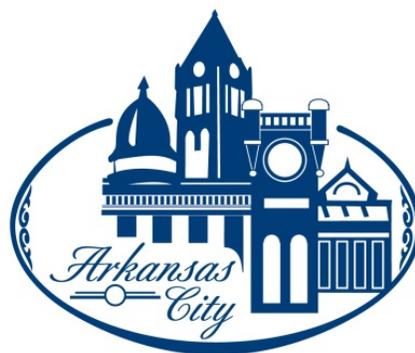


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News Release

Public Building Commission OKs health care consultant contract

Quorum to perform financial, operational, strategic assessment of SCKMC

ARKANSAS CITY, Kan. (June 21, 2016) — The Arkansas City Public Building Commission (PBC) met Monday afternoon in the city manager's office at City Hall, 118 W. Central Ave., and voted 8-0 to approve a financial, operational and strategic assessment agreement with Quorum Health Resources, LLC.

The agreement was approved on behalf of South Central Kansas Medical Center (SCKMC).

"The PBC technically is responsible for the debt service payments on the hospital," said City Manager Nick Hernandez. "So that's why this agreement is for the PBC, because the PBC is required by the bond holders to have this study done."

The objective of the project is to assess SCKMC's current financial status and operating environment, and identify the range of options it could consider to re-establish compliance with its bond covenants.

"There is a possibility you may not like what comes out of the study, but that's kind of going to be up to the hospital board," Hernandez said. "They're the ones who are going to be doing the majority of the work. But the PBC's ultimately responsible for the outcome and making sure those payments are made."

Quorum will review the medical center's overall financial performance against the organization's objectives and Quorum's benchmarks.

"This is the deep dive, where we're pretty much going to turn the hospital upside-down — looking at the processes, financial pieces (and) operations," said Quorum vice president John Kaszuba.

The company will deliver a summary of its findings and recommendations from the assessments, including strategic positions and affiliation options to consider, and an executable road map with identified opportunities for revenue and operational efficiency enhancement.

For immediate release

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“We’ve got 52 best operating practices that we’ve developed over our 30 years of running hospitals, so we’ll come in and see where those opportunities are at your facility,” Kaszuba said. “So it’s not just a financial fix — it’s an operational assessment, as well.”

Cost of assessment

The professional fee for the project is \$150,000. Payment of 50 percent of the professional fee (\$75,000) is due to Quorum with the signed contract. Payment in the amount of \$67,500 will be due and payable to Quorum upon presentation of the draft final report. Payment of the remaining balance of the professional fee (\$7,500) will be due and payable upon delivery of the final report.

The professional fee quoted does not include Quorum consultant travel expenses to visit any location for this project. Quorum will invoice the PBC separately for business-related travel and other expenses related to the project. Those typically include expenses such as transportation, lodging, meals, document preparation, shipping, etc. Kaszuba estimated that these expenses will not exceed 10 to 15 percent of the total professional fee, or about \$15,000 to \$22,500.

An action item to consider funding for an amount not to exceed \$175,000 was added to the City Commission’s agenda for consideration at its meeting Tuesday night.

Outmigration in the marketplace

One of the big issues contributing to SCKMC’s financial difficulties is a lack of patient volume.

Its patient census has climbed back above 10 or 11 after bottoming out at eight or nine earlier this year, but the “sweet spot” is around 12 to 14, SCKMC chief executive officer Virgil Watson has said.

“Where are your patients going? Who are they seeing outside the community? How does your physician volume compare to other similar environments and cities that we have experience with?” Kaszuba said were some of the questions Quorum will analyze.

“So we can kind of give you a benchmark, as well — kind of an ‘apples to apples’ (comparison). Then we present that back — here’s where you’re doing well, here’s where you’re doing not so well, here’s the potential path for the things you need to take or you should take for survival.”

Kaszuba said everything the company recommends is quantifiable in both dollars and time.

“And then it becomes the community’s decision — the board — and your decision to (decide): What things do we have to do to get there? There will be pieces that will have a significant turnaround in the

short term,” he said. “We’ll try to quantify what the return on investment is if you take that action. So it’s not just, ‘Here’s a road map. Good luck!’ You’ll see what the different pieces are along the way.”

One reason Quorum was selected is because its larger staff should allow the entire assessment process to be completed within 90 days, rather than the six months other firms might have taken.

“We’re talking about a quick turnaround — bringing a lot of resources in, getting in there, getting it done and getting us a road map set up quickly so we can get started immediately,” Hernandez said.

“What we’ll provide is a road map, and then it becomes the hospital’s and the City’s responsibilities to start walking down that road,” Kaszuba said. “Now, that said, we can help after that. You can hire us or other firms to help do pieces of that or all of that down the road, whatever the hospital can’t do itself. But during the engagement, it’s not like you have to wait 90 days. If we come across something that has immediate impact, we’re going to bring it to your attention immediately so that you can make that call.”

Physician recruitment

Another issue that is related directly to patient volume is physician recruitment. SCKMC officials have estimated that each additional physician has a net impact on their facility of \$750,000 annually.

They also say at least three to four additional doctors are needed in Arkansas City for its population to be fully serviced. That shortfall has led to longer wait times to see a primary care physician.

“Some of it will be: What can you afford? What can you afford to pay a physician, and is that attractive enough? Is the population and the volume there to recruit that doctor? Is it kind of what they are expecting?” Kaszuba said of how Quorum will analyze SCKMC’s recruitment strategy.

“Maybe you do need a doctor, but maybe hiring one full-time isn’t the way to go. ... Maybe there’s a different kind of arrangement. Maybe they have to reach out to Wichita and get a doctor part-time. But right now, I don’t think the data’s there to make those smart decisions.”

“We’ve had a lot of suggestions and recommendations from other hospitals and other people in our area that I collaborate with, and this will give us the supporting data to back up what we’re trying to accomplish,” Watson said. “And it will help primarily with physicians, because those guys are tough to discuss things with when it comes to health care economics.”

Convincing current physicians to get on board with this process is just as important as recruiting new ones to the area, the hospital CEO added.

“Anytime you want to implement a change, everybody’s for it, ‘but I don’t want it to affect me and my department. Just make everybody else change, but I don’t want to change,’” Watson said.

“Those resistive forces out there, sometimes it takes a lot of energy and effort to pull those people along with you. ... So I think (the Quorum assessment) will be outstanding and I think we’ve got the right firm to help us not only to have a plan, but get it in place.”

“I think (Watson) has a really good idea of where his weak points are in the operations and where they need to have more attention, (but) it’s good to have some backup before you go in just making some changes. That will help Virgil with some of his ideas and plans, because there will be kickback,” Hernandez said. “Unfortunately, I think that’s what we have to do to make this hospital successful.”

Quorum expertise

One of the advantages to selecting Quorum is that the company has vast experience with not just analyzing ways hospitals can be turned around, but putting those into practice as a management team.

Quorum has provided support to nonprofit hospitals for more than 30 years, including both advisory and consulting support. Currently, it has advisory relationships with 26 public hospitals — city, city-county, county, hospital district and state — in 19 states. In Kansas, it has advisory clients in Chanute, Coffeyville, Neodesha and Tribune. In addition, it has provided consulting support to another 30 public hospitals during the past two years and to 41 Voluntary Nonprofit 501(c)3 hospitals.

“It came down to who has the expertise overall. Who manages hospitals? Who runs hospitals? Who manages clinics? Who has done these studies in the past?” Hernandez said.

“Quorum actually has a lot of case studies in regards to similar situations — not exact, of course, but they’ve done a lot of this work and piecemealed it throughout the United States, so they have (ability) to accomplish what we need done.”

“We need something major to happen in order for this hospital to be solvent long-term,” Hernandez added. “We’re trying to get where it’s more of a broad-based look (at) its total operations — not just the financial picture, but all of the operations — to try to get this hospital turned around as quickly as we could.”

Accountability and refinancing

Kaszuba emphasized that while Quorum will deliver a very sound plan, it’s up to hospital and City officials to implement it. If they do, he said, SCKMC should be turned around within 12 to 18 months.

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“At least this way, we get a better picture of all the total operations of the hospital, trying to lay out that road map for what decisions the hospital board needs to make, (at) what points in time (and) who’s responsible for making it happen,” Hernandez said.

“So if (Watson) is not doing his portion, the hospital board can hold his feet to the fire. If the City’s letting down their portion, or if the hospital board is unwilling to make the necessary changes, then we hold the hospital board responsible. So at least you have some checkpoints, some checks and balances in there, from an outside source that is very familiar with the process.”

“There will be a lot that comes out of looking at this in the strategic plan,” Kaszuba said. “The strategic plan’s not something we’re just going to throw at you. The board will have involvement in this.”

Hernandez said this process also could help the PBC to look better to Moody’s Investor Service.

“The other ... benefit from having a complete analysis of the hospital’s operations is that it looks better in Moody’s eyes, too, because you’re not just looking at the financial component, you’re looking at (the) total operational component,” he said. “So we can use that as an argument to try to raise up our bond rating so we can get that debt reissued ... as quickly as we can.”

Hernandez said there have been conversations between the City, Ranson Financial Consultants and George K. Baum & Company, which issued the PBC’s bonds, about visiting with Moody’s in person.

“We’ll sit down ... and say, ‘Here’s where we are. Here’s the financial picture from the hospital’s perspective, from the City’s perspective.’ And maybe we even bring local bankers potentially into the mix to say, ‘If we get these (bonds) bank-eligible, we’re going to potentially buy them.’ So you get the big picture with all of them at the table at once, instead of going through one consultant,” he said.

“There’s usually only one person on the phone, and it’s the rating analyst,” Hernandez explained further. “They’re the ones that just sit there and write down all the notes. Then they’ll write a report and present that to their board that ultimately makes the decision of where the rating goes. But if you can get in front of the entire board and make your case, then you have a better shot.”

About the Public Building Commission

Comprising the five city commissioners and four other citizens, the Arkansas City Public Building Commission was created for the purpose of financing and constructing public buildings and facilities.

In 2009, based on overwhelming support from the citizens in a 2008 election question, the PBC issued \$26.2 million in general obligation bonds, at an average interest rate of 7 percent, to construct South Central Kansas Medical Center's new facility in Patterson Park Subdivision.

That debt is backed by the full faith and credit of the taxpayers of Arkansas City. Payments on the bonds, which currently are rated Caa1 with a negative outlook, are supported by SCKMC revenues and a half-cent sales tax, approved in 2009 and set to expire in two years, which generates about \$840,000.

An additional one-cent sales tax, approved May 24 by 80 percent of Arkansas City voters, will take effect Oct. 1 and last until 2026. It is expected to generate about \$1.6 million annually.

The elected members of the Public Building Commission are Mayor Duane Oestmann, Commissioner Dan Jurkovich and Commissioner Jay Warren. Appointed members are chairman David Billings, vice chairman Mike Munson, Commissioner Charles Tweedy III, Commissioner Karen Welch and Shandon Weston. There is one public vacancy and applications are being accepted to fill it.

The commission meets on the third Tuesday of each September, and at other times as needed.

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