hal Newbanks, Project Director. A number of practical suggestions were made for improving ACH procedures, some of which have already been put into effect. The three graphs taken from the report show a drop in length of hospital stay, a drop in occupancy rates, and a drop in in-patient days in spite of an increase in admissions. (See Figures 1-3.)

October 17, 1979

This meeting was devoted to a discussion of the alternative uses of the hospital as presented in all earlier meetings. Staff supplied the Committee with a list of pros and cons for each alternative as well as a rough estimate of the financial implications (see Chapter 8, item u.). Each alternative use was considered in light of the criteria which the Committee had previously decided were important to the decision-making process.

The final seven alternatives and eleven criteria are listed in Table 1.

An argument for continuation of the hospital in its present or improved form was made by Dr. Stephen R. Stein, ACH medical staff member, as well as by parents.

November 13, 1979

The final report of the Arthur Young Cost Comparison Study was presented by Mr. Hal Newbanks at this meeting (see Chapter 8, item b.) A short summary was passed out to all members. This report will be covered in Chapter 5 of this report.

Further discussion of alternatives took place.

Figure 1

# ARIZONA CHILDREN'S HOSPITAL

Average Length of Stay, by year, 1965-1979

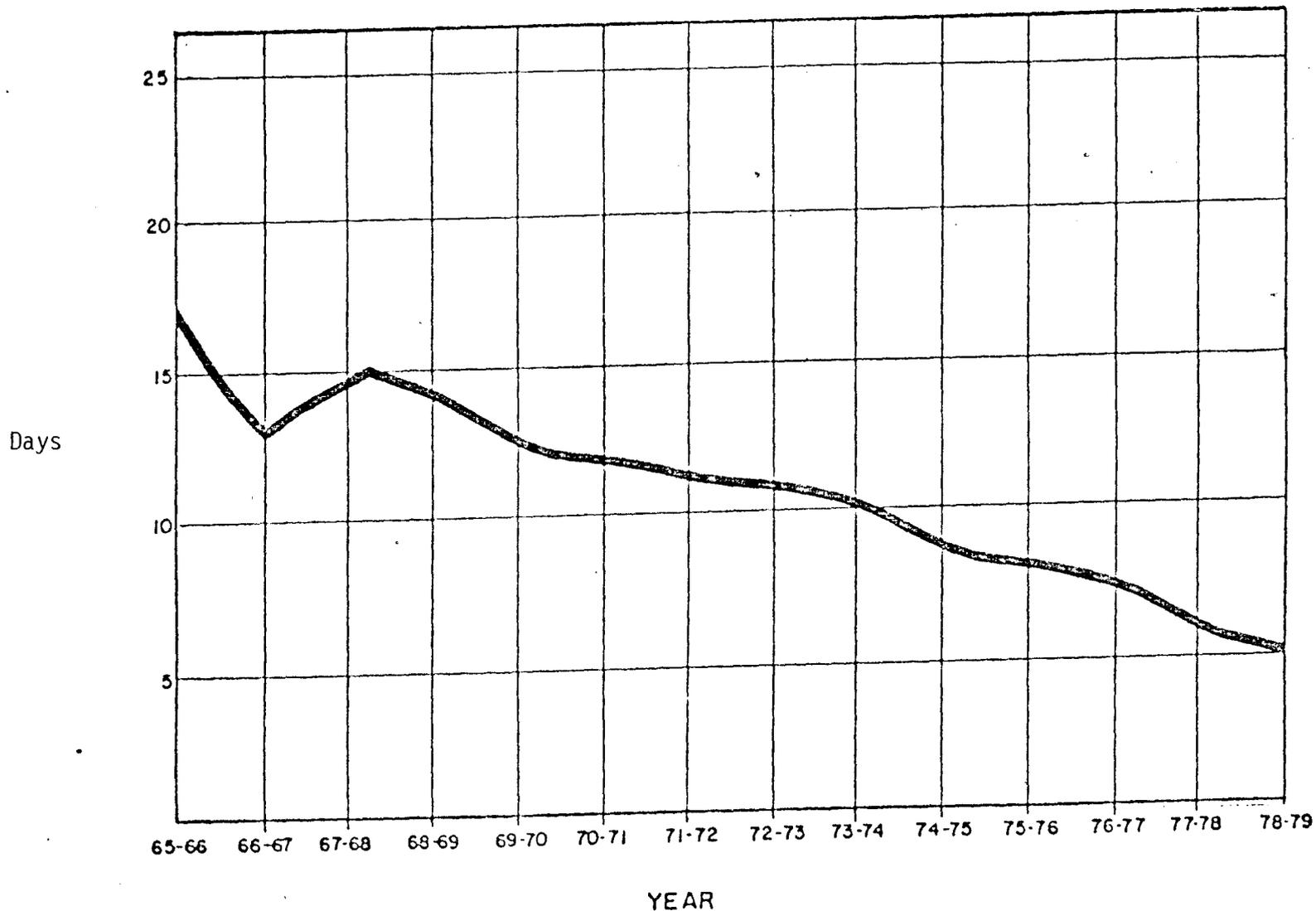
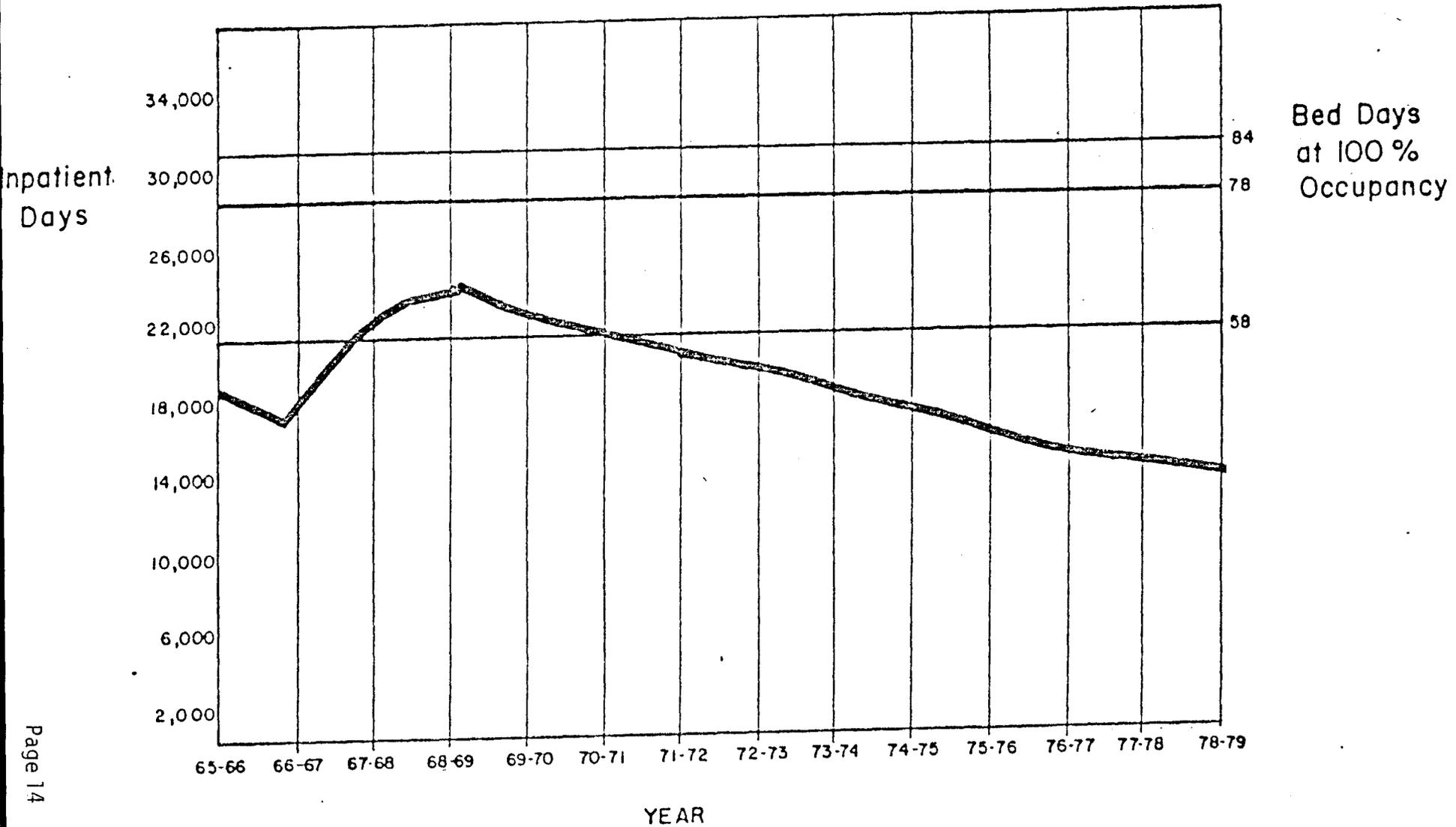


Figure 2

# ARIZONA CHILDREN'S HOSPITAL

## Inpatient Days Compared to Available Bed Days, by year, 1965-1979



From "Cost Comparison Feasibility Study, Arizona Children's Hospital," Arthur Young & Company

Figure 3

### ARIZONA CHILDREN'S HOSPITAL Inpatient Days Compared to Admissions, by year, 1965-1979

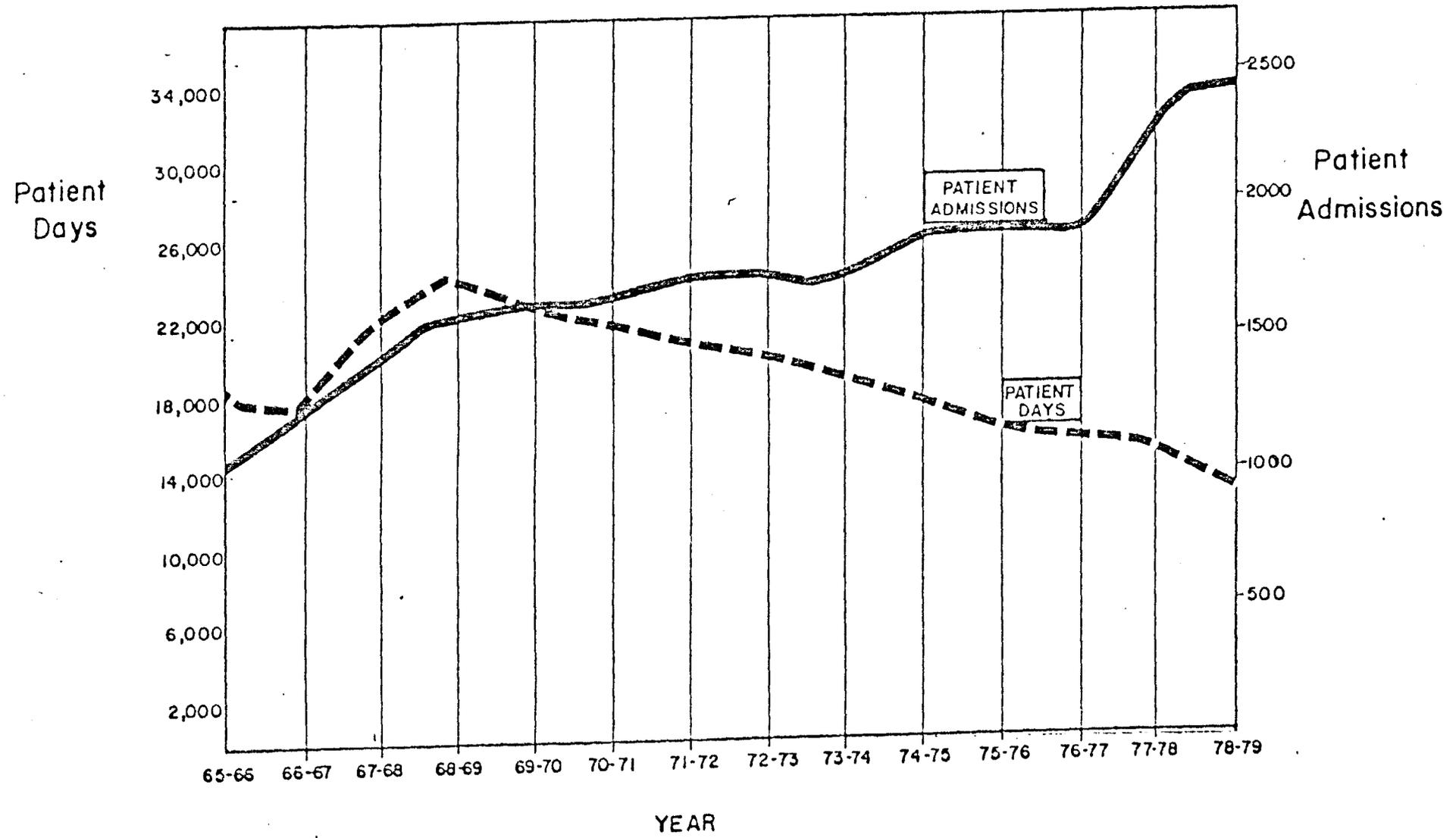


Table 1

FUTURES COMMITTEE

ARIZONA CHILDREN'S HOSPITAL

REVISED ALTERNATIVES

1. Continue Arizona Children's Hospital as is and use third floor for office and expansion of existing clinics.
2. Expand Crippled Children's Services
  - a. Inpatient and outpatient with addition of I.C.U., emergency unit, lab, x-ray and respirator therapy.
  - b. Outpatient only leaving inpatient services stable.
  - c. Convalescent and/or rehabilitation.
3. Move Crippled Children's Services to a new full-service Children's Hospital in Phoenix.
4. Move Crippled Children's Services to existing hospitals.
5. Use building for children's clinic and office space, but not for a hospital.
6. Convert to general hospital.
7. Convert to long-term care facility.

REVISED CRITERIA

1. Cost effectiveness.
2. Fill an unmet need.
3. Statewide benefit.
4. Improve quality of care to children.
5. Improve quantity of care to children.
6. Politically realistic.
7. Accessibility of service.
8. Acceptable to providers.
9. Acceptable to parents.
10. Provide continuity of care.
11. Maintain Residency Training Program.

Mr. Ballantyne described the Phoenix Area Health Planning Consortium, stated that they were interested in the disposition of ACH and would provide input to the Committee, albeit late.

Dr. Ganelin described progress of the Maricopa County Pediatric Society which has polled its members, received overwhelming support for a comprehensive children's medical center, and is now moving to establish a lay advisory board.

A letter from Dr. George Rowland (see Chapter 8, item h.) stating his preference of alternatives was distributed. Dr. John Hutter argued in support of Dr. Rowland's position.

Dr. Colton reported on a questionnaire on the future use of ACH which was sent to 166 members of the Active and Associate Staff of ACH. Strong support for continuing ACH as it is was elicited. There was also support for expanding ACH at its present site or for moving ACH services to a new full-service children's hospital when and if one is developed. Serious concern was expressed over the viability of specialty clinics if ACH were to close and CCS were to turn into a third-party payor only.

December 5, 1979

Serious debate over the alternatives occurred with each member having opportunity to express his or her viewpoint. Motions, amendments, votes and conclusions are covered in Chapter 6.

CHAPTER 4 The Ross Report - The Maricopa County Pediatric Society Search for an Alternative\*

Phoenix, Arizona, is the largest metropolitan area in the United States without a children's hospital capable of providing regionalized tertiary care. Many elements of a comprehensive pediatric system, including specialty areas, exist scattered throughout the community, but not in a single location.

Because of the deficits in the current system, lack of some specialty coverage and a scattered teaching program, the Maricopa County Pediatric Society sought the services of Ross Planning Associates. The intent was to study the pediatric needs and the feasibility of establishing a general pediatric facility, capable of providing tertiary care, bringing present resources together, creating a climate favorable to attract needed specialists, and encourage the development of a major teaching facility. The outcome of this effort was envisioned as a children's medical center which would render the finest quality of care to the pediatric population of Maricopa County, the surrounding areas and to the State of Arizona.

An indepth study was made of the community, its present resources, its demographic projections, and its potential for sustaining a pediatric hospital to meet the present and future needs.

The Ross Report has been reviewed and accepted by the Pediatric Society and has won the solid acceptance of 85% of the pediatricians in the area. The Society is now planning for a financial feasibility study of the proposed children's medical center.

Some of the major conclusions and recommendations of the Ross Report are as follows:

1. "Maricopa County is growing at a rate three and one-half times faster than the nation as a whole. At this rate of increase, the population will expand by nearly 1,000,000 people by the end of this century."
2. "Any child in Maricopa County, whether dependent on public aid or financially independent, should be able to receive the finest medical care available to children anywhere in the nation right here in Maricopa County."
3. "Nationally, it has been documented and accepted that the pediatric segment of the population has very special and specific health needs unlike the needs of the adult population."
4. "It seems incomprehensible that a population segment consisting of over one-third of the total resident population, does not warrant special consideration in the projections of need for hospital beds and other services."

\*Information taken from the Ross Planning Associates, "Pediatric Health Services Need Analysis and Development Program for Maricopa County," July 1979 (Pages XIII-XIV)

5. "Although study data indicate that pediatric physician manpower is generally adequate for the current population, the Phoenix community feels that deficits exist in specialty areas. The consultants believe that the dispersion of services among multiple institutions has created an illusion of need which would be corrected if all services were centrally located."
6. "It is certainly appropriate that decisions regarding the future of Arizona Children's Hospital be coordinated with a future plan of action for children's services in general."
7. "Since the services of Arizona Children's Hospital meet the vital needs of a segment of the pediatric population, and are not duplicated by any other service in the county, then they should be considered vital to the total comprehensive health care of northern Arizona."
8. "Future legislation for both programs and funding will exert a very significant influence over the opportunities for a more comprehensive and more cost efficient pediatric health system."
9. "The Ross consultants recommend locating a consolidated pediatric service in the central medical core area of Phoenix on sufficient acreage to allow flexibility in the development of future programs."
10. "A total Maricopa County acute care pediatric bed need of 363 beds (254 in the central medical core area) is projected for 1980. In addition, at least 15 acute psychiatric beds and 15 neonatal intensive care beds could be supported at a regional children's hospital by 1980."
11. "A centralized pediatric program will eventually provide all of the specialty pediatric ambulatory services for the community. The majority of general pediatric care would continue to be offered in the practitioners's offices, community facilities, and other hospitals."
12. "With the population base of nearly 1,500,000 residents and several tertiary hospitals, a strong program of primary medical care as well as medical education and research programs could exist simultaneously, each assisting the needs of the other."
13. "The way in which the neonatal program relates to future centralized pediatric services is vital. The role of obstetrics in the community and the development of perinatal at-risk referral services for women must be considered if a thorough plan of action for children is developed."
14. "It is the recommendation of the consultants that a financial feasibility study be created to show the actual costs of a consolidated pediatric program versus the current costs of operating several independent programs."

15. "One of the major arguments for a free-standing pediatric facility is that the community can strongly identify with a structure that belongs to all of the people."

## CHAPTER 5 Arthur Young and Company Cost Comparison Feasibility Study\*

The Cost Comparison Feasibility Study prepared by Arthur Young & Co. was presented to the Futures Committee during its November meeting. The primary purpose of the study was to develop sets of cost data which could be used to compare the cost to the State of providing crippled children's services at Arizona Children's Hospital (ACH) versus the cost of purchasing services at private hospitals. While collecting the cost data, the consultants also designed alternative budgets based upon various assumptions, referred to as "scenarios," concerning the future utilization of ACH by Crippled Children's Services (CCS). A facility profile which contains information on ACH's history, service area, current services, workload statistics and the position of ACH in the Arizona Department of Health Services is included in the study. A concluding section provides data on hospital industry norms with which ACH's performance is compared and quotes some federal guidelines on pediatric services.

The results of the cost finding efforts are presented in the "Provide vs. Purchase Summary" (Table 2). Examination of these data led the consultants to conclude the following:

1. Inpatient services - Overall, there may be some economic advantage to the purchase of inpatient services as opposed to continuing to provide inpatient care at the Arizona Children's Hospital.
2. Outpatient services - At present, many of the outpatient services provided by the Arizona Children's Hospital are not available from the providers included in the study. The study indicates an economic advantage to continuing to provide outpatient services at ACH.

Four scenarios based upon various assumptions about CCS's future utilization of the Arizona Children's Hospital building are presented in the study. In three of these scenarios the State continues to operate the building and either (Scenario A) continues to provide both inpatient and outpatient services at the facility or (Scenario B) contracts for all services and uses the building for other purposes or (Scenario C-1) continues to provide only outpatient services at the facility and contracts for all inpatient services. In the fourth (Scenario C-2), the State sells the building and contracts for all services.

The avoidable and unavoidable costs to the State budget associated with each scenario are summarized (Table 3). According to these estimates, opting to sell the facility (C-2) would save the State the most money, i.e., it could avoid the most cost. However, this estimate does not figure in the costs of renting or building office space to house the health department bureaus currently occupying the facility, nor does it include the costs of contracting for inpatient and outpatient services. If, on the other hand, the State continued to operate the facility and only contracted for inpatient services (C-1), the fewest costs would be avoided, but also the fewest additional rental and contracting costs would be incurred.

\* Information taken from the Arthur Young & Co. "Cost Comparison Feasibility Study, Arizona Children's Hospital," November 13, 1979.

Table 2 \*

Provide vs. Purchase Summary

	ACH Costs			Provider Hospitals Purchase Costs (Charges)					
	Inpatient <sup>(11)</sup>	Outpatient <sup>(11)</sup>	Total	Inpatient Range		Outpatient Range		Total Range	
				From	To	From	To	From	To
(1) Medical acute/nursery	\$2,993,000	\$ -	\$3,033,000	\$1,300,000	\$1,500,000	\$ -	\$ -	\$1,300,000	\$1,500,000
(2) Surgery	496,000	67,000	562,000	600,000	800,000	100,000	100,000	700,000	900,000
(3) Radiology	40,000	136,000	562,000	100,000	100,000	300,000	400,000	400,000	500,000
(3) Laboratory	149,000	126,000	275,000	80,000	100,000	120,000	150,000	200,000	250,000
(4) Pharmacy	91,000	91,000	182,000	150,000	250,000	150,000	250,000	300,000	500,000
(5) Speech & Hearing	16,000	92,000	108,000	22,000	30,000	128,000	170,000	150,000	200,000
(6) Physical therapy	17,000	44,000	60,000	25,000	30,000	50,000	70,000	75,000	100,000
(7) Clinic-General	-	965,000	965,000	-	-	1,100,000	1,400,000	1,100,000	1,400,000
(8) Clinic-Ortho	-	65,000	65,000	-	-	75,000	100,000	75,000	100,000
Total	\$3,802,000*	\$1,586,000	\$5,427,000	\$2,277,000	\$2,810,000	\$2,023,000	\$2,640,000	\$1,300,000	\$5,450,000

Footnotes = *List of assumptions:*

- 1) Based on ACH identified costs and provider hospital stated charges (rounded to nearest \$1,000). Does not considered unidentified miscellaneous charges associated with daily room rates.
- 2) Based on ACH identified costs and provider hospital estimated surgical costs (rounded to nearest \$1,000).
- 3) Based on ACH identified costs and estimated provider hospital charges, estimated provider hospital charges were developed using price extensions in Section 5 and increased or decreased by the average transaction difference to nearest \$1,000 for 10 highest volume transactions, plus or minus 25%.
- 4) Based on ACH identified costs and estimated for provider hospitals using a markup range of 150% to 250% (rounded to nearest \$1,000).
- 5) Based on ACH identified costs and estimated for provider hospitals using ACH costs, plus average variance for 1, 2, and 3 above, plus or minus 25%.
- 6) Based on ACH identified costs and estimated for provider hospitals using ACH costs, plus average variance for 1, 2, and 3 above, plus or minus 25%.
- 7) Based on ACH identified costs and estimated for provider hospitals using ACH costs, plus average variance for 1, 2, and 3 above, plus or minus 25%.
- 8) Based on ACH identified costs and estimated for provider hospitals using ACH costs, plus average variance for 1, 2, and 3 above, plus or minus 25%.
- 9) This table compares ACH cost to full provider charges. No attempt has been made to determine what the provider charges would be in a contract situation.
- 10) No effort has been made to factor in or out of this table variances caused by varying levels of intensity.
- 11) Refer to avoidable/unavoidable costs by scenario (Section 4) to cost out alternatives to be evaluated.

\*From Step Down, but does not include cafeteria, provider hospital, provider physician, nor refugee program.

\* From "Cost Comparison Feasibility Study, Arizona Children's Hospital", Arthur Young & Co.

Avoidable/Unavoidable Costs to State Budget  
of ACH if DHS Continues Operating ACH Building  
by Assumption

Facility Shared Cost	Continued Operation of Building						ACH Building is Sold	
	Scenario A Cost	Scenario B		Scenario C-1		Scenario C-2		
		Contract All ACH Services		Contract ACH Inpatient		Close ACH		
		Avoidable	Unavoidable	Avoidable	Unavoidable	Avoidable	Unavoidable	
HASS	\$ 245,700	\$ 245,700	\$ -	\$ 245,700	\$ -	\$ 245,700	\$ 245,700	\$ -
Personnel	21,400	21,400	-	21,400	-	21,400	21,400	-
Plant Operation	392,000	392,000	-	392,000	-	392,000	392,000	-
Plant Maintenance	264,300	264,300	-	264,300	-	264,300	264,300	-
Housekeeping	262,800	262,800	52,600	210,200	26,300	236,500	262,800	-
General Accounting	53,400	53,400	-	53,400	-	53,400	-	53,400
Communications	32,200	32,200	-	32,200	-	32,200	-	32,200
Patient Accounting	77,900	77,900	34,900	43,000	16,800	61,100	34,600	43,300
Data Processing	27,200	27,200	-	27,200	-	27,200	-	27,200
Dietary	282,200	282,200	282,200	-	282,200	-	282,200	-
CCS Admin.	322,200	322,200	-	322,200	-	322,200	-	322,200
Social Services	28,200	28,200	28,200	-	-	28,200	28,200	-
ACH Medical Dir.	76,400	76,400	76,400	-	-	76,400	76,400	-
Hospital Admin.	100,100	100,100	100,100	-	100,100	-	100,100	-
Admitting	60,200	60,200	60,200	-	60,200	-	60,200	-
ACH-Physicians	1,238,400	1,238,400	1,172,400	66,000	809,000	429,400	1,172,400	66,000
Nursing Admin.	117,800	117,800	117,800	-	117,800	-	117,800	-
Medical Records	92,000	92,000	64,000	28,000	45,600	46,400	92,000	-
Medical Stenos	67,500	67,500	37,500	30,000	26,200	41,300	26,200	-
Central Supply	23,800	23,800	23,800	-	23,800	-	23,800	-
Cafeteria	56,300	56,300	56,300	-	56,300	-	56,300	-
Medical Acute	780,300	780,300	780,300	-	780,300	-	780,300	-
Nursery	237,000	237,000	237,000	-	237,000	-	237,000	-
Surgery	239,400	239,400	239,400	-	165,200	74,200	239,400	-
Radiology	127,100	127,100	127,100	-	28,000	99,100	127,100	-
Laboratory	204,600	204,600	180,400	24,200	110,000	94,600	180,400	24,200
Pharmacy	151,300	151,300	151,300	-	96,800	54,500	151,300	-
Speech & Hearing	70,900	70,900	50,000	20,900	-	70,900	50,000	20,900
Physical Therapy	38,200	38,200	38,200	-	26,000	12,200	38,200	-
Clinic-General	440,000	440,000	394,000	46,000	-	440,000	394,000	46,000
Clinic-Orthodontia	21,500	21,500	21,500	-	-	21,500	21,500	-
Provider Hospital	1,215,800	1,215,800	-	1,215,800	-	1,215,800	-	1,215,800
Provider Physician	271,700	271,700	-	271,700	-	271,700	-	271,700
<b>Total</b>	<b>\$7,639,800</b>	<b>\$7,639,800</b>	<b>\$4,325,600</b>	<b>\$3,314,200</b>	<b>\$3,007,600</b>	<b>\$4,632,200</b>	<b>\$5,475,600</b>	<b>\$2,164,200</b>

Occupancy cost for required  
space at \$7.96/sq. ft.

197,658  
\$2,361,858

\* From "Cost Comparison Feasibility Study, Arizona Children's Hospital", Arthur Young & Co.

According to the study, ACH's performance is mixed when compared to industry norms. In terms of support services, ACH maintenance and housekeeping costs are high, while inpatient per meal costs are below the norm. Average costs per inpatient day and per inpatient discharge approximate the Phoenix norms. Labor costs are well below the industry norm.

#### Staff and Committee Comments on the Arthur Young Study

Staff and Futures Committee members made several comments regarding the "Cost Comparison Feasibility Study." First, the costs of operating ACH are not strictly comparable to the charges made by other hospitals. This is because identical services are not delivered by the different institutions, e.g. ACH has a pediatrically oriented staff while other hospitals do not. Also, the other hospitals cannot at this time handle the additional volume of inpatients and outpatients, thus, there is no way of accurately estimating what their charges would be if they were to begin serving ACH's patients, especially the outpatients (fixed costs may change, etc.).

A third major area of concern is the set of utilization statistics. Utilization and occupancy rates were developed using a 78-bed inventory. Actually, about 58 inpatient beds are in use at ACH. Also, it is important to bear in mind while examining occupancy rates that differences in sex and ranges in severity of conditions and in age prevent double occupancy of many ACH patient rooms. These differences and ranges are major impediments to occupancy maximization.

The slight decline in utilization observed during FY 1978-1979 may be attributed to the fact that lack of funds caused denial of services to needy youngsters in Spring of 1979.

CHAPTER 6      Recommendations of the Futures Committee

The following recommendations were made by the Futures Committee at its December 5, 1979 meeting:

1. The Futures Committee favors transfer of both inpatient and outpatient services currently provided at the Arizona Children's Hospital to a comprehensive children's medical center in the Phoenix metropolitan area, whether it be a free standing hospital, a pavilion, or a wing of an existing hospital.
2. There presently is no centralized children's facility and the decision to create one rests with the Maricopa County Pediatric Society; therefore, the Futures Committee should have an alternative plan of action. That alternative is to recommend that the Department of Health Services study the feasibility of phasing out inpatient services at the Arizona Children's Hospital and contracting for those services outside the Hospital with existing providers. That outpatient services continue at the Arizona Children's Hospital on an expanded basis and that the rest of the Hospital be used for other State purposes. That the report of the feasibility study be brought back to the Committee in June, 1980, and that the feasibility study include consideration of all criteria upon which the Committee agreed.
3. The Committee requests that the Department bring to the Committee, in June, information on using the third floor for expanded clinic services of all kinds, as well as offices, and what the mix might be in order to make it cost effective.
4. The Futures Committee should be expanded to include a minimum of three parents currently involved with the Hospital and the clinics and a minimum of one designee from the medical staff of the Hospital.

Rationale given by the members for these recommendations included the following:

1. There is a definite need for expansion of outpatient services.
2. The Arizona Children's Hospital clinics need more room.
3. The present location is acceptable to the parents.
4. The outpatient clinic is relatively cost effective and, if expanded, would be more so.

5. There will be more of a need in the future for outpatient ambulatory care services and, because of the successful history of Arizona Children's Hospital, it would be well advised to have the clinics remain here.
6. Moving outpatient services to a new location would present immediate logistic and cost problems. If, sometime in the future, it is advantageous to move the services, it could still be accomplished.
7. The State already owns the facility and might not be able to find something as desirable.

In conclusion, the Futures Committee is committed to maintaining and improving the high quality of coordinated services for handicapped children and to insuring that all of the benefits offered at the Arizona Children's Hospital will be available in any new situations.

CHAPTER 7     Appendices

- A. List of members of Futures Committee
- B. List of presentations, by name and subject
- C. List of contributing letters distributed to the Committee.

## FUTURES COMMITTEE

## ARIZONA CHILDREN'S HOSPITAL

Senator Lela Alston  
The State Senate  
Senate Wing, State Capitol  
Phoenix, Arizona 85007

Erna Aparicio, President  
Board of Directors  
Central Arizona Health Systems Agency  
124 West Thomas  
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W. Sundin Applegate, M.D.  
Associate Chief, Child Health Svcs.  
Bureau of Maternal & Child Health  
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Gene Brantner  
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Easter Seal Society  
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Suzanne Dandoy, M.D., M.P.H.  
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Ruth Faulkner  
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Salt River Project  
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Robert Ganelin, M.D.  
Chairman  
Arizona Pediatric Society  
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2601 West Roosevelt  
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Alice McClain  
Exec. Ass't. & Medical Administrator  
for Foster Children Program  
Department of Economic Security  
1400 West Washington - 940-A  
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Madeline LaMont  
President, Juvenile Diabetes Foundation  
3224 West Malapai Drive  
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Senator Anne Lindeman  
The State Senate  
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Senior Vice President  
Arizona Bank  
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Mildred Perkins  
Governor's Council on Children, Youth  
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March of Dimes  
316 West McDowell Road  
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George B. Rowland, M.D.  
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1845 East Roosevelt  
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Otto F. Sieber, Jr., M.D. (thru July)  
University of Arizona  
Health Sciences Center  
Tucson, Arizona 85724

John J. Hutter, Jr., M.D. (after July)  
Assistant Professor of Pediatrics  
The University of Arizona  
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Representative Jacque Steiner  
House of Representatives  
House Wing, State Capitol  
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Department of Health Services  
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Joseph T. Zerella, M.D.  
Affiliated Pediatric Surgeons Limited  
1010 East McDowell Road  
Phoenix, Arizona 85006

Mardy Zimmerman (representing City of Tempe)  
Tempe Center for the Handicapped  
1155 West 22nd Street  
Tempe, Arizona 85281

FUTURES COMMITTEE  
ARIZONA CHILDREN'S HOSPITAL

Scheduled Presentations

April 25, 1979

- |  |   |
|--|---|
| 1. Charge to the Committee   | Dr. Suzanne Dandoy, Director, Arizona Department of Health Services |
| 2. History of Arizona Children's Hospital and Crippled Children's Services | Dr. Warren Colton, Medical Director, Arizona Children's Hospital    |
| 3. Present Status of Crippled Children's Services                          | Dr. Lyman Olsen, Chief, Crippled Children's Services                |
| 4. Child Development Center  | Dr. Richard Carroll, Chief, Bureau of Child Development             |

May 23, 1979

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| 5. A Report on the Arizona Crippled Children's Services Program | Mr. Chuck Downing, Office of Operational Planning, Department of Health Services |
| 6. Crippled Children's Services Program and Space Needs         | Dr. Lyman Olsen, Chief, Crippled Children's Services                             |
| 7. Central Arizona Child Evaluation Center Requirements         | Ms. Linda Keel, Project Coordinator, CACEC                                       |
| 8. Rehabilitation and Convalescent Center                       | Dr. Warren Colton, Medical Director, Arizona Children's Hospital                 |

June 26, 1979

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| 9. Opinions from Department of Pediatrics, Health Sciences Center, University of Arizona | Dr. Vincent A. Fulginiti, Professor and Head, Department of Pediatrics, Health Sciences Center                                       |
| 10. Alternative Use as Long-Term Care Facility   | Ms. Phyllis Biedess, Director of Planning and Assistant Director, Long Term Care, Maricopa County Health Department, for Dr. Rowland |
| 11. Position of Arizona Children's Hospital Auxiliary                                    | Mrs. Doris Blauvelt, President, ACH Auxiliary  |
| 12. Bureau of Maternal and Child Health Program and Space Needs                          | Dr. Ted Baum, Chief, Maternal and Child Health   |
| 13. Summary of Staff Programs and Space Needs  | Dr. Perry Stearns, Assistant Director for Family Health Services   |

July 25, 1979

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| 14. Arizona Children's Hospital Medical Staff Position | Dr. Paul E. Palmer, President of Medical Staff, ACH, Orthopedic Surgeon |
| 15. The Ross Report                                    | Mr. Donald S. Basler & Staff, Ross Planning Associates                  |

Scheduled Presentations (Cont'd)

July 25, 1979

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|--|---|
| 16. Maricopa Pediatric Society<br>Position | Dr. Paul Bergeson, Director of Pediatric<br>Education, Good Samaritan Hospital  |
| 17. Arizona Pediatric Society<br>Position  | Robert Ganelin, M.D., Chairman, Arizona<br>Pediatric Society and Chief of Pediatrics,<br>Maricopa County General Hospital |

August 22, 1979

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| 18. Health Service Agency Comments<br>Relative to Arizona Children's<br>Hospital | Mr. Milt Gan, Executive Director, Central<br>Arizona Health Systems Agency |
| 19. Architectural Requirements   | Mr. Norman Page, Architect, Department of<br>Health Services               |

September 26, 1979

- |   |  |
|---|--|
| 20. General Hospital Proposal                                 | Ms. Virginia McGill and Mr. Charles J.<br>Meuller, Mc G. Inc.              |
| 21. Preliminary Report, Arthur<br>Young Cost Comparison Study | Mr. Hal Newbanks, Project Director<br>Mr. Richard Hausley, Project Manager |

October 17, 1979

- |   |                                    |
|---|------------------------------------|
| 22. Final Report, Arthur Young<br>Cost Comparison Study | Mr. Hal Newbanks, Project Director |
|---|------------------------------------|

Unscheduled Presentations

23. Mrs. Betty Johnson, Organizer, Parents of Patients (POP), accompanied by several presentations by other concerned parents.
24. Stephen R. Stein, M.D., Surgeon on staff of Arizona Children's Hospital.

FUTURES COMMITTEE  
ARIZONA CHILDREN'S HOSPITAL

Letters Distributed to the Futures Committee

1. 6/21/79 C. Peter Crowe, Jr., M.D.  
President, Tucson Medical Staff, CCS
2. 8/17/79 Susan A. Gregg, M.D.  
Staff Pediatrician, ACH
3. 9/24/79 Marian E. Molthan, M.D.  
Pediatric Cardiologist, Good Samaritan Hospital
4. 10/1/79 David S. Trump, M.D.  
President, Maricopa County Pediatric Society
5. 10/17/79 Wayne C. Pomeroy, Mayor  
City of Mesa, Arizona
6. 11/13/79 George B. Rowland, M.D.  
Director of Health Services, Maricopa County

CHAPTER 8     Reports Available for Reivew

- a. Minutes of Futures Committee Meetings
- b. Arthur Young & Company
  - Cost Comparison Feasibility Study  
and Summary of Study for the Committee
- c. RFP for the Cost Comparison Study
- d. Ross Planning Associates
  - Pediatric Health Services Need Analysis  
and Development Program for Maricopa County
- e. Mc.G., Inc., Proposal Regarding Arizona Children's Hospital
- f. News Release - September 12, 1979
  - Fact Sheet titled "Future of Arizona Children's Hospital"
- g. News Release - December 7, 1979
  - Recommendations of Futures Committee
- h. Letters distributed to the Futures Committee, Appendix C
- i. Study to Quantify the Uniqueness of Children's Hospitals
- j. Report to the Futures Committee, Paul E. Palmer, M.D., Medical Staff President
- k. Population Growth of the Elderly in Maricopa County
  - Ms. Phyllis Biedess, Maricopa County Department of Health Services
- l. A Report on the Crippled Children's Services Program, Mr. Charles Downing
- m. Proposed Rehabilitation and Convalescent Program
- n. Need for an Intensive Care Unit at ACH
- o. Plan for Expansion and Renovation of ACH
- p. Provider Hospital Survey, E. M. Joubanc, Administrator, ACH
- q. Future Needs for Crippled Children's Service Expansion, Lyman Olsen, M.D.

Reports Available for Review (Continued)

- r. Staff Suggestions for Space Needs, Division of Family Health Services
- s. ACH Floor Plan
- t. Restrictions on Use of Property
- u. Alternatives and Criteria, Original Lists, Final List and Arguments Pro and Con
- v. Description of Crippled Children's Program
- w. Historical Background of Arizona Crippled Children's Services and Arizona Children's Hospital
- x. Population Data, Demographic Trends
- y. Presentation by Mrs. Bradford Blauvelt, President, ACH Auxiliary, in the form of a letter sent to Arizona Senator John C. Pritzlaff, Jr.

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