

# City Commission of Arkansas City Meeting Minutes

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The Arkansas City Board of City Commissioners met in regular session at 5:30 p.m. Tuesday, March 1, 2016, in the Commission Room at City Hall, 118 W. Central Ave., in Arkansas City.

Mayor Chad Giles called the meeting to order. Those present at roll call were Mayor 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, Neighborhood Services Superintendent Richard Brown, Fire Chief Bobby Wolfe and Police Chief Dan Ward.

South Central Kansas Medical Center officials in attendance included 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; chief of staff Dr. Perry Lin; trustees JoLynn Foster, Mark Paton and Dr. Nick Rogers; and legal counsel Otis Morrow.

Cowley First officials in attendance were director Kerri Falletti and administrative assistant Deb Firebaugh.

Citizens in attendance included Albert Brown, Cindy Current, Connie Dykes, Michelle Dykes, Kanyon Gingher, Ken Harader, Mell Kuhn, Gareth McGee, John Shelman, Steven Walker, Gary Wilson and Traveler reporter Jeni McGee.

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

## **Agenda Additions/Deletions and Approval**

City Manager Hernandez asked for the Cowley First report to be the first item under Recognition of Visitors, to move the SCKMC financial update to New Business Item 2 and to eliminate the 15-minute executive session.

Mayor Giles moved to approve the changes as requested. Commissioner Warren seconded the motion. A voice vote was unanimous in favor of the motion. Mayor Giles declared the agenda amended.

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

## **Recognition of Visitors**

Kerri Falletti gave a presentation on Cowley First's recent activities, including a survey of local businesses regarding anticipated employment and sales, several recruitment projects involving potential new businesses or industries, and the inaugural Cowley County Youth Entrepreneurship Challenge on March 23 at Cowley College. Falletti also discussed housing issues and some plans that are in the works for in-fill housing. Deb Firebaugh talked about the organization's Cowley Works booklet, banners, website and other promotional materials.

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., as well as the store's dumpster enclosure. Neighborhood Services Superintendent Brown said the enclosure latch meets code, although it was damaged after inspection, and the store did not want to paint the gate. City Manager Hernandez said he would look into more signage.

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## **Awards and Proclamations**

Mayor Giles read a proclamation declaring April 2016 as Fair Housing Month in Arkansas City.

## **Consent Agenda**

Mayor Giles made a motion to approve the consent agenda as presented, including the following items:

1. Approving the February 16, 2016, regular meeting and joint SCKMC meeting minutes as written.
2. Ratifying his appointments of Albert Brown to the Planning Commission, and Chris Rains and Randy Smith to the Building Trades Board.
3. Approving Resolution No. 2016-03-3023, authorizing the rescheduling of a public City Commission meeting from 5:30 p.m. March 15, 2016, to 5:30 p.m. March 22, 2016.

Commissioner Every asked if there still should be a meeting on March 15, given what has occurred recently with the medical center and other ongoing issues. Mayor Giles said he could not attend a meeting that day.

City Manager Hernandez suggested keeping the regular meeting on March 15 and scheduling a special meeting on March 22. Mayor Giles amended his motion as suggested to schedule both meetings with the resolution.

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

## **New Business**

### **2015 Forfeiture Fund Activity Report**

City Clerk Shook presented for discussion the presentation of the 2015 civil asset forfeiture fund activity report.

Police Chief Ward said this information traditionally has been presented during budget season, but he wanted to break it out on its own this year to improve transparency and better explain how the funds were being used.

A total of \$5,926.42 in cash and vehicles was seized in 2015, Ward said, while only a total of \$392.47 was expended from the forfeiture fund to pay legal expenses and publication fees.

Commissioner Every asked what the money could be spent on. Ward said it had to be police-related, such as training or equipment. Commissioner Every asked if it could be spent on National Night Out. Ward said he planned to use the funds to help to fund needed improvements for accreditation, such as evidence storage.

### **City Operational Overview and Sales Tax Question**

City Manager Hernandez gave an operational overview of the City going back to 2003-2004, focusing on the history of local property taxes, the breakdown of an average utility bill and what it funds, current sales tax rates for nearby or comparably sized cities, and impacts on City operations of a one-cent sales tax passage or failure.

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The City has raised property taxes by about 3 percent during the last 12 years, well below the rate of inflation (about 24 percent), Cowley County (25 percent) and USD 470 (35 percent). Assessed valuation has declined slightly during that period, with only \$70,000 more in property taxes being generated in 2016 than in 2003.

The City has coped with this by reducing from 148.5 budgeted positions in 2009 to 134 today, only 123 of which are filled. This is a reduction in staff of 9.8 percent.

Of the 48.494 general fund levy, 6.25 mills go to external agencies such as the Arkansas City Area Chamber of Commerce, Cherokee Strip Land Rush Museum, Cowley First and the City-Cowley County Health Department.

Another 15.321 mills of property tax goes to debt service — and only \$395,000 of that is attributable to decisions made since 2009 — while about 6 mills of tax is passed through directly to the Arkansas City Public Library. The total City liability of 69.795 mills is about one-third of the overall 201.013 mill levy in Arkansas City.

Only 24 percent of that tax bill goes directly to fund general operations (21 percent without external agencies).

The City has about \$6.56 million in outstanding principal debt, slightly more than Cowley College's \$6.4 million in certificates of participation and significantly less than the school district's \$39.86 million. The Public Building Commission currently holds an additional \$21.175 million in bond debt for South Central Kansas Medical Center.

Hernandez showed a pie chart that breaks down the components of the 48.494 general fund levy, as well as the one-cent sales tax that funds police and fire operations (and some miscellaneous revenues such as court fines and park reservation fees) — 29 percent goes to the police department; 28 percent to the fire-EMS department; 16 percent to parks and facilities; 10 percent to finance and administration; 6 percent to streets; 3 percent each to neighborhood services (code enforcement and demolition), external agencies and an emergency reserve fund (since used to loan \$275,000 to SCKMC in February); and 2 percent to municipal court and legal expenses.

He also showed how the average monthly utility bill comprises \$33.17 for water treatment and distribution operations and improvements; \$28.43 for sewer treatment and collection; \$18.44 for refuse containers, recycling and removal; and \$3 for stormwater collection and the levee system, for a total of \$83.17 a month.

The average Arkansas City household pays \$45.35 a month (\$1.51 a day) toward the City's portion of the property tax. Those numbers drop to \$31.51 a month (\$1.05 a day) if external agency funding is excluded.

Combined with the average monthly utility bill, this equals an average of \$128.52 a month for all City services.

Hernandez then turned his attention to the sales tax. He said Arkansas City has a lower sales tax rate (8.25 percent, tied for 280<sup>th</sup> highest in Kansas, excluding community improvement districts) than Ponca City (8.67 percent) and it is just 0.1 percent higher than Winfield's sales tax rate.

Wichita's is only 7.5 percent, but Hernandez pointed out that shopping in those other communities brings no money to the City, while doing so locally nets around \$2.5 million a year that is reinvested in the community.

Independence, McPherson, Pittsburg and Wellington — comparably sized cities that all recently passed sales taxes to support their local hospitals — all have sales tax rates of at least 9 percent, Hernandez said.

An increase of 1 percent would make the City tied for 27<sup>th</sup> highest with 15 other cities at 9.5 percent (non-CID).

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Of the current 8.25-percent sales tax, only 1.5 percent goes to the City or SCKMC, while 6.5 percent goes to the State of Kansas and 0.25 percent goes to Cowley County for the South Annex. It's expected to sunset in 2017.

Hernandez said SCKMC borrowed a total of \$404,341 from the City in 2015, some of it in the form of unpaid special assessments, and \$275,000 so far in 2016, with a potential of an additional \$651,777 needed this year.

That means the hospital's total debt obligation to the City could exceed \$1.6 million by the end of 2016, he said.

Commissioner Every asked Hernandez why the 2016 budget assumed no special assessment payments would be made. Hernandez said it was a precautionary measure because SCKMC already has missed several payments when the budget was being developed last year. Commissioner Every said that should have been highlighted.

He also said the hospital's debt liability could be much higher than \$1.6 million because SCKMC has \$1.99 million and growing in accounts payable to its vendors. Hernandez said his number was just what SCKMC owed the City.

He then presented the proposed sales tax question and showed how its passage could lead to a potential surplus of around \$400,000 for the next two years, followed by a similar shortfall in years after 2019.

Without a sales tax, the City will be obligated to back up to 40.7 mills, or \$2.1 million, worth of bond debt and special assessments annually until 2038, when the bonds finally will be paid off.

Hernandez said that if the sales tax passes, the City still will have to make up a one-year shortfall of up to \$1.3 million in 2016. There must be a goal of achieving one health care system for all of Cowley County by 2019, he said, because there still will be 12 years of bond debt to account for when the newest 10-year tax would expire.

But if the sales tax fails, he said, staff immediately will recommend options to protect core services that could include, but are not limited to, eliminating all external agency funding; potentially eliminating City facilities, programs and property; reducing staff by five to seven people, reducing supervisory salaries in excess of \$50,000 by 10 percent and freezing all wages; eliminating six to eight general fund positions that currently are not filled; increasing utility franchise fees by 6 percent; and still needing to raise property taxes by 10 percent or more.

## **SCKMC Financial Update**

Holly Harper presented the most recent financial overview for South Central Kansas Medical Center, including a series of targeted cuts totaling \$750,000 in annual savings, although less than that amount will be seen in 2016.

The cuts include a reduction in the telehospitalist service to nocturnal hours and 15-percent reductions in pay for administrative staff, including herself, Virgil Watson, Clayton Pappan and Jane Campbell. Pappan said the cuts touch nearly every aspect of the hospital, other than the salaries of medical and frontline staff.

Pappan said the cuts were approved by the SCKMC Board of Trustees at its last meeting. Commissioner Every questioned that and Pappan clarified that the cuts were discussed, but not formally approved. City Manager Hernandez asked if the cuts were discussed in open session. Pappan said they were not because the employment of certain physicians was discussed and that topic is protected by employment privacy laws.

Hernandez asked about SCKMC's contingency plan if the sales tax fails and whether one had been developed.

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Pappan told Mayor Giles, who asked what the second wave of cuts would be, that the next things to look at would have to involve staff reductions and pay cuts for frontline staff. Hernandez said the \$1.3 million shortfall would affect frontline employees in the City in 2016.

Commissioner Jurkovich asked if SCKMC's cuts could reduce the City's financial liability. Hernandez said the Board of Trustees, with the guidance of the commission, could decide to use the savings to pay its vendors off.

Harper also gave an overview of the hospital's current accounts payable, with 34 percent (\$678,919) in current billing, 17 percent (\$336,726) 31 to 60 days overdue, 15 percent (\$294,785) 61 to 90 days overdue, 12 percent (\$242,185) 91 to 120 days overdue and 22 percent (\$445,914) more than 121 days overdue.

She also provided a list of vital vendors whose services are crucial to SCKMC's daily operations, mainly surgical or medical supply vendors. American Red Cross, which supplies blood, also was listed as one such vendor.

Commissioner Jurkovich asked if anyone at SCKMC had looked into the possibility of Chapter 9 or Chapter 11 reorganization to clean up the accounts payable. Harper said neither herself nor legal counsel had done so yet.

Commissioner Oestmann asked if it was possible. Otis Morrow said he wasn't sure how it would work.

Watson asked to have a seat at management meetings to talk about budget cuts, saying he remembered the days when the hospital was a department of the City. Mayor Giles asked Hernandez to extend that invitation.

Watson highlighted some positives, such as the recent recruitment of Dr. Willie Posey, but acknowledged the continuing problem of low census numbers and utilization, which directly impact the hospital's revenues.

Commissioner Warren asked Watson how Cowley County can move forward to one health care system. He replied that it requires both hospitals talking to each other about possibilities, as well as local clinics.

Mayor Giles asked Hernandez about progress toward selecting a health care consultant. Hernandez and Watson said they still were working on some scoping items. Hernandez said it would cost from \$150,000 to \$200,000.

Commissioner Every asked for the sales tax timeline. Pappan said that if the sales tax question were approved that night, a special election could be held in May after two weeks of publication, with the tax potentially going into effect as early as July 1. Finance Director Cornwell said funds probably would start trickling in by August.

City Manager Hernandez said receiving funds by August should yield enough revenue to make the February 2017 bond payment, as well as further funds to cover the entire August 2017 principal and interest payment.

Commissioner Every said he was not yet convinced that a one-cent sales tax will be enough to fix the problem. Pappan agreed that SCKMC cannot cut its way out of the situation and it must continue to increase revenues.

Mayor Giles asked what Commissioner Every proposed as an alternative. Commissioner Every said he wanted to look at other options before a sales tax. Mayor Giles asked how to stop the hospital from hemorrhaging money in the meantime, because exploring other options will take a lot of time.

Commissioner Every asked Hernandez how long the health care consultant's study would take. Hernandez said the proposal was for 60 to 90 days, but he cautioned that waiting could jeopardize the February 2017 payment.

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Commissioner Every said he wasn't even convinced that the tax would pass and urged planning for its failure.

Mayor Giles asked if Commissioner Every wanted a larger sales tax. He replied that would be up to the public, but added that 10 years isn't long enough when the debt service has 22 years left on it. Mayor Giles said there was a gap that needed to be bridged with something. A sales tax buys time to complete the health care study and begin working toward a more constructive relationship with William Newton Hospital in Winfield.

Mayor Giles said the commissioners' job was to put the question on the ballot and let the voters decide when an entity such as SCKMC comes to them with a true need. He didn't think five men should be able to shut that door.

Commissioner Jurkovich echoed some of Commissioner Every's concerns and said he would like to see a more concrete five-year plan for how SCKMC was going to get out of some of its predicament with accounts payable.

Commissioner Every said he thinks many voters who supported the half-cent sales tax in 2009 believed that would pay for the hospital and they will not be willing to give the same decision-makers another extra cent.

Mayor Giles asked if Commissioner Every wanted the commission to wipe the board clean and take SCKMC over.

Commissioner Every said he didn't know what the options were to do that, but if the fiscal responsibility was going to fall on the City anyway, he would want to look at that.

Commissioner Oestmann said he thought the current board members were qualified, but may not have been provided all of the relevant information in a timely manner.

Mayor Giles asked Commissioner Every for five to nine new names who were willing to put forth the time and effort for free, and who have the necessary level of expertise. Commissioner Jurkovich named all of the trustees present in the audience. Commissioner Every said he didn't think the board necessarily needed nine members.

Hernandez mentioned that waiting 60 to 90 days would mean the City probably would have to budget for a property tax increase in 2017 in case the sales tax measure failed.

Mayor Giles said that if the commission wants to give up on the hospital, then it should shut it down, but he thinks it would be silly to owe \$23 million on a building that not a single person could use. He also pointed out the tax could be withdrawn at any time by the commission and he said he didn't want property taxes to rise.

Commissioner Every said business owners would be impacted by the sales tax. Commissioner Warren said the public needed to make the decision about whether to continue to support the current level of service at SCKMC.

Commissioner Jurkovich announced he would abstain from any vote on the issue because a compliance director for his employer, Edward Jones Financial, had advised him that because he represents a municipal bond-dealing firm, he cannot vote if he would be listed in a lawsuit involving the City down the road over the bond payments.

Mayor Giles asked if Commissioner Jurkovich was back to his original position of holding the bondholders' feet to the fire. The mayor asked why any entity that owns the bonds, with how ironclad the bond document is and how assured payment is, would negotiate when the City must raise property taxes to cover all of the payments.

Commissioner Jurkovich said he couldn't answer that question and that was why he was going to abstain.

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## Public Comments on Sales Tax Proposal

Albert J. Brown Jr., 117 N. Third St., said he was totally opposed to the one-cent, 10-year sales tax unless certain safeguards and changes are included in the proposal. He asked for a reduction to a five-year time span for the tax, hiring an outside specialist to clean up the hospital operation and potentially fire any underperforming employees, and more transparency from hospital administration to the citizens of Arkansas City.

Brown commended Hernandez for his dedication to transparency and keeping citizens informed of the issues.

He admitted that he hasn't done a good enough job in the past of keeping up with SCKMC's issues, and urged fellow citizens to attend more City Commission meetings in the future and stay involved with City affairs.

Brown also urged citizens to support a modified sales tax proposal that meets his proposed criteria in order to preserve core City services and keep the medical center running. He said he would do everything to support it.

Commissioner Every said he thought Brown's proposal was fair, but if the people of Arkansas City really want to keep SCKMC as a full-service hospital like it is today, the City needed to look at a one-cent tax through 2038.

Brown said that in five years, he believes the efforts SCKMC administrators are making to address the problems will begin to bear fruit and indicate whether a further investment should be made in the facility by taxpayers.

Commissioner Every asked if March 1 was the cutoff to vote on the tax proposal. Clayton Pappan said he didn't think so, but they were running out of time in general.

Commissioner Every asked about the possibility of tabling the decision until a future meeting so commissioners could adjourn and attend a town hall meeting at 7 p.m. (which they already were late for). Mayor Giles said the meeting would need to be reconvened as soon as the next week, because he wouldn't be back until March 22.

Otis Morrow said the county clerk needs some time to prepare the ballot and could have it ready by mid-May.

He also said a property tax would be limited to the geographic limits of Arkansas City, while a sales tax would be spread to the broader populace of the area that is part of the community and uses the services offered here.

Regarding the request for a five-year plan, Morrow said he was unsure of what would even be in a one-year plan because he didn't know who the next president would be. So much of SCKMC's current predicament, he explained, is due to the Affordable Care Act and Kansas' refusal to expand Medicaid, never of which was foreseen when the voters decided in 2008 to construct the new facility in Patterson Park Subdivision.

Commissioner Every said he thinks there is a third option, other than raising property tax or sales tax. With \$44 million remaining in debt over the life of the bonds, he said, some of that could be mitigated by selling the hospital for even \$10 million and keeping some kind of private health care facility at the SCKMC location.

Mell Kuhn, 521 W. Kansas Ave., said the sales tax may have to happen, but asked if the City had explored every opportunity to make the hospital more efficient and profitable first before throwing more cash at the problem.

Mayor Giles asked what it would hurt to put the sales tax question to the public and see what the majority wants. He said the question was worded too poorly last time and commended Hernandez for budgeting wisely.

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## **Recess and Reconvene**

City Manager Hernandez suggested recessing the meeting until the same time next week, rather than adjourning and scheduling a special meeting to continue discussing the sales tax question.

Commissioner Oestmann moved to recess the meeting until 5:30 p.m. March 8 in the Commission Room at City Hall. Commissioner Every seconded the motion. A voice vote was unanimous in favor of the motion.

The Arkansas City Board of City Commissioners reconvened in regular session at 5:30 p.m. Tuesday, March 8.

Mayor Giles recalled the meeting to order. Those present at roll call were Mayor Giles, Commissioner Every, Commissioner Oestmann and Commissioner Warren. Commissioner Jurkovich arrived shortly after the roll call.

Also present at roll call were City Manager Hernandez, City Attorney Niles, City Clerk Shook, Finance Director Cornwell, Fire Chief Wolfe and Police Chief Ward.

South Central Kansas Medical Center officials in attendance included chief executive officer Virgil Watson; chief marketing officer Clayton Pappan; director of hospital quality and risk management Jane Campbell; director of nursing John Jones; chief of staff Dr. Perry Lin; trustees JoLynn Foster, Mark Paton, Arleta Rice and Dr. Nick Rogers; and legal counsel Otis Morrow.

Citizens in attendance included Albert Brown, Mary Benton, Cindy Current, Chris and Johnice Dancy, Connie Dykes, Michelle Dykes, Kanyon Gingher, Cliff Gottlob, Ken Harader, Booker Jennings, Mell Kuhn, Gareth McGee, Jennifer Mulkey, John Shelman, Adrian Sotelo and Traveler reporter Jeni McGee.

## **New Business (continued)**

### **Public Comments on Sales Tax Proposal**

Albert J. Brown Jr., 117 N. Third St., addressed the commissioners again. He said he wished to correct an error in his recent letter to the editor that appeared in The Arkansas City Traveler regarding the amounts of sales taxes.

He chastised those who want to sell the hospital as being angry and said those who want a 10-year tax are fearful, but again offered his five-year, one-cent plan as a reasonable compromise option.

Cliff Gottlob, 421 South B St., said his experience with medical evacuations during his military service had taught him that time is of the essence. He urged doing what is necessary to keep a hospital open locally.

He said he did not originally support building the new medical center, preferring instead to renovate the old Arkansas City Memorial Hospital, and added he was fearful of the existing financial problems coming to pass.

Connie Dykes, 423 N. Fourth St., said she completely supported Brown's proposed five-year tax. She said it would give Arkansas City residents a chance to see what changes the medical center would be making.

She said a 10-year extension of the tax could be proposed to the voters during the 2020 general election and it might be more palatable than if SCKMC's position is improving. She said this would be more financially prudent.

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Michelle Dykes, 423 N. Fourth St., said blaming Governor Sam Brownback or people who don't pay their bills on time for SCKMC's financial difficulties distracts from the main problem, which is a lack of usage of the hospital.

She said she has not heard a lot of positive stories about the medical center, does not use it personally and was turned down by Summit Clinic for care, before it became South Central Kansas Clinic, due to high risk. She also said that Dr. Aaron Watters had saved her life at the old hospital, but as long as she lives within an hour of a hospital, she should be fine. She supported Brown's five-year plan and praised SCKMC for billing changes.

Mary Benton, 1519 N. Eighth St., said she absolutely supports the one-cent sales tax for 10 years because the community will go downhill if there is no local hospital. She said she is tired of negative talk at the state and federal levels, and urged positive thinking locally and a commitment to the responsibility of maintaining SCKMC.

She praised the quality of care at SCKMC and said all hospitals have negative stories, including a heart surgeon who failed to save her son's life. She urged people to stop making negative comments and be more positive.

Jennifer Mulkey, 1106 W. Colorado Ave., said her father was a city clerk in Arkansas City for many years. She said she was in favor of a 10-year, one-cent tax, despite initial reservations about implementing another tax.

She said there has been a longstanding, symbiotic relationship between the City and SCKMC. In 1971, the City assisted the hospital with some renovations. She said the community would suffer without the medical center.

Mulkey said she understood people were upset about the tax, but said many more people would be upset by a lack of growth in Arkansas City if the tax does not pass. She asked people not to think about the one cent that will affect them personally, but think of the greater good for the community and how SCKMC plays into that.

Adrian Sotelo, 626 South C St., urged whoever supported the tax to be proud of that fact and shop locally, but questioned why people such as himself who do not use SCKMC should be saddled the burden of financing it.

He said there has to be a way for both sides to win without forcing him into paying for it, as well.

Johnice Dancy, 102 South B St., said she is a testament to SCKMC because she had surgery to remove a spot from her right lung last May and spent 12 days recuperating in the hospital. She is now cancer-free thanks to the local surgeon, even though the biopsy showed no cancer. She said she supports keeping the hospital open.

### Sales Tax Impact Discussion

City Manager Hernandez passed out a handout on annual expenditures that included information from the U.S. Bureau of Labor Statistics on average income in 2014 for all consumer units in the United States, which is \$66,877. That amount drops to \$53,495 a year after taxes are subtracted.

He also said the U.S. Census Bureau shows that the median Arkansas City household income has average expenditures, after taxes (which he used to show the highest number possible) is \$37,139. He then used the Bureau's numbers to determine what percentage of that goes to sales taxable items such as food and services.

Those percentages were applied to annual Arkansas City median household income, netting a projected average annual cost of \$103 to \$206 (about \$9 to \$17 a month) to each resident if the 1-percent sales tax is approved.

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## SCKMC Five-Year Strategic Plan

Virgil Watson said chief financial officer Holly Harper could not attend the meeting due to a family illness, so Clayton Pappan would give a presentation on SCKMC's five-year plan for returning its operation to profitability.

Pappan started by showing a baseline projection of hospital finances through 2020, showing increasing deficits of \$2 to \$4 million annually if no changes are made. The projection assumes no significant changes to status quo services or staffing, no additional tax revenue and the medical staff roster remaining at the current level.

He then gave an overview of the hospital's plan of attack to raise those revenues and cut expenses, comparing it to the process of operational triage in an emergency room. The code black items have been completed, the code red items are the most critical and need to be completed immediately within the next six months, the code yellow items are short-term priorities of high importance that need to be completed within the next 12 to 18 months, and the code green items are significant long-term priorities that need to happen in 24 to 36 months.

The completed items were presented March 1 and are estimated to save \$478,850 a year (\$399,904 in 2016). They will not significantly alter the trend of increasing deficits by themselves, however, necessitating more cuts.

Pappan then showed a list of critical items, including additional cost-reduction measures that could save \$271,950 and a series of additional programs or practices, some of which already are nearing completion, that are projected to net about \$3.9 million in additional revenue, for a total annualized impact of \$2,671,950 (\$1.5 million in potential gross revenue from an expansion of orthopedic services was excluded from this calculation in case the program does not come to fruition and to account for write-offs or charity care), or \$821,137 in 2016.

City Manager Hernandez asked Pappan about the plan to expand hours and days of service at South Central Kansas Clinic. Pappan said initially that would be for a couple of evenings and maybe half of a Saturday or Sunday. The idea is to bridge the gap to a full-scale urgent care clinic by offering an alternative to the emergency room or out-of-town care for non-emergency situations that can be handled by nurse practitioners.

He said SCKMC is not reimbursed for any non-emergent care performed in the emergency room and uninsured patients typically cannot pay for those high costs. This solution would save them money and keep them in town.

The code red items add a significant uptick in revenue starting in 2017, with minor deficits of less than \$1 million projected in 2019 and 2020, due to the assumption of full orthopedic services and Dr. Posey working full-time. Commissioner Every asked why it started to trend downward in 2019 and 2020. Pappan said it was due mainly to the expiration of the current half-cent sales tax midway through 2019.

He then looked at the code yellow items, which assume continued cost reductions, increasing revenues from the previously mentioned services, \$100,000 in additional reimbursements from designating the Outpatient Services Building as a rural health clinic, \$1.5 million from recruiting an additional physician and \$50,000 in fundraising.

All told, those changes could capture \$1.575 million in additional revenue (again subtracting write-offs and charity care from the additional doctor), making all of the revenue projections positive through 2020.

The code green items are more hypothetical at this point, but could include continue cost reductions, the development of a women's health program with area providers that could gross \$1.5 million annually, recruitment of a replacement primary care physician and further development of cooperative programs.

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With the code green items, the projections rise to \$470,000 in profit in 2017, \$2.257 million in 2018, \$1.999 million in 2019 and \$1.553 million in 2020. With the addition of a 1-percent sales tax, those numbers increase to \$2.07 million in 2017, \$3.86 million in 2018, \$3.6 million in 2019 and \$3.15 million in 2020, respectively.

Pappan said that historically, going back to Mercy Hospital in 1906, the medical center has tried to be all things to all people. He said this presentation was an acknowledgment that philosophy will have to change somewhat.

He added that the emergency room is undergoing some significant changes as a result of an expanded contract with a new service provider that is already starting to improve the average daily census numbers at SCKMC.

Commissioner Oestmann asked if the emergency room could direct people to SCKC for non-emergent needs.

Pappan said SCKMC had to be careful about doing that because a federal law requires it to perform a screening for and stabilize anyone who comes to its property for treatment. He said SCKMC instead would publicize and market the extended hours at SCKC in an attempt to steer more traffic there through public education.

Commissioner Every asked about a discrepancy between the numbers Pappan provided and figures he had for cash reserves for the last four years. Pappan said he was working with Harper's presentation and couldn't address the question. Mayor Giles suggested that the presentation figures were just net profit, not reserves.

Pappan later clarified that these were income statement assumptions, not cash-based assumptions, per Harper.

Commissioner Every asked for more clarification on Dr. Posey's role and how it will impact SCKMC finances. Pappan explained that regardless of which clinic Posey was working at, any inpatient referrals, laboratory testing or radiology testing he prescribes will be through SCKMC. The numbers look only at hospital impact, not clinics.

Commissioner Oestmann asked why there were no cost estimates for expanding insurances. Pappan explained that Harper is working with several insurance providers in Kansas and Oklahoma, but it will be a multistep process before SCKMC can accept coverage such as BlueSelect, which is not accepted anywhere in the county.

A citizen asked if the forecasts presented by Pappan would be compared in future years to the actual revenues in order to gauge how well the changes are being made, as well as if that report would be made public. Pappan said such a report could be made quarterly as part of SCKMC's monthly presentations to the City Commission.

Commissioner Every thanked Pappan for the presentation and said it was the information he was looking for, but cautioned that the numbers may be overly optimistic. Pappan added that they do not include the costs of equipment replacement or if there is a future failure in the facility itself, highlighting the need for a sales tax.

### **Five Years Versus 10 Years**

Mayor Giles asked SCKMC administrators and trustees for their opinion on whether the sales tax question should be for five years, as Albert Brown had suggested, or 10 years, as SCKMC originally had requested.

Virgil Watson joked that he'd like to have 22 years (to cover the entire debt service) and Commissioner Every agreed with him. Watson said he understood the reality is that the community has two different concepts. He said the key is a bridge to get out of the current situation, start these new programs and improve cash flow.

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Watson said he could live with either option, but the real key is what might happen with potentially refinancing the bonds in 2019. He questioned whether a five-year tax would give the bondholders enough security to do so.

City Manager Hernandez said that with the charts presented, if SCKMC could start trending more positively and have some cash, that would tremendously help with achieving a more positive outlook and possibly move the Public Building Commission back toward the lowest investment grade of bonds, but the expiration date matters.

Watson added that there is no way to predict what will happen with health care in the next five years, given the pending presidential election, but SCKMC is preparing for it the best it can and the tax gives it a fighting chance.

He said that the 10-year option could be couched with the promise that the financial situation will be monitored through at least 2019 so if the tax no longer is needed, it could be repealed prior to 2026 by the commissioners.

Watson said a lot of the future outlook depends on what happens with the medical staff and he hopes the two most senior members will stay on for three to five more years to help to bridge this gap, but they might not.

But he emphasized that whether for five or 10 years, SCKMC would be grateful for any support extended to it by the commission and the citizens, and the pressure would be on the medical center to perform either way.

## Life of the Debt Service

Commissioner Every said he wanted to talk about the possibility of covering all 22 years of the debt service with a sales tax because he thought SCKMC's projections were overly optimistic and it's already in a deficit situation.

He said that if the citizens of Arkansas City truly want to have a hospital for the next 22 years, this is the time to make that decision, rather than just committing to the next five or 10 years and leaving up to 12 years to pay off.

Mayor Giles agreed with his sentiment, but the challenge would be convincing voters to pass it. Commissioner Jurkovich added that a special sales tax can't go longer than 10 years and a general sales tax would be necessary.

Such a tax would have no automatic sunset and would have to be repealed after 22 years by a future City Commission, which just as easily could elect not to let it sunset. That risk decreases the probability of passage.

Commissioner Oestmann opined that nothing past 10 years would pass and 10 years might be a toss-up, but he hoped the citizens would see the bigger picture and acknowledge that SCKMC is working to turn it around.

Virgil Watson urged everyone in the room to stay engaged in the process and not take their eye off the end goal.

Commissioner Jurkovich asked if Watson would take personal responsibility if some of the goals are not met, such as the expansion of the orthopedic practice. Watson joked that his contract requires him to obtain a sales tax and that could be eliminated as an option that night. Jurkovich agreed this was the best plan he had seen.

Commissioner Every asked at what point SCKMC officials will become concerned if they do not meet the projections offered and decide that more drastic action must be taken. Watson said the process of monthly reports has been established and promised improved transparency in the future. He also urged commissioners to come out to the hospital for one-on-one visits and promised to alert them to unexpected setbacks in the plan.

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## Health Care Consultant

Commissioners Every and Jurkovich asked Virgil Watson why nothing was mentioned in the presentation about collaborative efforts with William Newton Hospital in Winfield. Watson said the presentation was on things SCKMC could control, but those efforts would require input from many other stakeholders before bearing fruit.

Commissioner Oestmann said he appreciated Watson's attempt to keep everything down to the level that can be controlled locally. Commissioner Jurkovich said that even if less revenue comes in than projected, it's still better than the zero additional revenue that is being generated at this point in time.

City Manager Hernandez suggested looking at a health care financial consultant to satisfy the bond document's requirements on the finances, rather than a full-scale operational consultant that could cost twice as much. He said that shift in focus is a result of a meeting March 4 with Watson and the scope of this presentation, both of which are moving in the direction of addressing operational issues already without outside input.

## SCKMC Board of Trustees

Commissioner Every asked the trustees present whether they preferred a five-year or 10-year sales tax, or something even longer in terms of commitment. He said he wanted to know of any trustee concerns before committing one way or the other.

JoLynn Foster said the original request was for 10 years and her personal preference was to stay with that option. Mark Paton agreed with her that 10 years is preferable, but said the priority is in getting the sales tax passed, whether for five years or 10 years, and he supported whatever version stood the best chance of passing. Arleta Rice agreed with Foster, but said that if a five-year option was necessary at this time, it needed to be with the understanding that a further tax request could come in five years, when it likely would not be received well.

Commissioner Warren said he couldn't argue with Albert Brown's reasoning about needing to prove a turnaround could happen, but added that he had wrestled with it all weekend and ultimately decided that a 10-year commitment would present better security for a chance to refinance the bonds in 2019.

Dr. Nick Rogers said he agreed that the best length of a time for a tax is whatever is likeliest to pass, but as a citizen, he was concerned about the possibility of having to have the same conversation in five years.

Mayor Giles said his main concern was whether the tax will pass. He said he would vote for it regardless, but if it is for 10 years and it fails, everyone will wonder whether it should have been five years, he said.

Commissioner Jurkovich asked if the tax money would go to the hospital or the City. City Manager Hernandez said the money currently goes into a holding account and that would continue to be the case. He said the money is usually disbursed to SCKMC, which turns around and writes the City a check for the entire payment.

He added that if the one-cent tax were in place for 22 years, the hospital doors could be closed and property tax raised by 6 mills to guarantee coverage of the remaining debt service.

Rogers said he and the board were confident that the list of changes was realistic and accomplishable, but cautioned that they can't predict whether two physicians suddenly decide to retire or other drastic setbacks.

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Commissioner Every thanked them for putting pressure on themselves by recommending only a five- or 10-year tax, but said that if they aren't able to deliver, it will fall not only them, but also on the taxpayers financially.

Albert Brown said this was the first good plan he had seen and any improvement in revenues would be better than none, even if it was only 50 percent. He said five years is a fair burden and 10 years would be sure to fail.

Commissioner Jurkovich said five years is foolish and so is 10 years. Arkansas City residents are on the hook until 2039, Jurkovich said, and he agreed with Every that funding the hospital for 22 years is the only sensible commitment. If the tax is only for five years, he said it would be best to shut the hospital down entirely.

Jurkovich said that anyone planning to vote for the tax should also be planning to vote for it again in five or 10 years, and be prepared for the entire 22-year commitment, or else they would be better off voting it down now.

Mayor Giles said he could see both sides of the argument and wished that a 22-year tax could be passed to take care of it, but said that is not realistic. He said the hospital has to reinvent itself in order to gain more support.

Jennifer Mulkey asked Hernandez how his experience suggested bondholders would react to five years versus 10 years. He said refinancing the bonds will be difficult either way, but 22-year coverage might be enough to do it.

Commissioner Jurkovich pointed out that even with all of this, the City still might have to go back to the voters in 2019 to renew the half-cent tax, as well, in order to be able to refinance successfully.

Commissioner Every said continuing not to offer raises for SCKMC employees is unsustainable long-term, but that is being assumed in the hospital's projections even after there have been no raises in the last five years.

Hernandez went back to Mulkey's question and said that even if a five- or 10-year tax is not enough for bondholders, the tax combined with improvements at the hospital might be enough to secure an improved outlook, make the bonds bank-qualified and allow for two issuances of \$10 million each through local banks.

He said the passage of a sales tax could have some positive benefit, regardless of the term of length, because it shows the citizens are willing to do what it takes to support the hospital in some fashion, albeit not for 22 years.

Commissioner Every asked the trustees if, after all of this discussion, they still were in consensus on the 10-year approach and if that night was the deadline for the sales tax. City Attorney Niles said she and Otis Morrow had been in talks with County Clerk Karen Madison on the election timeline.

Madison said if the resolution were adopted that night, the ballots could be mailed out May 4 and would be due back to her May 24. The sales tax, if passed, would not be imposed until October 1.

## **SCKMC Sales Tax Question** **Resolution No. 2016-03-3024**

Mayor Giles said the opinions he had heard were overwhelmingly in favor of 10 years. He made a motion to approve the sales tax question resolution as presented. Commissioner Warren seconded the motion.

Commissioner Every said he would vote against the motion because he didn't think 10 years was sustainable.

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City Attorney Niles pointed out that the City cannot authorize a tax for 22 years. The options are 10 years or less, or forever. Those were the only two options allowed by state law.

Commissioner Oestmann said he thought it was very shortsighted not to vote to approve the 10-year question.

Mayor Giles acknowledged that it is difficult to make government end a tax voluntarily, but pointed out that even a 10-year tax can be terminated early by a future commission if it is no longer deemed necessary. He said the tax had to be packaged in a way that will be voted for, and a tax forever simply would not pass.

Commissioner Every asked if any canvassing had been done by the City or SCKMC to determine what likely voters want and how much tax they might be willing to pay. City Manager Hernandez said the people who had contacted him were overwhelmingly positive in support of the hospital, whatever it takes.

He acknowledged some opposition, but indicated it would exist regardless of whether it is five or 10 years.

Mayor Giles asked what incentive would exist, if a general tax was passed, for SCKMC to change for the better. He said this plan puts in checkpoints in 2019 and 2026 to see how things are going with the medical center.

He said he had great faith in Virgil Watson as both a person and a leader, and he hopes to see progress at those checkpoints. He addressed Albert Brown, asking him and others to think critically about opposing a 10-year tax.

Giles concluded by saying this is a Cowley County problem and a countywide solution eventually needs to be found because SCKMC's operations affect more than just Arkansas City.

A voice vote resulted in three aye votes and one nay vote, with Commissioner Every dissenting and Commissioner Jurkovich abstaining. Mayor Giles declared the resolution adopted and given Resolution No. 2016-03-3024.

## **Other Business**

Commissioner Jurkovich asked City Manager Hernandez and Finance Director Cornwell to research how much of the bond payment debt could be rolled into general obligations of the City. Hernandez said the Public Building Commission could take on more non-general obligation debt if it is associated with the same constructed facility.

Hernandez said he and Cornwell would research how close to the GO cap the City was currently. Commissioner Jurkovich asked for options if further loans to SCKMC need to be financed by issuing some short-term debt.

Albert Brown commended the commission on its vote and said he came to support a one-cent sales tax for the hospital. Mayor Giles said it was a very tough vote. Brown said he will do everything he can to help it to pass.

## **Adjournment**

Mayor Giles moved to adjourn the meeting. Commissioner Warren seconded the motion. A voice vote was unanimous in favor of the motion. Mayor Giles declared the meeting adjourned at 7:34 p.m.

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THE ARKANSAS CITY  
BOARD OF CITY COMMISSIONERS

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

ATTEST:

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

Prepared by:

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