



United States Department of Agriculture

Rural Development

April 11, 20178

Wyoming State Office

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Scott Scherbel, Chairman
Sublette Rural Health Care District
625 E. Hennick Street
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Pinedale, WY 82941

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Re: Application for Community Facilities Loan to Construct Critical Access Hospital

Dear Chairman Scherbel:

Thank you for submitting a Community Facilities loan application. We appreciate the thought, resources and effort your team has put into this project. Regretfully, RD is unable to approve the application for a \$28,300,000 loan at this time. RD continues to support the District's effort to establish a sustainable Critical Access Hospital (CAH) for Sublette County residents. We look forward to discussing alternative proposals to meet that goal. Below are specific reasons for this decision.

The Proposed Facility is not Modest in Size, Design and Cost

7 C.F.R. §1942.17(d)(2) indicates that RD Funds may not be used to finance facilities which are not modest in size, design, and cost. Key portions of the project as proposed do not meet this standard. As examples, the proposed sites for the hospital require substantial engineering and infrastructure costs, the size of the hospital exceeds acceptable growth assumptions and certain professional fees appear to be in excess of what is customary.

The Preliminary Architectural Report (PAR) lists three sites for the project. While the building sites proposed were acceptable, each site was flawed in some way. There is poor storm drainage, high ground water and two of the three sites showed adverse geotechnical or environmental factors, including wetlands. The lack of existing infrastructure to each site greatly increases project costs and could be avoided by selecting another site.

The proposed hospital includes 12 exam rooms, 4 registration offices, multiple locker rooms and 11-13 offices. The size of the design is excessive in relation to the number of full time employees proposed. The proposed design exceeds reasonable increases in demand for services at the hospital. Value engineering would be required for design and site.

The fees associated with this project appear excessive when compared to fees on similar projects. 7 C.F.R. §1942.17(4) requires that fees for contracts or agreements shall be reasonable. Based on our review, the fees for some of the agreements associated with this project exceed what is customary.

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Applicant Contribution is not Sufficient

No money to cover the 2 mil. skinning game

One of the factors in evaluating the loan is the ability or willingness of the applicant to make a contribution to the project costs. The District initially indicated a willingness to contribute \$2 million dollars into the project. The application, however requests the full loan amount. We have reviewed the feasibility study and the District does not have the ability to contribute \$2 million. During the years of construction and until the facility is certified as a CAH, cash flow will be very tight. The District will need to use all of its cash on hand to maintain current levels of service.

There is no evidence of other funding sources, including pledge or commitment letters. There is evidence of a guaranteed lender, but this is not the same as applicant contribution. 7 C.F.R §1942.17(n)(5) requires that the applicant contribution to be deposited in the construction account or start of construction. 1942.17 (n) (6) states other funds from other sources will be used on a pro rata basis. It is my understanding that there could be other funds from other sources committed to the project, but this was not presented in the application received.

Community Support for the Project is Mixed

7 C.F.R §1942.17(g) (2) (9)(ii) addresses community support. There is a demonstration of exceptional community support, such as substantial financial contribution..... indicates a commitment of the entire community.

There is concern from the towns of Big Piney and Marbleton, clinic services will be cut, if the CAH does not positively cash flow. This is a viable concern. The feasibility study states the CAH will be certified within 6 months of opening. If that is the case, the CAH will be able to charge higher fees and cash flow sooner. If that does not happen and the certification takes longer, operating costs will not be reimbursed at the CAH rate and there is no buffer for cash shortfalls. Alternatives should include a plan of services to be provided to Big Piney/Marbleton clinic with assurances that services will not be cut during the project build and once the CAH is certified.

There was also concern from the Sublette Center that the swing bed count the CAH estimated would be such that the Center would be out of business within two to three years. After the feasibility study clarified what the CAH hoped for in swing beds the Center stated with a contract or memorandum of understanding between the District and the Center, they would be willing to support the project.

The District currently leases the clinics from the County. Prior negotiations with the County to expand the Pinedale clinic failed and support from the County Commissioners for the current project is mixed. The District and the County should consider reengaging in dialogue regarding the effort to build a CAH in Sublette County. Support from the Commissioners is an important consideration for this project.

Possible Alternatives not Considered

Expanding the existing facility was not presented as an alternative in the PAR. Without analyzing this alternative, the costs associated with engineering and bringing infrastructure to a new site and facility is not supportable. A review of the existing project with significant value-engineering be compared to an expansion of the existing facility would benefit RD's analysis.

The District currently operates two clinics. Both clinics are modern facilities with potential for expansion. Information you submitted to us reflected a project to add to the existing clinic of approximately \$6,000,000 to create a Critical Access Hospital (CAH) was completed in early 2017. There was a break-down in communication between the District and the other potential stakeholders and this project was shelved. The District then moved on to a new project for \$28,300,000.

It is not our intent to tell the district what type or size of project to build. As we stated the project submitted has too many concerns and negative points to proceed with a positive funding recommendation.

Conclusion

RD agrees that Sublette County is in dire need of a CAH. RD understands that the District is losing money because they are unable to charge the proper fees for the services they are providing. RD wants to be part of the solution for the Sublette County and the District. RD would like to continue to work with the District to bring a necessary, sustainable Critical Assess Hospital to the County of Sublette.

Sincerely:

A handwritten signature in cursive script, appearing to read "Lorraine Werner".

Lorraine Werner
CP Director