# Arkansas City Public Building Commission Special Meeting Minutes

The Arkansas City Public Building Commission met in special session at 12:05 p.m. Friday, October 14, 2016, in the Commission Room at City Hall, 118 W. Central Ave., in Arkansas City.

Chairman David Billings called the meeting to order. Other commissioners present at roll call were Duane Oestmann, Charles Tweedy III, Jay Warren, Karen Welch and Shandon Weston. Vice Chairman Mike Munson arrived at 12:20 p.m. Dan Jurkovich arrived about 12:40 p.m. Chris Tackett was unable to attend the meeting.

City employees present at roll call were City Manager Nick Hernandez, Public Information Officer Andrew Lawson, City Clerk Lesley Shook, EMS Director Jeri Smith, ACFD Lt. Jon Clawson, Firefighter-Paramedic Brandy Rice and Firefighter-Paramedic Cameron Vickery.

South Central Kansas Medical Center officials in attendance were Chief Executive Officer Virgil Watson, Chief Financial Officer Holly Harper, general counsel Otis Morrow and Board of Trustees treasurer JoLynn Foster.

Quorum Health Resources was represented by Vice Presidents Mark Armstrong and John Kaszuba. Media members in attendance were the Cowley CourierTraveler's Cody Griesel and Ark City Daily Bytes' Jeni McGee.

## Minutes

Commissioner Oestmann made a motion to accept the September 15, 2015, regular meeting and June 20, 2016, special meeting minutes as written. Commissioner Tweedy seconded the motion.

A voice vote was unanimous in favor of the motion. Chairman Billings declared the minutes approved.

## Business

### Elect New Officers

Commissioner Tweedy made a motion to retain Chairman Billings and Vice Chairman Munson in their current positions. Commissioner Warren seconded the motion. A voice vote was unanimous in favor of the motion.

### Presentation of Financial, Operational and Strategic Assessment of South Central Kansas Medical Center by Quorum Health Resources

Chairman Billings presented for discussion a presentation from Quorum Health Resources, LLC on its financial, operational and strategic assessment of South Central Kansas Medical Center.

Quorum Vice President Mark Armstrong introduced his colleague, John Kaszuba, and said he had enjoyed becoming more familiar with the community and South Central Kansas Medical Center employees.

Armstrong said Quorum was retained to identify what it would take to see rapid and significant improvement in SCKMC's cash position and financial performance. Twelve to 15 consultants studied for the past three months.

Armstrong said Quorum's approach centered on six "Touchstones to Sustainability" — Market, Consumer, Quality, Medical Resources, Finance and Leadership. All six are interrelated and co-dependent, he explained.

**Executive Summary**

Armstrong said many things are going well at SCKMC, including community support, as evidenced by the recent passage of the 10-year, one-cent sales tax measure. He also praised employee tenure and management success.

That said, he assessed that SCKMC needs an overall improvement of about $3.2 million in its annual bottom line to achieve a 2-percent operating margin. To break even relative to 2016 targets, about $2.8 million is needed.

Armstrong said meaningful opportunities of up to $4.4 million were identified, representing 88 days of operating expenses. The goal is to break even by the end of 2017 and operate 2 percent above margin by the end of 2018.

He said the most opportunity for improvement appears to be in physician practices, which he said tend to operate as a "group of practices," not a "group practice." He estimated this potential at $1.715 million.

There also could be cash acceleration of $750,000 from improved efficiency in the revenue cycle and $200,000 from supply chain efficiencies through a new group purchasing organization (GPO), plus other improvements of $100,000 (supply chain), $940,000 (workforce efficiency) and $700,000 (management-initiated projects).

Armstrong said substantive opportunities were identified. The fundamental issue is improving market share while competing against William Newton Hospital and other area hospitals. Sustainability will be difficult to achieve without marked improvement in market share, he said. Other Quorum observations include:

- Competitive benchmarks suggest more than sufficient capacity among existing employed physicians to accommodate significant growth in patient volume. Additionally, the practices could be organized better to take advantage of special reimbursement programs, improved efficiency and cost-effectiveness.
- Material opportunity was identified relative to receivables and denial management, patient registration, and other related processes.
- Inventory management and consideration of an alternative GPO relationship, among other things, will yield significant savings.
- Given the volume of patient activity, the workforce is generally under-utilized.

Commissioner Tweedy asked if physician practices would be addressed later in detail. Armstrong said they would.

Armstrong also said break-even performance by the end of 2017 is realistic, but aggressive. Relative to projected 2016 results, 65 percent of the $4.4 million opportunity must be realized just to break even. Achieving a 2-percent operation margin by the end of 2017 would require 75 percent of the opportunity, he said.

Vice Chairman Munson joined the meeting in progress at 12:20 p.m. Armstrong said the chief complaint is that SCKMC produced losses in each of five years, ending in 2015.

Projected 2016 operating and net losses are estimated to be about $2.8 million and about $1.9 million, respectively. This performance led to a critical cash shortage. Working capital has been funded largely via deferred accounts payable and depletion of investments. Existing cash position is in violation of a bond covenant, leading to the downgrade of the Public Building Commission's (PBC) bond rating.

A loan from the City of Arkansas City was required to make the most recent bond payment. Consequently, the PBC engaged Quorum to develop an informed, impactful plan to quickly guide an improved level of performance.

Armstrong said some of the issues contributing to SCKMC's financial performance are Kansas' decision not to expand Medicaid, practices that still have room for growth and William Newton's Critical Access Hospital status.

Chairman Billings asked Armstrong what he meant by saying SCKMC was in a "tough market" and if that referred to the local competition. Armstrong said he mainly was referring to the socioeconomic mix of payers, mainly Medicaid. The "tough" part is that SCKMC is reimbursed less for those patients than some other hospitals are.

Expense growth has outpaced revenue and material investments were made, but with little financial return.

Chairman Billings what led to positive improvement from 2011 to 2012 before the trend line turned negative, continuing through today. SCKMC CFO Holly Harper said it was due mainly to a downsizing in staff at that time.

City Manager Hernandez said some of it also was due to Medicaid Meaningful Use money, which has tapered off. SCKMC general counsel Otis Morrow asked Harper to explain to the PBC how Meaningful Use works. She did so.

Medical fees and purchased services constitute 50 percent of the expense growth (adding staff expense raises this number to 66 percent). Meanwhile, there has been no appreciable change in patient activity. Armstrong said even though outpatient care is growing, inpatient care and surgical cases still are the two key indicators.

He said a thoughtful, impactful strategic plan will be the difference between thriving and merely surviving, and cautioned commissioners against the idea that the medical center simply can "cut its way to prosperity."

Given the magnitude and difficulty of the recommendations provided, Quorum recommended that a project management structure be deployed in order to improve the likelihood of material and durable improvement. Such a structure should provide for impactful implementation, coordination and oversight, and measured focus.

Commissioner Tweedy asked if the project manager could be someone other than Watson. Armstrong said yes. Commissioner Jurkovich joined the meeting in progress at 12:40 p.m.

Commissioner Warren asked how a project manager could be asked to take on this extra work when wages have been frozen, contributing to staff turnover. Armstrong said most of the turnover has been among the entry-level employees who have been there just a few years, not senior staff with more than 10 years' tenure.

Commissioner Jurkovich observed that "right-sizing" staff could lead to pay increases for those who remain.

Armstrong said SCKMC is developing a framework for success, consisting of (1) project management, (2) sequential focus, (3) prioritization, (4) accountability and (5) reporting to the Board of Trustees or its designee.

**Market**

In addition to knowledge gained through Quorum's engagement, data sources such as Truven, Sg2 and Definitive Healthcare were reviewed to analyze the SCKMC market area.

Armstrong said the SCKMC primary service area focuses on the Arkansas City and Winfield zip codes, while the population within the secondary service area is largely concentrated around Cedar Vale, Dexter, Geuda Springs, Maple City, Oxford and Newkirk, Oklahoma.

Modest population growth is forecasted for the more populous regions within the service areas. Robust growth is projected on the northwestern side of Arkansas City. Still, total population is declining in the overall service area.

Limited inpatient growth is projected, while demand for outpatient services is predicted to increase. The aging population and low household income will drive future community health needs, Armstrong predicted.

Many large employers call Cowley County home, adding to the commercially insured base of patients in the area.

Unemployment in the area currently is higher than in the rest of Kansas. Furthermore, a higher proportion of service area residents are uninsured, compared to the rest of the state and the nation as a whole.

Relative to the rest of the state and nation, the market has a lower average household income, and higher proportion of uninsured and Medicaid. This population also is generally less healthy than others.

The proportion of patients on Medicare is projected to grow in the service area as the population ages. The health status of the service area population groups is well below the rest of Kansas and the entire nation.

Cancer and cardiac issues are projected to experience significant growth in the primary service area. Cancer and cardiac inpatients are predicted to increase in the next five years, correlating to the population's epidemiology.

Meanwhile, inpatient utilization is projected to decline for most service lines. In particular, inpatient gynecology is predicted to decline sharply. But all outpatient service lines are projected to grow over the next five years.

South Central Kansas faces competition from a wide array of competitors in facility size, scope of practice and geography, including William Newton, Wesley Medical Center and Via Christi in Wichita, Kansas Medical Center in Andover, Ponca City Medical Center and Sedan City Hospital. All are within 64 minutes' drive time of Ark City.

Medicare inpatient volumes declined 2.4 percent from 2012 to 2014 in the primary service area. SCKMC leads its competition in just two inpatient service lines — nephrology/urology and gynecology. William Newton is a strong contender and market leader in such high-volume service lines as general medicine and pulmonary medicine.

Meanwhile, Medicare outpatient volumes have increased in Cowley County. SCKMC outpatient volumes and market capture slightly increased in that same time period. Given national trends emphasizing the outpatient care continuum, Armstrong said, SCKMC should seek to increase further its dominance in this area.

Still, the formidable competitor that is William Newton Hospital remains the leader among hospital offerings in most outpatient services in Cowley County. The remaining volume is split among various local clinic locations.

Where the population is projected to decline, Armstrong said, any meaningful improvement in SCKMC market share will not be possible without seizing it from William Newton.

While the commercial payer mix is predicted to decline during the next decade, strategies should be developed to increase SCKMC's overall capture of population. Focused growth strategies around commercially insured patients should be pursued, such as local employer wellness and workers' compensation programs.

Armstrong recommended growing key outpatient service lines, particularly around orthopedics and oncology services, such as chemotherapy or infusion. He also encouraged collaboration with William Newton when possible.

Commissioner Tweedy asked how SCKMC can work with William Newton if William Newton doesn't want to work with SCKMC. Armstrong said the field would have to be broadened to work with other health care providers.

He suggested establishing a formal process for collaboration with other providers by jointly pursuing expansion of select service lines for which a disproportionate number of patients seek care at William Newton or elsewhere, evaluating opportunities to partner with other providers to develop satellite locations in neighboring communities and exploring additional telemedicine programs that expand the existing scope of services.

Commissioner Warren said attempts to reach out to William Newton have been made in the past and failed. He asserted that William Newton would like to see SCKMC go out of business so it can capture its market share.

Armstrong said a thoughtful and realistic strategic plan should consider and address three vital questions:

1. Can we compete effectively and profitably in this market independently?
2. What will be required to position us within this market to assure long-term sustainability?
3. Would collaborating, affiliating or consolidating with other provider organizations improve relevance?

**Consumer**

Armstrong showed how SCKMC has lower HCAHPS consumer scores, which are collected from patient surveys, than William Newton — not because SCKMC's are poor, but because WNH's are quite good across the board.

He said more recent internal HCAHPS data show improvement in many measures, but those data also show a decline in the "overall hospital rating" and "likelihood to recommend." This can affect federal reimbursement.

Armstrong urged SCKMC to seek to understand deeply what its internal and external customers value, beyond the HCAHPS scores themselves. Each department should understand what its customers need and expect.

At least one performance improvement project per quarter should focus on improving customer experience.

Armstrong recommended having a senior leadership champion for the patient experience who role-models its importance, makes rounds with the staff and the patients, and provides updates to the medical staff.

He also urged having a highly engaged physician champion for the patient experience strategy who must be respected and highly influential with peers, establishing a Patient/Family Advisory Committee, and including patients as active, engaged members of relevant organizational committees and task forces.

Building on those committee recommendations, Armstrong suggested pursuing patient satisfaction initiatives that improve market share and preference, reduce outmigration, and improve medical center utilization.

These could include creating an interdisciplinary Patient Satisfaction Committee that includes physicians and former patients. This committee must have a well-defined mission, scope and decision making.

Armstrong also suggested creating a Patient Experience Sub-Committee to take on short-term improvements that are most valuable to SCKMC's customers, tasking smaller workgroups to implement specific best practices and involving front-line staff with leadership by a member of the Patient Satisfaction Committee.

Other suggestions included increasing patient access through expanded clinic hours or days, developing a "convenient care" strategy, and continuously communicating capabilities across all communication platforms to all stakeholders by keeping the SCKMC website current with continuously updated content, expanding the medical center's social media presence, and maximizing outreach opportunities at health fairs and other events.

**Quality**

SCKMC received two out of five stars for its overall rating by the Centers for Medicaid and Medicare Services (CMS). The national average is three stars. The overall rating summarizes up to 64 quality measures on Hospital Compare, which reflects common conditions that hospitals treat such as heart attacks or pneumonia. The rating shows how well each hospital performed, on average, compared to other hospitals across the United States.

Armstrong said choosing a hospital is a complex and personal decision that reflects individual needs and preferences, but when a patient is able to plan ahead, the Hospital Compare overall rating can provide a starting point for comparing a hospital to others locally and nationwide. Hence, improving that rating is a critical need.

He also said SCKMC could differentiate itself from other local providers through improved patient safety scores.

The sample size of SCKMC patients is too small for most Process of Care measures. Armstrong added that in-hospital survival ratings for SCKMC are not favorable. However, competitors' ratings are equally problematic.

Commissioner Oestmann asked why SCKMC was rated "Poor" for heart failure. Armstrong explained SCKMC very well might be doing what it is supposed to do, but it just isn't documenting those items as well as it should.

SCKMC does rank favorably on most emergency department measures, compared to the rest of Kansas and the U.S. These are important indicators for community loyalty pertaining to timeliness, efficiency and quality of care.

Armstrong said mortality and 30-day avoidable readmissions must be a focus. Improvement in those metrics not only will avoid penalties and withholding, but also will give the community more confidence in the hospital.

Improvement in mortality must begin first with an understanding of whether it is an issue of documentation or quality of care. If it is a documentation issue, Armstrong recommended reviewing coding and documentation to ensure that the Case Mix Index is posted accurately. If it is a quality-of-care issue, creating a monthly Morbidity & Mortality Committee to review deaths can improve care quality and document previous palliative care attempts.

Improvement in the 30-day avoidable readmissions and other quality-of-care issues should begin with multidisciplinary rounds, Armstrong said. These should be scheduled in the morning, five days a week.

The rounds should review each patient, his or her plan of care for the day and overall readiness for discharge, and the handoff to community receivers such as home care, primary care physicians or skilled nursing facilities.

Armstrong said SCKMC should consider implementation of a process whereby a qualified individual contacts all inpatients 24 hours post-discharge to "make sure you are doing well at home and to see if you have any follow-up needs." This is a tactic to reduce post-discharge complications, and improve patient and family perception.

Commissioner Weston asked if improper training is a factor. Armstrong said it's more often procedural in nature.

She asked if William Newton is doing this better. He said they are probably exercising many "best practices."

Commissioner Oestmann asked if SCKMC is below average on 30-day avoidable readmissions. Armstrong said there historically has been a penalty associated with it. The federal government is trying to improve outcomes.

SCKMC CFO Holly Harper said it is important to remember that HCAHPS is based on patient reporting, while these quality data are based on internal coding and come directly from CMS. That can create discrepancies.

City Manager Hernandez said he has noticed that patients often will mark 9s or 10s on most or all of the questions, but then give an overall score of 6 or 7. SCKMC then is penalized for that final, overall score.

Armstrong said having a relatively small population also is not helping in that regard because just a few dissatisfied customers can impact the overall score much more greatly than if this were a highly populated area.

Chairman Billings and Commissioner Oestmann agreed that probably is a huge part of the perception problem.

Hernandez said unhappy people are likely to be much more vocal that those who are satisfied with the quality of their care, or even just indifferent. Many who are satisfied simply might fail to respond with any feedback at all.

Commissioner Weston asked if the patient surveys could be done during the discharge process. Hernandez said that was against the law so providers cannot influence the surveys, but Armstrong said some "tricks" still occur.

Commissioner Jurkovich left the meeting in progress at 1 p.m. Armstrong finished by recommending that SCKMC collaborate with other community organizations to promote healthy living and wellness behaviors that reduce the need for acute care. As a first step, he said, SCKMC should create a Cross Continuum Council.

Such a body would bring together hospital leadership and leaders from home health, primary care offices, and high-volume skilled nursing facilities and long-term care facilities. This would begin the discussion of improving transitions in care throughout the health provider continuum.

**Medical Resources**

Armstrong showed a physician age analysis and said succession planning for select specialties will be crucial in meeting the needs of the service area. The active medical staff averages younger (49.1) than consulting (64.6).

A lower proportion (21 percent) of local physicians are older than 60, compared to the rest of the nation (27 percent). Key specialties at risk due to impending retirements include general surgery, gynecology and oncology.

A need for additional primary care physicians is indicated for this population, Armstrong said. However, recruitment must be tied to productivity levels and succession planning. Pediatric medicine is the top priority.

(These projections are from a productivity-based model that assumes 100-percent capture of market share. The projected supply removes physicians who will be 65 or older by 2021.)

Given the relatively small number of specialists needed for this area, Armstrong said recruiting partnerships should be considered. Cardiology, orthopedics, oncology, psychiatry and ophthalmology are the biggest needs.

Armstrong recommended developing a prioritized provider recruitment plan, while giving careful consideration to the supply of providers in the market and anticipated changes such as retirement, productivity levels of existing providers and thus their capacity to accommodate incremental volume, projected changes in the market population, and projected changes in service demand.

All recruitment plans should be supported by a thoughtful, critical analysis; pro-forma substantiating of need; and reasonable return, he said. They should consider the role and impact of incremental mid-level provider support.

Chairman Billings asked how SCKMC can reverse the trend of younger physicians not wanting to manage their own practices. Armstrong said SCKMC already is transitioning to a paradigm of hospital-employed physicians.

Commissioner Warren said there have been some issues with a perception of competition with a local doctor-owned clinic, but younger physicians don't want to join that model, which he thinks is becoming outdated.

Armstrong said it can backfire when productivity at the clinic level doesn't match capacity or demand, however.

He said the majority of the expenses are on the clinic side, while the majority of the revenues are at the hospital.

This can be alleviated in part by employing a professional practice administrator to coordinate between practices.

Commissioner Warren asked how the local physicians are performing in comparison with the national averages on physician output. Armstrong said there is significant capacity for incumbent physicians to accommodate growth. A few are very productive, he cautioned, but many of them are not meeting that national standard.

Commissioner Oestmann asked what the cause of that might be. Armstrong said that is the "golden question" — it could be cultural or possibly due to a lack of "drive." But he said it is not an indictment of laziness.

However, the scheduled system needs to be adjusted, he said. It is set up to produce much of the productivity that is occurring, but a professional practice administrator could focus on shoring up those aspects much better.

Commissioner Oestmann asked about wait times to see doctors and then in the clinic itself, and whether that is indicative of a more national problem. Armstrong said it is, but there is a correlation between access and the relatively low productivity he is seeing among local practices. The biggest piece is the scheduling system, he said.

Armstrong said the physicians are busy — there's no question of that. But are they busy doing things they are uniquely educated and qualified to do, or can other "lower-level" employees do that for them instead?

SCKMC Board of Trustees treasurer JoLynn Foster asked if this discussion pertains to the Ark City Clinic or South Central Kansas Clinic, because SCKMC has no control over the Ark City Clinic's scheduling procedures.

Armstrong agreed that there is a vast difference between SCKMC's control exerted over its dependent practice versus the influence leveraged on an independent practice such as the Ark City Clinic. But the productivity levels he is talking about concern South Central Kansas Clinic specifically.

Commissioner Warren asked how to address the issue of physicians sending patients to other hospitals rather than admitting them into SCKMC. Armstrong said SCKMC has to give them a reason to want to use the services it can provide. He gave some examples involving surgery that related to the efficiency of the services provided.

Breaking into an established referral pattern is difficult, he admitted, because the industry is rife with "comfort-based" referrals, but it can be done with tenacity. It's important to understand why they refer outside the area.

Commissioner Warren asked if a professional practice administrator could help to answer that question and build relationships with independent practices. Armstrong said that absolutely is a function that person could do.

Vice Chairman Munson asked how SCKMC can increase its market share. Armstrong recommended embarking on that study and said Quorum was engaged only to look at the current operation. He said it is evident that there is some "low-lying fruit," but the cost structure is nowhere as poor as most other facilities they work with.

He said a strategic plan must go beyond equipment and study whether partners or mergers might be needed.

SCKMC general counsel Otis Morrow asked if William Newton's Critical Access Hospital designation plays a role in its better HCAHPS scores. Armstrong said it plays more of a role economically. It is unfortunate that SCKMC is not Critical Access because that would have been a game-changer for the community, economically speaking.

Armstrong said SCKMC should consider collaborating with other regional providers to bring select specialists to the service area, partner with community organizations such as the Arkansas City Area Chamber of Commerce to assist in its recruitment efforts, and explore grants and loan repayment programs to attract providers.

He also said the medical center should work with local schools, colleges, universities and rural training programs to identify future providers, as well as consider hosting residents. The SCKMC Board of Trustees should dedicate meeting time to focus on recruitment and establish a succession plan for providers, Armstrong recommended.

Commissioner Warren asked how quickly SCKMC should see the financial impact of implementing Quorum's recommendations. Armstrong said many of them already have been implemented in the past three months.

Quorum's benchmark remains that SCKMC should experience a turnaround to break-even status in its finances by the end of 2017 — and to profitability by the end of 2018 — if it implements most of the recommendations.

**Finance and Leadership**

To discuss the final two Touchstones to Sustainability, City Manager Hernandez requested a 20-minute executive session to discuss matters of non-elected personnel, confidential financial affairs and negotiations.

Commissioner Oestmann made a motion to enter the executive session, to include Armstrong, Foster, Harper, Hernandez, Kaszuba, Morrow and SCKMC CEO Virgil Watson, with no commission action to follow afterward.

Commissioner Weston seconded the motion. A voice vote was unanimous in favor of the motion. The executive session began at 1:23 p.m. and ended at 1:43 p.m. Chairman Billings left during this executive session.

When the executive session ended, the meeting reconvened and Commissioner Warren made a motion to enter an additional 30-minute executive session to discuss matters of non-elected personnel, with no action to follow.

Commissioner Oestmann seconded the motion. A voice vote was unanimous in favor of the motion. The executive session began at 1:44 and ended at 2:14. Commissioner Weston left during this executive session.

**Adjournment**

Commissioner Oestmann moved to adjourn the meeting. Commissioner Tweedy seconded the motion. A voice vote was unanimous in favor of the motion. Vice Chairman Munson declared the meeting adjourned at 2:15 p.m.

THE ARKANSAS CITY
PUBLIC BUILDING COMMISSION

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David Billings, Chairman

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Mike Munson, Vice Chairman

ATTEST:

_____
Lesley Shook, Secretary

Prepared by:

_____
Andrew Lawson, Public Information Officer