

**APPROVED ECONOMIC DEVELOPMENT BOARD MINUTES**

**5:30 P.M.**

**August 17, 2009**

**CITY OF DERBY**

**611 MULBERRY, DERBY, KANSAS**

**ROLL CALL**

**MEMBERS ABSENT**

**PAULA LANGWORTHY**

**KEVIN CHASE  
ROBERT ASH  
BRENDA KNIPFER  
KRISTIN WARD  
JASON WILEY  
ROBERT ASH**

**CITY STAFF PRESENT:**

Allison Moeding

**COUNCIL MEMBERS:**

Cheryl Bannon  
Jim Craig

Meeting was called to order at 5:30 p.m.

**Agenda Item #1**

RE: Public Forum

No one present to speak

**Agenda Item #2**

RE: Approve minutes from July 20, 2009.

Minutes approved as presented.

**Agenda Item #3**

RE: Request for incentives

**Allison** introduced representatives for Physician's Development Group. They recently submitted an application for Industrial Revenue Bond financing and tax abatement in

connection with their Derby Family Health and Rehab facility. Last summer at the same time Lake Point submitted an application Physician's Development Group also submitted an application for incentives. They are here to ask us to reconsider their request. She was provided a cost benefit analysis on Friday from PDG but Wichita State will not be able to have anything ready until Tuesday or Wednesday of next week. She also provided the board with a copy of a letter from Central National Bank who is considering purchasing the IRB's.

**Hermes** from Physician's Development Group introduced himself and gave information on his background. He also introduced Dr. Greg Lakin and Butch Nuss.

**Dr. Lakin** provided information on his background as well as his goal with Physician's Development Group and their plans in Derby. She shared information on Derby Family Health and Rehab and advised they are on schedule to open the first week in October. He explained the planned type of patients as well as types of staffing and staffing levels in the Derby facility, as well as an overview of the proposed facility and services that will be offered.

**Hermes** explained to the board why they came back to request IRB's again. They realized they need to provide this high end, high quality facility but need to look at serving the indigent in a much heavier way. They redesigned some of the building and added some additional rooms and completely redid the budget to work in this manner. Their goal is to take about 35% of their total population to serve the indigent. There seems to be a huge need. Some of the current facilities are starting to age and show problems. Medicaid will pay them 25-35% less per day than a private pay patient, Medicare pays a little more but when it comes right down to it, it just doesn't pay.

**Dr. Lakin** explained they are really talking about the Medicaid population, those are the people who have \$2,000 or less in assets, they basically are broke at that point and need Medicaid to take care of them. Typically they get reimbursed 80% of their costs, so basically every resident they take they lose 20% on. They want to be able to serve that population but also want the city to realize the reality of the fact they actually lose money on every one of those patients. That's what makes it so tough to build a new facility, that's why the only facility in town is 30 years old because there is really no incentive to do it. He is positive the existing facility on the table hasn't built because it's really tough to make new construction work. If you got reimbursed 80% of your cost, how long would it take you to go broke? It wouldn't take very long at all.

**Kevin** asked if this Medicaid change will have an affect on the amount of employees that will have to be hired.

**Mr. Hermes** advised it won't change the number. The reimbursement has an impact on what we can pay people. They have made a commitment that they want to be a good employer. They provide health insurance to every employee. He went on to give further information about their facility and the need the community has for it.

**Kevin** asked if we had a copy of the budget.

**Allison** advised the budget was included in the initial packet. She has not distributed the one that is marked confidential, she wanted to double check and make sure we had a confidentiality agreement from everyone.

**Matt Lillie** with PDG went over some of the budget with the board. He pointed out they will lose close to \$1 million dollars in the first year and it will take 4-5 years to regain that. That's really because we decided to serve more of the Medicaid population. That is the main reason they are back before the city, they want to do the right thing, they just need help from the city to do the right thing.

**Allison** asked Mr. Lillie to explain the management structure.

**Mr. Lillie** explained there is what they call Derby Health and Rehab which is the operating company, then there is DHRC which actually owns the property. You would be issuing IRB's to DHRC. It is the same ownership group, the investors, then there is Physicians Development Group. Then we have a management company called Axiom, which is Fred, Greg and himself and they hire professional staff to help manage the facility.

**Kevin** asked how they divided up their assets.

**Mr. Lillie** explained it was prepared by an accountant. The loan was reduced by \$200,000 after the economy tanked because they wouldn't give them 80% of the appraised value they would only give 80% of the construction.

**Kristin** asked how this fits in with our incentives program. Since we chose to incentivize Lake Point, is that going to be a competition issue that we were unable to incentivize a second competing business? Especially with the fact they are taking that many more Medicare and Medicaid patients, now they really are much more similar.

**Allison** reminded the board that one of the things we looked at a year ago with the competition policy is, if this community has a need, we have an existing nursing facility, Westview, is there enough demand that would make it worthwhile for the city to support a second or even third facility. That is something for this board to consider whether or not that need is still there. Lake Point still intends to move forward this fall, with that in mind where does that need still lie?

**Mr. Lillie** understands a year ago they weren't addressing the needs of the city. We tried to come back the right way. Another thing to look at is there is a building under construction that opens in a month, we are here, we want to work with Derby. We aren't just building a nursing home, we have an assisted living that we would like to start that has nothing to do with IRB's as well as housing for seniors that we won't be asking for IRB's. The only he can think of would be maybe a community center for seniors and that would be a not for profit anyway, so we wouldn't really need IRB's because that would

be tax exempt. You are not going to see us again in here saying we need some help, we're not. If we can get this project to work it makes the rest of them flow. We see about 500 patients a year thorough our Maize Road facility and will see about 350-400 patients here, that helps drive traffic to the assisted living and independent living. If we don't have this key piece it makes the others really had to work in this community. Lake Point says they are going to build in the fall, we are here and we don't know what Lake Points financial situation is. We know their partnerships and we know there are four partners that are splitting and selling off some assets and we know they sold off a sizeable piece of ground on the northeast side of town. We appreciate their intentions but intentions don't get the deal done. We are here to serve the residents of Derby, not talk about serving the residents of Derby.

**Kristin** advised that Lake Point is looking at it from the perspective of maybe now isn't the right time. You guys decided to forge ahead during a hard economic time, however now you are asking for help because of that. She asked how many PDG investors are actually local doctors.

**Dr. Lakin** indicated not very many in Derby because they didn't want to participate, not because we didn't invite them. They show more interest now with the assisted living, when they see action they want to get more involved. There are still local doctors, there are no investors outside of the Wichita area, it's all health care providers in the Wichita area.

**Brenda** asked why they aren't participating.

**Dr. Lakin** advised one is very close to retirement. There are a lot of politics down here and they weren't sure if we were going to offer some competing services and we are not.

**Kevin** commented that last time we talked about this there was information presented that showed the tremendous need for adding beds per capita. We were so deficient; even if we approved one project and it built we are still deficient. He can certainly see the need still being there. The key issue is the retooling and Medicaid. He pointed out the incentive policy indicates the incentive must make a difference in determining whether a company will go ahead and build or not. In his mind the angle is you will be able to offer Medicaid.

**Mr. Lillie** agreed. If they don't get IRB's they can't serve that population. We want to be good neighbors, good partners and a community advocate.

**Kristin** asked about their 10-year plan

**Mr. Hermes** explained that costs go up 2-3 % per year but their mortgage stays the same. As the charges go up it kinds of helps with the spread over time but we have to get out there a ways to get some of that debt paid off. We can go out 10 years and pay off some debt and if we really had to at that point do a refinance.

**Mr. Lillie** pointed out that once you are Medicaid certified on a facility, all the beds have to be Medicaid certified. The state frowns heavily on us turning down Medicaid patients.

**Mr. Lakin** stated one of the reasons he likes to have health care providers as owners is down the road it's going to be a quality institution, it has our name on it. There's going to be a big emphasis on patient care, it's not like these are private investors.

**Kevin** pointed out the economy probably played a big role in revamping here, at least initially.

**Mr. Lillie** indicated that when they didn't get approved last year they asked why. When they realized they weren't serving enough of the Medicaid patients they went back to the architect to make rooms bigger and more Medicaid friendly. The second thought was people will run out of money faster because of the economy.

**Dr. Lakin** asked if there was a timeline if someone comes in and says they are going to do something, how long do they have?

**Allison** advised typically we write in some sort of time constraints in the letters of intent. We are still okay on Lake Point if that is what you are asking about.

**Brenda** asked how long the Maize facility has been open.

**Dr. Lakin** indicated it was a year ago in March.

**Brenda** asked how full it is.

**Mr. Hermes** indicated they are running about the middle 60's. That facility admits 8-15 people a week and discharges that many.

**Allison** asked if they had made any forecasts in how many patients will be long term, end of life sort of patients versus the temporary skilled nursing care.

**Mr. Lillie** indicated that all of the Medicaid patients are long term.

**Brenda** asked if these are different because they have private placement IRB's and they don't have to sell them.

**Allison** agreed but that doesn't affect us so much but should provide a level of confidence.

**Kevin** asked how getting the IRB's can positively affect projects they have planned. Will it speed that up? Will it slow down the next phase if you don't get them?

**Mr. Hermes** advised it would help push things along.

**Kristin** asked if tax abatements or IRB's were issued for the Maize location

**Mr. Lillie** advised that they were told on that location that there was no way they would get them for that location.

**Kevin** asked who they have adjusted with the amount they are able to finance since it has gone down.

**Mr. Lillie** advised they had to pull back on some of the equipment and use that for operating capital.

**Kristin** commented that last year this was an all or nothing type situation, is it still that way now or are we open to the possibility of change, such as a 10-year tax abatement as opposed to tiering it back on in 10-years.

**Mr. Hermes** advised they would be open to that but ....**inaudible**

**Allison** asked how construction and labor costs compare to a year ago.

**Mr. Lillie** indicated it has flattened out; we are building this one for pretty much the same price per square foot as we did the one on Maize Road.

**Allison** asked what the actual amount of bonds are that are being requested.

**Mr. Lillie** stated it would be close to 6.2.

**Allison** asked about the types of equipment.

**Dr. Lakin** advised it would be beds, nightstands, wardrobes, chairs, kitchen equipment, whirlpools, therapy equipment, etc.

The representatives from PDG left the meeting and the board had further discussion.

The board decided to table the issue and meet again in two weeks.

#### **Agenda Item #4**

RE: Chamber Update

**Rhonda** gave the board an update from the chamber.

The meeting was adjourned at 7:30 p.m.

