

# City Commission-SCKMC Board of Trustees Joint Meeting Minutes

---

The Arkansas City Board of City Commissioners met in a special joint session with the South Central Kansas Medical Center (SCKMC) Board of Trustees and administrators at 7:30 p.m. Tuesday, February 16, 2016, in the Commission Room at City Hall, 118 W. Central Ave., in Arkansas City.

Commissioners present at roll call were Brandon Every, Chad Giles, Dan Jurkovich, Duane Oestmann and Jay Warren. Trustees present at roll call were JoLynn Foster, Dr. Perry Lin, Mark Paton, Arleta Rice and Dr. Nick Rogers.

SCKMC Trustees not in attendance were Carol Hearne, Greg Norwood, Dr. Jerry Old and Dr. Robert Yoachim.

Also present at roll call were City Manager Nick Hernandez, City Attorney Tamara Niles, Public Information Officer Andrew Lawson, City Clerk Lesley Shook, Finance Director Kathy Cornwell, Public Works Director Eric Broce, Fire Chief Bobby Wolfe and Arkansas City Police Department Lt. Luke Larson.

SCKMC officials in attendance were Chief Executive Officer Virgil Watson, Chief Financial Officer Holly Harper, Chief Marketing Officer Clayton Pappan, Director of Hospital Quality and Risk Management Jane Campbell, Director of Nursing John Jones, Medical Staff Coordinator Phyllis McCorgary, and legal counsel Otis Morrow.

Citizens in attendance included Connie Dykes, Michelle Dykes, Foss Farrar, John Farrar, Kanyon Gingher, Ken Harader, Mell Kuhn, Gareth McGee, Steven Walker and Traveler reporter Jeni McGee.

## **SCKMC Finances and Operations**

City Manager Hernandez said the purpose of the meeting was to discuss the financial situation of SCKMC.

He distributed a summary sheet showing how the City's operations had been affected in 2015 by SCKMC's finances, as well as projections for how it could be affected in 2016 and beyond.

Hernandez said that in 2015, 10 special assessment payments of \$17,934.09 per month were not paid to the City, for a total shortfall of \$179,341. Added to this was the \$300,000 interest-free loan extended to SCKMC to help it to make its principal and interest payment last September, \$75,000 of which has been repaid.

Therefore, total City assistance extended to SCKMC in 2015 was \$404,341, or the equivalent of about 7.8 mills.

In 2016, the March interest payment was made possible by an additional \$275,000 loan from the City.

After subtracting the estimated sales tax receipts in February through July, a maximum potential loan of up to \$735,968 could be necessary this August. Total unbudgeted assistance in 2016 could be \$1,010,968.

Hernandez said \$215,209 in potential missed special assessment payments already were budgeted for in 2016.

The remaining Public Building Commission debt on the 2009 series of revenue bonds is \$21,175,000 in principal and 20,319,285 in interest. Remaining special assessments total \$2,742,943, for a total actual 21-year commitment (2017 through 2033) of \$44,237,228. That is what must be paid if SCKMC is closed or fails entirely.

Commissioner Jurkovich asked about some discrepancies with the numbers provided by Ranson Financial Consultants LLC. Hernandez suggested the number they provided is what would be due as of 2019, not 2017.

# City Commission-SCKMC Board of Trustees Joint Meeting Minutes

---

## Sales Tax Discussion

City Manager Hernandez said an additional half-cent sales tax would bring in roughly \$840,000 per year, which still wouldn't be enough to cover the entire payment each year. There still would be a \$300,000 or so shortfall.

A one-cent sales tax would generate roughly \$1,680,000. In addition to the current \$840,000 that is being generated, the entirety of the debt service would be covered through 2019, when the first half-cent tax sunsets.

Without any additional sales tax, the per-year hospital commitment for 2019 through 2023 will be \$2.1 million.

A half-cent sales tax would reduce that to \$1,260,209 per year, or about 24.4 mills, while a one-cent tax would knock it down to \$420,209 per year, or about 8.2 mills. The current sales tax will expire on March 31, 2019.

## Meeting with Financiers

City Manager Hernandez said he, CEO Watson and CFO Harper had met with several bankers, as well as William Newton Hospital officials, bond counsel and an independent municipal financial consultant, on February 11.

He said they discussed several different options, viewed from a three-phased approach — immediate need, midterm need and long-term need. Hernandez and Watson have had multiple conversations about the options.

Hernandez said the City's first and primary responsibility is to ensure that the debt service payments are made.

Mayor Giles asked what kinds of solutions were discussed. Hernandez said a long-term need is to find a countywide solution to health care issues in Cowley County, including collaboration with William Newton to meet the needs of citizens, find economies of scale, eliminate duplication and fill any service shortfalls that exist.

Watson said that in the long term, the population of Cowley County will not be able to support two full-service hospitals. Somehow, the two entities will have to find a way to come together and deal with that reality.

He said any rivalries between the two cities need to be put aside when it comes to rural health care.

## Declining Hospital Census

CEO Watson distributed a bar chart showing the average daily census by month in 2015 at SCKMC, which fluctuated from a high of 12 in March to a low of six in June. He said SCKMC's "sweet spot" is 13 per day.

That means the medical center needs at least 13 inpatients per day in order to have a chance at breaking even financially and not going into the red. Watson said they have to find a way to increase that census daily.

He attributed the shortfall mainly to still being four or five physicians behind where they would like to be.

SCKMC has a core medical staff of eight, soon to be nine, while William Newton's is 22. As a result, the Winfield hospital had nearly twice as much gross patient revenue and new patient revenue as SCKMC in 2015. Watson said continuing to be the proactive driving force in physician recruitment will have to be a priority.

# City Commission-SCKMC Board of Trustees Joint Meeting Minutes

---

## William Newton Hospital Finances

City Manager Hernandez distributed a presentation on the 2015 financials for William Newton Hospital. It had a 5.7-percent operating margin, with net patient revenue of \$31,405,455. Only 20 percent of that was inpatient.

About \$31.7 million goes to operating expenses — 55 percent to wages, benefits and payroll taxes; 12 percent to contracts and miscellaneous items; and 26 percent to supplies, maintenance and utilities. There was \$26 million in contractual write-offs last year, and \$3.88 million provided in bad debt and charity care.

About 40 percent of the hospital's patients are commercial and another 43 percent are Medicare. (SCKMC has a much higher amount of Medicare patients.) William Newton's average daily census is 17.3 inpatients per day.

Commissioner Every asked if SCKMC's average daily census was staying the same. CMO Pappan said it had gone down from five years ago, when the number was in the 14-16 range, due mainly to losing several physicians.

CFO Harper pointed out how there is a national trend toward insurance driving more outpatient services, even though inpatient services are how hospitals make most of their money.

CEO Watson said having more physicians is what leads to more inpatients, which each additional physician estimated to contribute about \$1.5 million in annual revenue to SCKMC, which he said used to have 22 doctors.

Commissioner Every said there is a tipping point to relying on that equation, though, because the market share in Cowley County can only bear so many physicians and Winfield already has 22 of them on staff.

Hernandez said Cowley County has about 35,000 to 36,000 citizens. Commissioner Every said a normal figure is one physician per 1,000 citizens. Pappan said it's closer to one physician per 2,000 citizens in Arkansas City.

Watson said if there were 31 doctors in the county, all admitting patients to one central hospital, it'd stay busy.

## Emergency Room Operations

CEO Watson said one big problem is the large number of patients transferred to Wichita hospitals. He would like to change that trend and keep more patients here locally, if possible.

Commissioner Warren asked why there were so many transfers. Watson said the newer generation of doctors prefer to have a clinic practice and not have to do overnight rounds at a hospital.

City Manager Hernandez said hospitalists, who can fill that gap, don't have to be doctors. They can be nurse practitioners, too. He said eliminating the telehospitalist service could save money, but be a bigger burden.

By adding a telehospitalist, Hernandez said, patients could be admitted directly into the hospital from the emergency room without needing to contact the primary care physician, thus increasing census.

Watson said there has been a new emergency department provider since Jan. 1, 2016. It has had some impact.

Hernandez also talked about a model in which paramedicine services could be provided from an ambulance.

# City Commission-SCKMC Board of Trustees Joint Meeting Minutes

---

## Revenue and Recruitment

Commissioner Every said that when he looked at gross revenue from 2012 to 2015, it was pretty much flat at the \$30 million mark. He observed that operating revenue is improving in spite of losing doctors.

CEO Watson said it is hard to make more money with outpatient volume, but the bread-and-butter is inpatient.

Commissioner Warren asked how the physician recruitment problem, which has been a source of concern for three to four years, can be solved. Watson said he thought the Winfield market is saturated now, which might be of some help. Commissioner Warren asked how Winfield was attracting doctors and Arkansas City was not.

Watson said William Newton has a better reimbursement process than SCKMC and also can rely heavily on its Foundation, which is considerably more advanced than any private funding source to which SCKMC has access.

Pappan said not having critical access status really limits what SCKMC can offer in signing bonuses because that money has to come out of operational expenses.

## Bridging the Shortfall

City Manager Hernandez asked about SCKMC's plan to bridge the short-term shortfall until a sales tax can begin to generate revenue to relieve some of the debt service burden that is holding SCKMC back from opportunities.

CMO Pappan distributed a brainstorming worksheet with a list of possible ideas to save on costs or generate revenue. He said not necessarily all of them would be implemented, but it was a starting point for discussions.

An 8-percent expense reduction would save \$1 million, he estimated, as would a 15-percent pay cut across the board or a 19-percent expense reduction that excludes personnel benefits or other costs SCKMC doesn't control.

Eliminating the telehospitalist program could save \$240,000 (which means it breaks even with just five admissions per month), but could lead to larger financial losses in the future due to physician dissatisfaction.

Somehow managing a 10-percent increase in revenue could net an additional \$1 million, while an estimated \$1.5 million potentially could be gained by capturing orthopedic revenue going to Wichita with another day of service.

Something as simple as completing charts on time or expanding South Central Kansas Clinic's hours could mean an additional \$100,000 per year, Pappan suggested.

Commissioner Warren asked how many people would leave over a 15-percent pay cut. Pappan said he didn't have an estimate, but guaranteed they would lose some staff if they pursued that goal.

Commissioner Warren asked for more details on the 340B retail pharmacy program, which Pappan provided.

City Manager Hernandez admitted there is no way to force doctors to admit patients to SCKMC, but he asked Watson if there was anything they were missing that would help to encourage physicians to do so more often.

He also asked about giving privileges at SCKMC to Winfield physicians. Watson said that needs to happen.

# City Commission-SCKMC Board of Trustees Joint Meeting Minutes

---

## Taking Off the Gloves

Commissioner Jurkovich encouraged CEO Watson to provide the group with hard truths. He said the time had come to take off the rose-colored glasses, and address the fundamental issues facing SCKMC and the City.

Nothing he has seen in the financials, Jurkovich said, indicates things are going to improve on their own. He said it appears the medical center will need a sales tax forever to be able to continue making debt service payments.

He said the decision to build the new facility was a gamble that building a bigger, better facility or spending more money would put William Newton out of business — and the gamble failed. He said that SCKMC is in bad shape.

Mayor Giles said many of the proposed cuts will have a detrimental impact on quality of service, which in turn could lead to even less inpatient business at SCKMC. He also said there is a rift with the Ark City Clinic.

There are doctors that won't send patients to SCKMC, Giles said, and cuts eventually will lead to a shell of a facility. He also said the medical center has a reputation problem that only would worsen in that eventuality.

Watson said the reality is that if SCKMC can't get more patients in the doors, it will become a stabilize-and-transfer facility that sends them on to Wichita. He admitted that to the best of his knowledge, there has never been as much difficulty in getting cooperation from the Ark City Clinic on admissions as there is today.

## Accounts Payable

Commissioner Jurkovich commended CFO Harper for the job she is doing in shifting funds around, but he announced that SCKMC was falling further and further behind on its accounts payable to vendors and suppliers.

He said it is an acute short-term problem and if suppliers are not paid, they could cut SCKMC off. Commissioner Every asked Harper how the situation stood that day. She said SCKMC has \$1.9 million in outstanding payables. Harper said many vendors have worked with SCKMC, but that situation can only be sustained for so long.

## Half-Cent or One-Cent Sales Tax?

Mayor Giles asked CEO Watson if SCKMC could survive with just a half-cent sales tax, because he doubted it could. Watson admitted that a one-cent sales tax would be much better, but he is not sure it could be passed.

Commissioner Jurkovich asked if the City could statutorily raise sales tax midway through the year. City Manager Hernandez said it could, but any sales tax passed wouldn't take effect until the next quarter started.

Commissioner Every said an extra half-cent tax only delays the issue until 2019, when the original tax sunsets. He said he thinks that even with an additional one cent, SCKMC will struggle to repay its suppliers and the City with what is raised, but with a half-cent, the facility will have to be downgraded drastically in its operations.

Commissioner Oestmann said he is concerned about providing services to the aging citizens of Arkansas City. He said he doesn't like taxes, but pointed out that a property tax increase will affect everyone, too. He said he'd prefer some kind of countywide option, but Hernandez said there is no interest in that from William Newton.

# City Commission-SCKMC Board of Trustees Joint Meeting Minutes

---

## Discussion of Transfers

Commissioner Every said he does not think SCKMC will be able to attract patients from outside of Cowley County. Trustee Rogers disagreed and said he thinks there is a limited market in Sumner County to pull from.

But he said the most important thing is cutting down on the one-third of Cowley County patients that transfer to Wichita for their primary care. He asked Nursing Director Jones to address one innovative idea for doing that.

Jones said one of the biggest problems at Wichita hospitals is a shortage of beds, so he is talking to them about transferring patients back to SCKMC for recuperation and recovery once they've received treatment in Wichita.

He said he wants to capitalize on being the destination of choice and desirability if all of Wichita's beds are full.

Jones also said there are various financial incentives SCKMC could offer to make it a more attractive place to seek care. He said the only limiting factor will be the hospital's creativity and willingness to offer such incentives.

## Paramedicine

City Manager Hernandez elaborated more on the paramedicine concept as it relates to the Arkansas City Fire-EMS Department. He said it could save on costs to the patient and help to increase the census at SCKMC.

Commissioner Warren asked how many non-emergent transports ACFD takes to Wichita each year. Chief Wolfe said they represent more than 50 percent of ACFD's 1,800 EMS calls. Commissioner Oestmann asked what it would take to make it happen. Hernandez said if a hospitalist was in place, it could happen fairly quickly.

Hernandez and Wolfe said they have been talking about mobile integrated health care for at least three years.

Wolfe said an ambulance transport is one of the most expensive rides anyone will take in his or her life.

## Will of the Trustees

Commissioner Every asked what the Board of Trustees wanted to do. Trustee Rogers said the only consensus they came to was that they need a sales tax and a half-cent sales tax probably won't be enough. Every agreed.

Commissioner Warren asked how the outstanding accounts payable would be handled, since the earliest sales tax receipts could start to come in would be August, according to City Manager Hernandez.

Trustee Rogers indicated that if the debt payment could be made this year by the City, he thinks CFO Harper can work her way back to an even slate on the payables without that added financial burden on SCKMC's revenues.

Commissioner Jurkovich said that with all due respect, this was the same pitch he heard two years ago, but the finances only have become worse. He said he wanted to support the hospital, but he needed to hear more in the way of constructive solutions from the hospital representatives in attendance before committing.

Trustee Rice asked Commissioner Jurkovich what his recommendation would be. He said he didn't know yet.

# City Commission-SCKMC Board of Trustees Joint Meeting Minutes

---

Trustee Rice said it is important to keep in mind not just the need to pay off the building, but also the jobs, economic benefit and basic care SCKMC provides to Arkansas City. She agreed the half-cent tax is insufficient.

Rice said it will be difficult to sell the one-cent sales tax, but the odds of its passing would increase if it is designated only for the debt service payment. That means SCKMC will have to pursue other means to pay bills.

Trustee Foster asked about the components of the current sales tax of 8.25 percent. City Manager Hernandez said 6.5 percent goes to the state and 0.25 percent goes to the county. Of the remaining 1.5 percent, 0.5 percent is the current hospital sales tax, and the general remainder is divided between Fire and EMS operations.

Hernandez said Hutchinson's sales tax on January 1 was 9.1 percent and Commissioner Warren said Hutchinson voters just passed an additional 3.5-percent sales tax to fund a \$30 million sports complex.

Nursing Director Jones said he hears a lot about what the hospital costs to keep open, but he wonders about the costs if it shuts down. Hernandez and Commissioner Jurkovich said the cost is that there would be no revenues at all to assist the City in paying down the debt service that it would be responsible for paying off entirely.

Commissioner Jurkovich said he didn't want to rush into a half-cent sales tax that won't fix the problem. He said he thinks Arkansas City residents thought the initial half-cent tax would totally pay for the hospital, but it didn't.

Commissioner Jurkovich said he believes SCKMC can never afford a dime of the bond and interest payment going forward, but it can break even if that is covered, so he wants to push for what absolutely is needed to cover that payment, even if it means a full cent of sales tax, rather than come back to the voters a third time.

## **Refinancing the Bonds**

Commissioner Jurkovich said a lot of planning has hinged on SCKMC refinancing its bonds in 2019 to get a lower interest rate, but both he and City Manager Hernandez said there is every possibility that it won't be able to.

Commissioner Jurkovich said banks can't buy bonds with C credit ratings and he isn't sure there is an appetite on the individual market for hospital bonds. Hernandez said the Public Building Commission's two biggest hurdles will be not having enough sales tax revenue to cover the remaining debt and the hospital's operations.

If those two things do not change, Hernandez said, refinancing will not be a realistic option. Commissioner Jurkovich said he thinks investors will want to see the sales tax cover the remaining 23 years, not just 10.

Commissioner Every said he is not recommending this, but he thinks SCKMC needs a one-cent sales tax and also needs to generate \$500,000 a year in additional revenue for when the original half-cent sales tax runs out.

Commissioner Jurkovich said that all of the money SCKMC is paying to debt service actually should be set aside to maintain the current facility, and plan for purchasing new equipment and technologies.

Hernandez said there is no way to attach a sales tax to the life of the bond payments. He said it would have to be a general sales tax with no time limit that a future City Commission would have to repeal by a resolution.

Commissioner Every asked what the hospital building would be worth if a tax doesn't pass and it has to be sold.

# City Commission-SCKMC Board of Trustees Joint Meeting Minutes

---

## Status Quo No More

CEO Watson said that if Commissioner Jurkovich had been clear about one thing, it's the status quo has failed.

Otis Morrow clarified Watson's comments about the future of Cowley County only having one acute-care facility in it to mean that neither facility would close; only that one would transition into a different kind of facility.

Commissioner Every asked if that was the Board's vision, as well. Trustee Rogers said there have been no formal discussions to that effect, but that is an undercurrent of thought running through the Board's discussions.

Mayor Giles said he likes the 10-year sales tax option and thinks it needs to be for one cent. In 10 years, he said, the community will be well along the way to re-evaluating the facility and figuring out what it needs to become.

If that tax fails, Giles said he will not let the hospital fail, which means re-evaluating the services offered by the City and looking at raising property taxes. He doesn't like the long-term solution, but agrees that it is inevitable.

Mayor Giles said selling the hospital is a nuclear option that should only come into play if all other options are exhausted. He challenged the group to figure out if there is any way SCKMC can survive without a sales tax.

## South Central Kansas Clinic

Commissioner Every asked about the status of South Central Kansas Clinic, which lost in excess of \$400,000 in 2015. He asked if acquiring the clinic was good move and if the situation could be turned around.

Trustee Rogers said the clinic gives SCKMC another recruitment option and the expected higher reimbursements for its being a Rural Health Care Clinic should lead to its starting to break even within a few months.

He said acquiring the clinic was a good move because it kept Dr. Eric Thomson, one of the hospital's largest referrers, in town and he believes it will become a break-even operation. CEO Watson concurred with Rogers.

Watson said the plan is to locate Dr. Willy Posey in the Outpatient Services Building and perhaps generate enough primary care there in order for that facility also to qualify as a Hospital-Based Rural Health Care Clinic.

## Polling the Board

Commissioner Jurkovich asked the trustees if the half-cent sales tax question, as presented, still was what they were requesting of the City Commission.

Trustee Rice said she thinks it needs to be a one-cent tax, with considerable effort being made to get the community behind the effort. CMO Pappan admitted the last effort was sugarcoated, but this one will not be.

Commissioner Jurkovich said the declining meaningful-use payments and the growing accounts payable problem were not made clear to him two years ago, and it was presented that SCKMC was doing better than it was.

Trustee Foster, Dr. Lin, Trustee Paton and Trustee Rogers all agreed with Rice that a one-cent tax is needed.

# City Commission-SCKMC Board of Trustees Joint Meeting Minutes

---

## Marching Orders

Commissioner Every asked again how the September bond payment will be made and how SCKMC will catch up on its accounts payable. Mayor Giles said he didn't think there was an answer to the payables at this time.

Commissioner Every asked City Manager Hernandez if there is any way the City can come up with around \$2 million in the next six months to cover both sets of debts. Hernandez said there was no way that would be possible. If everything is on the table, he said, the most that is doable this year is \$500,000 to \$750,000.

Hernandez said that likely would include terminating payments to outside agencies, and looking at cuts and efficiencies within City departments. Commissioner Jurkovich said capital payments may have to be postponed.

Jeni McGee asked if the City would be willing to cut police and fire services before SCKMC makes cuts to its own operations. Commissioner Jurkovich said it wasn't a matter of being willing — the payment will have to be made, one way or the other. He also indicated SCKMC only can cut so much before it isn't a hospital anymore.

CMO Pappan said the hospital is willing to make cuts before any City department has to look at doing that, and he thought that had been shown by the discussion that night and the list of suggestions brought to the table.

Hernandez said if quick cash is needed, something as drastic as privatizing sanitation service could be examined. But a more palatable option is transfers from that and other utility enterprise funds, if that becomes necessary.

Mayor Giles said everyone had their marching orders — City staff will look at options for making the payment in August, SCKMC staff will look at cutting what they can and trimming any fat that may exist, and the one-cent sales tax will be on the commission's next regular agenda.

Commissioner Every asked CEO Watson and CFO Harper to bring a calculation to the next commission meeting of what it would take to pay down the accounts payable. Mayor Giles asked for a departmental breakdown of the financial losses at SCKMC, instead of just an overall picture. Hernandez said he would find \$500,000.

Watson said he thought communication between the City and SCKMC was good, and that he appreciated the commission's candor and tough questions. Commissioners Jurkovich and Oestmann urged citizens to weigh in.

## Adjournment

Mayor Giles made a motion to adjourn the joint meeting. Commissioner Oestmann seconded the motion. A voice vote was unanimous in favor of the motion. Mayor Giles declared the joint meeting adjourned at 9:31 p.m.

# City Commission-SCKMC Board of Trustees Joint Meeting Minutes

---

THE ARKANSAS CITY  
BOARD OF CITY COMMISSIONERS

\_\_\_\_\_  
Chad Giles, Mayor

ATTEST:

\_\_\_\_\_  
Lesley Shook, City Clerk

Prepared by:

\_\_\_\_\_  
Andrew Lawson, Public Information Officer