

MINUTES OF THE SENATE COMMITTEE ON PUBLIC HEALTH AND WELFAREThe meeting was called to order by Senator Jan Meyers at  
Chairperson10 a.m./~~p.m.~~ on January 25, 1984, 19<sup>84</sup> in room 526-S of the Capitol.

All members were present except:

Senators Bogina and Vidricksen

Committee staff present:

Emalene Correll, Legislative Research Department  
Bill Wolff, Legislative Research Department  
Norman Furse, Revisor of Statutes Office

Conferees appearing before the committee:

Dick Hummel, Kansas Health Care Association  
Sylvia Hougland, Secretary, Department on Aging  
Marilyn Bradt, Kansans for the Improvement of Nursing Homes  
John Snyder, Social and Rehabilitation Services  
Larry Wilkerson, Augusta Medical Complex  
Trudy Racine, Legislative Division of Post Audit

Others present: see attached list

Dick Hummel, KHCA, presented testimony to the committee concerning the Post Audit study of Adult Care Homes' Property Costs and Practices, and stated that he wished to recognize the Post Audit staff for the accuracy and credibility of their work in reviewing property practices. KHCA feels that the central issue in the report is the relative instability of the nursing home industry as evidenced by property practices. The current system has never contained any property appreciation factors or incentives. KHCA last year recommended that a property incentive factor be added to the nursing home reimbursement program, and urged that immediate action be taken by directing SRS to incorporate a "fee-for-capital" system in next year's budget. KHCA listed four steps which were suggested in the Post Audit report to improve the state's monitoring of property practices, and commented on each one. (Attachment #1).

Sylvia Hougland, Secretary, Department on Aging, stated that KDOA is concerned about two things: quality of care and cost effectiveness. She complimented the Post Audit staff on the content and high level of their study, and stated her support for continuation of the Post Audit study and hopes it will be prepared for legislation next year.

Marilyn Bradt, KINH, presented a statement to the committee concerning the Legislative Post Audit Report on Adult Care Homes in Kansas: Property Costs. She said they had been favorably impressed with the focus and depth of the study. KINH believes that Medicaid reimbursement should reward good health care, assure access to care for Medicaid-eligible persons, and should encourage truly efficient management of taxpayer dollars. Some means must be found to discourage the rapid turnover in homes. KINH hopes Post Audit will investigate further the various forms of "fee-for-capital" systems, and believes that an information system must be developed that will enable the state to determine ownership of any home. (Attachment #2).

John Snyder, SRS, testified that SRS pays the actual cost of care. Everyone submits his costs and SRS reimburses up to the point of 85 percentile. As far as trying to keep owners from selling their homes, the profit incentive is impossible to compete with.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON PUBLIC HEALTH AND WELFARE,  
room 526-S, Statehouse, at 10 a.m. ~~p.m.~~ on January 25, 1984.

Senator Hayden asked if they anticipated this becoming a franchise operation. Mr. Snyder said he'd not seen it that way.

Larry Wilkerson, Administrator, Augusta Medical Complex, said the only incentive the state has for the private investor is to sell their property. The exodus will continue as long as we don't realize that there is a value in property. We have spent years talking about property and not about care. Mr. Wilkerson commented that there is not a lot of difference in care between profit and non-profit homes.

Trudy Racine, Legislative Division of Post Audit, said she appreciated the comments and discussion, and stated that the "fee-for-capital" system should be targeted toward those who have had ownership for some time.

Senator Morris moved that the minutes of January 24, 1984, be approved. Senator Chaney seconded the motion and it carried.

The meeting was adjourned.

SENATE  
PUBLIC HEALTH AND WELFARE COMMITTEE

DATE 1-25-84

(PLEASE PRINT)

NAME AND ADDRESS

ORGANIZATION

NAME AND ADDRESS	ORGANIZATION
Floyd Eaton Topeka	Countryside Health Center
Richard D. Kjelland	Decatur Co. Good Samaritan Center
Russ Hilderbrand	Olathe Good Samaritan
Jack Fuster	self Consumer - Bonner
Randy Sulpherson	Augusta Medical Complex <sup>Spring</sup> Augusta KS
Dick Hummel	KS Heart & Lung Assn
Harold Deever	AARP (Fairfax)
William E. Koch	AARP - (M. Schubert)
FRANK YEOMAN	SPECIAL PROSECUTOR - ATTY. GEN'L.
Brian Bottorff	KSNA
Judy Rouse	Legislative Post Audit
Sister Gene Anderson	KS Catholic Conference
KEITH R LANDIS	CHRISTIAN SCIENCE COMMITTEE ON PUBLICATION FOR KANSAS
Bruce Wilkins	Diocese of A.S.O.P.
Charles Hamm	Kan Dept of HTE
Sylvia Handford	KDDA
Catherine Jung	Pittsburg State U.
Dr. Lois P. Schetta	KS St Bd of Nursing
Jack Gumb	SRS -
John Schneider	SRS
Marilyn Bracht	WINH
Petey C. erf	"
D. J. ...	KONTE

SENATE  
PUBLIC HEALTH AND WELFARE COMMITTEE

DATE 1-25-84

(PLEASE PRINT)

NAME AND ADDRESS

Martin Hanson

Larry J. Carey MD

ORGANIZATION

Topical Conf. Journal

SE (Physician Care & Eval)



#1-1-25-84

Member of



Kansas Health Care Association

TESTIMONY PRESENTED BEFORE THE  
SENATE PUBLIC HEALTH AND WELFARE COMMITTEE

By

Dick Hummel  
Executive Director

January 25, 1984

Performance Audit Report - Adult Care Home  
Property Costs in Kansas

Senator Meyers and Committee Members:

On behalf of the Kansas Health Care Association, a voluntary non-profit organization representing over 200 licensed adult care homes, both profit and non-profit, and single as well as multi-facility ownership interests, we appreciate this opportunity to comment on the Post Audit study of adult Care homes' property costs and practices.

We have both general and specific recommendations, but first wish to recognize the Post Audit staff for the accuracy and credibility of their work in reviewing property practices -- just one segment of the very complex Medicaid nursing home reimbursement program.

The Kansas nursing home industry is in a state of flux, as it is and has been in other states. Property transactions, natural occurrences in the health care market-place, will continue.

The question of in-state versus out-of-state, large versus small ownership, although inarguable, will also continue. The size of the corporation and the location of its corporate headquarters has nothing to do with the quality and level of care given. Rather, it is management's and ownership's intentions.

CENTRAL ISSUE

✓ The central issue in the report, in our opinion, is the relative instability of the nursing home industry as evidenced by property practices.

It is an interest of this association that some modicum of stability be found.

It is also noted that Governor Carlin expressed in a policy paper last year an interest in encouraging local, Kansas retention of nursing homes, but with no solutions given.

"We Care"

Atch. 1

A solution is found inter-twined in the 28 page report:

Providing incentives for existing providers to remain in business. Another drawback to the current system in Kansas is that it may actually encourage owners to sell homes rather than keeping them for longer periods.

There are several ways to encourage providers to remain in business, each of which involves providing additional financial gain to counteract the attraction of capital gains which can be obtained by selling. These include providing a return on equity, providing a direct reimbursement of profits, and increasing the reimbursement rates to cover an increased portion of costs. These incentives would increase costs at first, and would become cost-saving measures only if they could slow the turnover of property sufficiently to hold down the level of rising property costs. (Page 14)

#### RECOMMENDATION

The current system has never contained any property appreciation factors or incentives -- R.O.E., etc., and the property issue identified in the report is a manifestation of this.

It is not to say, however, that there have not been numerous attempts both by the legislature and this association to encourage SRS's adoption of such a feature.

In 1978, for example, a Senate Ways and Means Subcommittee report directed the department to fund a return on equity.

✓ Last year we recommended to the agency a property incentive factor be added to the nursing home reimbursement program, with a projected cost of approximately \$1.4 million.

✓ While realizing this report is but one of four cost center studies to be done, we none-the-less wish to highly urge that this legislative panel take immediate action by directing the Department of Social and Rehabilitation Services to incorporate in its next year's budget recommendations a "fee-for-capital" system as discussed in the report.

We are willing to work with the agency in developing such a system, as we have done cooperatively in other projects.

The resolution of this problem, with your understanding and cooperation, may have future and far-reaching significance and consequences upon the larger and growing issue of our State's Medicaid populations access to and the availability of nursing home care.

## STRENGTHEN CONTROLS IN USE

Mention is made on page 14 of other options the state may use in limiting or restricting property practices, such as a total freeze on property values.

We believe that the existing controls, including the 36 month freeze on new property costs step-up which we worked on with the agency last year and became effective May 1, 1983, are sufficient. We urge great caution in the consideration of any other options.

## IMPROVE STATE'S MONITORING OF PROPERTY PRACTICES

Page 15 lists four steps to take to improve the state's monitoring of property practices:

1. Identifying each home with a permanent identifier number so that its history could be traced regardless of changes in name or provider.

COMMENT: We concur with this.

2. Incorporating balance sheet information such as that used by auditors into the data base at the Department of Social and Rehabilitation Services so that reports on profitability could be generated each year.

COMMENT: This would be difficult and would only be meaningful if adjusted for fair market value and fixed assets.

3. Requiring adult care home owners or providers to supply documentation of each and every property transaction, regardless of its anticipated effect on licensure or reimbursement.

COMMENT: Would this include any and all property, such as equipment and furnishings? We suggest the use of a fixed asset schedule.

Also, what is the merit of this if the owner is not a provider? Such information is not relevant to the cost report. Arms-length transactions are tested up-front.

4. If fee-for-capital reimbursement systems are to be studied, development of better information about the age of facilities and their original construction costs by the Department of Health and Environment and the Department of Social and Rehabilitation Services will also be necessary.

COMMENT: We suggest the use of a common denominator such as the year of construction based upon a square footage cost factor, inflated forward to a current value.

The proposal as written would leave open to potential purchasers and others confidential business information about a facility, placing the property owner in a disadvantageous position.

Thank you again for this opportunity. I would be happy to answer any questions.

#12-1-25-84



# Kansans for Improvement of Nursing Homes, Inc.

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913 Tennessee #2

LAWRENCE, KANSAS 66044

842-3088 — Area Code 913

January 25, 1984

STATEMENT TO THE SENATE PUBLIC HEALTH AND WELFARE COMMITTEE

CONCERNING

THE LEGISLATIVE POST AUDIT REPORT ON ADULT CARE HOMES IN KANSAS: PROPERTY COSTS

KINH is pleased to have this opportunity to comment on the Legislative Post Audit study of nursing home costs. We have been most favorably impressed with the focus and depth of the study and will be watching with great interest as further segments are developed and presented.

As members of the Special Interim Committee are aware, KINH undertook a necessarily limited study of nursing home costs, using a sample of 36 adult care homes in Kansas, and based on much the same cost data as the Post Audit study but without, of course, having the training or staff capabilities of Post Audit to conduct as thorough and complete a study. It was never our intent to provide a definitive study on which to base positive conclusions or recommendations, only to suggest some directions for further examination. Legislative Post Audit has, in nearly every instance, anticipated those directions. We were heartened to see the results of our limited study confirmed by the findings of the Post Audit study.

It will not be possible, until the remaining segments of the study are completed, to know what policy changes may be indicated, particularly with regard to possible changes in the Medicaid reimbursement system. We would only say, for the present, that we believe that reimbursement should, above all, reward good health care, assure access to care for Medicaid eligible persons and for those who require heavy care, and should encourage truly efficient management of taxpayer dollars. To this end, some reallocation of funds within the reimbursement system, from one cost center to another, may well be needed to assure that we are buying the quality of care we need and should expect.

✓ Clearly, some means must be found to discourage the rapid turnover in homes that we are now experiencing. Whether that turnover is to out-of-state ownership or to chain ownership in or out of state, the fact remains that regardless of the particular caregiver or the quality of care, the turnover itself drives up the cost of care not only to the state but to the private patient as well.

Att. 6. 2



We agree that present controls do not seem adequate to discourage further sales. While we could not at this time recommend specific changes in the Medicaid reimbursement formula, it seems clear that other methods of reimbursement should be explored which remove the sale price of the nursing home from consideration, and reimburse, instead, by some system which does not respond to an inflated market.

✓ We particularly hope you will direct Post Audit to investigate further the various forms of "fee-for-capital" systems briefly touched upon by the study as possible alternative reimbursement methods.

✓ We agree, also, that an information system must be developed that will enable the state to track the ownership history of any given home and to understand the sometimes complicated relationships between owners, lessees and, in some cases, management corporations.

KINH has high hopes that this study, when completed, will provide the Legislature with a clear understanding of the problems at hand, a careful examination of a wide range of possible solutions, and excellent data on which to base far-reaching changes affecting both quality and cost of care.