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Rural Health Management Corporation
and
Rural Health Services of Nevada

Testimony – AB 402

March 31, 2003

Madam Chair and Members of the Committee:

For the record, my name is Roy Barraclough. I am Project Development Officer for Rural Health Management Corporation based in Nephi, Utah, and Project Manager for the new hospital being constructed in Pahrump, Nevada by Rural Health Services Corporation, an affiliate of Rural Health Management Corporation. I am here today to because of **AB 402,** which proposes to amend NRS 439.A.100 – sometimes referred to as the "Certificate of Need (or CON) law" – by exempting unincorporated townships from the CON review process if they meet certain criteria relating to population, health service availability, and distance from the nearest trauma services. I am also here today in support of the CON law and the role it plays in rural health settings. While I do not presume to officially represent the 14 rural hospitals in the state, I feel quite confident that, if they were here, their testimony would closely coincide with mine. I offer the following points for your consideration.

Regarding AB 402, as the bill is currently written, the proposed changes would, in reality, impact only one community in Nevada – Parhump. No other unincorporated town comes close to meeting any of the qualifying criteria now or in the foreseeable future. I understand and am empathetic to the sponsor's reasons for introducing this bill. If for some highly unlikely reason Rural Health Services of Nevada is unable to complete the project, not having to go through the CON review process might make the hospital project there more attractive to

the next prospective builder. The fact that some residents of Pahrump firmly believe that, were it not for the CON process, a hospital would have been constructed and would be operational in that town by now is, in my opinion, an oversimplification of a much more complex issue, the history of which in Pahrump has significant political, logistical, and economic aspects associated with it. Be that as it may, the proposed language might, indeed, make the project more appealing to another builder. If were to happen, the prospects of expediting the project may justify the changes in the law, as focused as those changes are. Given our collective commitment to accomplish the objective of providing Pahrump with acute care services as soon as possible – whether through our direct involvement or the involvement of some other party – we must support the proposed language of the bill, but with a caution, which brings me to the broader issue.

The CON law, as currently constituted, was intended to and does fill the vital purpose of protecting small rural hospitals from the negative – and potentially disastrous – effects of competition from large, well-resourced health systems and provider groups that might otherwise come into these rural communities and "cherry pick" the hospital's service area by offering high profit margin services such as diagnostic imaging and ambulatory surgery in direct competion to the hospital. For most – if not all – rural hospitals, these are the very services that allow rural facilities to remain in business and respond to the needs of the community. They do this by generating profit margins sufficient to help offset operational losses typically experienced by other services in the hospital, such as emergency rooms and obstetrics. The loss of such revenue to a such a competitor could prove disastrous for a small rural hospital that is already struggling to maintain financial viability. One need only consider the hospital in Elko, which has had to adjust to a 50% reduction in its surgical and imaging revenues as outside groups have come to town and constructed competing specialty or "nitch" facilities. A recent conversation with that hospital's

Administrator, Alex Poirer, confirmed the fact that the presence of these facilities has not only challenged the hospital's financial performance, but has seriously compromised its financial capacity to offer new services the community needs . Elko's size and location may have mitigated the full impact of the competion somewhat, but this is a luxury the hospitals in Winnemucca, Battle Mountain, Yerington, or Hawthorne definitely would not have.

That such competition may not represent the same degree of risk to urban hospitals is evidenced in the fact that the law currently exempts Clark and Washoe counties – home to the larger, better resourced hospitals in the State. Interestingly enough, however, even the 32 urban hospitals located in these two counties are becoming increasingly concerned about the growing trend of "market nitching" by groups of specialists looking to "skim the cream" within a defined service area. If the larger urban hospitals are concerned, it is small wonder that the small rural hospital – almost always the only acute care facility in the community – would be terrified by such competition. Maintaining financial viability is a challenging assignment for any hospital, but especially for rurals. The loss of CON protection could exacerbate that challenge exponentially.

We must remember that rural health care does not fit the standard economic and/or competitive model as perfectly as one might otherwise expect. The loss of a hospital in a large urban area where the services of multiple hospitals are available would be no where near as significant to the community as the loss of the only hospital a rural community has. In fact, the importance of a rural hospital to the economy, safety, and quality of life in a rural community is so well established that such communities are often willing to create special taxing districts, as necessary, just to ensure the continued operation of this most important of community assets. To arbitrarily expose a rural hospital to competition from "deep pocket" organizations with which it cannot effectively

compete is to place the health and economic well being of that community at significant risk.

In Pahrump's case, its current population and projected growth rate notwithstanding, the new hospital will face the same financial and operational challenges at start-up as any new business venture. Even our most optimistic projections indicate cash flow shortfalls for the first 12 to 18 months of operations. This is to be expected with a new business and has been allowed for in the funding of the project. However, any changes in the CON law that would make it possible for "nitch" marketing to occur in the community could compromise the hospital's capacity to establish and maintain financial viability.

The closer a rural community is to a major metropolitan area, the more attractive it is as a potential site for groups and organizations that were not interested in or able to commit $20 Million to a hospital project, but could comfortably assemble $4 million to $8 Million for a smaller project. Both Rural Health Services of Nevada and Banner Health Systems before us – the only two organizations ever awarded CON's to build a hospital in Pahrump – factored the absence of competition of this type into their respective financial projections for the new facility. Certainly our interest in undertaking this project would have been mitigated had the buffer of the CON for rural areas not been extant. And, while I cannot speak directly for Banner, I had enough interaction with them during their short stay in Pahrump to feel comfortable in stating that their interest in the project would have been tempered in like manner. It would be a tragedy to win the initial "battle" of bringing a hospital to town but lose the long-term "war" should the hospital not be able to survive.

In summary, we respectfully encourage the committee and the Legislature to maintain the global perspective as related to rural health care. The very nature of rural health care delivery makes every hospital and clinic in rural settings

vulnerable, almost by definition. And, in view of current and proposed reimbursement systems and federal patient safety and patient information regulations about to take effect, it doesn't appear that it will be any easier in the future. Pass AB 402 if appropriate, but please don't let this bill be the forerunner of follow-onl legislation that would weaken and/or ultimately remove CON protection from rural communities. Thank you.

Q&A