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Rural Health Management Corporation  
and  
Rural Health Services of Nevada, Inc.

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Testimony on AB 402

DATE: April 23, 2003  
COMMITTEE: Senate Committee on Human Resources and Facilities

Mr. Chair and Members of the Committee:

For the record, my name is Roy Barraclough. I am Project Development Officer for Rural Health Management Corporation, a not-for-profit rural hospital management company based in Nephi, Utah, and Project Manager for the new hospital being constructed in Pahrump, NV by Rural Health Services of Nevada, an affiliate of Rural Health Management Corp. I am here today to speak to **AB 402** which proposes to amend NRS 439.A.100., sometimes known as the "CON" law. I am also here today in support of that CON law and the vital 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 for your consideration.

Regarding AB 402, having lived in Pahrump and operated a health care facility there since 1998, I fully understand and am sympathetic to the sponsors' reason for introducing this bill. It is reasonable to believe that, if for some highly unlikely reason, Rural Health Services of Nevada is not able to complete the project currently underway, not having to go through a CON review might make the hospital project that much more attractive to another prospective builder. And, given the serious need for acute care services in this community, (almost) anything that would make the project more appealing to the next developer probably should be considered. This is a community of 30,00 + citizens who currently must drive to Las Vegas for emergency and inpatient care, clearly a risky, inconvenient, and costly necessity. Accordingly, while it may appear a bit unusual for the current developer of the hospital project in Pahrump to take this position, we support AB 402 for the sake of the community and its health care

needs. We are committed, as is Assemblyman Sherer, to bringing acute care services to Pahrump in the most efficient and expeditious manner possible.

On a broader scale, however, I must encourage the members of the committee to guard against AB 402, or any other proposed or pending legislation, establishing a precedent that could facilitate additional unwanted changes in the CON law. The CON law, as currently constituted, fills the vital purpose of protecting small rural hospitals from the negative – and potentially disastrous – effects of competition from large, well financed health systems and physician's groups that could otherwise come into these rural communities and “cherry pick” the hospital by offering high profit margin services such as diagnostic imaging and ambulatory surgery in direct competition with the hospital. For most – if not all – rural hospitals, these are the types of services that allow rural facilities to remain in business and to respond to the needs of the community. They do this by generating profit margins sufficient to help offset losses typically experienced by other services in the hospital, such as emergency room and obstetrics. The loss of such revenues to a competitor could prove disastrous for a small rural hospital that is already struggling to maintain financial viability. One need only review the Elko hospital, which has had to adjust to a 50% reduction in its surgical and imaging revenues as outside group have come to town and opened competing specialty or “niche” facilities. A recent conversation with the hospital's administrator, Alex Poirer, confirmed the fact that the presence of these competing facilities has not only challenged the hospital's financial picture, but has seriously compromised its financial capacity to offer new services the community needs. Elko's larger size and favorable location may have mitigated the full impact of the competition somewhat, but this is a benefit 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 by the fact that Clark and Washoe Counties – home to the

larger, better resourced hospitals in the State – are exempted from CON coverage. Interestingly enough, however, even the 32 urban hospitals located in these large metropolitan areas are becoming increasingly concerned about the growing trend of “market niching” by organizations intent on “skimming the cream” within a defined service area. If these large hospitals are concerned, it is small wonder that rural hospitals – almost always the only acute care facilities in their respective communities – would be terrified by just the threat of such competition. Maintaining the financial viability of a rural hospital continues to be one of the most challenging assignments in the health care industry today. The loss of CON protection could exacerbate that challenge exponentially.

Let us also remember that rural health care does not fit the standard economic and/or competitive model as perfectly as one might want. The loss of a hospital in a large urban area where 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. The importance of the rural hospital to the economy, safety, and quality of life in a rural community is a very well documented fact.

To expose a rural hospital to competition from “deep pocket” organizations with which it cannot effectively cope is to place the health and economic well being of that community at risk. In Pahrump’s case, its current and projected population and growth notwithstanding, the new hospital being built for this community will face the same financial and operational challenges at startup as any new business venture. Even our most optimistic projections include show and cashflow shortfalls for the first months of operation. This, of course, is to be expected with a new business and has been allowed for in the funding of the project. However, the removal of the protection of the CON law could compromise this and other rural projects by increasing the probability of “niche” competitors coming to town and providing the high-margin services previously mentioned.

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 previously were not interested in or able to commit \$20+ Million to a hospital project, but which could raise \$4 Million to \$8 Million for a smaller project. Both Rural Health Services of Nevada and, before us, Banner Health Systems – 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 hospital. It is safe to say that our interest in undertaking this project would have been mitigated had the buffer of the CON process not been present. And, while I cannot speak authoritatively 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 similarly impacted. The threat, then, is NOT from another hospital coming to a rural town but rather from such “niche” services coming in and effectively draining away needed revenues from the new hospital's operations. It would be a tragedy to win the initial “battle” of establishing a hospital in town but lose the long-term “war” of keeping that hospital when the financial struggles get to be too much for it to handle.

In summary, I respectfully and sincerely encourage the committee and the Legislature to maintain a realistic 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 that recently took effect, it does not appear that it will become any easier in the future. Pass AB 402 if appropriate, but please don't let this, or any other, bill be the forerunner to legislation that would weaken and/or ultimately eliminate CON protection for rural communities. Thank you.

Questions and Answers