

Arkansas City Public Building Commission Special Meeting Minutes

The Arkansas City Public Building Commission met in special session at 12 p.m. Monday, June 20, 2016, in the City Manager's Office at City Hall, 118 W. Central Ave., in Arkansas City.

Chairman David Billings called the meeting to order. Commissioners present at roll call were Chairman Billings, Vice Chairman Mike Munson, Duane Oestmann, Charles Tweedy III, Jay Warren, Karen Welch and Shandon Weston. Dan Jurkovich arrived about 12:15 p.m.

City employees present at roll call were City Manager Nick Hernandez, City Attorney Tamara Niles, Public Information Officer Andrew Lawson, City Clerk Lesley Shook and Finance Director Kathy Cornwell.

South Central Kansas Medical Center officials in attendance were chief executive officer Virgil Watson; general counsel Otis Morrow; and Board of Trustees chair Carol Hearne, vice chair Dr. Nick Rogers, secretary Dr. Robert Yoachim and treasurer JoLynn Foster, who collectively comprise the Board's executive committee.

Quorum Health Resources, LLC was represented by Vice President John Kaszuba.

New Business

Financial, Operational and Strategic Assessment Agreement for South Central Kansas Regional Medical Center

Chairman Billings presented for discussion a consultation with City Attorney Niles on the potential matters of attorney-client privilege that may include confidential data relating to the financial affairs of a corporation.

City Manager Hernandez asked Niles if there needed to be an executive session to discuss the proposed financial, operational and strategic assessment agreement with Quorum Health Resources, LLC. Niles said she would prefer to discuss the agreement in open session unless sensitive financial affairs came up.

Hernandez said he didn't think any part of the document needed to be confidential and agreed on open session.

He said the proposed agreement was the culmination of a technical default on South Central Kansas Medical Center's bonds, which was triggered when the hospital was unable to meet the debt service requirement of a 1:1 debt service-to-cash ratio, as defined in the bond document.

Although a one-cent sales tax to commence in October and help to make that payment was approved in May by the voters, it does not alleviate the Public Building Commission of its requirements in the bond document.

In the case of a technical default, the bond document requires the Commission to contract with a health care consultant to analyze the finances of SCKMC. Hernandez said that, based on discussions in previous meetings, the Commission desired to go further and look at the operational side, as well. The ultimate goal, Hernandez said, is to come up with a financial plan to make the hospital financially solvent.

He and Virgil Watson had researched several companies that might be able to handle this sort of turnaround process. One competitor was rejected because it's already under contract with Wellington's hospital, which is sort of a competitor to South Central Kansas Medical Center, so there could be a potential conflict of interest.

Hernandez said Watson has worked with Quorum before and there already is an established comfort level there.

Arkansas City Public Building Commission Special Meeting Minutes

Hernandez and Watson have had telephone conversations with Kaszuba and some of his associates. Also participating in one of those conversations, about a month ago, were Commissioner Jurkovich, Commissioner Oestmann and the four members of the SCKMC Board of Trustees' executive committee.

Hernandez said the goal of the process was to go very in depth and set up a strategic plan with specific, time-defined checkpoints where Quorum would have to meet certain goals. He said the outcome of the study might not be what everyone wants to hear, but the hospital board would be responsible for implementing it anyway.

He said the agreement is quite substantial, with a heavy workload. It will be completed within 90 days, which is a quick turnaround. The overall goal is to implement the recommended changes as immediately as possible.

Commissioner Tweedy asked about potential travel expenses. Kaszuba said that would be estimated early because most of those costs would be incurred in the first week of the study, when a team of about five people comes in to analyze the entire hospital operation. They will stay at Best Western Plus Patterson Park Inn.

Kaszuba said airfare is booked two weeks in advance to get the best price. His flight here cost less than \$500.

Commissioner Tweedy asked for ballpark figure on what the total travel costs typically area. Kaszuba said it tends to be around 10 to 15 percent of the total cost of the contract's professional fee, or less than \$25,000.

Commissioner Tweedy asked about Box.com, which is mentioned several times in the contract. Kaszuba said it is an electronic document sharing account that will help to share large files and cut down on mailing fees.

Commissioner Tweedy asked if the company had good outcomes at other hospitals with which it had worked.

Kaszuba said Quorum is not just a consulting firm — it actively runs hospitals. In Kansas, its clients are in Chanute, Coffeyville, Neodesha and Tribune. He urged those in attendance to reach out to community leaders.

He said Quorum usually is asked to step in at hospitals that are in bad financial situations, so this is not unusual.

Kaszuba said Quorum looks for opportunities and tries to identify a long-term path to success.

Commissioner Warren asked how Quorum had worked with SCKMC before. Kaszuba said it has had some smaller engagements, but never anything on this scale. This is a deep dive into the entire hospital operation and finances, looking at 52 best practices to see where SCKMC has opportunities for long-term improvements.

He said Quorum had worked with Watson on some feasibility studies concerning Rural Health Clinic status, but those were just very small and specific pieces of the larger picture. This assessment will look at various issues such as managed care contracts, revenue and billing cycles, and outmigration in the marketplace.

Kaszuba said SCKMC and Arkansas City will be compared to other communities with which Quorum has worked.

In all facets of the strategic plan, he said, the company will try to estimate the financial impact of the return on investment for each of its recommendations, so decision-makers can see what will produce quick turnarounds.

Commissioner Warren raised the issues of physician recruitment and retention. Kaszuba said Quorum will analyze the affordability of hiring doctors and look at possible alternate employment arrangements, as well.

Arkansas City Public Building Commission Special Meeting Minutes

Chairman Billings asked Watson how much he thinks the assessment will help him to be able to run the hospital more efficiently, beyond what he already has been trying to do. Watson said he thinks it will be a big benefit.

He specifically said it will provide him with supporting data for his ideas, especially when selling them to doctors.

Hernandez said the assessment will look at the internal operations of the hospital, including what it is and isn't doing well, and how to improve the latter. He said it will help to identify possible cuts and adjustments.

Watson said the view of an outsider will help him to convince all departments of how they need to change and help to convince those who resist change of the need to work with the firm's recommendations for turnaround.

Vice Chairman Munson asked if bids were sought from any other firms. Hernandez said it was done more as a request for qualifications, in which he and Watson considered the company's workload, scheduling, quickness of turnaround, scope of services and overall fit. He said he wanted a quicker process because this study is overdue.

Hernandez admitted some firms could have done the assessment more cheaply, but because they only have one or two consultants to do the work, it would have taken at least six months, instead of Quorum's 90 days. He also was attracted to Quorum's experience in managing hospitals and clinics, as well as doing turnaround studies.

Chairman Billings asked Hernandez if he was comfortable with the proposed scope. Hernandez said it was more about what Watson is comfortable with, but he said the professional fee does not seem out of line considering the amount of work that will be accomplished. Just the auditing services would be \$40,000 to \$50,000, he said.

Commissioner Oestmann asked how long, after the 90 days are over, it will take for SCKMC to see a turnaround.

Kaszuba said Quorum will provide a road map to success, but it will be the responsibility of the City and the hospital to start walking down that road. The firm could be hired down the line to assist with implementing all or part of the plan. But if they see something urgent, they'll highlight it for immediate action within the 90 days.

Chairman Billings asked if the complete road map is available after 90 days. Kaszuba said it is, with a full briefing.

He said Chuck Bouilly, the bond counsel, is comfortable with Quorum, or the process never would have gone this far, and the firm also has worked with U.S. Bank, which also is involved with the bonds as an overall lender.

Vice Chairman Munson asked Niles if she had reviewed the contract. She said she was comfortable with it.

Chairman Billings observed that the Commission didn't really have a choice. Niles and Hernandez agreed that the bond document says they have to hire a consultant. But Hernandez said scope of this contract goes beyond the bare minimum of just the financial portion, even though it would be a lot of money to spend either way.

Hernandez said the road map would help to keep all parties involved in running SCKMC accountable and also could improve the Commission's standing in the eyes of Moody's Investor Service, which in turn could assist in the long-term goal of obtaining a higher bond rating and reissuing the debt in 2019 to get a lower interest rate.

Commissioner Tweedy asked how often Moody's looks at rating the City. Hernandez said it was every year, or even more frequently. He said the George K. Baum and Ranson Financial Consultants even have suggested scheduling a presentation, with local bankers, for the Moody's board in person at a future time in Dallas, Texas.

Arkansas City Public Building Commission Special Meeting Minutes

Chairman Billings asked if the SCKMC Board of Trustees was on board with the assessment. Carol Hearne said looking at the whole operation is a lot better than just looking the financial part of it and it just makes sense.

Commissioner Weston asked if there was any idea going in about what areas might need more attention than others. Kaszuba said Quorum would look at everything. Hernandez said he thinks Watson has a very good idea of where the weak points are in operations, but the in-depth analysis from the outside helps with staff buy-in.

Commissioner Warren asked what the turnaround time has been for similar hospitals. Kaszuba said it should be no more than 12 to 18 months, unless the population can't support the hospital, which he doubts is the case.

Kaszuba said Quorum would look at all of the service lines offered, and see which are making money and which aren't. He said the firm does not recommend closing any services because that it a community health decision.

Commissioner Warren lamented that SCKMC and William Newton Hospital, as well as Arkansas City and Winfield, can't work together more. Kaszuba said there are some things William Newton just might do better.

Commissioner Tweedy asked if the agreement should be approved that day or at the next day's City Commission meeting. Hernandez said the Public Building Commission would approve the assessment agreement.

Then it comes down to who's actually going to pay for it, he added. If the City Commission wants to pay for it, it needs to approve the financing of the study. Or the hospital board can approve the study for payment, then turn around and ask the City Commission for the money necessary to pay for it because SCKMC doesn't have it.

Either way, Hernandez said, the cost should be added to the ledger of what SCKMC needs to pay back to the City.

Vice Chairman Munson made a motion to approve the agreement as written. Commissioner Oestmann seconded the motion. A voice vote was unanimous in favor of the motion.

Hernandez said the cost would be not to exceed \$200,000. Kaszuba said it would be more like \$175,000.

Commissioner Oestmann said the Board had no way to pay for it. Commissioner Warren said 50 percent of the professional fee is required up front, so a failure to approve the money would delay the study two more weeks.

Hernandez said the funding could be approved at the next City Commission meeting. Commissioner Warren suggested adding it to the agenda. Hernandez said he just had been waiting for the outcome of this meeting.

He asked that the hospital board's executive committee attend the City Commission meeting to discuss funding.

Commissioner Jurkovich asked that the issue be brought up toward the beginning of the meeting. Hernandez said board members should plan to arrive around 5:45 p.m.

Adjournment

Chairman Billings moved to adjourn the meeting. Vice Chairman Munson seconded the motion. A voice vote was unanimous in favor of the motion. Chairman Billings declared the meeting adjourned at 12:32 p.m.

Arkansas City Public Building Commission Special Meeting Minutes

THE ARKANSAS CITY
PUBLIC BUILDING COMMISSION

David Billings, Chairman

ATTEST:

Lesley Shook, Secretary

Prepared by:

Andrew Lawson, Public Information Officer