

Testimony on the Oilfield Impact on Healthcare Delivery

Health Care Reform Review Committee

April 11, 2012

Chairman Keiser and members of the Health Care Reform Review Committee, I thank you for the opportunity to offer a real time observation of the impact of oilfield development on healthcare delivery in western North Dakota. My name is Daniel Kelly, and I am the Chief Executive Officer of the McKenzie County Healthcare Systems, Inc. in Watford City, North Dakota.

Oil activity is in balance a positive for the state of North Dakota and McKenzie County however not everything associated with this heightened activity is encouraging. While the prepared report and my testimony will outline several challenges currently faced by the healthcare deliver ecosystem, I believe a collaborative effort involving the healthcare systems, state, county, and city government can provide the resources to overcome these obstacles.

Healthcare systems in general and the McKenzie County Healthcare System are being impacted in the following areas:

- Staff Recruitment and Retention
- Increased Staffing Expense
- Housing
- Increased Clinic Visits
- Increased Emergency Room Activity
- Increased Incidents of Communicable Disease
- Significant Rise in Bad Debt
- A Lack of Day Care

I will briefly address each of these.

Staffing Recruitment and Retention-We are experiencing an increase in open positions principally in dietary, housekeeping, maintenance and certified nurse aid positions. At any one time we have had a high of 32 to a low of 17 open positions. Long term employees that have come into oil income have retired or quit, their children are not seeking employment and individuals are leaving the area.

Increased Staffing Expense-To maintain quality healthcare we have used "traveler staff." For the past six months the healthcare system has incurred \$483,400.00 in traveler staff costs for certified nurse aid, licensed practical nurse and registered nurse positions.

Housing-While my written report goes into more detail the short statement is there is a shortage of affordable apartments and/or homes to purchase. Apartments easily

rent for \$1500.00 and those few homes that are listed for sale have asking prices of in excess of \$300,000.00. If we cannot solve this problem, legislative aid may be needed to underwrite the development cost to provide affordable rental units.

Increased Volume of Clinic Visits-Our rural health clinic has seen a 20% increase in clinic visits. Even with this increase we continue to turn patients away due to staff and space constraints.

Increased Utilization of Emergency Services-The McKenzie County Healthcare System has experienced a doubling of emergency room visits. We are seeing in excess of 400 patients per month. This is in comparison to an average of 200 patients seen monthly during the prior fiscal year. This creates issues in the following areas:

1. The healthcare system has had to add a dedicated physician to staff the emergency room.
2. The healthcare system has added an emergency room nurse.
3. We have one emergency room and many times we have multiple patients presenting simultaneously.
4. The emergency room is the major source of our increase in bad debt which I will speak to shortly.

Increased Emergency Room Provider Cost-As just presented approximately six months ago the healthcare system added a physician to staff the emergency room. Until we can recruit providers to provide this coverage we are using locum tenens physicians. This year we will spend between \$750,000.00 and \$1, 000,000.00 in locum tenens physician coverage.

Increased Incidents of Communicable Diseases-We have thousands of single males living in "man camps" (former FEMA trailers) which do not have individual water or sewer but rather have communal bathing and toileting facilities. Our providers report outbreaks of communicable diseases. The North Dakota Department of Health has noted a doubling of Chlamydia rates in McKenzie County from 2010 to 2011.

Significant Rise in Bad Debt-For the 2011 fiscal year the healthcare system wrote off \$659,284 compared to \$300,151 for the prior year in bad debt. Weekly we have numerous bills returned due to our having been given a bad address.

Day Care-While the City and County are presently seeking ways to address this shortage. If a solution cannot be found this may require some form of state assistance to secure buildings to house daycare facilities.

In my report I speak to the efforts the healthcare system is undertaking to address these issues. We are continually trying to address these issues with our own

resources. With heightened bad debt and decreased reimbursement we may need to seek outside assistance which may include the state legislature.

I thank you for affording me this opportunity to share with you what is happening in western North Dakota. I would be happy to explain any of these items further or to answer any questions the committee may have.

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The Impact of Oil Activity on the McKenzie County Healthcare Systems, Inc.



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April 10, 2012
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Executive Summary

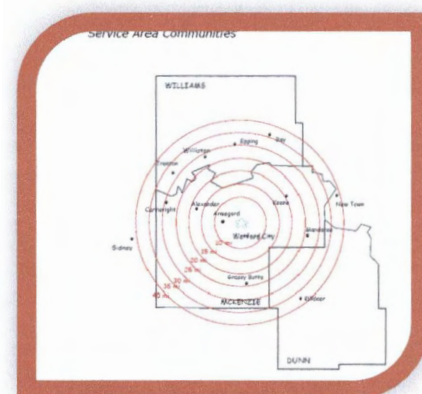
While Oil activity has resulted in revenues which benefit the State of North Dakota as well as McKenzie County not everything associated with this heightened activity is positive.

McKenzie County has experienced a surge in Oil related activity over the past four years. For the past eighteen months this activity has increased exponentially resulting in consequences for the healthcare ecosystem in McKenzie County.

All of the items in this report must be considered against the backdrop of the appreciable growth in population occurring in McKenzie County. Census data for 2000 shows a population of 5,737. Census data for 2010 shows the McKenzie County population at 6,360. This reflects a 10% growth in population over a 10 year span. As is the case with census data it is limited in its value. At present, Watford City alone has 6,500 individuals tied to water and sewer compared to 1,500 just one year prior. It is estimated that McKenzie County currently has 8,000 individuals. Within two years it is projected that McKenzie County will have a population of between 15,000 and 20,000 individuals.

The address of the impacts outlined in this report does not involve curtailing oil activity but rather determining a means of “fixing” the identified concerns. This is the “North Dakota Way.”

This report will relay the qualitative and quantitative impacts.



Areas Impacted

The healthcare system is impacted in multiple areas:

Staff Recruitment and Retention

Increased Staffing Expense

Housing

Increase Volume of Clinic Visits

Increased Utilization of Emergency Services

Increased Emergency Room Provider Cost

Increased Incidents of Communicable Diseases



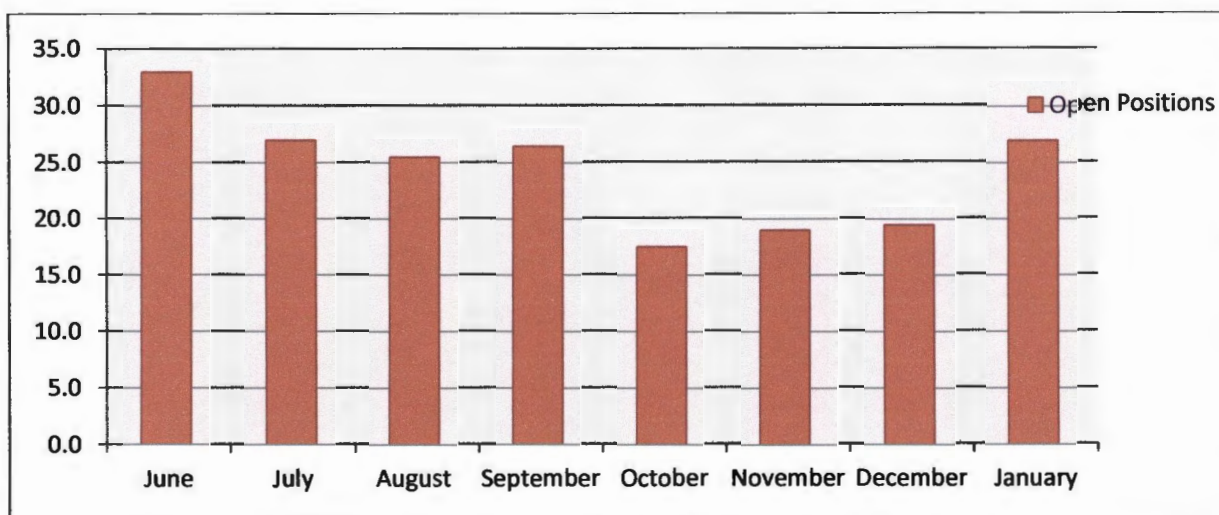
Significant Rise in Bad Debt

Day Care

Each of the above areas will be addressed individually.

Staff Recruitment and Retention

The following graph represents the open positions in the healthcare system for the past nine months.



Open Positions May through October 2011

The healthcare system has experienced an appreciable increase in open positions precipitated by several factors. With oil income, adults who had worked for the healthcare system no longer needed that income resulting in an increase in resignations. In addition, the children of these households who traditionally would have been a source of workers no longer chose to take employment with the healthcare system.

Increased Staffing Expense

An additional phenomenon has come into play. Oil related companies began needing housekeepers, office personnel and other unskilled workers. As a result hotels, restaurants, grocery stores and other "Main Street" businesses began competing not only with the oil related companies for workers but also with one another. There simply are not enough unskilled laborers in McKenzie County to meet the workforce needs. At the same time those individuals seeking employment can turn to oil related companies and make \$24.00 per hour for a

housekeeping position compared to \$11.00 an hour offered by hotels and the healthcare system.

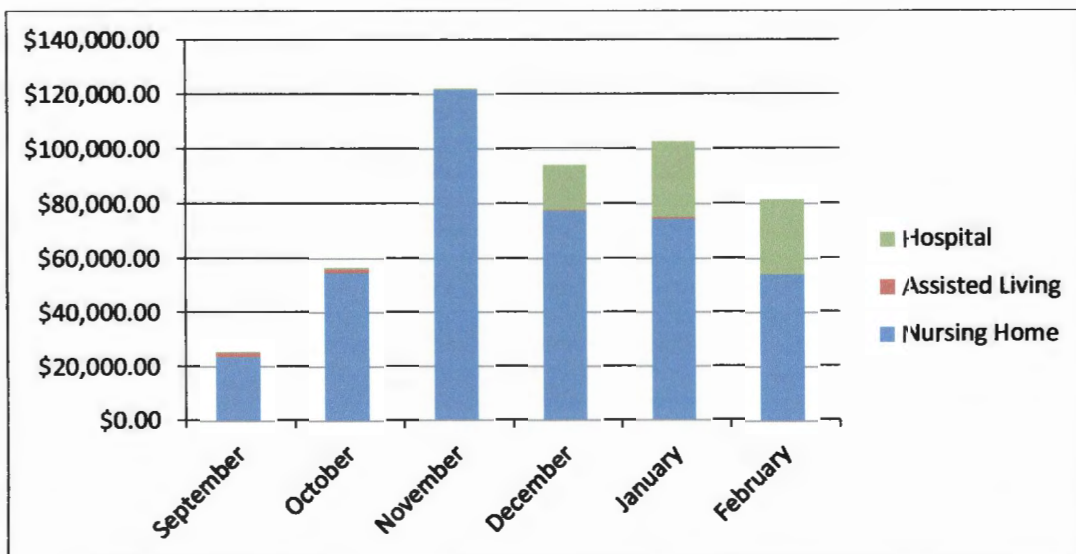
The healthcare system has increased its minimum starting wage from \$8.50 to \$10.00. Thus for select non-skilled positions the starting wage has increased approximately 20%.

In addition to the above, we have enhanced our benefit plan in that the healthcare system now pays 80% of the cost of employee health insurance regardless of whether they sign up for single, single plus one or family coverage. We are also giving serious consideration to enhancing our retirement plan in an effort to assist recruitment and retention.



As a result of the aforementioned workforce shortage the health care system is using "travelers" to staff many clinical positions such as Certified Nursing Aid, Licensed Practical Nursing, and Registered Nurses. In November of 2011 the healthcare system expended in excess of \$121,000.00 for traveler staff.

This graph reflects the increasing expense the healthcare system is incurring to secure staff to maintain operations.



While the healthcare system has increased wages multiple times, the reality is that the income coming into the system has not increased therein creating the dilemma where we need to continue to increase wages and benefits but we are not experiencing a parallel increase in revenue to pay for these increased costs.

Housing

Hand and hand with staff retention and recruitment we experience a shortage of affordable apartments and single family homes.

Apartment homes in Watford City can rent for \$500.00 per bed or \$1,000.00 per bedroom. For a small family of three that means rent of \$1,500.00 per month plus utilities. The typical unskilled worker cannot afford these rental prices.

Apart from the pricing of apartments there is a shortage of apartment units. As we look to recruit workers one of the first questions asked is where are we going to live?

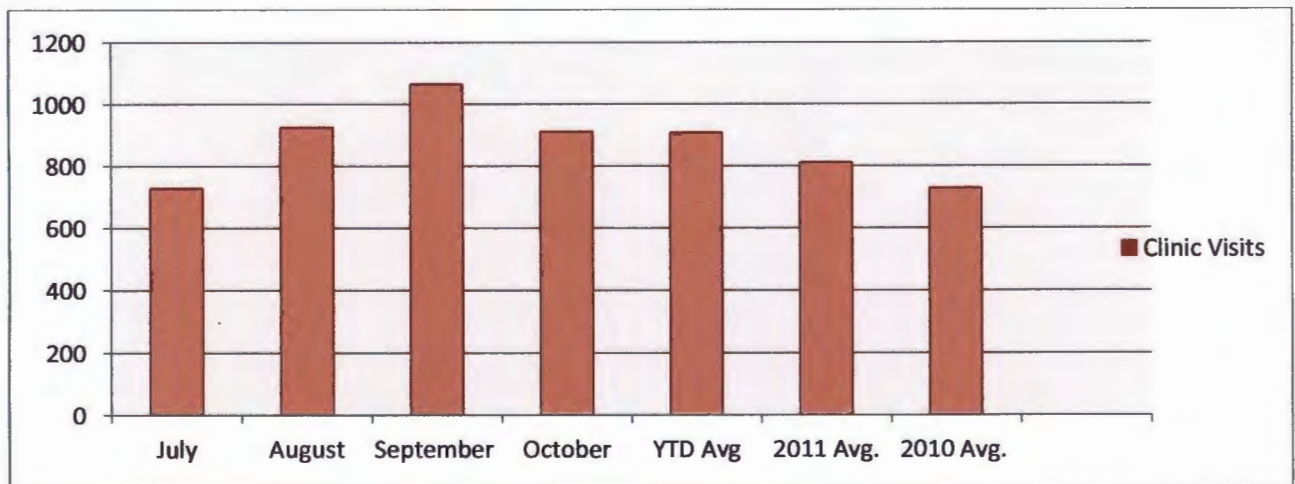
In addition to the apartment shortage there is a shortage of single family homes and those few homes that are on the market are listed at between \$180,000.00 and \$350,000.00.

Be it the monthly rent for an apartment or the mortgage payment on a home, when either is available, the pricing for each are beyond that which an unskilled laborer can afford.



Increased Volume of Clinic Visits

The increase in activity is best represented in the following chart.



Clinic Visits July through October 2011 compared to the 2010 and 2011 FY Average

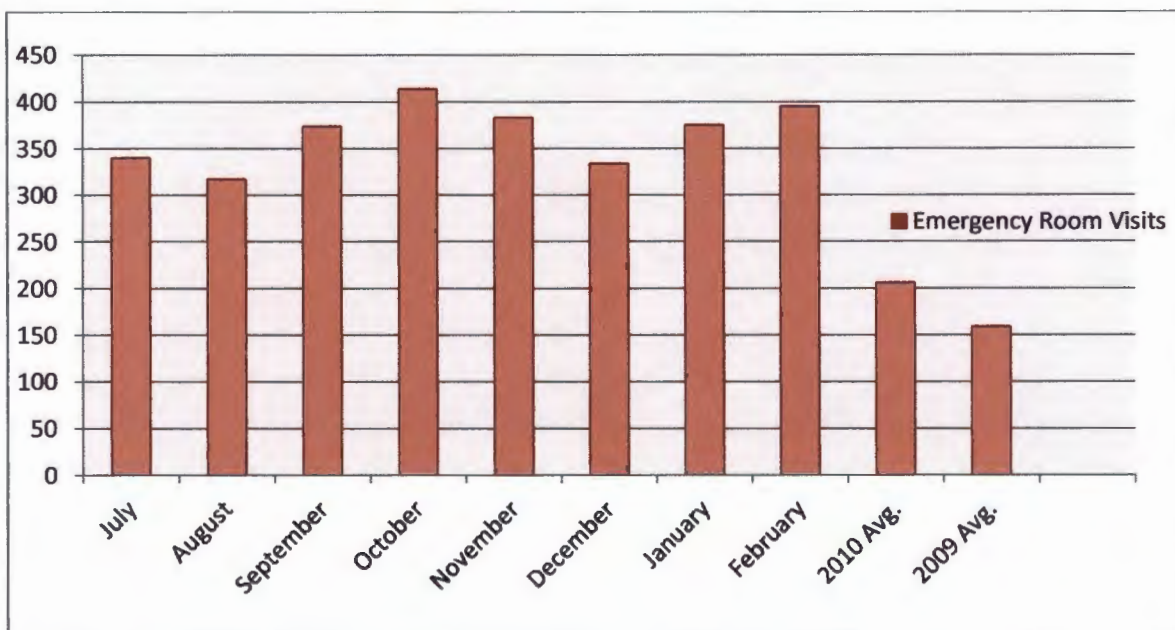
Overall an increase in clinic visits is considered a positive attribute but this influx of patients is creating two issues. This increase in volume results in our needing to recruit additional providers

and nursing staff while we lack space to accommodate the personnel. In addition the clinic and the emergency room are the two prominent sources for our increase in bad debt.

Increased Utilization of Emergency Services

Thus far, the report notes an increase in open positions, a lack of reasonably priced apartments and/or homes and to that mix is added the appreciable increase in emergency services currently experienced by the healthcare system.

This increase is best represented by the following graph which reflects emergency room visits for the past eight months compared to the prior year average.



Emergency Room Visits July 2011 through January 2012 compared to the 2010 and 2011 FY Average

While it remains to be seen whether this trend will continue, for the most part each month the emergency room has experienced increased visits over the prior month. In October the emergency room visits were double what the monthly average was for the prior year.

This increased activity results in two areas of concern.

Physical Space-At times the healthcare system is seeing four patients present at the same time as a result of traffic accidents. The emergency room was not designed to handle that volume of patients.

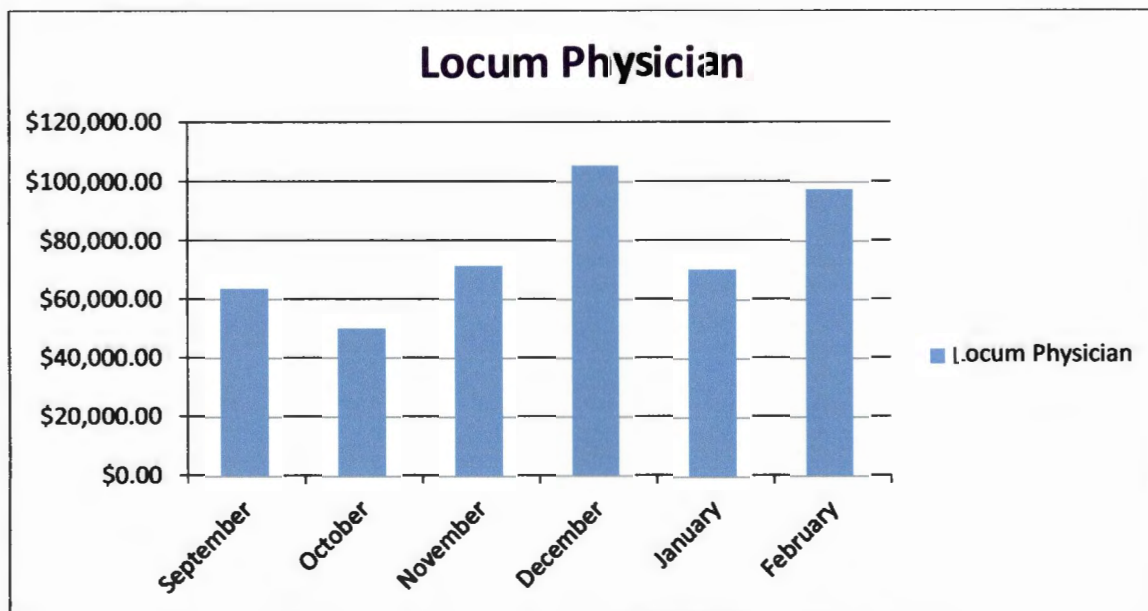
Trauma-While this facility is equipped to handle trauma cases, the frequency with which those cases are presenting has increased creating a strain on our physical and manpower resources.

As a result of the above, the facility has staffed the emergency room during daytime hours with a medical provider which in turn creates a provider shortage in the clinic. In addition we are currently employing an additional nurse for our night shift. In addition we currently staff with a dedicated Emergency Room nurse for the day shift.

Increased Emergency Room Provider Cost

Prior to the market increase in Emergency Room visits the hospital would staff the emergency by having a clinic physician leave the clinic and come to the emergency room. With this increase in activity and appreciably given the increase in trauma or cases of a more serious nature, our clinic physician frequently had to spend their "clinic hours" covering the emergency room. Thus the clinic patients were frustrated given the difficulty they experience in scheduling a clinic visit exasperated by the possibility that they would not get to see the physician as their provider was providing coverage in the emergency room.

To address this growing community discontent we are now covering the emergency room with a dedicated provider Monday through Friday. Until we can recruit permanent providers to fill this need we are using the services of locum tenens physicians at appreciable expense.



Locum Tenens Physician Cost September 2011 through February 2012

As will be address subsequently in this report the healthcare system is experiencing an alarming rise in bad debt. The emergency room is the more significant source of our bad debt. Thus we are, by necessity, increasing our cost of providing service in the emergency room and not receiving the increased revenue necessary to cover the cost.

Increased Incidents of Communicable Disease

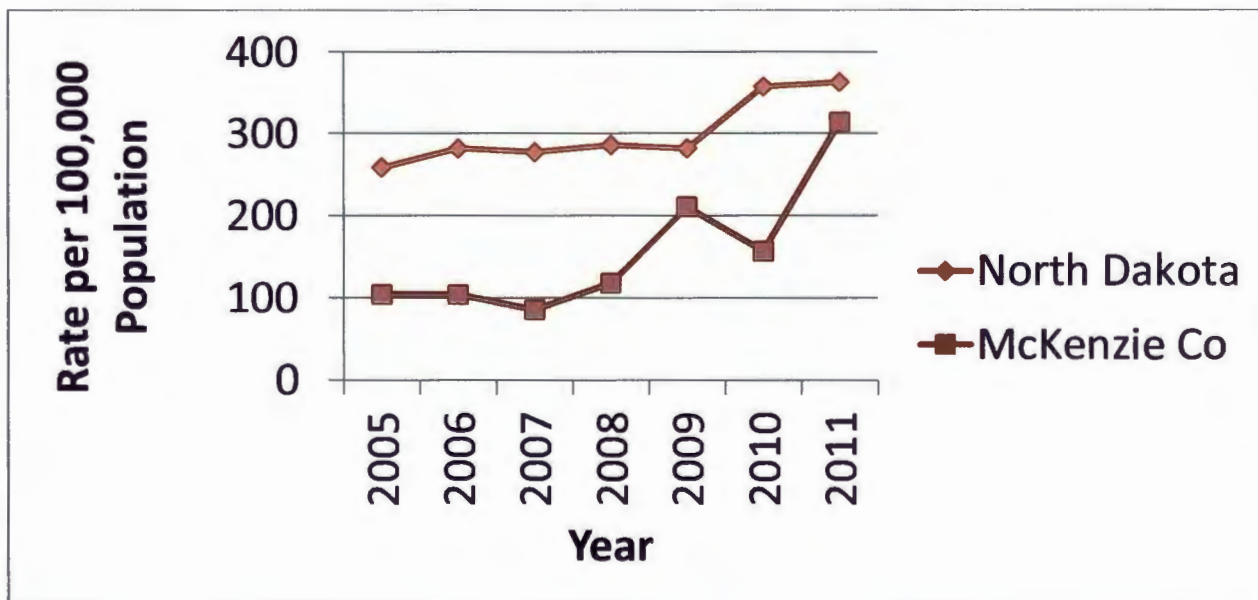
Many oil related employees live in “man camps” with some having in excess of 2,000 occupants. For the most part, man camps are comprised of row upon row of small trailers. Some of the trailers do not have individual water and sewer necessitating the residents’ use of congregate shower and toilet facilities.

Given the close working and living quarters, when an employee develops a communicable disease whether that be a common cold or influenza, that virus spreads resulting in an outbreak. Medical providers associated with this healthcare system report seeing multiple workers all having the same symptomology.

Certainly not of epidemic proportions but none-the-less of concern are the increased incidents of sexually transmitted disease. With the appreciable influx of males either living apart from their family or being single we have experienced an increase in the frequency of sexually transmitted disease.



Chlamydia Rates, North Dakota and McKenzie County 2005-2011



Source: North Dakota Department of Health Locum Tenens Physician Cost September 2011 through February 2012

Significant Rise in Bad Debt

This writer has been associated with the McKenzie County Healthcare Systems, Inc. for four years. Early in my tenure I was impressed by the ethics of those we serve. Our patients made a concerted effort to pay their bill. As a result we were and continue to be a trusting organization.

Unlike times past, we have individuals that give us wrong information regarding insurance coverage and/or bad addresses. Each month when bills are sent out, we have a stack returned noting that the person is not at this address and we are unable to track down a current address.

For the 2011 fiscal year the healthcare system's bad debt was \$659,284 compared to \$300,151 for the prior year. This is a 120% increase. This number continues to grow as we move into the 2012 fiscal year.

With less than a 1% operating margin this increase in bad debt will result in the healthcare system experiencing operating losses.



Day Care

Employees express concern that there is only one daycare provider in Watford City. The pressure on wages and acquisition cost to secure a building makes establishing additional daycare facilities impossible without outside support.



What the Healthcare System is doing to Address These Issues

Staff Recruitment and Retention

With limited income this entity cannot compete with the oil related industries for workers. None-the-less the healthcare system is striving to address this issue. We have and will continue to increase our salaries to remain competitive with non-oil related employers and area healthcare facilities. We have and will continue to improve our benefit package. In addition to the above we are advertising our openings outside of North Dakota. Finally, we are exploring the possibility of bringing foreign workers to Watford City.

Housing

The Healthcare System recently purchased an eleven unit apartment building which will be used to house employees at an affordable rent. When possible, the healthcare system is purchasing homes in the community with the intent of renting them to employees at an affordable rate.



Increased Utilization of Emergency Services

As noted in the body of this report the Healthcare System has a designated medical provider in the emergency room Monday through Friday until five p.m. In addition we are adding nursing staff given the increase in visits.

Increased Utilization of Medical Clinic Services

The healthcare system is intending to recruit additional physicians for the clinic. The system also desires to add additional nursing staff.

Increased Communicable Diseases

The Healthcare System recently created a new worksite wellness manager position whose job duties include approaching area employers to assist them with workplace related health issues through assessment, education and medical intervention.

Significant Rise in Bad Debt

The Healthcare System has purchased new software which will assist in determining whether individuals have the insurance they claim. The CEO is reaching out to oil employers to dialogue on what we can do collaboratively to address this issue. Finally, we found it necessary to begin collecting at the time of service.

Where We Need Help

While the healthcare system is proactively addressing several of the challenges that increased oil activity spawns, with heightened bad debt and decreased reimbursement it will take a collaborative effort of state, county, city and healthcare resources to insure the financial viability of the McKenzie County Healthcare Systems and all the other oil impacted facilities in western North Dakota.

Specifically oil impacted healthcare facilities need the following:



1. We need grant dollars to develop reasonably priced apartment units.
2. We need financial assistance in the form of low interest loans and grants to address our need to build new facilities to address our increase in emergency room and clinic visits.
3. We need additional creative programs to assist in physician recruitment and staffing.
4. From Medicaid we need cost based reimbursement for our Rural Health Clinics
5. Similarly from Medicaid we need increased reimbursement for our nursing home operations and an increase in direct and indirect care limits.

