

City Commission of Arkansas City Meeting Minutes

The Arkansas City Board of City Commissioners met in regular session at 5:30 p.m. Tuesday, February 2, 2016, in the Commission Room at City Hall, 118 W. Central Ave., in Arkansas City.

Those present at roll call were Mayor Chad Giles, Commissioner Brandon Every, Commissioner Dan Jurkovich, Commissioner Duane Oestmann and Commissioner Jay Warren.

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, Assistant Public Works Director Mike Crandall, Neighborhood Services Superintendent Richard Brown, Police Chief Dan Ward and Fire Chief Bobby Wolfe.

South Central Kansas Medical Center officials in attendance were chief executive officer Virgil Watson, chief financial officer Holly Harper, chief marketing officer Clayton Pappan and Board of Trustees member Arleta Rice.

Citizens in attendance included Albert Brown, Kanyon Gingher, Ken Harader, Rebecca Harader, Chari Jenkins, Mell Kuhn, Gareth McGee and Traveler reporter Jeni McGee.

Pastor Mark Fry offered the opening prayer. Mayor Giles led the pledge of allegiance.

Agenda Additions/Deletions and Approval

Commissioner Every moved to approve the agenda as presented. Commissioner Warren seconded the motion. A voice vote was unanimous in favor of the motion. Mayor Giles declared the agenda approved.

Recognition of Visitors

Ken Harader, 1313 N. First St., addressed the commissioners about traffic on First Street due to the opening of the new Family Dollar store at 1313 N. Summit St. He said the Board of Zoning Appeals approved the “pork chop” traffic control device with the condition that it have signage indicating a “right in, right out” traffic flow.

Mayor Giles asked Public Works Director Broce about Family Dollar painting the dumpster gate instead of treating it. Broce said the dumpster would be screened on all sides to match the approved plans and the gate had been painted. The pallets have been removed. Harader said the dumpster gate didn’t latch properly.

Commissioner Every asked if there still was no sign in the pork chop and Harader said there was not. Broce said he normally is hesitant to regulate a private drive outside of the site plan review process, but based on Board of Zoning Appeals minutes, he consented to install a sign and also to paint the pork chop bright yellow for visibility.

Harader also complained about continued parking problems on First Street involving tractor-trailers whose drivers were eating at Arby’s. Mayor Giles instructed him to call the police department when this occurs.

Commissioner Every asked about the temporary signs at Family Dollar, including the roof flags that are not allowed under the new sign regulations. City Manager Hernandez said the signs were approved prior to the changes in the regulations and were grandfathered in. They only are allowed for a period of 15 days.

City Commission of Arkansas City Meeting Minutes

Consent Agenda

Commissioner Oestmann made a motion to approve the consent agenda as presented, including the following:

1. Approving the January 19, 2016, regular meeting minutes as written.
2. Approving Resolution No. 2016-02-3017, scheduling a City Commission study session at 7 p.m. February 9 at the Hogan, 324 E. Poplar Ave., to discuss a proposed purchasing policy and procedures manual.

City Manager Hernandez said he hadn't had much time to deal with the purchasing policy lately and the audit was coming soon. He asked if commissioners wanted to change the study session topic, but they did not.

Commissioner Jurkovich seconded the motion. A voice vote was unanimous in favor of the motion. Mayor Giles declared the consent agenda approved.

Old Business

KDOT Project Programming Request **Resolution No. 2016-02-3018**

City Clerk Shook presented for discussion a second reading of a resolution authorizing City Manager Hernandez to execute and submit a "Project Programming Request" Form 1302 to the Kansas Department of Transportation's (KDOT) Bureau of Local Projects, accepting an award of KDOT funds for a resurfacing project, to include U.S. 77 from the Arkansas River bridge north to the U.S. 77-U.S. 166 intersection, as part of the 2017 KLINK Resurfacing Program.

Public Works Director Broce said the City would have to spend up to \$450,000 to achieve the matching funds of \$300,000 for the resurfacing project, which would not be until the 2017 fiscal year. City Manager Hernandez said the City likely would use special highway funds or federal exchange dollars to finance its portion of the work.

Commissioner Every asked if there would be any negative aspects to rejecting the funding offer. Broce said funds usually are tight. He feared doing so could be viewed unfavorably when applying for funds in the future.

Commissioner Jurkovich asked if either the special highway (gasoline tax) or federal exchange dollars could be used for anything other than road or bridge improvements. Hernandez said they could not. Broce added that there also is some cash carryover in the street improvement fund, plus anything that is budgeted in 2017.

Commissioner Jurkovich moved to approve the resolution. Commissioner Warren seconded the motion.

A voice vote was unanimous in favor of the motion. Mayor Giles declared the resolution adopted and given Resolution No. 2016-02-3018.

New Business

Freedom of Information Officer **Resolution No. 2016-02-3019**

City Clerk Shook presented for discussion a resolution appointing a local Freedom of Information Officer (FIO) for the City of Arkansas City and providing for that officer's duties.

City Commission of Arkansas City Meeting Minutes

Public Information Officer (PIO) Lawson explained that the FIO duties have rested with the City Clerk for the last 15 years, but they dovetail better with his job duties. Staff thus recommended designating the PIO as the FIO.

Lawson said he would become responsible for managing the FIO information brochure, but otherwise, he and Shook would continue to share duties relating to open records requests and agenda/minutes management.

Commissioner Every asked if someone still could go to Shook for records requests and Lawson said that would continue to be an option. Commissioner Jurkovich observed that there didn't seem to be any major changes.

Mayor Giles moved to approve the resolution. Commissioner Oestmann seconded the motion.

A voice vote was unanimous in favor of the motion. Mayor Giles declared the resolution adopted and given Resolution No. 2016-02-3019.

Other Business

Discussion of Financial Situation at South Central Kansas Medical Center

SCKMC chief financial officer Holly Harper said the hospital grossed \$31.3 million in 2015, not including the revenues from South Central Kansas Clinic, but due to the nature of Medicare and Medicaid reimbursements — Medicare only pays about 50 cents on the dollar, regardless of what it costs to treat — as well as uncompensated care and insurance write-offs, net operating revenues were just \$15.6 million.

Salaries and benefits totaled \$8.4 million, other expenses totaled \$6.8 million, and the total operating expenses were \$15.2 million, leaving a difference of \$400,000. Bond interest expense for 2015 was \$1.5 million, which was partially offset by \$875,000 in sales tax revenues, leading to a total hospital loss of \$1.5 million.

The clinic lost about \$391,000 in 2015, Harper said, for a total enterprise loss of \$1.9 million. Total cash available at the end of the year was \$154,000, which was short \$300,000 from an expected federal payment that did not come in on time. Because the amount of cash on hand was insufficient to make the next bond and interest payment, the hospital is in technical default on the bond payments.

Mayor Giles asked about the thought process in taking on the clinic if it was going to lead to operating losses. SCKMC chief marketing officer Clayton Pappan explained that transitioning from independent practitioners to hospital employees has not been easy or smooth for the clinic's doctors, and managing a clinic has been a steep learning curve for the hospital. But in the long run, SCKMC expects the clinic to stabilize and become profitable.

Commissioner Jurkovich asked how much it costs to recruit new physicians, each of whom is estimated to bring in about \$1.5 million in annual revenues to the medical center. Pappan said the cost can range from \$40,000 for a headhunting firm, not counting signing expenses, to just \$5,000 for referrals from friends or family in the area.

Harper said the clinic is in the final phase of being classified as a Hospital-Based Rural Health Care Clinic, which should lead to higher reimbursements that will offset losses and make the facility more likely to break even.

City Manager Hernandez presented information regarding which doctors referred the most patients to the hospital for either inpatient or outpatient services. Commissioner Jurkovich asked if the amount of accounts receivable had been growing or late. Harper said it had, but revenues also have been on the rise, as well.

City Commission of Arkansas City Meeting Minutes

Commissioner Every asked which part of the hospital operation was most profitable. Harper said inpatient services make the most money, but insurance is driving more business to the inpatient side. She said the surgery department makes the most profit, either inpatient or outpatient.

SCKMC chief executive officer Virgil Watson said the hospital has been working feverishly for the last year to attain multiple designations that will increase its reimbursements and help to offset losses. He said many clinics and hospitals are in this situation due to changes in health care at the federal and state levels.

Commissioner Warren asked what recruiting prospects are on the horizon, given Dr. Robert Yoachim's recent retirement. Watson said there is a couple who are interested in setting up a practice here and they are being recruited aggressively, but they wouldn't be here until sometime in 2017 at the earliest. He also said Dr. William Posey will be coming to Arkansas City sometime within the next 60 days.

Commissioner Warren asked about doctors falling behind on their charts, which can lead to reimbursement delays. Watson said they are looking at ways to make that process more efficient, including computer dictation. He added that the telehospitalist program has been a success and everyone seems to like it, including patients.

Harper said \$1 million in uncoded claims at the end of 2015 had been reduced to \$400,000 by the beginning of February. She also explained what had happened with the delay in the \$300,000 incentive for meaningful use.

Regarding the upcoming bond payment, Harper said \$427,000 was available through the sales tax and there had been a donation of \$20,000 to help with that payment, leaving a shortfall of \$273,000 that needed to be paid.

Watson said SCKMC was requesting an additional loan of \$275,000 from the City to cover that shortfall.

Commissioner Jurkovich said he had asked what would happen if the City didn't make the payment. He said that after learning the City could be forced by a vote of the bondholders to raise property taxes to make the payment, as well as be charged with a class C misdemeanor, he realized that was not a good choice.

Alternatively, Jurkovich said, the City could tap into the \$1.9 million bond reserve to make the payment, but it would be responsible for refilling the reserve to its original level and the hospital only would have to repay at a rate of \$5,000 a month, rather than its current \$25,000. Additionally, using the reserve could lower the City's credit and have negative ramifications for its hope of refinancing the bonds to a lower interest rate in 2019.

Based on what he had learned, Jurkovich said he recommended making the loan and avoiding a higher default.

Commissioner Warren asked why the bonds had a 7.9-percent interest rate when they are backed with the City's full faith and credit. Jurkovich said they were issued in a bad climate and he thought it was a bad deal.

Commissioner Every asked Arleta Rice about the decision-making process when the bonds were issued in 2009, but she said she wasn't involved in that. City Manager Hernandez said he already was working on how to cover a shortfall in September on the next payment and would be meeting with staff on February 3 to discuss options for reducing expenditures in 2016 out of the general fund, in order to offset the unbudgeted loan to SCKMC.

Hernandez also said that because SCKMC is in a technical default, which will be certified in its April audit, it will be required by the bond document to hire a health care consultant to evaluate the hospital operation. He said he already had reached out to a couple of consulting companies to inquire about that process.

City Commission of Arkansas City Meeting Minutes

Hernandez suggested having a joint meeting of the City Commission and the SCKMC Board of Trustees, as well as the bond counsel, the bondholders' representative and an independent third-party financial advisor. He said future refinancing could include a goal of getting the debt under \$10 million in order to involve local banks, too.

Mayor Giles asked what the long-term fix could be to prevent the City to keep having to extend these short-term loans. Pappan said SCKMC is out of options from an operational standpoint, meaning the only remaining option is exploring an additional half-cent sales tax that could get the medical center through the 2019 time frame.

Commissioner Every asked whether this isn't the time to shake things up as a commission and take over the operations in some way. Hernandez said that is what the health care consultant will tell the City in its report. But closing the doors to the hospital would mean no revenue coming in, leaving the burden only on the City.

Commissioner Every asked if anyone had looked at selling the hospital. Both Commissioners Oestmann and Warren said they were totally against doing that. Warren pointed to what had happened in Independence, with the hospital closing a year after it was sold. Hernandez said it likely will be difficult to find an interested buyer.

Commissioner Oestmann said he doesn't like paying additional taxes, but he also doesn't want to lose the local hospital and he thinks that if Arkansas City residents want the same thing, they'll do what's needed to support it.

Commissioner Jurkovich moved to extend the \$275,000 loan to SCKMC, with the stipulation that it be repaid once the \$300,000 in meaningful use money comes in. Commissioner Warren seconded the motion. But after further discussion, Jurkovich decided to withdraw his motion and Warren decided to withdraw his second.

Hernandez said the hospital has made three of its six scheduled payments on the original \$300,000 loan thus far, and it also has not paid special assessments on the property for the last year or so. But he still thinks any money given to SCKMC needs to be in the form of a loan and not simply written off, even if it takes years to repay.

Mayor Giles said he doesn't think this situation will fix itself and if the sales tax fails again, he said core services will have to be cut, in addition to a hike in property taxes. Watson said changes also would have to come at the medical center, with serious discussions being needed about what kind of hospital the community could afford.

Commissioner Every said he didn't appreciate being put in the position of having to make this decision that night. Commissioner Oestmann defended hospital staff and said they were counting on the meaningful use money up until the moment it didn't come in on time. Mayor Giles said he didn't like that he started hearing about this most recent problem from citizens and not from hospital staff or the Board of Trustees.

Mayor Giles requested that Watson and his fellow officials come to the first City Commission meeting of each month from now on to keep the commission up to date on the latest financial developments. Watson agreed.

Cheri Jenkins, who has worked in nursing, said not getting charts turned in on time was going to lead to leaving money on the table. Harper said that definitely has been the case at the clinic. Hernandez asked how much more complex coding has become in the last few years. Harper said Medicare just added 10,000 new codes.

Mayor Giles asked if there was any "dead weight" on the board of trustees. Watson said there were no problems with attendance or participation. Commissioner Jurkovich asked if the board was too large and Watson said it was not. Mayor Giles asked if there was anything else that could be done to assist. Watson asked for the commission's support on the proposed sales tax question and presented their preferred language.

City Commission of Arkansas City Meeting Minutes

Pappan said it would have to be a mail ballot, no earlier than June, and would cost about \$10,000 to conduct. He said it would allow the tax to be implemented one quarter earlier than waiting until the August primary.

Commissioner Oestmann asked about the possibility of adding background information to the question itself, but Pappan said he thought that would make the question too cumbersome and complicated, which he credited as part of the problem when the last sales tax question failed in 2014.

Hernandez mentioned the possibility of seeking a general sales tax instead of a special sales tax with a sunset. He also mentioned that hiring a health care consultant could cost anywhere from \$100,000 to \$200,000.

Commissioner Every made a motion to use the bond reserve and not loan the money. It died for lack of a second. Commissioner Jurkovich said he was not in favor of using the reserve at this time in order to not damage the City's credit and preserve its ability to possibly refinance the bonds in 2019. Commissioner Oestmann agreed.

Mayor Giles made a motion to loan the medical center \$275,000, with the same repayment terms as the previous \$300,000 loan. Commissioner Oestmann seconded the motion. A voice vote resulted in four aye votes and one nay vote, with Commissioner Every dissenting. Mayor Giles declared the motion passed.

Mayor Giles also urged citizens to consider an upcoming sales tax carefully. He said some kind of sales tax probably is inevitable in the future, but if it fails, he said the burden would fall on property taxes and cuts in services, potentially to include police, fire-EMS and City Hall staff. He said the hospital is a "quality of life" issue.

Hernandez brought up the possibility of making small transfers from utility enterprise funds to shore up the general fund, but cautioned that such a move could be unpopular with larger customers such as Creekstone.

Harper confirmed, in response to a question from Commissioner Jurkovich, that the hospital is continuing to pay its employees and it has not been cut off by any of its vendors.

Commissioner Jurkovich said the City should consider all available options in the future, not just the easiest. Hernandez reiterated his intention to have a joint meeting among all concerned parties to discuss options for proceeding. Jurkovich volunteered to sit in. Commissioner Every said all of the commissioners should be present.

City Manager Updates

City Manager Hernandez asked Public Works Director Broce to explain the recent pH excursion at the Water Treatment Facility. Broce said the incident occurred Dec. 16-17, 2015, but the City was not notified officially of a violation by the Kansas Department of Health and Environment (KDHE) until Jan. 17.

In this most recent case, the pH was out of compliance for 10 hours due to the switchover back to the repaired primary lime softening basin. Now that the basin is back online with a more efficient mixer, Broce does not anticipate any further problems, but the plant's standard operating procedures still have been revised to fix this.

Nevertheless, the City is required to issue a Tier 2 public notification of the incident to all citizens and water customers. If this had been an emergency, though, immediate notification would have occurred last December. Mayor Giles asked if the City was sure of the violation this time. Hernandez said a letter had been received.

Commissioner Oestmann asked about progress on the clearwell. Broce explained that temperatures have to be above freezing for Preload to finish casting the concrete dome atop the structure.

City Commission of Arkansas City Meeting Minutes

Hernandez said KDHE has authorized the City to proceed with bidding for the new Water Treatment Facility. He said bids would be issued within the next week and could be opened as soon as March 10. Broce said there is a lot of interest in the project, with as many as six bidders from out of state keeping tabs on it.

Hernandez said the prices of many construction materials are very low right now and this is a prime time to begin construction of the facility, especially with several other plant projects right on the heels of this one.

Executive Session

Commissioner Every moved to recess into executive session for five minutes to discuss matters of non-elected personnel. Commissioner Jurkovich seconded the motion. A voice vote was unanimous in favor.

The commissioners moved into executive session at 8:04 p.m. and returned to regular session at 8:09 p.m. No action followed the executive session.

Adjournment

Commissioner Every moved to adjourn the meeting. Commissioner Oestmann seconded the motion. A voice vote was unanimous in favor of the motion. Mayor Giles declared the meeting adjourned at 8:09 p.m.

THE ARKANSAS CITY
BOARD OF CITY COMMISSIONERS

Chad Giles, Mayor

ATTEST:

Lesley Shook, City Clerk

Prepared by:

Andrew Lawson, Public Information Officer