

Dear Pratt County Resident,

- **In 2010, a new hospital was put to vote, it failed and many questions were asked.**
- **New independent studies were performed to answer questions and concerns.**
- **The committee recommends building new hospital, which attaches to the 1994 and 2000 additions.**
- **Funding would come from PRMC and 1% Pratt County Sales Tax.**

A proposal to partially finance new construction and renovation at Pratt Regional Medical Center (PRMC) with a 1% county sales tax was defeated in an election held on April 6, 2010. In spite of the election results, many Pratt County residents, including some of the opponents of the proposed plan, urged the Pratt County Commission and interested citizens to continue working on a solution. There was a strong consensus that PRMC facilities needed significant attention.

The concerns expressed by various citizens included: Why was the election held so quickly? Could architects and consultants, who would be considered more independent, be used to review options and estimate costs? Are there more efficient and cost-effective ways to repair or replace facilities? Are there better options for financing a project? Does PRMC have the ability to fund a share of costs as projected? Those questions, and many more, were all very appropriate to the issue at hand.

As suggested by their constituents, the Pratt County Commission searched for and hired a new consulting and architectural firm with very good credentials, Hoefer Wysocki Architects (HWA), to do a study of PRMC needs and to make recommendations on how to meet those needs. The Commission also appointed a committee of County residents to work with HWA in researching needs and suggesting solutions. After a great deal of research and study, HWA recommended construction of a new facility, while maintaining the newer parts of the existing facility and tearing down the oldest parts of PRMC. The citizen committee voted by a narrow majority to recommend to the County Commission those same conclusions reached by HWA. One of the major concerns expressed by the citizen committee was the question of how such a project could be funded. It was felt that the funding question deserved additional study.


The County Commission then appointed a group of County citizens to a finance committee to study financing options and make recommendations. Through a series of meetings, the finance committee reviewed: the historical development of PRMC, the proposal that was the basis for the 2010 election question, the work done by the previous committee, the proposal of HWA, Pratt County information on revenue and expenditures, and PRMC financial information. The committee also consulted with finance professionals, officials from hospitals and hospital associations, many of the physicians practicing in Pratt County, and interested County residents. Topics reviewed included: examples of hospital ownership and management and the pros and cons of each, potential consequences of selling PRMC, financing options for a major construction project, economic stability of PRMC, economic importance of PRMC to Pratt County, medical care importance of PRMC to Pratt County and surrounding areas, and the opinions of Pratt County physicians on the future needs and future value of PRMC for meeting medical care requirements.

Contained in this packet is a description of much of what the committee reviewed, the conclusions reached, and the reasoning behind those conclusions. It has been and continues to be the goal of our committee to help the citizens of Pratt County make the best possible decision about what should be done to take PRMC and Pratt County into the future. PRMC is owned by the citizens of Pratt County. In this packet, you will find a Comment Sheet and Survey that will allow you to provide us with your questions, comments, and suggestions. You can also view and print this information online at www.prattcounty.org.

We urge you to tell us what you think, and we thank you for your time and participation. Upon the conclusion of the survey, the County commissioners may call for a public vote. Please have your survey turned in by August 15, 2011.

Respectfully Submitted,
The Pratt County Commissioners
The Hospital Finance Committee

The following Pratt County Commissioners, appointed Finance Committee members and members of the community are supportive of this report and committee recommendations.


Charles Rinke


Joe Reynolds


Dwight Adams

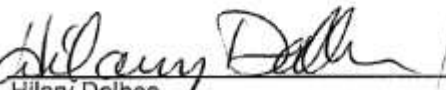

Jeff Taylor


Bill Keller



Bill Bergner



Jeff Slade

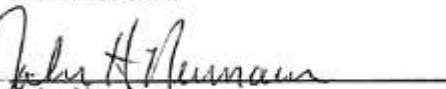

Phil Shrack



Hilary Dolbee


Jenny Larison


Blake Himmelwright

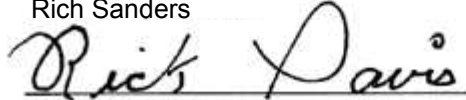

Frank Laubhan

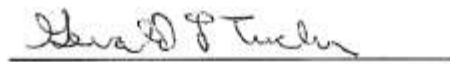

John Neumann


Paul Hayse


Ken VanBlaricum


Rich Sanders


Rick Davis


Gerald Tucker


Gordon Stull

Age of Hospital and Progression of Buildings

With the original portion of the hospital now over 60 years old, it is little wonder that water pipes, heating and cooling pipes and electrical codes and wiring are either physically wearing out or are just being out-dated by demands of current treatment equipment and technology. The additional wing added in 1961 is now 50 years old and is showing the same patterns as the original structure.



In 1981 a major addition to the hospital included the location of the current emergency room, intensive care unit, operating and recovery rooms, central service, pharmacy, respiratory care, radiology, administration and admitting. While these seem to have just been completed, they are now 30 years old. We have learned from those who actually work in these areas about the lack of sufficient vertical height, and total physical space inadequacy.



We have learned of the inadequate physical space in the emergency room and trauma room and the current necessity of moving people through public areas for diagnostics and treatment. While trying to save these portions of the structure, we are reminded that they are 30 years old and that the 50 and 60 year old buildings separate this area from the newest parts of the facility. Saving and doing extensive remodeling to a 30 year old area, while making new additions tie into the oldest portions, is not cost effective in the opinion of both architectural firms. Also, trying to keep and remodel older sections described above creates a scenario involving demolition and construction in separated areas, which is very disruptive to operations and not conducive to good, sanitary patient care.



In 1994 the South Central Medical Clinic, which currently contains the Cancer Center, surgery clinic and physical therapy offices and the Stanion meeting rooms, was completed. With this building only being 17 years old and more conveniently located near the newest complex addition, we asked the architects to design new additions to include and maximize the use of this building.

The year 2000 saw the completion of the medical complex, which currently houses the orthopedic and podiatry practice, family practice, Pratt Open MRI, dialysis services, and the birthing suites. This building would be retained and blended into the new facility.



All this was studied extensively by two architectural firms both charged with presenting comparisons of remodeling in comparison to demolition and new construction. Both firms essentially came to the same conclusion. The most effective and efficient option is to build a new facility while retaining the newest medical complex and as much of the 1994 addition as practical. The cost results were basically equal.

The committee agrees with the recommendation of building new.



Original Hospital

- The original area of the hospital is now over 60 years old.
- Pipes, boilers and electrical systems are worn out.
- This area would be demolished and replaced.
- *“From the outside, the hospital looks great. It is what’s behind the walls that’s ugly,”* said Dr. Barbara Cudney during one of our committee meetings.

1981 Addition

- While this area seems to have just been completed, it is now 30 years old.
- This area does not have adequate space.
- This area would be demolished and replaced.
- *“Only two of the five operating rooms have suitable space for large orthopedic cases,”* explained Dr. Ian Kovach during one of our committee meetings.



Emergency Room - *part of the 1981 addition*

- Logistically, this area is not cost effective to remodel.
- This area would be demolished and replaced.

1994 Addition

- This addition is only 17 years old and conveniently located near the 2000 addition.
- This building would be kept and utilized.



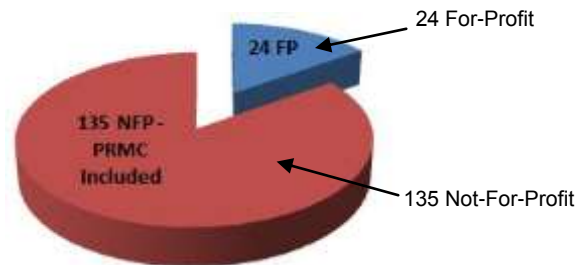
2000 Addition

- The most effective and efficient option is to build a new facility while retaining this complex building.
- This building would be kept and utilized.

The committee agrees with the recommendation of building new.

Sell Hospital vs. Keeping Hospital County Owned

We heard from Tom Bell, President of the Kansas Hospital Association, who related his view of medical care with hospitals in Kansas. His report shared an extensive state booklet with comparisons of hospitals throughout Kansas. Most hospitals in Kansas are very similar to Pratt in ownership structure (the pie chart to the right shows there are 135 not-for-profit and 24 for-profit hospitals in Kansas), and operations, virtually all are in similar positions of needing to address aging building and infrastructure issues. Tom shared that funding for government owned, not-for-profit hospitals is extremely limited. While some programs are available, most are in the form of low interest loans with many federal requirements tied to the awards and a lengthy application period.



We heard from Great Bend representatives of the Catholic Health Initiatives who explained the results of a situation there that separated medical professionals, divided a community and saw a new for-profit hospital, owned by a doctor group opened in competition with the community-owned not-for-profit hospital. They stated the change has now forced the reduction of the not-for-profit hospital to an outpatient facility without any acute care. This in turn is requiring the for-profit hospital to incur additional cost and expansion to accommodate the acute care needs of the community. The hard feelings created by division, in their opinion, will take many years and generations to heal, and has created many additional health care expenses for the community.



Our local doctors shared their views of for-profit and not-for-profit hospital care and their experiences with practices involved in each. Dr. Neel has had first-hand recent experience with a for-profit hospital in Dodge City. Dr. Neel's input was invaluable as to the nature of changes in hospital practices that occur with for-profit operations. The fact that Dr. Neel is here and not in Dodge City exemplifies his opinion of the two choices. Every doctor group we have in Pratt had representatives in attendance at some of our meetings. Without exception the message from our doctors is that the current form of hospital ownership is the preferred method. Several doctors indicated they would leave Pratt if we converted to a for-profit operation.

The conclusion of the committee is that, while a for-profit operation would take the financial obligation of facility ownership away from the citizens, it would end up costing the community more in disharmony, loss of local jobs and local money that currently is paid in salaries and local purchases, and disharmony and loss of medical staff and administration, such that the switch would actually be more costly than the current operational form.

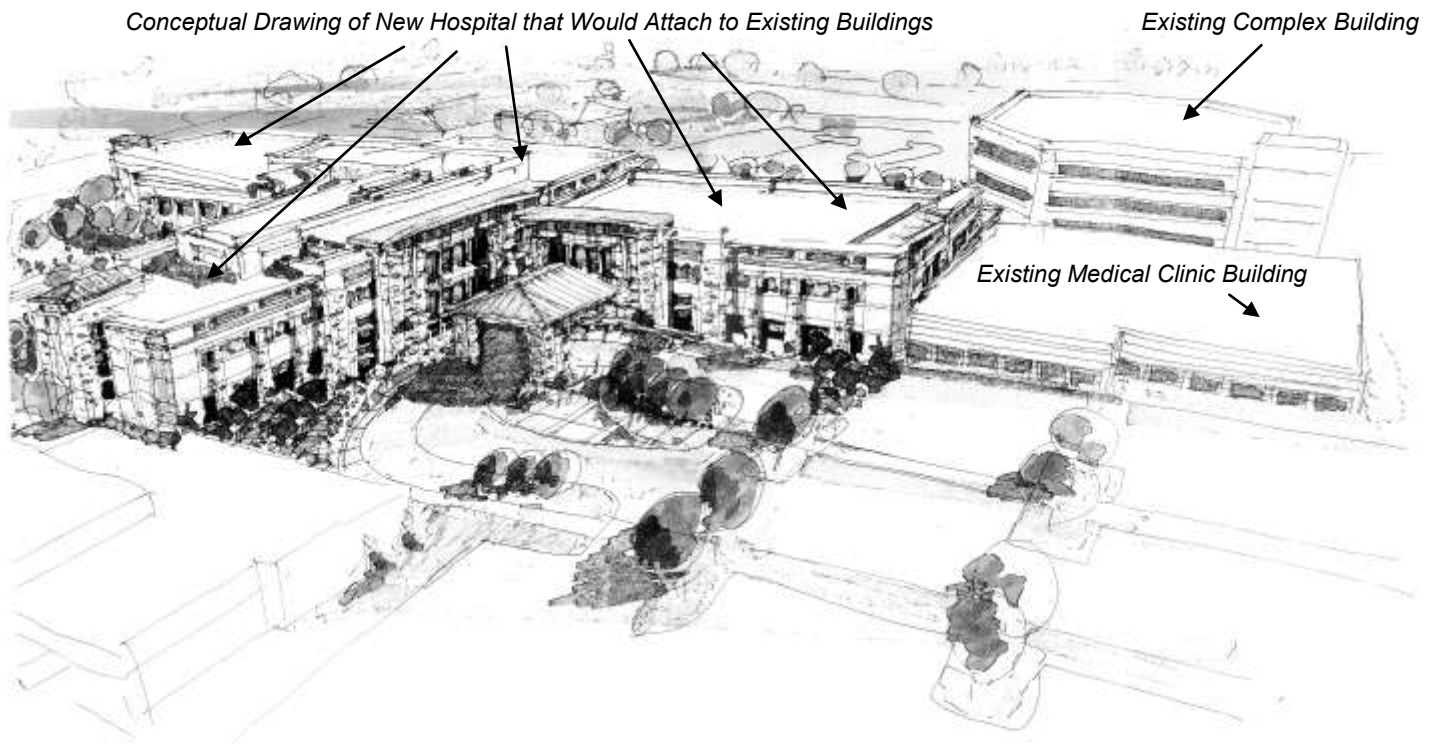
We therefore recommend the hospital remain county owned and not-for-profit operated.

What part of the current hospital building would be demolished?

The three X's placed over the photo below display the part of the current hospital that would be demolished. The buildings that remain are the South Central Medical Clinic, built in 1994, and the Pratt Regional Medical Complex, built in 2000.



The sketch below is a conceptual drawing of what Pratt Regional Medical Center might look like after a new hospital is built. This drawing came from the architects, HWA, who were hired by Pratt County to review the existing facilities and come up with options for the first committee to choose from. The majority of that committee recommended that we build a new facility that connects to the existing Complex and South Central Medical Clinic.

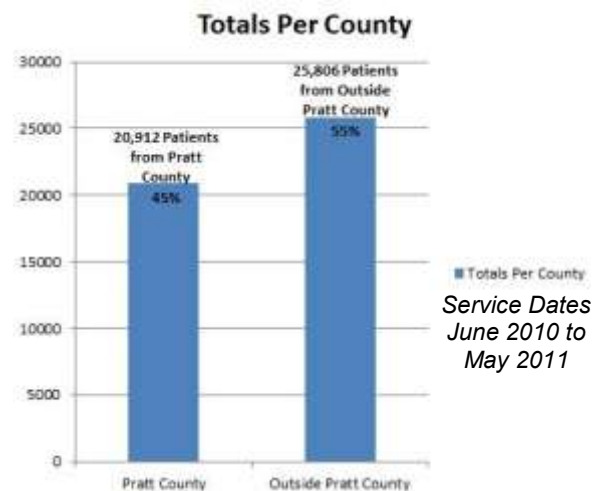


Financing the Project

The committee heard a report from investment brokers, Piper Jaffray, represented by Dustin Avey. They presented options to financing, which included general obligation bonds, Public Building Commission Revenue Bonds, Revenue Bonds using solely sales tax, lease purchase agreements, USDA direct and guaranteed loans, HUD loan guarantees and hospital revenue bonds. They presented various advantages and disadvantages of each option, including time periods required to obtain various options, and additional costs involved either in construction, interest rates or bond reserve requirements. We also heard from several sources that the availability of grants and awards to governmental owned not-for-profit operated hospitals is extremely limited for structural uses and usually time consuming with results of the grants unknown for long periods of time.

To fund the entire \$34 million project with property taxes would require approximately 16.8 mills based on current valuations. If the hospital were to pay half the construction costs, 8.4 mills would still be required. The county currently is assessing 1.192 mills for use by the county hospital board. The proposal of having various taxing entities 'give' shares of their mill levies to the hospital was discussed. The legality of doing such a sharing is very doubtful. The State statutes give each taxing jurisdiction the responsibility of handling the affairs of its own entity and raising enough tax money to fund its own operations. The State did not create one pot of tax money from which each taxing entity receives its funding. Therefore to propose that other entities share their tax revenues with the hospital seems contrary to public law and in our opinion could create future conflicts with other taxing entities even if it were legal. We therefore do not support the theory of shared mill levies.

After hearing alternatives, the option that appeared to have the most appeal was to use a combination of items. The hospital would make a payment towards the bond issue of approximately \$1.2 million per year. The remainder would need to come from other sources. The source most believed to be the best for Pratt County was to use a County-wide sales tax. PRMC's most recent analysis of patients served shows that approximately 50 to 55% of patients and revenue came from sources outside of Pratt County. **This does not mean that Pratt County residents are not choosing to get their health care at PRMC. In fact, over the past five years 70.5% of Pratt County residents who were hospitalized, chose PRMC for their inpatient services.** Pratt has a positive "pull" factor, meaning that the volume of business done in Pratt by non-residents exceeds the volume of business done outside of Pratt by Pratt residents. Pratt has a strong retail business base, especially with the presence of a Wal-Mart Super Center. So, much of the sales tax revenue generated in Pratt County comes from non-residents who like to spend their money here. Many non-residents who come to Pratt for medical care bring at least one other person with them. They often stay overnight at our motels generating additional revenue in the form of lodging tax, which benefits Pratt directly. Whether staying overnight or just one day, most will buy a meal and shop local stores before returning to their home county. Since Pratt Regional Medical Center serves South Central Kansas and serves as a medical hub for this area of Kansas, we believe sales tax is the most reasonable form of financing.



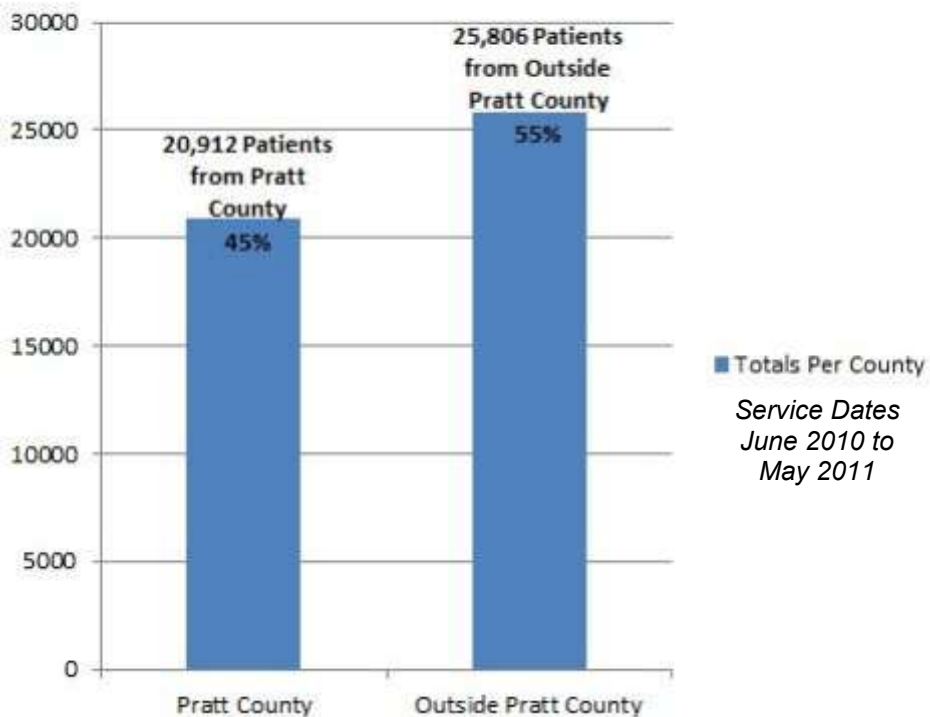
(Continued on the next page.)

The committee also recognizes that doing nothing until something requires maintenance or construction is a choice. This choice however, either requires the alternative of using property tax to fix an unknown event when it occurs or setting up a funding method similar to what is required to build a new facility. Since we know from the architect reports that repairing is just as costly as building, the cost differential is virtually nonexistent. We prefer to make our improvements on a proactive basis under circumstances and on a schedule we control rather than on a reactive basis responding to costly breakdowns that could actually shut down hospital operations.

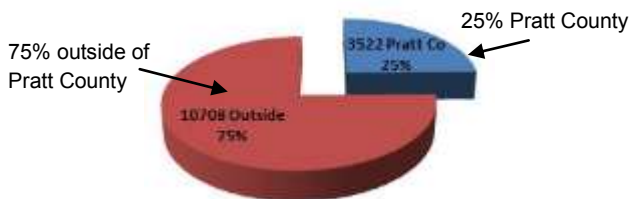
The committee therefore, recommends Pratt use the Hospital to pay approximately \$1.2 million and that Pratt County use a county-wide one percent sales tax to fund the remaining portion. The sales tax would sunset after the bonds are paid off (approximately 25-30 years). We also recommend the current 1.192 mill levy be used as a safety net to provide protection against the need for additional property taxes in the event either the hospital or sales tax is inadequate in any given year to cover payments. We also recommend that we continue to look at and seek any grants or awards that might become available and encourage the Pratt Health Foundation to consider a building campaign to help protect against the need for property tax uses for construction purposes.

The majority of Pratt Regional Medical Center patients come from outside of Pratt County. Therefore, a sales tax would allow for others who live outside of Pratt County to help pay for the project.

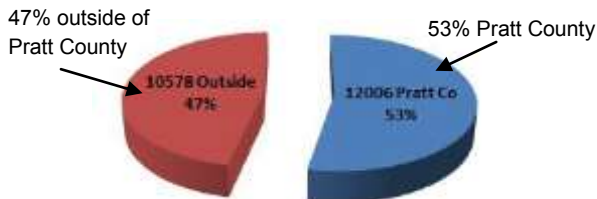
Totals Per County



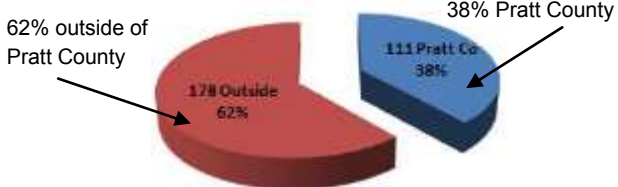
South Central KS Bone & Joint



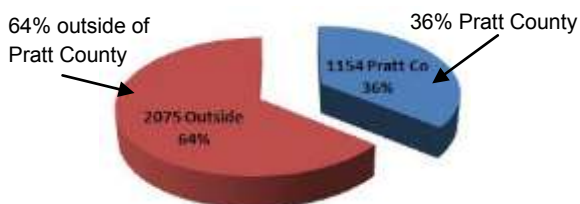
Outpatients



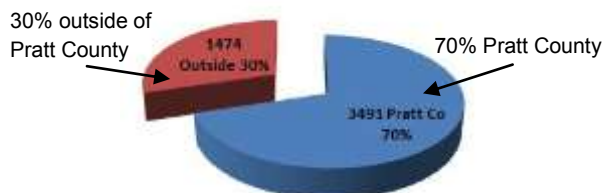
Babies



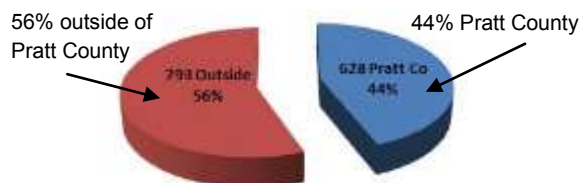
Surgicenter



Emergency Department



Inpatients



Hospital Management

The committee had several reports of different hospital management operation options. However, while each may be somewhat unique in its individual aspects, the most common form of hospital arrangement in Kansas is government owned and not-for-profit operated. Based on a recent study performed by a central Kansas administrator, many government entities are now and have been for many years paying for construction bonds totally with property taxes and or sales tax. A number of counties are also providing operating revenue support of their hospitals in the form of property tax levies or sales tax.

We are fortunate that Pratt Regional Medical Center has never needed or used any county money for operations. Additionally, up until this current situation, county funds of any source have only been used on major building maintenance items.

The committee, therefore, believes the current form of ownership and operation of the hospital by a not-for-profit entity should not be changed but continued.

Below is a chart demonstrating the current relationship between Pratt County and the hospital.

