Approved March 21, 1984
Date

MINUTES OF THE SENATE COMMITTEE ON PUBLIC HEALTH AND WELFARE.

The meeting was called to order by Senator Jan Meyers at
Chairperson

10 a.m./~~p.m.~~ on March 20, 1984 in room 526-S of the Capitol.

All members were present except:

Senator Francisco, excused
Senators Bogina and Chaney, absent

Committee staff present:

Emalene Correll, Legislative Research Department
Norman Furse, Revisor of Statutes office

Conferees appearing before the committee:

Trudy Racine, Legislative Post Audit Committee

Others present: see attached list

Trudy Racine, Legislative Post Audit Committee, reviewed the Performance Audit Report on Adult Care Homes in Kansas, and distributed a copy of the report to each committee member. Ms. Racine stated that this report is one of a series examining adult care home costs in Kansas, and the costs are divided into four areas: property, health care, room and board, and administration. A summary of the Legislative Post Audit Findings states that: homes vary greatly in the ways they handle administrative expenditures and report administrative costs; salary controls are complex, and they only partially fulfill their purpose; central office costs are not effectively monitored under the current system; and steps should be taken to improve monitoring and control of administrative costs. It was recommended that: SRS undertake a thorough and systematic review of its policies and guidelines for administrative costs; SRS clarify its intent behind reimbursement limits on owner's compensation and revise its policies, guidelines, and procedures; SRS consider requiring a separate annual report for adult care home chains; SRS consider requiring all adult care homes with common ownership to file annual cost reports with the same ending date for the fiscal year; SRS revise its audit and review system to provide for more cross-checking between homes in the same chain; and the State of Kansas consider urging the development of comprehensive audits of nursing home chains that operate in more than one state. (Attachment #1).

Emalene Correll, Legislative Research Department, reviewed each section in the balloon amendments on HB 2003, and explained the changes and proposed amendments. (Attachment #2).

Senator Johnston moved Section 13(c) be amended to have the canvassing board be the Board of County Commissioners where the greater portion of territory of the hospital district is located. Senator Hayden seconded the motion and it carried.

Senator Meyers stated that the review on HB 2003 would be finished tomorrow due to lack of time.

Senator Morris moved that the minutes of March 19, 1984 be approved. Senator Johnston seconded the motion and it carried.

The meeting was adjourned.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

SENATE

PUBLIC HEALTH AND WELFARE COMMITTEE

DATE 3-20-84

(PLEASE PRINT) NAME AND ADDRESS	ORGANIZATION
Marla Luckert	Ks. Hospital Ass'n. - Attorney
Tom Vittitow	Legis. Post Audit
Judy Pavlis	Legis. Post Audit
Rick Riggs	LEG. POST AUD
Frank Gentry	Ks Hospital Assoc
Cindy Lash	Legis. Post Audit
Duane F. Johnson	State Library
Robert [illegible]	Lister
Arden C. Chumley	
Jim Turner	KLSI - Topeka

#1- 3-20-84

PERFORMANCE AUDIT REPORT

ADULT CARE HOMES IN KANSAS—
ADMINISTRATIVE COSTS

This audit was conducted by three members of the Division's staff; Trudy Racine, senior auditor; and Tom Vittitow and Cynthia Lash, auditors. Assistance was provided by the Division's electronic data processing staff. Ms. Racine was the project leader. If you need any additional information about the audit's findings, please contact Ms. Racine at the Division's offices.

Atch. 1

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ADULT CARE HOMES IN KANSAS: ADMINISTRATIVE COSTS

Summary of Legislative Post Audit's Findings

This performance audit is one of a series examining adult care home costs in Kansas. These costs are divided into four areas: property, health care, room and board, and administration. This particular audit provides information about several areas of concern related to administrative costs. The audit's more specific findings about administrative costs are as follows:

Homes vary greatly in the ways they handle administrative expenditures and report administrative costs. As a result, it is difficult to determine if most differences between categories of homes are the result of actual cost variation or the result of reporting differences. The auditors did, however, find two major kinds of administrative costs that vary between homes and that do not appear to be adequately controlled under the existing reimbursement system. These costs are administrative salaries (and in particular, owner's compensation) and central office costs.

Salary controls are complex, and they only partially fulfill their purpose. Owners can set compensation at any level for services they perform, but the State sets limits on the level of compensation that can be passed through to the reimbursement system. Those limits take into account the levels of compensation non-owner employees receive for similar work, the size of the facility, and other administrative salaries. The auditors' review of the operation of those limits showed that 60 percent of the owner-employees in 40 homes examined in detail were not fully subject to salary limits, because no limits have been established for consultative or executive job titles. Chain owners spread their compensation over several homes and receive more compensation in total than non-chain owners. Non-profit facilities and chains with non-owner executives can also operate independently of many salary controls. As a result, the current system may unintentionally offer strong incentives for chain ownership.

Central office costs are not effectively monitored under the current system. There are great differences between homes in the kinds of central office costs they report and in the way those costs are allocated between homes. The level of documentation provided for these costs also varies. Because of these differences, the reasonableness of central office costs is difficult to assess. Facilities which recently changed hands showed a 157 percent increase in central office costs, moving the average cost for this item from just under $8,300 to more than $21,000 annually for the 57 homes which were reviewed. Thus, if administrative costs are to be adequately controlled in the future, it will be necessary to give more attention to monitoring and auditing central office costs.

Steps should be taken to improve monitoring and control of administrative costs. The current system for controlling administrative costs has not kept pace with changes in the industry. Increasing chain ownership has affected the nature of work performed by owners and has led to increasing centralization of administrative operations. Ambiguity in the present system makes it more difficult to monitor, evaluate, and control administrative costs, and makes it possible for

providers to take advantage of the system. Although the Department is operating with some clear drawbacks in this area, such as a lack of information about out-of-State firms, the auditors identified several areas where improvements can be made.

To address the audit's findings, it is recommended that the Department review and clarify its policies and guidelines for administrative costs, consider requiring additional reports of central office costs and requiring chain-owned affiliates to use the same fiscal year, and revise its audit and review system to provide for more cross-checking and coordination between homes in the same chain. In addition, the State of Kansas through appropriate organizations should consider urging the development of comprehensive audits of adult care home chains that operate in more than one state.

ADULT CARE HOMES IN KANSAS

ADMINISTRATIVE COSTS

This performance audit is one of a series of reports examining adult care home costs in Kansas. These audits were requested by the Special Committee on Special Care Services and by the Legislative Post Audit Committee.

At the center of this series of audits is the State's Medicaid reimbursement system. Under the Medicaid system, the State supports patients in adult care homes who cannot pay their own cost of care. In fiscal year 1983, approximately $85.5 million was spent for such support. Since fiscal year 1976, costs have risen $44.5 million, an increase of 108 percent.

The State's Medicaid reimbursement system is an attempt to balance several different goals. Through the system, the State tries to ensure a reasonable level of care while at the same time encouraging efficiency and keeping costs in line. In recent years, the situation in Kansas and other states has been complicated by considerable turnover in the ownership of adult care homes. Ownership by out-of-State interests has increased; and concern has been voiced that increasing amounts of Medicaid reimbursement are going for mortgage and lease costs and for administrative expenses--items that may have only a limited relationship to the care that residents receive.

All of these concerns were motivating factors behind the request for this series of audits. This particular report provides information about several areas of concern related to administrative costs. In particular, this audit does the following:

1. It provides an overview of the types and amounts of administrative costs associated with the operation of adult care homes, and how they differ.

2. It examines the ways in which owners can receive compensation through the administrative cost center, and it explains the inequities that can sometimes result.

3. It examines the types of central office costs which can be allocated between related facilities, and it explains problems which the differing treatment of such items can present.

4. It notes several ways in which the policies and procedures for administrative costs could be improved.

An Overview of Administrative Costs

The Medicaid program supports patients in adult care homes who cannot pay their own cost of care. It reimburses adult care homes on the basis of their costs in four areas: property, health care, room and board, and administration. Each year, homes report their costs to the Department of Social and Rehabilitation Services, which uses the reported costs to set reimbursement rates for the coming year.

The process for setting reimbursement rates is a complicated one and was described at considerable length in an earlier audit report dealing with property costs. To summarize the process briefly: the Department of Social and Rehabilitation Services uses the homes' reported costs as a starting point and subjects these costs to various exclusions, restrictions, and limitations. At the end of the process, a reimbursement rate is set for each home. Because of the cost controls, a home with very high costs probably will not be able to recover all of its costs. On the other hand, homes with relatively low costs will receive full reimbursement, and homes with the lowest costs can receive some additional money in the form of an efficiency payment.

The table below shows the historical costs reported by 258 intermediate care homes as of June 1, 1983. (In all, there are about 300 intermediate care homes, but about 40 did not have historical costs because of recent changes in ownership.) The table also shows the reimbursement limits established by the Department of Social and Rehabilitation Services. These limits were in effect from October 1, 1982 to September 30, 1983.

	Average Historical Cost Per Patient Day	Reimbursement Limit Per Patient Day
Total Cost	$26.35	$28.16
Administration	2.96	3.35
Property	4.98	6.00
Room and Board	7.49	9.75
Health Care	11.01	13.47

Costs in the administrative cost center include salaries for administrators, owner/managers, consultants, and the like. They also include most other expenses commonly associated with the operation of a business, such as office supplies, and legal and accounting fees. Certain such expenses are excluded from reimbursement because they are not related to patient care. Examples are expenses for fund raising and non-working director's fees. As the table above indicates, the average cost for administration for the 258 intermediate care facilities which the auditors reviewed was $2.96 per patient day. Administrative costs are the lowest of the four cost centers upon which reimbursement rates are established. On average, they represent 11 percent of the historical costs reported by the 258 facilities.

The reimbursement limit for administrative costs is set at the 75th percentile of facilities' allowed per patient day costs; that is, the reimbursement level is set in such a way that the homes with costs below the 75th

percentile of administrative costs will receive full reimbursement, while the homes with costs above the limit will receive only the limit. For the time period which the auditors reviewed, the limit was $3.35 per patient day.

The average cost of $2.96 for administration is made up of many separate items. The individual line items and the average cost for each are shown in the table below. As the table shows, administrative salaries account for $1.03, or about 35 percent. Other items often related closely to compensation for owners and administrators (benefits, owner compensation, consulting fees, and central office costs) account for another $.85, or 29 percent. Of the remaining administrative items, the largest is insurance, at an average of $.44.

Line Item	Average Allowed Cost Per Patient Day
Administrators' Salary	$ .71
Co-Administrators' Salary	.03
Other Administrative Salaries	.29
Employee Benefits	.14
Owner Compensation	.32
Management Consulting Fees	.07
Central Office Costs	.32
Office Supplies & Printing	.11
Telephone & Communication	.12
Travel and Entertainment	.10
Advertising	.04
Licenses and Dues	.05
Legal and Accounting	.13
Insurance	.44
Interest	.14
Other	.05
Owner/Administrator Limit	-.10
Total	$2.96

In requesting this series of audits on nursing home costs, legislators asked the auditors to compare costs between various kinds of homes. The auditors divided homes into the following basic categories:

1. For-profit homes
   a. Non-chain homes (one home only)
   b. Small chains (2-5 homes)
   c. Large chains (6 homes or more)

2. Non-profit homes
   a. Government homes
   b. Church homes
   c. Other (non-profit entities independent of a church or governmental unit)

When the auditors analyzed property costs in the earlier audit, they were able to make meaningful comparisons between groups because the information was reported quite uniformly from home to home. In the administrative cost center, however, this is not the case. Homes vary greatly in the ways they handle administrative expenditures and report administrative costs. Some homes, for example, report part of their administrative costs in other cost centers, and the mechanics of the administrative cost center are such that some non-administrative expenses are sometimes moved into it. As a result, it is difficult to determine if most differences between categories of homes are the result of actual variation or the result of these shifts in reporting. Appendix A presents the auditors' findings in greater detail.

Because the information is affected by these reporting problems, few conclusions can be drawn about differences between the categories of homes. The auditors did, however, find two major kinds of administrative costs that vary generally between homes and that do not appear to be adequately controlled under the existing reimbursement system. These costs are administrative salaries (and in particular, owner's compensation) and central office costs. The following sections of this report deal with these two kinds of costs.

Salary Controls Are Complex, and They Only Partially Fulfill Their Purpose

Of the 258 intermediate care facilities with historic cost records, 125 were reimbursed by Medicaid for owner's compensation expenses. Payment to owners occurs almost exclusively in for-profit homes and is characteristic of most for-profit homes. Of the 156 for-profit homes, 121 (78 percent) had owners' compensation expense. As the following table shows, small chains are most likely to be reimbursing owners.

Type of For-Profit Provider	Number of Homes	Number Paying Owner Compensation	Percent
Non-Chain	77	61	79%
Small Chain	45	38	84
Large Chain	34	22	65

Payment to owners for work performed in their nursing homes is one of the major components of the administrative cost center. In fiscal year 1982, patient-related costs for this item amounted to nearly $1.9 million. When owner's compensation from the remaining cost centers is added, the total rises to slightly more than $2 million.

Because of the large number of homes which report costs for owner's compensation, and the amount of compensation involved, the auditors examined the controls that are placed on owner compensation and other administrative salaries in detail. The operation of those controls and several related concerns which were identified are described below.

Three Limits Are Placed on Owner/Administrator Salaries for Reimbursement Purposes

Owners can set compensation at any level for services they perform, but the State sets limits on the levels of compensation that can be passed through to the reimbursement system. The Department of Social and Rehabilitation Services defines owner's compensation as any compensation of owners, their spouses, and/or related parties for performance of a necessary service for the home. This is further defined in the instructions for the cost report as follows:

> Compensation may be included in allowable cost only to the extent that it represents reasonable remuneration for manageral, administrative, and professional health care services related to the operation of the nursing home facility and rendered in connection with patient care.

Examination of the owner's compensation area requires close attention to the controls and limits the Department uses to ensure that the salaries owners pay themselves constitute "reasonable remuneration." If the controls and limits are too stringent, they will serve as a disincentive for owners to be personally involved in their homes. If the controls and limits are too weak, owners may make a "profit" by paying themselves salaries in excess of the fair market value for the work performed.

Currently, three separate limits are applied to owner and/or administrative salaries. K.A.R. 30-10-13(b)(3) directs the Department of Social and Rehabilitation Services to apply two limits in determining the allowable levels of owner compensation. The regulation states as follows:

> The agency shall determine reasonable limitations for compensation paid for comparable services and responsibilities in comparable adult care homes and a percentile limitation of combined costs for administrators, co-administrators and owners. Nothing in this section shall prevent further reasonable limitations of allowable cost data.

The Owner-Spouse Salary Limitation and the Owner-Administrator Limit are controls derived directly from the mandate of the regulation. A third limit, not required by regulation, is the Total Allowable Owner's Compensation Limit. Each of these is discussed below.

Owner-Spouse Salary Limitation. To establish reasonable limits for owners' and spouses' salaries, the Department conducts a voluntary salary survey of nursing homes. The survey covers the full-time salary paid to non-owner employees for a number of occupations. The salaries for each occupation are arrayed, and the owner-spouse salary limit is set at the 90th percentile of each array. The salary limits shown below are for the year beginning October 1, 1983 and are based on a salary survey completed in May 1982.

Job Classification	Annual Full-time Salary Limit
Administrator	$ 22,032
Co-Administrator	19,500
Bookkeeper	10,800
Maintenance Supervisor	13,200
Maintenance Worker	9,600
Dietetic Services Supervisor	10,704
Dietary Kitchen Aide	7,824
Housekeeper	8,052
Director of Nursing (RN only)	18,000
Health Services Supervisor (LPN only)	15,720
Registered Nurse	16,320
Licensed Practical Nurse	12,288
Medical Records Supervisor	9,792
Resident Activity Director	9,360
Nurse Aide	7,896
Medication Aide	8,616
Physical Therapist Aide	9,156
Social Worker	12,000
Mental Retardation Professional	19,500

Total Allowable Owner's Compensation Limit. This limit adds flexibility to the owner-spouse salary maximums to make owner salaries more compatible with non-regulated salaries. This flexibility is needed because the owner-spouse salary maximums are not prorated in any way for the size of facility. Without it, the administrator of a 200-bed facility would be subject to the same limitation as the administrator of a 50-bed facility.

The limit for a facility is equal to the number of inpatient days multiplied by a standard cost figure. From this sum, actual salaries for the administrator and co-administrator and allowable salaries for owners must be subtracted. If the sum of the salaries is greater than the total allowable owner's compensation, owners are limited to the salary maximums specified in the first limit. If the sum of the salaries is less than the total allowable owner's compensation, owners may increase their allowed salaries up to the point that the total allowable owner's compensation limit is met. Larger facilities with more bed days have a larger limit for total allowable owner's compensation. A 50-bed facility with 96 percent occupancy would have a limit of $22,250. A 100-bed facility would have a limit of $44,500 under the same circumstances. In most cases, a home with more than one owner working full time will exceed the total, and the owners will not be reimbursed above the salary maximums.

Owner/Administrator Compensation Limit. This limit is applied to all homes to control top-level administrative salaries, regardless of whether an owner is employed in the home. For each home, non-owner administrator and co-administrator salaries are summed and divided by total inpatient days. The resulting per patient day costs are arrayed, with the 90th percentile set as the reimbursement limit. The current limit is $1.27 per patient day. This means that the sum of salaries for the administrator, co-administrator, and owner compensation can be reimbursed only up to the level of $1.27 per patient day.

Limits Do Control Salaries in Some Instances, but Not in Others

To assess the effects of these limits, a sample of 40 homes was examined in depth to determine the type of work performed by owners, the amount of time worked, the reported salaries, and the salary amounts allowed by the Department of Social and Rehabilitation Services. That review showed that the limits are effective in reducing allowable costs for some owners. However, there is a large and growing group of owners who are not fully subject to the limits.

The auditors identified 76 owner-employees in the 40 homes which were reviewed. Of those, 30 were subject to the owner-spouse salary limits. Analysis of the 30 owners subject to the owner-spouse salary limit indicates that the limit produced a significant reduction in allowable costs. Thirteen owners (43 percent) had salary reductions, and these reductions totaled $75,499.

Reported Salaries Subject to Limit (30 Owners)	Salary Reductions Due to Limit (15 Owners)	Percentage Savings Due to Limit
$525,625	$75,499	14.4%

The limits described above thus have an effect on salaries to some owners. However, there is a large group of owners who are not subject to this limit. In the sample of 76 owners studied in detail, the auditors found that 46, or nearly 60 percent, had job titles which placed them outside the purview of the owner-spouse salary limit. This occurs because no limits have been established for executive or consultative job titles. In addition, some owners merely listed their salaries as "owner compensation" for services provided. The following table shows the owner-employees who were subject to the owner-spouse salary limit and those who were not.

Owners Subject to Owner-Spouse Salary Limits

Job Title	Number of Owners	Full or Part-time
Administrator	16	Full
Co-Administrator	1	Full
Bookkeeper	1	Full
Registered Nurse	1	Part
Director of Nursing	1	Full
Housekeeping Employee	1	Full
Laundry Employee	1	Full
Maintenance Supervisor	1	Part
Activities Director	1	Part
Health Services Supervisor	2	Full
Administrator/Health Services Supervisor	1	Full
Bookkeeper/Maintenance	1	Full
Business Manager/Maintenance	1	Full
Co-Administrator/Laundry and Housekeeping Director/Activities Director	1	Full

Owners Not Subject to Owner-Spouse Salary Limits

Job Title	Number of Owners	Full or Part-time
Management Consultant	13	Part
Executive (President, General Manager, etc.)	18	Part
Owner's Compensation for Services Provided	12	Part
Health Care Consultant	1	Part
Management Consultant/Accountant	1	Part
Nurse Consultant	1	Part

Department officials indicate a growing trend for owners to report their activities under consultative titles which exempt them from the limit. It is this group which will continue to expand, because the owner limits impinge least on these types of job titles. The boxed example on this page illustrates the advantage to be gained in using titles not subject to the salary limits.

Examples of Limited and Non-Limited Salaries

Two individuals are employed full-time in a 100-bed nursing home of which they are part owners. One owner receives a salary of $27,648 as Administrator; the other earns $21,240 as Director of Nursing. Because both positions are subject to the owner-spouse salary limitation, Medicaid reimbursement of the salaries is limited to $22,032 for the Administrator and $18,000 for the Director of Nursing. (In some cases, an additional amount could be reimbursed.)

The part owner of an 80-bed nursing home is employed half time as a management consultant. He receives $32,500 for this function. As a consultant he is not subject to the owner-spouse salary limitation. Another control in the reimbursement process, the owner-administrator limit, will reduce Medicaid reimbursement of the salary a great deal, to approximately $14,500. The management consultant, however, is still in a substantially better position than if he had a title like Administrator or Director of Nursing as in the case above. They would be limited to Medicaid reimbursements of half-time salaries of $11,016 and $9,000 respectively.

This problem is worsened by the increase in chain ownership of homes. Most for-profit chains pay centralized owners a salary for functions in behalf of the entire chain, and payment of the salary is allocated to individual homes in the chain in proportion to the home's size, revenue, or some other factor.

Whether or not those salaries are subject to the owner-spouse salary limits depends on the job title used. For example, an owner who spends 20 percent of his time in administrative or managerial activities for a facility might show his occupation as either co-administrator or as management consultant. As co-administrator, his earnings would be limited to 20 percent of the co-administrator limit, or $3,900. As management consultant, he could set his own salary for those services. The home will be subject to the owner-administrator limit, but this limit has little or no effect when salaries are spread over several facilities.

The ability of some owners to avoid the owner-spouse salary limits because of the job titles used is a concern which should be addressed if that limit is to be equitable. That concern is amplified by the fact that the job titles which are not limited (for example, executive, consultant) imply less direct involvement with patient care than the job titles for which compensation is limited (for example, administrator, activities director).

Chain Owners Receive Less Compensation Per Home, But More Compensation in Total

The auditors determined the type of work performed and the salary received for each of the 76 owner-employees in their 40-home sample. The analysis indicates that in the movement from non-chain to large chain operations, two things happen: the likelihood that the services provided by the owner will be consultative or executive in nature increases, and the actual salary per home received by the owner decreases.

The low payments to owners of chain homes is due to the fact that these owners allocate only a small percent of their time to each individual home. To determine the total salaries received by each owner, the auditors identified all homes from which an individual owner was receiving compensation. Results of the total salary analysis, presented in the following table, clearly show the benefit of multiple home ownership.

Type of Ownership	Number of Owners	Percent of Owners: Subject to Owner-Spouse Limit	Percent of Owners: Not Subject to Owner-Spouse Limit	Average Salary Received Per Home	Average Salary From All Homes
Non-Chain	51	49%	51%	$ 14,381	$ 14,381
Small Chain	17	29	71	8,688	34,910
Large Chain	8	-0-	100	4,253	69,661

The fact that chain ownership results in higher total allowable owner's compensation for work which is less likely to involve direct patient involvement is one concern which is illustrated by the analysis above. A second and related concern became apparent to the auditors during the course of that analysis: because owner compensation is frequently included on a number of separate facility reports, and because no summary report is required, it is sometimes difficult to determine how much compensation an individual owner employee is reporting. If the reporting years of the various facilities from which an owner receives compensation are different, it may be possible for them to receive compensation for more than 100 percent of their time, or for working in more than one place at the same time.

Non-Profit Facilities and Chains With Non-Owner Executives Can Also Operate Independently of Many Salary Controls

The owner-administrator limit is applied to all facilities but impacts most strongly on homes that pay owner's compensation. Of the $580,159 in administrative and owner salaries that was disallowed through this limit,

$461,637 was from homes paying owner's compensation. Although they represent only 48 percent of the homes, they are responsible for over 80 percent of the disallowed salaries.

Non-profit facilities and large chains are less frequently subject to reductions caused by the owner-administrator limit for two reasons. First, although non-profit facilities have higher total administrative salaries, their costs are higher for "other administrative salaries," like secretaries and bookkeepers, which are not included in the computation of the limit. Second, large chains and some non-profit facilities also employ consultants, central office administrators, and executives, but they are not likely to be owners. As a result, their salary costs are included in central office costs and are not subjected to the limit. Although salary costs are not always clearly identified in central office costs, it is apparent from those instances which can be analyzed that salary expenses can exceed 50 percent of the central office costs reported.

Under current regulations, no attempt is made to control the level of non-owner executives' salaries. Although those salaries may be as high as $400,000 for large for-profit chains, the amount of salary costs spread to individual facilities would be very small, and may be compensated for by economies of centralization. The incentive for overall cost reduction may or may not apply to non-profit providers, however, and as a result, their local administrative salaries do not decrease as central office costs, including executive salaries, increase.

There are two concerns which relate to the administrative and executive salaries which are included in central office costs: First, regulations require that central office costs be "patient-related" and for services "normally available in the nursing home facility." It is difficult to determine if central office executives and administrative staff meet that requirement. Second, providers with highly centralized operations may be able to reduce their local administrative salaries. This would tend to lower the owner-administrator limit, and adversely affect facilities which have entirely local staff.

To address all of the concerns described so far about salary limitations, the intent of the Department's limitations should be clarified, and procedures should be revised accordingly. If the intent is to restrict the level of owner compensation to that of others who perform similar work, limits should be established for all types of work performed by owners (and thus, for all job titles). If the intent is to limit the total amount of reimbursable compensation received by owners, procedures should be established which enable the Department to identify the total amount of that compensation when it is spread among several facilities and types of work. If the intent is to control the total amount per facility which is allowable for owner and administrator salaries, it may be necessary to take central office administrative salaries into account.

Central Office Costs Are Not Effectively Monitored Under the Current System

Most providers involved in administering more than one adult care home choose to centralize at least some part of their administrative operation.

Because reimbursement rates are established on a facility basis, providers must allocate the cost of the central office to their various homes.

The Department of Social and Rehabilitation Services has developed some basic guidelines for providers who are reporting central office costs. K.A.R. 30-10-13(13) provides that all expenses reported as central office costs shall be allocated from the actual patient-related costs of the central office and shall be allowable only to the extent that the central office is providing service normally available in the nursing home facility. Additional regulations spell out specific types of costs which are allowed or disallowed. However, providers have considerable freedom to decide what parts of their business to centralize and how to allocate those costs. Providers are required, when audited by the Department, to document their central office expenditures and the method of allocation used.

In order to examine central office costs, the auditors identified the facilities with reported costs in that item. That review showed that 99 providers had allowable central office costs. The total allowed central office expense was just under $2 million. On a per-patient-day basis, it averaged $.83. Facilities with central office costs included 63 for-profits (40 percent of all for-profits), with an average per-patient-day cost of $.85 for central office costs, and 36 non-profits (35 percent of the 102 non-profits), with an average per-patient-day cost of $.81 for that item.

Central Office Costs Are Rising

One reason that central office costs are important to monitor is that they have been rising rapidly as adult care homes have been changing hands. The auditors reviewed the administrative costs of all 57 intermediate care facilities which changed providers between March 1982 and November 1983. The results of that comparison are shown below.

Average Costs for Facilities Which Changed Providers

Item	Before Change	After Change	Percent Change
Owner Compensation	$ 9,802	$ 4,256	-56.6
Other Salary Expense	24,710	29,087	+17.7
Owner Administrator Limit	(2,124)	(1,716)	-19.2
Central Office Costs	8,298	21,320	+156.9
Other Administrative Costs	32,126	30,497	-5.1
Total	$ 72,812	$ 83,444	+14.6

As the table shows, when providers changed, administrative costs increased an average of 14.6 percent, to $83,444 a year. This is substantially less than the 47 percent increase which occurred in the property cost center. However, the nature of the change which occurred is significant. Many of these homes became part of chains. Seventeen homes went from non-chain to chain

ownership, and 27 changed from in-State to out-of-State ownership. With these changes, central office costs increased substantially, moving the average for the 57 homes from just under $8,300 to more than $21,000--an increase of 156.9 percent. Seventeen homes reported central office costs for the first time after they changed hands; within this group, total administrative costs rose an average of 26 percent. Thus, if administrative costs are to be adequately controlled in the future, it will be necessary to give more attention to monitoring and auditing central office costs.

One argument advanced in favor of centralized operations is that centralization can bring about greater efficiency and lower costs. Centralized purchasing, for example, can mean that supplies and materials can be bought at lower cost. To see if there was an indication that this point might be correct, the auditors divided the 258 homes with historical costs into those with central office costs and those without them. They then further divided the groups into for-profit and non-profit categories. The table below shows the average cost in each of the four cost centers for these various groups.

Average Costs Per Patient Day for Home With Central Office Costs and Homes Without

	For-Profit			Non-Profit	
Cost Center	With Central Office Cost (63)	Without Central Office Cost (93)	Mean (258)	With Central Office Cost (36)	Without Central Office Cost (66)
Administration	$ 2.78	$ 2.84	$ 2.96	$ 4.07	$ 2.67
Property	5.05	5.11	4.90	4.90	4.45
Room and Board	7.08	7.13	7.49	8.19	7.99
Health Care	10.31	10.09	11.01	12.69	12.06
Total Cost	$25.22	$25.17	$26.36	$29.85	$27.17

As the table shows, the average in the administrative cost center does not vary much between for-profit homes with central office costs and for-profit homes without them. The same is not true for non-profit homes. Non-profit homes reporting central office costs had an average patient-day cost of $4.07 in the administrative cost center, while those without central office costs had an average patient-day cost of $2.67.

The same patterns hold true in the other cost centers. For-profit homes have about the same average costs for property, room and board, and health care, regardless of whether they have central office costs or not. Non-profit homes with central office costs have higher costs in every cost center than non-profit homes without central office costs.

The auditors' findings thus lend no immediate support to the argument that centralized administration brings about more economical or more efficient operation. This possibility still cannot be ruled out, because at this point in their review, the auditors have not yet been able to assess the level of care

these homes provide. In other words, the higher health care and room and board costs at homes with central office costs may reflect higher staffing or service levels. Nevertheless, these findings illustrate one clear point: in central office costs, the State needs to know what it is getting for its money.

Problems in the Current Reimbursement System Limit the Ability to Monitor Central Office Costs

The auditors found several problems with the reimbursement system's tracking of central office costs. Each of them is discussed below.

Chains vary widely in the kinds of expenses they report as central office costs. The auditors found great differences between homes in the kinds of central office costs they report to the Department of Social and Rehabilitation Services. Under Department guidelines, services performed by central offices can include one or any combination of the items generally associated with administrative costs, as well as centralized coverage of insurance, debt, payroll and employee benefits, provision of training and supervision, maintenance services, centralized purchasing, and in some cases, other costs. The costs reported for central offices also may include executive salaries and the operating costs of the office.

The homes have thus been given wide latitude to interpret what constitutes central office costs, and they have provided many different responses. Consequently, what one chain of homes reports as a central office cost may be reported in a far different way by another chain. Although most costs associated with centralized operations appear to be eventually placed somewhere in the administration cost center, some are not. At least two large chains spread some central office costs to other cost centers. For one of those chains, the amount placed in administration is only about 70 percent of the total.

Chains vary widely in the way they allocate central office costs among homes. Some chains keep central records on a per-facility basis and allocate the direct costs of specific items to the appropriate line of that facility's cost report. In other cases, providers lump the cost of certain services together for all facilities, then allocate the total among their various facilities on the basis of bed size, gross revenues, total in-patient days, or some similar measure. They may also use a combination of these methods, such as directing actual costs to line items for some things, and allocating others on a formula basis. When such a variety of methods is used, the comparability of cost data with other facilities is lost.

Here are three examples of the wide differences the auditors found in the way chains categorize their central office costs and allocate them among homes:

Chain A Maintains central office accounts for operations, finance, administration, fund development, public relations, and executives. Costs of the administration, fund development and public relations activities are not allocated to individual homes. The remaining costs are divided between the total number of homes, and within

each home, the costs for the portion of those units which are not Medicaid beds are then removed. What is left remains on the central office cost line in administration.

Chain B Allocates most central office administrative costs on the basis of inpatient days per home. However, this chain records costs for each home separately for supplies, phone, travel, miscellaneous administration, accounting, advertising, and legal costs, and directs those amounts to facility line items.

Chain C Keeps central office cost records in categories comparable to those on required cost reports and removes non-allowable categories. The remaining costs are allocated to individual facilities on the basis of facility gross revenue as a percentage of total revenue of the corporation. Direct wages are placed on the owner compensation lines, and the remaining allocated amounts are then distributed to salary lines in health care, dietary, maintenance, and administration based on the proportion of salary costs of central office staff who work in those areas.

The reasonableness of central office costs is difficult to assess. Assessing the reasonableness of central office costs is of concern because of the opportunities these costs provide to increase financial gain by carrying out non-arms-length transactions, by retaining gains achieved through efficiency rather than passing them through, by removing funds from the facility to enhance the corporate headquarters' operation, or by paying high executive salaries or other benefits. It is particularly difficult to assess the reasonableness of central office costs of large out-of-State chains, due to the difficulty of auditing the corporate headquarters office.

According to a 1979 audit by the United States General Accounting Office, most states were being overcharged for central office costs by large chains. That audit recommended that the Department of Health and Human Resources' Health Care Financing Administration take additional initiative for conducting audits of corporate headquarters, or for coordinating such audits by the states where headquarters are located and disseminating the results. However, such initiative has not been taken, and efforts by the states to coordinate audits and to disseminate results have been unsatisfactory. Therefore, States are still faced with the difficult problem of auditing and monitoring out-of-State central office costs from afar.

Steps Should Be Taken to Improve Monitoring and Control Administrative Costs

So far in this report, it has been shown that the guidelines and procedures under the current reimbursement system allow costs to be interpreted and reported in a variety of ways. From Legislative Post Audit's viewpoint, this ambiguity in the system makes it difficult to monitor costs, evaluate them, and provide effective controls over them. It also makes it possible for providers to take advantage of the system. The boxed example on the next page demonstrates how this can be done. In this case, a provider has been able to negate the controls supposedly present in the system.

It also became clear to Legislative Post Audit's auditors that the current system for controlling administrative costs has not kept pace with the rapid growth of chain ownership in the industry. Many of the controls and checks used by the Department of Social and Rehabilitation Services may have worked fairly well when most providers had only one home, but they are inadequate for monitoring costs in an environment of chain ownership. The sections that follow discuss the kinds of steps the Department needs to take to resolve the problems.

Changes Needed in Administrative Cost Controls: An Example

An individual owns two adult care homes in Kansas that are about 130 miles apart. One has 50 beds; the other has slightly more than 100. On his cost report for the 50-bed home, the owner listed himself as a full-time Administrator at a salary of $19,857. On his cost report for the other home, he listed himself as President and General Manager at a salary of $20,940 for quarter-time work. He also listed himself as the sole owner of a corporation providing services to the two homes and reported $20,330 in central office costs. A Department of Social and Rehabilitation Services auditor who examined one of the homes noted that the owner ran this central office from his house and had no other central office employees.

A field audit of the 50-bed home resulted in the disallowance of $900 in central office costs. About $300 of that amount was deducted from allowable costs for the 50-bed home, but no reduction was made for the other home.

This example points out several problems in the current system:

1. Salary controls are often not very effective for persons involved with more than one home. In this case, the person was even able to receive more than full-time pay. It is doubtful that the two cost reports were checked against each other to determine the total time the person reported, because the reports were submitted at different times and covered slightly different reporting periods. (One period ended two months before the other--not different enough to explain the 125 percent of time reported.)

2. Salary limits are often inequitable. The person's salary as a full-time Administrator was close to the established limit of $22,032. There is no salary limit, however, for a position with the title of President or General Manager. Thus, the person was able to earn more money working quarter-time with that title than working full-time with the title of Administrator.

3. Reviews of homes in a chain of two or more homes are not always coordinated. When costs are disallowed, they are apportioned to individual homes if more than one home is involved. However, deductions against the other homes are often not made.

Policies and Guidelines for the Reporting of Administrative Costs Need to Be Sharpened

Many of the current policies and guidelines for reporting administrative costs can be subject to great interpretation, and providers are relatively free to move costs around. In some cases, providers may be able to benefit from the flexibility they are allowed by placing costs in other cost centers where they are below the limit. If they are above the limit in administration, this can increase their total reimbursement. In so doing, they also benefit from moving costs out of administration, because they may be able to increase their efficiency payment. In addition, they may place compensation for administrative duties in central office costs when such compensation would otherwise be subject to limitations.

The Department is aware that these kinds of manipulations can occur, and its audit section spends a considerable amount of time reviewing cost reports and making adjustments. Legislative Post Audit found, however, that the guidelines they must check against are often not consistently interpreted.

An example of this kind of problem is the handling of workmens' compensation insurance. The cost report instructions indicate that workmens' compensation is considered to be insurance and is to be included with other insurance costs on the insurance line in administration. However, the auditors' review showed that at least one large chain was spreading workmens' compensation to the employee benefit lines in other cost centers, thereby reducing total administrative costs. Such inconsistencies jeopardize the controls and the legitimate incentives built into the system.

Substantial audit resources are also spent reviewing such items as travel and entertainment expenses, and removing costs for items which are not considered to be related to patient care. However, neither the regulations nor the cost report instructions clearly state what travel and entertainment expenses are directly related to patient care. Providing clearer guidelines, such as a list of costs which are allowable and not allowable, might increase the level of compliance in this area.

Another set of policies apparently in need of review pertains to owners' salaries. As an earlier section of this report pointed out, it is possible to avoid many of the salary limitations by using a job title that is not covered under the current policy. It is also possible for someone involved with several homes to obtain much higher levels of compensation than someone who owns or operates only one home. The current system was designed more to control single ownership, and its shortcomings may unintentionally offer strong incentives for chain ownership.

To avoid such inconsistencies, prevent the inappropriate placement of administrative costs in other cost centers, and decrease the incidence of reporting of non-patient care related expenses, the Department of Social and Rehabilitation Services needs to review and clarify its policies and guidelines. If exceptions or changes are made, all providers should be informed.

More Detailed Information About Centralized Administrative Activities and Their Costs Needs to Be Obtained

Legislative Post Audit found it difficult to determine whether the amount of central office costs being allocated to a particular home is reasonable. It is particularly difficult to ascertain if costs for executive salaries and operating costs of the central office itself are reasonable, and contibute to patient care.

Kansas regulations provide that central office costs shall not be recognized or allowed to the extent that they are found unreasonably in excess of similar adult care homes in the program. However, this regulation can be difficult to enforce unless the specific content of the central office costs being allocated is known. Cost report instructions require that providers who report central office costs provide a statement showing the total central office cost and the method of cost allocation to the particular facilities. However, in reviewing central office files, it was apparent that the level of documentation of central office cost content varied considerably, especially for chain-affiliated facilities which had not recently been audited. At least one large in-State chain had furnished a report of central office costs which included items as detailed as facility cost reports, but reports from several others including large out-of-state chains were unclear. In addition, most small chains did not have central office files, and the files of homes with projected rates contained very little information.

Although additional documentation is required when field audits and desk reviews are done, audits of central office expenses are generally only done in association with audits of individual facilities. Within these audits, specific items are questioned, and some exceptions on the basis of reasonableness do result. However, a clear picture of the total central office operation does not necesssarily emerge. To obtain a clearer picture of what centralized administrative functions are being performed and their expense to the State, it would be necessary to require chains to provide a more detailed annual report. This report would contain a more detailed description of their central office costs, their content, and how those costs are allocated to facility cost reports. Requiring such a report could simplify audit procedures, make it easier to identify costs which seem to be unusually high or low, and assure that allocations are handled similarly between related facilities.

Audits and Other Reviews Need to Be Restructured to Take Chain Ownership More Fully Into Account

When homes submit their cost reports, the Department's audit section subjects the report, at a minimum, to a desk review. Each year, about 15 percent of the homes also receive a field audit. These audits and reviews are more effective for non-chain homes than for chain homes. This is because the reviews are generally done on a case-by-case basis, with little cross-referencing to cost reports of other homes in a chain. The result is an increased possibility that excessive or unallowed costs can be claimed, approved, and paid for.

This possibility is especially great for central office costs. Central office costs are generally allocated among various facilities. However, when an exception is taken to a central office expenditure during an audit of a home,

only the portion of that cost which relates to the facility being audited is disallowed. Although related facilities are audited together as often as possible, it is not possible to audit all facilities in large chains. The more facilities that costs are allocated among, and the larger the central office costs in relation to other administrative costs, the greater the chances that the provider can obtain reimbursement for disallowable costs. This undermines the effectiveness of the audit, because providers have an incentive to keep putting in costs they know are not allowable, and because auditors have to devote considerable time and energy to proving an exception and allocating the amounts between related facilities, only to recover only a portion of the disallowable total.

It should be noted that the Department is operating with some clear drawbacks in this area. One problem is that related homes are not always required to submit their cost reports on the basis of the same beginning and ending date for a fiscal year. By closing their years in different months, homes within a chain can make it difficult for regulators to obtain a clear picture of the chain's financial operations. Limited audit capabilities and the lack of information about out-of-State firms also hamper the Department's efforts. Nevertheless, it would appear that more can be done. Possible steps include requiring chains to submit all cost reports for their homes on the basis of the same fiscal year, establishing better systems for coordinating reviews of chain homes, and tying audit exceptions noted in one home to others in the chain.

Recommendations

1. The Department of Social and Rehabilitation Services should undertake a thorough and systematic review of its policies and guidelines for administrative costs. Whenever possible, the Department should revise these guidelines to make them more specific and to make the reporting of administrative costs more uniform.

2. The Department of Social and Rehabilitation Services should clarify its intent behind reimbursement limits on owner's compensation and revise its policies, guidelines, and procedures to more effectively carry out that intent. For example, if its intent is to limit the total amount of reimbursable compensation, the Department should establish procedures to identify the total amount of compensation when it is spread among several facilities and types of work.

3. The Department of Social and Rehabilitation Services should consider requiring a separate annual report for adult care home chains. This report, which chains would be required to submit along with cost reports for individual homes, would contain detailed information on central office costs and would serve as the basis for determining how much of these costs should be allowed.

4. The Department of Social and Rehabilitation Services should consider requiring all adult care homes with common owner-

ship to file annual cost reports with the same ending date for the fiscal year. For homes with projected rates, the Department should develop a means by which costs for newly acquired homes can be related to the costs reported for existing homes in a chain.

5. The Department of Social and Rehabilitation Services should revise its audit and review system to provide for more cross-checking between homes in the same chain. Such cross-checking could include coordinated reviews of all homes in a chain and tying audit exceptions noted at one home to others in the chain.

6. The State of Kansas, perhaps through the auspices of the Council of State Governments, the Advisory Commission on Intergovernmental Relations, or the National Conference of State Legislatures, or other appropriate organizations, should consider urging the development of comprehensive audits of nursing home chains that operate in more than one state.

APPENDIX A

Comparative Tables of Administrative Costs

In requesting this series of audits on nursing home costs, legislators asked the auditors to compare costs between various kinds of homes. The auditors divided homes into the following basic categories:

1. For-profit homes
   a. Non-chain homes (one home only)
   b. Small chains (2-5 homes)
   c. Large chains (6 homes or more)

2. Non-profit homes
   a. Government homes
   b. Church homes
   c. Other (non-profit entities independent of a church or governmental unit)

When the auditors analyzed property costs in the earlier audit, they were able to make meaningful comparisons between groups because the information was reported quite uniformly from home to home. In the administrative cost center, however, this is not the case. Homes vary greatly in the ways they handle administrative expenditures and report administrative costs. Some homes, for example, report part of their administrative costs in other cost centers, and the mechanics of the administrative cost center are such that some non-administrative expenses are sometimes moved into it. As a result, it is difficult to determine if most differences between categories of homes are the result of actual variation or the result of these shifts in reporting.

The tables on the following pages present the results of the group-by-group comparisons. Notes accompanying the tables explain the main problems the auditors found in analyzing the results.

Table 1

Profit and Non-Profit Groups

Line Item	Mean for All Homes (258)	Non-Profit Homes (102)	For-Profit Homes (156)
Administrator's Salary	$ .71	$ .93	$ .57
Co-Administrator's Salary	.03	.06	.02
Other Administrative Salaries	.29	.45	.19
Employee Benefits	.14	.14	.13
Office Supplies and Printing	.11	.14	.10
Management Consulting Fees	.07	.05	.08
Owner's Compensation	.32	.00	.54
Allocated Central Office Costs	.32	.29	.34
Telephone and Communications	.12	.11	.12
Travel and Entertainment	.10	.08	.11
Advertising	.04	.03	.05
Licenses and Dues	.05	.05	.05
Legal and Accounting	.13	.13	.13
Insurance	.44	.57	.36
Interest	.14	.12	.14
Miscellaneous	.05	.07	.04
Owner/Administrator Limit	-.10	-.06	-.14
Total	$2.96	$ 3.16	$ 2.82

The administrative costs of for-profit and non-profit providers differ significantly in the amount and composition of salaries and in their susceptibility to the owner-administrator limit. Although the for-profit facilities have an average of 54¢ per patient day in owner compensation, that is offset by higher non-profit salaries for administrators ($.36), co-administrators ($.04) and other administrators ($.26). Since the "other administrative salaries" are not subject to the owner-administrator limit, the non-profit facilities lose $.08 less to that limit on the average.

Although office supplies and printing costs differ significantly, that difference is the product of unusually high costs for three non-profit homes, and should be disregarded. Travel and entertainment and advertising also differ significantly. The total amount of money involved is small. However, travel and entertainment do provide an opportunity for abuse, and considerable audit attention is paid to this item.

Although insurance costs vary substantially, interpretation of that difference is confounded by reporting differences. Workmens' compensation, in particular, is reported by some providers on employee benefits lines in other cost centers as well as administration. Therefore, although the insurance costs

of for-profit providers may be less than those of non-profit providers, it is not possible to be certain that they are.

In sum, the significant difference in administrative costs between for-profit and non-profit providers is due to differences in administrative salary costs and in insurance costs. Other administrative costs vary little between the two groups.

Both groups report central office costs, and the amounts do not differ significantly: $.29 for the non-profit facilities on average, and $.34 for the for-profit providers. Those costs are discussed in greater detail in the body of the report. However, it is important to note that variations in administration and reporting of centralized costs may affect the administrative costs shown here.

Table 2

Profit and Non-Profit Chain and Non-Chain

Line Item	Non-Profit		For-Profit		
	Non-Chain (74)	Large Chain (25)	Non-Chain (77)	Small Chain (45)	Large Chain (34)
Administrator's Salary	$ .90	$1.02	$ .44	$ .70	$ .67
Co-Administrator's Salary	.08	.00	.02	.02	.03
Other Administrative Salaries	.42	.59	.21	.17	.16
Employee Benefits	.16	.11	.12	.14	.15
Office Supplies and Printing	.11	.10	.10	.10	.09
Management Consulting Fees	.05	.00	.12	.07	.00
Owner's Compensation	.00	.00	.67	.60	.14
Allocated Central Office Costs	.10	.84	.06	.38	.93
Telephone and Communications	.10	.13	.12	.12	.12
Travel and Entertainment	.08	.08	.13	.12	.06
Advertising	.03	.05	.05	.05	.04
Licenses and Dues	.05	.06	.05	.04	.03
Legal and Accounting	.16	.06	.17	.13	.04
Insurance	.51	.76	.45	.39	.12
Interest	.06	.29	.18	.18	.01
Miscellaneous	.06	.10	.04	.03	.04
Owner/Administrator Limit	-.05	-.08	-.11	-.26	-.01
Total	$2.82	$4.12	$2.82	$2.98	$2.62

Total administrative costs reported by non-chain providers in the for-profit and non-profit sectors are the same: $2.82. However, within this total, the non-profit homes have slightly higher salary costs and lower costs for other items. In other items, the primary difference is in interest expense, which is three times as great for the non-chain, for-profit group ($.18 per patient day, compared to $.06).

Figures for small chain, non-profit providers are not reported, since there were only three providers in this group.

Small chain, for-profit providers have higher administrative salary costs than non-chain for-profit providers, and they lose more to the owner-administrator limit. Their higher central office costs are only partially offset by reductions in other administrative costs.

Differences between large for-profit and large non-profit chains are a primary source of the significant difference between the non-profit and for-profit groups. The most marked difference is the substantially higher administrative salary costs of the non-profit large chains. Both groups have relatively high central office costs, but the non-profit providers have no apparent offsetting reductions in administrative line items.

Comparison of the costs of the three types of for-profit providers would indicate that large-for-profit chains may be able to decrease their costs for legal and accounting services, interest, travel

and entertainment, and management consultant fees. However, to the extent that expenses have been centralized and spread to other cost centers, those economies may be overstated.

As noted earlier, the differences between various groups' insurance costs are confounded by reporting differences.

Table 3

Non-Profit Groups

Line Item	Church-Related (27)	Government-Related (25)	Other (50)
Administrator's Salary	$ .82	$ 1.04	$ .94
Co-Administrator's Salary	.08	.05	.05
Other Administrative Salaries	.65	.37	.39
Employee Benefits	.14	.20	.12
Office Supplies and Printing	.13	.12	.15
Management Consulting Fees	.03	.04	.06
Owner's Compensation	.00	.00	.00
Allocated Central Office Costs	.51	.06	.28
Telephone and Communications	.12	.12	.10
Travel and Entertainment	.08	.07	.08
Advertising	.02	.02	.05
Licenses and Dues	.05	.05	.05
Legal and Accounting	.15	.16	.11
Insurance	.46	.55	.63
Interest	.29	.02	.09
Miscellaneous	.07	.04	.08
Owner/Administrator Limit	-.03	-.07	-.06
Total	$ 3.55	$ 2.84	$3.11

Administrative costs of the church-related, government-related, and "other" non-profit facilities differ in several salary items. The total administrative costs are highest for church-related facilities, and lowest for the "other" group. Administrators' salary costs and employee benefits are greater for the government-related facilities.

In addition, these groups differ significantly in central office costs and interest, with church-related facilities' costs highest in each of these areas and government-related facilities the lowest.

Table 4

In-State and Out-of-State Providers

Line Item	In-State Providers (216)	Out-of-State Providers (42)
Administrator's Salary	$ .68	$ .90
Co-Administrator's Salary	.04	.01
Other Administrative Salaries	.28	.37
Employee Benefits	.14	.14
Office Supplies and Printing	.12	.09
Management Consulting Fees	.06	.09
Owner's Compensation	.34	.26
Allocated Central Office Costs	.27	.58
Telephone and Communications	.11	.13
Travel and Entertainment	.10	.09
Advertising	.04	.06
Licenses and Dues	.05	.05
Legal and Accounting	.13	.11
Insurance	.41	.59
Interest	.14	.12
Miscellaneous	.04	.05
Owner/Administrator Limit	-.09	-.19
Total	$ 2.86	$ 3.45

The administrative costs reported by out-of-state providers are significantly higher than those reported by in-state providers. However, several of the apparent differences between those groups are affected by the number of facilities within each group reporting those expenses.

A higher proportion of out-of-state providers report administrator salary costs, and their cost per patient day for that item is higher. Administrator salary expense averaged $.83 per patient day for the 175 in-state facilities reporting costs for that item, compared to $.84 per patient day for the 40 out-of-state facilities with administrator salary costs.

Seventy-eight percent of out-of-state providers had central office costs, compared to 31 percent of the in-state providers. When the average costs are adjusted for that difference, the central office costs of out-of-state providers are lower than for in-State providers. The 66 in-state providers' average central office costs were $.89 per patient day, compared to $.74 per patient day for the 33 out-of-state providers reporting that expense.

The advertising costs reported were higher primarily for out-of-state providers. In addition, only 86 percent of the in-State providers reported costs for that item.

Insurance costs are reported by almost all providers; however, the difference shown for that item is exaggerated by reporting variations in workmens' compensation costs.

APPENDIX B

Efficiency Payments, a Bonus for Keeping Administrative Costs Down, Go More to For-Profit Homes than Non-Profit Homes, but the Incentive Effect May Be Limited

The efficiency factor deserves comment in this report because it relates most heavily to administrative costs. It is designed to serve as a cost containment factor for the administration and property cost centers. It is, in effect, a bonus for keeping costs down in these areas. The costs in the room and board and health care cost centers are not included in the computation because of concern that rewarding cost containment on these areas might jeopardize the direct care of residents.

The efficiency factor is also intended to serve as an equalizer between efficient and inefficient operations. Without the factor, inefficient providers' higher costs could cause them to be rewarded with a higher rate, while the efficient operators would be penalized with a lower rate based on their lower costs.

The amount of the efficiency factor is determined by combining the costs in the administration cost center with the plant operating costs in the property cost center and dividing by the number of inpatient days. These per diem costs are then arrayed and the following percentiles and daily allowances are established.

Percentile Rank of Facilities	Daily Allowance
55 and under	$ .50
56 to 65	.40
66 to 75	.30
76 to 85	.20
86 to 95	.10
96 to 100	0

Under this procedure, 94 percent of the facilities received an efficiency factor payment. In fiscal year 1983, the average amount per patient day of that payment was $.32.

The auditors compared the average efficiency payment per patient day received by various types of facilities. The results of that analysis showed that 98 percent of all for-profit providers received an efficiency payment, and the average payment for that group was $.34. By comparison, 88 percent of the non-profit providers received the efficiency factor payment, and the average amount of the payment received by those non-profit homes was $.28. As the following table shows, large chain for-profit facilities received the highest average payment.

Type of Facility	Number Receiving Payment	Average Payment Amount
All For-Profit Homes	153	$ .34
Non-Chain	75	.34
Small Chain	44	.29
Large Chain	34	.40
All Non-Profit Homes	90	$ .28
Church-Related	20	.28
Government-Related	22	.28
Other	48	.29

The auditors also determined which types of providers were most likely to receive the maximum efficiency payment. That review showed that the $.50 maximum was received by 41 percent of all for-profit providers, compared to 21 percent of the non-profit providers. The maximum was received by 38 percent of all in-State providers, compared to seven percent of the out-of-State providers.

There are several concerns which should be noted about the efficiency factor, although specific recommendations about possible changes will be deferred until the remaining cost centers have been examined.

--As noted in the property cost audit, operating costs of the physical plant vary relatively little between various types of facilities. Therefore, including them in the efficiency factor may do little to discriminate between facilities. Extreme reductions in these operating costs, which include utilities and maintenance, could be detrimental to residents.

--The administrative costs upon which the efficiency factor is based are not fully comparable. Because of the kinds of reporting variations described in this report, the efficiency factor can be a reward for skillful cost placement, rather than cost containment.

--The maximum efficiency factor payment has remained constant since its introduction in 1978. Meanwhile the maximum daily reimbursement rate for intermediate care facilities has increased from $19.82 to $28.16. Thus, efficiency factor payments now represent a lower potential bonus than they originally did--1.8 percent of the current limit, compared with 2.5 percent of the limit in 1978.

APPENDIX C

Agency Response

STATE OF KANSAS

JOHN CARLIN, *Governor*

STATE DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES

INCOME MAINTENANCE AND
MEDICAL SERVICES

ROBERT C. HARDER, *Secretary*

STATE OFFICE BUILDIN
TOPEKA, KANSAS 66€

March 12, 1984

Mr Meredith Williams
Legislative Post Auditor
301 Mills Building
Topeka, Kansas 66603

Dear Mr Williams:

We have reviewed your report on the Administrative cost center of the Adult Care Home reimbursement system and have the following comments.

First, in the interest of accuracy, we would like to make some editorial changes. We recognize the complexity of the system concerning both owner/spouse and owner/administrator compensation limitations and realize that perhaps the explanation given the auditors was not as clear as it should have been. In addition, the subject of owner compensation is further complicated by the accounting and tax treatment afforded the various types of business organizations. This has made it very difficult to draft regulations, policies and procedures that are fair and equitable to the large and small facilities, the for-profit and non profit organizations, the chain and the non chain as well as the church related and city-county government operated facilities. This has also been the subject matter of many fair hearing appeals as well as litigation in the courts.

The last paragraph on page two of the report needs an editorial change. It is possible for more than 75 percent of the facilities to be under the limit and receive full reimbursement for their administrative costs. This can happen when more than one provider has the same per diem cost which happens to be the same amount as the limit.

The limits shown in the second paragraph under "Total Allowable Owner's Compensation Limit" on page six should be changed to $22,250 and $44,501 repectively. The figures shown represent the number of inpatient days at the 96% occupancy level and should be multipied by the owner/administrative per diem cost limit of $1.27 per day for facilities with 50 or more beds.

The third paragraph on page 7, in which you indicate that 60 percent of the 76 owners studied had job titles which placed them outside the purview of the owner/spouse salary limit is a cause for some concern. This should not

happen. No limits have been established for executive or consultative job titles primarily because very few, if any, non owner employees perform these services even on a part time basis. However, these salaries should be limited to the amount for the job title in the schedule which most closely fits the duties performed by the consultant. In most cases, a management consultant would be limited to the salary limit of an administrator or co-administrator. This same theory should apply to chain operated homes as well. The example described in the last paragraph in the right hand column of page 8 should not happen. The mangement consultant should be limited to the salary limit for the administrator or co-administrator depending on the description of duties of both the consultant and the administrator in the home. It is true, particulary in the large chain operated facilities, that the consultant salaries will be spread over so many patient days for all the facilities that the amount allocated to a specific facility will not cause that facility to be over the limit. This is a cause for concern that the owners of a small chain or non chain facility receive fair and equitable treatment.

The first example in the box on page 8 implies that the owners would be limited to the owner/spouse salary limitation for the Administrator and Director of Nursing. This would only be true if the level of occupancy was at or below the minimum occupancy level of 85 % of the total bed days available. Any level above 86.4% in this example would permit some of salaries in excess of the owner/spouse limitation to be allowable under the owner/administrator compensation limitation. At the 100% occupancy level, an additional $6,323 of the excess owner/spouse salary would be allowed. In the second example, the part time owner should have been limited as previously described. This appears to be an error on our part and will be investigated as will the other examples cited in your report. There is some concern about which records your auditors used in making their review. Quite often our auditors will request additional information from the providers either by letter or by telephone. This information would usually be kept in the files of the Audit Section and unless the Division of Medical Programs was copied, it would not be found in their files.

The concern mentioned above also applies to the reporting of owner salaries as a part of central office costs of chain operated facilities. Documentation of central office costs is required and a schedule showing the allocation to the individual facilities is a part of that documentation. It is not required that the provider furnish a copy of this schedule for each facility involved. As a result, this schedule may be filed in a separate central office file or in one of the provider files. Owners are required to account for their time and the sum of various percentage allocations should not exceed 100%. They cannot spend 100% of their time at each of two or more facilities.

We concur with recommendation number one. However, this is much easier said than done. There are approximately 390 providers in the program, most of whom hire professional accountants or consultants to insure that they take advantage of every legitimate opportunity possible to maximize their allowable costs for rate setting purposes. Considerable time has been spent over the past ten years auditing and recouping considerable sums of money from those

providers who are not quite as careful about the accuracy of their reporting.

We concur with recommendation number two. However, as previously mentioned, the reporting procedure is already in place to limit the total amount of reimbursable compensation for owners. It appears that we may not be following it on a consistant basis.

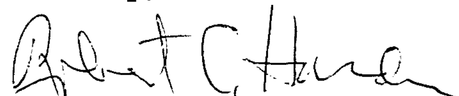
The annual report suggested in recommendation number three is, again, a currently required report at least in part. The allocation of central office costs between facilities and the methodology for the allocation is rquired. The detail may not be uniformly reported by each provider but this can be clarified and if necessary a field audit scheduled to review the documentation for any expense item. We concur with the need to continually revise procedures and polcies to obtain more uniform reporting that will permit fair and equitable treatment for all concerned.

We basically concur with recommendation number four. This is already required by the administrative regulations except in the case of projected cost reports. We are aware of the one case mentioned in the exit conference and will require that provider to change their reporting procedure. We are wondering if perhaps their is not some confusion in regard to projected cost reports. A new or different provider is required to file a projected cost report for the first twelve months of operation and a histroical cost report at the end of that period. The transition to filing historical cost reports at the end of the provider's fical year begins in the second year. This could result in a period of 23 months in which the reporting period and fiscal year are different. Due to the large number of providers currently on projection, this could easily result in confusion regarding this requirement.

We concur with recommendation number five. Desk reviews of chain organizations are usually assigned to the same auditor or small group of auditors in the same office and reviewed by the appropriate supervisor. All field audits of chain organizations are conducted by a team of auditors and reviewed by their supervisor. The exception to this would again be the projected cost reports. However, if the auditor suspects a provider is shuffling expenses between facilities the regulations provide the authority to review all records including those of facilities on projection.

We concur with recommendation number six. This would probably prove beneficial to Kansas since only a few chain organizations are headquartered in the state. However, there apparently is some reluctance on the part of other states since this would be an expensive proposition in both manpower and money.

Sincerely,



Robert C Harder
Secretary

dch
0193I

3-20-84 — #2

Session of 1983

HOUSE BILL No. 2003

By Special Committee on Hospital Laws

Re Proposal No. 9

2-20

0017 AN ACT concerning certain political subdivisions as therein
0018 defined; relating to the establishment and operation of hospi-
0019 tals and related facilities; repealing K.S.A. 80-2101, 80-2102,
0020 80-2103, 80-2105, 80-2107 to 80-2116, inclusive, 80-2118, 80-
0021 2119, 80-2121, 80-2124, 80-2126, 80-2128 to 80-2132d, inclu-
0022 sive, 80-2134 to 80-2142, inclusive, 80-2144, 80-2146, 80-2148
0023 to 80-2154, inclusive, 80-2156 to 80-2165, inclusive, 80-2167,
0024 80-2169, 80-2171 to 80-2177, inclusive, 80-2179 to 80-2186,
0025 inclusive, 80-2187a, 80-2187c, 80-2187d, 80-2188, 80-2190,
0026 80-2192, 80-2194 to 80-2197, inclusive, 80-2199, 80-21,100,
0027 80-21,102 to 80-21,110, inclusive, 80-21,112, 80-21,114, 80-
0028 21,116 to 80-21,134, inclusive, and K.S.A. 1982 Supp. 80-2104,
0029 80-2106, 80-2117, 80-2120, 80-2122, 80-2123, 80-2125, 80-
0030 2127, 80-2131a, 80-2131b, 80-2132e to 80-2132i, inclusive,
0031 80-2133, 80-2143, 80-2145, 80-2147, 80-2155, 80-2166, 80-
0032 2168, 80-2170, 80-2178, 80-2187, 80-2187b, 80-2189, 80-2191,
0033 80-2193, 80-2198, 80-21,101, 80-21,111, 80-21,113 and 80-
0034 21,115.

0035 *Be it enacted by the Legislature of the State of Kansas:*
0036 Section 1. As used in this act:
0037 (a) "Board" means a hospital board which is selected in
0038 accordance with the provisions of this act and which is vested
0039 with the management and control of an existing hospital or a
0040 hospital established under the provisions of this act;
0041 (b) "hospital" means a medical care facility as defined in
0042 K.S.A. 65-425 [and amendments thereto] and includes within its meaning any clinic, long-
0043 term care facility, child-care facility and emergency medical or
0044 ambulance service operated in connection with the operation of
0045 a medical care facility;

Atch. 2

0046 (c) "hospital moneys" means, but is not limited to, moneys
0047 acquired through the issuance of bonds, the levy of taxes, the
0048 receipt of grants, donations, gifts, bequests, interest earned on
0049 investments authorized by this act and state or federal aid and
0050 from fees and charges for use of and services provided by the
0051 hospital;
0052 (d) "existing hospital" means a hospital established under the
0053 provisions of article 21 of chapter 80 of Kansas Statutes Anno-
0054 tated [and acts amendatory of the provisions thereof or supplemental thereto] prior to the effective date of this act and being maintained
0055 and operated on the effective date of this act;
0056 (e) "political subdivision" means a township, a city or a
0057 hospital district established under the provisions of article 21 of
0058 chapter 80 of Kansas Statutes Annotated [and acts amendatory of the provisions thereof or supplemental thereto] prior to the effective date
0059 of this act or established under this act;
0060 (f) "qualified elector" means any person who has been a bona
0061 fide resident within the territory included in the taxing district of
0062 a hospital for 30 days prior to the date of any annual meeting or
0063 election provided for in this act and who possesses the qualifica-
0064 tions of an elector provided for in the laws governing general
0065 elections.
0066 Sec. 2. (a) Any existing hospital district and any existing
0067 hospital established under the laws of this state prior to the
0068 effective date of this act are hereby continued in existence and
0069 shall be governed in accordance with the provisions of this act,
0070 and any existing board shall be deemed to be the board for
0071 purposes of this act unless and until a new board is selected in
0072 accordance with the provisions of this act.
0073 (b) This act shall not affect any judicial proceeding pending
0074 or any contract, tax levy, bond issuance or other legal obligation
0075 existing on the effective date of this act.
0076 Sec. 3. (a) Any two or more adjoining political subdivisions
0077 are hereby authorized to join in the establishment of a hospital
0078 district and in the acquisition, construction or reconstruction,
0079 improvement, enlargement, remodeling or repairing of a hospital
0080 within such hospital district and in the operation and mainte-
0081 nance of any such hospital.
0082 (b) Upon the presentation to the board of commissioners of

0083 the county in which such political subdivisions, or the greater
0084 portion of the area thereof, are located, of a petition setting forth
0085 the boundaries of the proposed hospital district and requesting
0086 the formation of such hospital district signed by not less than
0087 51% of the persons who will become qualified electors of the
0088 proposed district upon its establishment and who reside within
0089 the limits of each political subdivision proposing to join in the
0090 establishment of the hospital district, the sufficiency of such
0091 petitions to be determined by an enumeration taken and verified
0092 for this purpose by some person who will become a qualified
0093 elector of the proposed district, it shall be the duty of the board of
0094 county commissioners, at its next regular meeting, to examine the
0095 petition. If the board of county commissioners finds that the
0096 petition is regular and in due form as is provided in this section,
0097 such board shall enter an order in its proceedings establishing the
0098 hospital district. If any political subdivision within the area of
0099 the proposed district owns and is operating a hospital at the time
0100 the petitions are filed, the petitions shall be accompanied by a
0101 copy of a resolution adopted by the governing body of the
0102 political subdivision within such district which owns the hospi-
0103 tal, which resolution shall state that the political subdivision
0104 agrees to convey the hospital together with all the hospital
0105 equipment and the tract of land upon which the hospital is
0106 located to and for the use of the proposed hospital district. The
0107 governing body of the political subdivision is hereby authorized
0108 and directed to adopt such a resolution and to make such con-
0109 veyance.
0110 Sec. 4. Upon the establishment of a hospital district, the
0111 board of county commissioners shall cause a notice to be pub-
0112 lished, once each week for two consecutive weeks, in a newspa-
0113 per of general circulation in the hospital district stating that a
0114 meeting of the qualified electors of such hospital district will be
0115 held at the time and place fixed in the notice for the purpose of
0116 electing ~~five persons as~~ the first board for such district. The last
0117 publication of such notice shall be made not more than six days
0118 prior to the date fixed for the holding of the meeting. The cost of
0119 such publication shall be borne equally by the political subdivi-

, and clearly stating the proposed filing date for the petition and that a person who has signed the petition may withdraw such person's name within three days after such date,

the county election officer and the board of commissioners of the county in which the territory of the proposed district is located

sufficient and

(c) Territory included within the boundaries of an existing hospital district operating and maintaining a hospital shall not be included in a new hospital district as provided herein, unless a majority of the qualified electors of the existing hospital district voting at an election vote to be included in such new hospital district. Such election shall be held in conformity with statutes applicable to question submitted elections.

0120 sions joining in the establishment of the hospital district and paid
0121 from the respective general funds thereof. At the time and place
0122 fixed for the holding of the meeting, the chairperson of the board
0123 of county commissioners, or a person designated by the chair-
0124 person, shall call such meeting to order and the qualified electors
0125 of the hospital district shall proceed to elect a chairperson and a
0126 secretary for the meeting. Thereupon, the qualified electors shall
0127 proceed to:
0128 (a) Provide for the establishment of a board to be vested with
0129 the management and control of the hospital and fix the number of
0130 members thereof in accordance with the provisions of subsection
0131 (a) of section 6;
0132 (b) elect by ballot the members of the first board to serve for
0133 designated terms of one, two and three years and until the
0134 selection and qualification of their successors who shall be se-
0135 lected in a manner to be determined at the meeting; and
0136 (c) determine the date, time and place of annual meetings of
0137 the qualified electors which date, time and place shall be incor-
0138 porated into the bylaws adopted by the board.
0139 Sec. 5. Upon the selection and organization of the first board,
0140 the governing body of any political subdivision joining in the
0141 establishment of the hospital district which owns and is operat-
0142 ing a hospital at the time the petitions for the organization of such
0143 hospital district were filed, shall convey or lease its hospital and
0144 the tract of land upon which the hospital is located and all the
0145 hospital equipment to the hospital district established under the
0146 provisions of this act, which conveyance or lease shall take effect
0147 upon the delivery and acceptance of the hospital by the hospital
0148 district. The governing body of such political subdivision shall any
0149 pay over to the treasurer of the hospital district all the unencum-
0150 bered moneys in the hospital fund of such political subdivision
0151 on January 1, and the treasurer shall place the moneys in the
0152 operation and maintenance fund of such hospital district. If any
0153 such political subdivision has accumulated and set aside funds
0154 for the construction of an addition to the hospital owned,
0155 operated and conveyed or leased by it or for the purpose of
0156 constructing and equipping a new hospital, or for other like

157 purposes, the governing body of such political subdivision shall
158 ..over to the treasurer of the hospital district all such funds on
159 ..d on January 1, and the treasurer of the hospital district shall
160 place the same in a special building fund to be used exclusively
161 for the purpose of constructing and equipping an addition to the
162 hospital or for the acquisition of a site and the construction and
163 equipping of a new hospital or for the acquisition of any other
164 hospital within the hospital district; and the funds may be used in
165 addition to any other funds of the hospital district raised for such
166 purposes by the issuance of bonds or the levying of taxes.
167 Sec. 6. (a) Every hospital shall be governed by a board com-
168 posed of members who are qualified electors. The board shall be
169 composed of three, five, seven or nine members. [The number of
170 members composing the board may be modified by majority vote
171 of the qualified electors present and voting at any annual meeting
172 thereof.] Whenever the number of members of a board is in-
173 creased, the expiration of the terms of the members selected for
174 the new positions on the board shall be fixed to coincide with the
175 expiration of the terms of the members serving on the board at the
176 time of the creation of the new positions so that not more than a
177 simple majority of the members of the board is selected at the
178 same time.

(b) Upon presentation to the board of commissioners of the county in which the hospital district, or the greater portion of the area thereof, is located, of a petition requesting a change in the number of board members signed by not less than 5% of the qualified electors of the district it shall be the duty of the board of county commissioners, at its next regular meeting, to examine the petition. The petition shall set forth the requested number of board members. If the board of county commissioners finds that the petition is sufficient and regular and in due form as is provided in this section, the board of county commissioners shall direct the county election officer of the county to prepare ballots for a special election, including ballots for that portion of the district located in any other county. The county election officers of each county shall present the question to the qualified voters of the district at the next general election in their respective counties, and the board of county commissioners of each such county shall certify the results of the votes cast in its county to the board of county canvassers in the county in which the ballots were prepared. The change in number shall become effective at the next election for board members if a majority of the qualified electors voting on the question at such election vote in favor of the change in number of board members.

179 [(b)] (c) The composition of the board of every existing hospital
180 shall continue in effect until changed in accordance with law.
181 [(c)] (d) Subject to the provisions of subsection (b) of section 8,
182 members of the board of every existing hospital shall serve as
183 members of such board for the terms for which they were selected
184 and until their successors are selected and qualified. Successors
185 to such members shall be selected to serve for a term of three
186 years.
187 [(d)] (e) Terms of members of the first board of any hospital
188 established under the provisions of this act shall be as provided
189 for in subsection (b) of section 4 and shall be staggered so that
190 terms of not more than a simple majority of the members expire at
191 the same time. Thereafter, upon the expiration of terms of mem-
192 ..ers first selected, successors to such members shall be selected
193 ..serve for terms of three years.

[(e)] (f) Vacancies in the membership of a board occasioned by
0195 death, removal, resignation or any reason other than expiration of
0196 a term shall be filled for the unexpired term by appointment by
0197 the chairperson of the board with the advice and consent of the
0198 remaining members of the board.
0199 Sec. 7. Members of the board of every existing hospital shall
0200 be selected in accordance with the following:
0201 (a) Every board which is being selected on the effective date
0202 of this act in the manner provided for in K.S.A. 80-2102, which
0203 section is repealed by this act, shall continue to be selected in
0204 such manner.
0205 (b) Every board which is being selected on the effective date
0206 of this act in the manner provided for in K.S.A. 80-2121, which
0207 section is repealed by this act, shall continue to be selected in
0208 such manner until changed in accordance with law.
0209 (c) Every board which is being selected on the effective date
0210 of this act in the manner provided for in K.S.A. 80-2141, which
0211 section is repealed by this act, shall continue to be selected in
0212 such manner until changed in accordance with law.
0213 (d) Every board which is being selected on the effective date
0214 of this act in the manner provided for in K.S.A. 80-2164, which
0215 section is repealed by this act, shall continue to be selected in
0216 such manner until changed in accordance with law.
0217 (e) Every board which is being selected on the effective date
0218 of this act in the manner provided for in K.S.A. 80-2187, which
0219 section is repealed by this act, shall continue to be selected in
0220 such manner until changed in accordance with law.
0221 (f) Every board which is being selected on the effective date
0222 of this act in the manner provided for in K.S.A. 80-21,109, which
0223 section is repealed by this act, shall continue to be selected in
0224 such manner until changed in accordance with law.
0225 (g) Every board which is being selected on the effective date
0226 of this act in the manner provided for in K.S.A. 80-2132g, which
0227 section is repealed by this act, shall continue to be selected in
such manner.
Sec. 8. (a) Subject to the limitations provided in this act, any
0230 of the three methods described in this section may be used in the

0231 ction of members of boards. The three methods are:
0232) Elections of board members shall be held at the annual
0233 meeting of the qualified electors of the hospital district for the
0234 positions on the board which are to expire in such year and~~, if the~~
0235 ~~number of members on the board is increased by majority vote of~~
0236 ~~the qualified electors present at the meeting, for the new posi-~~
0237 ~~tions.~~
0238 (2) Board members shall be appointed by the governing
0239 bodies of the political subdivisions joining in the operation and
0240 maintenance of the hospital.
0241 (3) (A) Elections of board members shall be held on the first
0242 Tuesday in April of each year for the positions on the board
0243 which are to expire in such year. All positions shall be at-large.
0244 Each board member shall take office on the May 1 following the
0245 date of election.
0246 (B) Any person desiring to become a candidate for board
0247 member shall file with the county election officer of the county in
0248 which the political subdivisions joining in the operation and
0249 maintenance of the hospital, or the greater portion of the area
0250 thereof, are located, before the filing deadline specified in K.S.A.
0251 25-2109 [and amendments thereto], either a petition signed by not less than 50 electors
0252 eligible to vote for a candidate or a declaration of intent to
0253 become a candidate together with a filing fee in the amount of
0254 $10.
0255 (C) The county election officer of the county specified in
0256 paragraph (B) shall prepare the ballots for such election including
0257 ballots for that portion of the district located in any other county.
0258 The county election officers of each county shall conduct the
0259 election in their respective counties, and the board of county
0260 canvassers of each such county shall certify the results of the
0261 votes cast in its county to the board of county canvassers in the
0262 county in which the ballots for the election were prepared.
0263 (D) Ballots shall be prepared in such manner that each voter is
0264 instructed to vote for the same number of candidates as the
0265 number of positions to be filled. Such instruction shall specify
0266 t the voter may vote for fewer than the total number of
0267 ndidates for which the voter is qualified to vote.

0268 (E) Where not in conflict with this provision of this subsec-
0269 tion, the laws applicable to the election of city officers shall apply
0270 to the election of members of the board.
0271 (b) If the method of selection of members of the board of any
0272 hospital is the method provided for in provision (1) or provision
0273 (2) of subsection (a), such method of selection may be changed to
0274 the method provided for in provision (3) of subsection (a) by
0275 majority vote of the qualified electors voting at an annual meeting
0276 thereof. Whenever the method of selection of members of a board
0277 is changed to the method provided for in provision (3) of subsec-
0278 tion (a), the term of each member serving on the board at the time
0279 of the change of method of selection shall expire on May 1 of the
0280 year in which the term of such member is to expire.
0281 Sec. 9. (a) Members of the board, within 10 days after their
0282 selection, shall qualify by taking the oath or affirmation of civil
0283 officers as provided for in article 1 of chapter 54 of Kansas
0284 Statutes Annotated. Annually, the board shall organize by electing
0285 from its membership a chairperson and a vice-chairperson. The
0286 board shall appoint, from within or without its membership, a
0287 secretary and a treasurer who shall hold office at the pleasure of
0288 the board. No bond need be required of any member of the board
0289 except the treasurer.
0290 (b) The treasurer, before entering upon the duties of office,
0291 shall give an official bond in an amount to be determined by the
0292 board.
0293 (c) The board shall hold meetings at least once each month,
0294 and shall keep and maintain a complete record of all its proceed-
0295 ings and an accurate record of all qualified electors attending
0296 each meeting. Such records shall be available for public inspec-
0297 tion upon request. A simple majority of the members serving on
0298 the board shall constitute a quorum for the transaction of busi-
0299 ness.
0300 (d) The board shall make a report to the qualified electors at
0301 each annual meeting thereof, which report shall contain: (1) A
0302 statement of all receipts and expenditures during the calendar
0303 year immediately preceding such annual meeting; (2) a statement
0304 of the proceedings of the board which have been had since the

and acts amendatory of the provisions thereof or supplemental thereto

0305 last annual meeting; and (3) such other information as the board
0306 ·ll deem advisable.
0307 ec. 10. Members of the board may be allowed compensation
0308 by majority vote of the qualified electors voting at an annual
0309 meeting and, if allowed, such compensation shall be in an
0310 amount determined by the qualified electors voting at the annual
0311 meeting. If compensation is allowed, the board may allow the
0312 secretary additional compensation. All members may also be
0313 reimbursed for any actual and necessary personal expenses in-
0314 curred as a member of the board, including an allowance for
0315 mileage, in the amount fixed under K.S.A. [1982 Supp.] 75-3203 [for — and amendments thereto]
0316 each mile actually traveled while engaged in hospital business.
0317 An itemized statement of all such expenses and money paid out
0318 shall be kept and maintained and shall be filed with the secretary
0319 of the board who shall keep and maintain the same as a part of the
0320 public records of the hospital.
0321 Sec. 11. The board shall make and adopt such bylaws, rules
0322 and regulations for the management and control of the hospital as
0323 it deems necessary so long as the same are not inconsistent with
0324 this act, the statutes of the state of Kansas and the ordinances or
0325 resolutions of any political subdivision included in the area
0326 which constitutes the taxing district of the hospital. The board
0327 shall have the exclusive control of the expenditures of all hospital
0328 moneys and all expenditures shall be subject to the approval of a
0329 majority of the members of the board. The board is charged with
0330 the supervision, care and custody of all hospital property. The
0331 board is authorized to appoint an administrator, to fix the com-
0332 pensation thereof, and to remove such administrator. The board
0333 may expend funds for the recruitment of staff and such expendi-
0334 tures may include the expenditure of funds for the provision of
0335 loans or scholarships to aid in financing the education of persons
0336 who agree, upon completion of their education, to become mem-
0337 bers of the staff. The board may require personal or surety bonds
0338 of all hospital employees entrusted with the handling of hospital
0339 moneys, such bonds to be in an amount to be determined and
0340 approved by the board. The board may establish and fund pen-
0341 and deferred compensation plans and any other employee

0342 benefit plans for hospital employees and may procure contracts
0343 insuring hospital employees, their dependents, or any class or
0344 classes thereof, under a policy or policies covering one or more
0345 risks including, but not limited to, a policy or policies of life,
0346 disability income, health, accident, accidental death and dis-
0347 memberment, and hospital, surgical and medical expense insur-
0348 ance or may provide for a plan of self-insurance for such pur-
0349 poses. The employee's contribution, if any, to the plan and to the
0350 premiums for insurance and for any expenses incurred by the
0351 board under a plan of self-insurance may be deducted by the
0352 employer from the employee's salary when authorized in writing
0353 by the employee to do so.
0354 Sec. 12. (a) An annual meeting of the qualified electors who
0355 reside within the taxing district of the hospital shall be held on
0356 the date and at the time and place determined at the first meeting
0357 of the qualified electors in accordance with the provisions of
0358 subsection (c) of section 4 or determined at the first annual
0359 meeting of the qualified electors held after the effective date of
0360 this act. The date, time and place of annual meetings so deter-
0361 mined shall be incorporated into the bylaws adopted by the
0362 board.
0363 (b) The board shall give notice of every annual meeting by
0364 causing a notice to be published, once each week for two con-
0365 secutive weeks, in a newspaper of general circulation in the
0366 taxing district of the hospital, the last publication of such notice
0367 to be made not more than six days prior to the date of holding the
0368 meeting. All notices shall include the time and place of the
0369 meeting.
0370 Sec. 13. (a) The board of any hospital is hereby authorized to
0371 issue bonds of the taxing district of the hospital for the purpose of
0372 providing funds to be used for acquiring a site, constructing and
0373 equipping of a hospital building in the manner and subject to the
0374 requirements and limitations set forth in subsections (c), (d) and
0375 (e).
0376 (b) Such board is hereby authorized to issue bonds of the
0377 taxing district for the purpose of providing funds to be used to
0378 reconstruct, build an addition to, or improve or equip an existing

0379 hospital building, or the purchase of improved or unimproved
0380 real estate for the use of the hospital, or for any one or more of
0381 such purposes in the manner and subject to the requirements and
0382 limitations set forth in subsections (c), (d) and (e).
0383 (c) No bonds shall be issued under authority of this section
0384 unless and until the question of the issuance of same has been
0385 submitted to the qualified electors of such taxing district at a
0386 special election called for that purpose and a majority of those
0387 voting on the proposition shall have declared by their votes to be
0388 in favor of the issuance of the same. The board shall have power
0389 to call such special election, and notice thereof shall be given
0390 pursuant to the provisions of K.S.A. 10-120 and amendments
0391 thereof; and the election returns of all special or bond elections thereto
0392 shall be made to the secretary and be canvassed by the board.
0393 (d) All bonds issued under the authority conferred by this
0394 section shall be issued, registered, sold, delivered and retired in
0395 accordance with the provisions of the general bond law, and such
0396 bonds and the interest thereon shall be paid by general tax to be
0397 levied upon all the taxable tangible property within the taxing
0398 district of the hospital, including all territories attached as pro-
0399 vided in section 21.
0400 (e) At no time shall the total bonded indebtedness of any such
0401 taxing district exceed 15% of the assessed value of all of the
0402 taxable tangible property within the district as shown by the
0403 assessment books of the year next preceding the one in which a
0404 new issue of bonds is proposed to be made.
0405 Sec. 14. No hospital building or addition shall be erected or
0406 constructed until the plans and specifications have been made
0407 therefor, adopted by the board, and bids advertised for according
0408 to law for county buildings.
0409 Sec. 15. The board shall have charge of the construction,
0410 erection, purchase and equipping of any hospital or addition to
0411 any hospital and shall employ an architect to prepare the plans
0412 and specifications, and to superintend the erection and construc-
0413 tion thereof. The architect may be paid out of the proceeds of any
0414 bonds issued to provide funds for the erection or construction of
0415 such hospital or hospital addition. The architect shall file such

0416 plans and specifications, together with an estimate of the cost
0417 thereof, under oath, with the secretary of the board. No contract
0418 shall be awarded at a price in excess of such estimated costs. After
0419 considering and approving the plans and specifications prepared
0420 and filed, the board shall advertise for three consecutive weeks,
0421 in a newspaper of general circulation in the taxing district of the
0422 hospital, for sealed proposals for the doing of such work, in
0423 accordance with the plans and specifications therefor, and such
0424 contract shall be let to the lowest responsible bidder, the board
0425 reserving the right to reject any or all bids. Each bidder shall
0426 accompany the bid with a certified check for 5% thereof payable
0427 to the treasurer of the board, as a guaranty that if the contract is
0428 awarded to such bidder, such bidder will enter into a contract
0429 with the board to perform the same; and if such bidder fails to
0430 enter into such contract when awarded, the amount deposited
0431 shall be and become the property of the hospital, as liquidated
0432 damages, and shall be paid into the operation and maintenance
0433 fund of the hospital. The board may require the contractor to give
0434 to it a bond guaranteeing the faithful performance of the contract.
0435 Sec. 16. (a) The board may determine and fix an annual tax to
0436 be levied for the purpose of operating, equipping, maintaining
0437 and improving the hospital. Subject to the provisions of subsec-
0438 tion (b), such tax shall not exceed two mills or the amount
0439 authorized to be levied in the year [1982] whichever is the greater
0440 amount. [The board shall determine the amount necessary to be
0441 raised by the levy and shall determine that portion thereof to be
0442 assessed against and levied by each political subdivision within
0443 the taxing district of the hospital and shall certify, annually, such
0444 amount to the clerk of each such political subdivision in suffi-
0445 cient time for the same to be made a part of the budget of each
0446 such political subdivision, but in no event later than August 1.
0447 The governing body of each such political subdivision shall make
0448 the same a part of its regular budget, which shall be certified to
0449 the county clerk of the county in which it is located as provided
0450 by law. The tax so collected shall be paid by the county treasurer
0451 to the treasurer of the board.] Such tax levy shall be in addition to
0452 all other tax levies authorized or limited by law and shall not be

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The board shall certify such levy to the county clerk of the county wherein the hospital is located, or if there is no hospital then to the county clerk of the county where the greater portion of territory of the hospital district is located. The county clerk to whom the levy is certified shall certify the final tax levy rate computed pursuant to K.S.A. 79-1803 and amendments thereto of such hospital district to the county clerk of every other county in which a part of the territory of such hospital is located.

0453 subject to the aggregate tax levy limitation imposed by law upon
0454 political subdivision.
0455 (b) No levy in excess of the limitation imposed under subsec-
0456 tion (a) shall be made unless and until the board shall adopt a
0457 resolution authorizing a levy therefor in excess thereof. Thereaf-
0458 ter such levy in an amount not to exceed that specified in the
0459 resolution may be made unless a petition in opposition thereto,
0460 signed by not less than 5% of the qualified electors of the taxing
0461 district, is filed with the county election officer of the county in
0462 which the greater portion of the area of such taxing district is
0463 located. In the event a petition in opposition to such levy is filed
0464 hereunder, no levy in excess of the amount previously authorized
0465 shall be made until the question of making the same has been
0466 submitted to the qualified electors of the taxing district at a
0467 special election called for that purpose and a majority of those
0468 voting thereon shall have voted in favor thereof. All such elec-
0469 tions shall be called and held in the manner provided for the
0470 calling and holding of elections upon the question of the issuance
0471 of bonds under the general bond law.[The tax so collected shall be
0472 paid over by the county treasurer to the treasurer of the board
0473 upon order of the board, which order shall be signed by the
0474 chairperson and secretary of the board.]

(c) All taxes collected for a hospital district shall be distributed and paid to the treasurer of the board of such hospital district. Whenever any hospital district lies partly within two or more counties, it shall be the duty of the treasurer of the county, or counties to distribute to the hospital district all monies in such treasurer's possession belonging to such hospital district in the manner provided for distribution of taxes pursuant to K.S.A. 12-1678a and amendments thereto. The treasurer of the hospital district upon receiving such money shall issue a receipt to the county treasurer and the county clerk of the county sending such money. The county clerk of the county sending such money, upon receiving such a receipt, shall notify the board of county commissioners of such county, and it shall give the county treasurer proper credit therefor.

0475 Sec. 17. (a) The board may enter into written contracts for:
0476 (1) The lease of any hospital property to any person, corporation,
0477 society or association upon such terms and conditions as deemed
0478 necessary by the board;
0479 (2) the lease of real property to be used for hospital purposes
0480 from any person, corporation, society or association upon such
0481 terms and conditions as deemed necessary by the board;
0482 (3) the lease of personal property from any person, corpora-
0483 tion, society or association upon such terms and conditions as
0484 deemed necessary by the board. Any such contract may provide
0485 for the payment as compensation for use of such personal prop-
0486 erty a sum substantially equivalent to or in excess of the value of
0487 the personal property under an agreement that the hospital shall
0488 become, or for no further or a merely nominal consideration has
048' option of becoming, the owner of the personal property upon

04 full compliance with the provisions of the contract;
04 (4) the management of any hospital with any person, corpo-
0492 ration, society or association upon such terms and conditions as
0493 deemed necessary by the board.
0494 (b) The board may sue in its own name or in the name of the
0495 hospital. The board may be sued and may defend any action
0496 brought against it or the hospital.
0497 (c) The board is not subject to the cash-basis law.
0498 Sec. 18. (a) All hospital moneys, except moneys acquired
0499 through the issuance of revenue bonds, shall be paid to the
0500 treasurer of the board, shall be allocated to and accounted for in
0501 separate funds or accounts of the hospital, and shall be paid out
0502 only upon claims and warrants or warrant checks as provided in
0503 K.S.A. 10-801 to 10-806, inclusive, and K.S.A. 12-105a and 12-
0504 105b. The board may designate a person or persons to sign such
0505 claims and warrants or warrant checks.

, and amendments to these statutes

0506 (b) The board may accept any grants, donations, bequests or
0507 gifts to be used for hospital purposes and may accept federal and
0508 state aid. Such moneys shall be used in accordance with the terms
0509 of the grant, donation, bequest, gift or aid and if no terms are
0510 imposed in connection therewith such moneys may be used to
0511 provide additional funds for any improvement for which bonds
0512 have been issued or taxes levied.
0513 (c) Hospital moneys shall be deemed public moneys and
0514 hospital moneys not immediately required for the purposes for
0515 which acquired may be invested in accordance with the provi-
0516 sions of K.S.A. 12-1675. Hospital moneys acquired through the
0517 receipt of grants, donations, bequests or gifts and deposited
0518 pursuant to the provisions of K.S.A. 12-1675 need not be secured
0519 as required under K.S.A. 9-1402.

and amendments thereto

0520 (d) Hospital moneys which are deposited to the credit of
0521 funds and accounts which are not restricted to expenditure for
0522 specified purposes may be transferred to the general fund of the
0523 hospital and used for operation of the hospital or to a special fund
0524 for additional equipment and capital improvements for the hos-
05 pital.
05 (e) The board shall keep and maintain complete financial

0527 records in a form consistent with generally accepted accounting
0528 ciples, and such records shall be available for public inspec-
0529 at any reasonable time.
0530 Sec. 19. (a) During any budget year, the board of any hospital
0531 is hereby authorized to issue no-fund warrants for the purpose of
0532 raising money for financing any insufficiency in the operation
0533 and maintenance budget of the hospital during such year and is
0534 hereby authorized to expend such money for such purposes. In no
0535 case shall the amount of no-fund warrants issued under this
0536 section exceed the amount deemed necessary for such purposes.
0537 Warrants issued under this section shall be issued, registered,
0538 redeemed and shall bear interest in the manner and be in the form
0539 prescribed by K.S.A. 79-2940. and amendments thereto
0540 Prior to the issuance of any no-fund warrants under the au-
0541 thority of this section, the board shall cause to be published once
0542 in a newspaper of general circulation within the taxing district of
0543 the hospital a notice of the intention of the board to issue such
0544 no-fund warrants. If within 60 days after the publication of such
0545 notice, a petition requesting an election on the question of the
0546 issuance of the no-fund warrants signed by not less than 5% of
0547 the qualified electors residing within the taxing district is filed
0548 with the county election officer of the county in which the greater
0549 portion of the taxing district of the hospital is located, the board
0550 shall be required to submit the question of the issuance of such
0551 no-fund warrants at an election held under the provisions of the
0552 general bond law.
0553 (b) Whenever no-fund warrants are issued under the authority
0554 of this section, the board each year shall make a tax levy, in
0555 addition to the tax levy authorized under section 16, sufficient to
0556 pay not less than 25% of the total amount of the warrants issued
0557 under this section and the interest thereon until all of the war-
0558 rants and the interest thereon has been paid. If there is money
0559 available from the operation of the hospital over and above the
0560 amount needed for the adopted budget, such money shall be used
0561 to pay for such warrants and the interest thereon, and the tax levy
0562 shall be only the difference, if any, between the money available
0563 ay for such warrants and the interest thereon each year and

the amount of the warrants and interest thereon to be paid each
year.

0566 Sec. 20. (a) The board of any hospital is hereby authorized to:
0567 (1) Sell personal property of the hospital in the value of less than
0568 ~~$5,000~~ **$10,000**, either in the open market or upon bids in the
0569 manner provided in subsection (b); and
0570 (2) subject to the provisions of subsection (b), sell and convey
0571 any real or personal property of the hospital in the value of ~~$5,000~~
0572 **$10,000** or more.
0573 (b) Before selling and conveying any real or personal property
0574 designated in provision (2) of subsection (a), the board shall
0575 negotiate a sale thereof and no such sale shall be completed and
0576 conveyance made until: (1) The board has solicited sealed bids by
0577 public notice inserted in one publication in a newspaper of
0578 general circulation in the taxing district of the hospital and such
0579 sale shall be to the highest responsible bidder after such notice,
0580 except such board may reject any or all bids, and, in any such
0581 case, new bids may be called for as in the first instance; and (2)
0582 the bid has been accepted and a resolution accepting the same has
0583 been made a part of the records of the board. Thereupon, the
0584 board, by its chairperson and secretary, is hereby authorized to
0585 make, execute and deliver a good and sufficient deed or deeds of
0586 conveyance to the purchaser or purchasers thereof.

0587 Sec. 21. Title to any real or personal hospital property shall
0588 be vested in the board.

0589 Sec. 22. Any one or more political subdivisions desiring to be
0590 attached to and become a part of any hospital district, or any
0591 remaining portion of any political subdivision which is a part of
0592 the hospital district desiring to be attached to and become a part
0593 of such a hospital district as one area, may do so in the manner
0594 provided in this section. Upon the presentation to the board of
0595 county commissioners, of the county in which the hospital is
0596 located, of a petition setting forth the boundaries of the area
0597 which desires to be attached to the taxing district of the hospital
98 and signed by not less than 51% of the qualified electors of the
area, to be determined by enumeration taken and verified for this
0600 purpose by some qualified elector of the area, it shall be the duty

0601 of the board of county commissioners, at its next regular meeting,
0602 t -amine the petition. If the board of county commissioners
0603 that the petition is regular and in due form as provided in
0604 this section, the board shall enter an order in its proceedings
0605 attaching the area described in the petition to the existing taxing
0606 district, the attachment to take effect on January 1 next following
0607 the entry of the order. The petition shall be accompanied by a
0608 copy of a resolution adopted by the board, which resolution shall
0609 state that the board desires such area to be attached to the taxing
0610 district of the hospital.

If such petition includes within the boundaries set out in the petition a part of another hospital district, the petition shall also be accompanied by a copy of a resolution by the board of such other hospital stating the board's desire that such territory be detached from the taxing district of their hospital. For tax purposes, attachment and detachment as provided herein shall be effective as provided in K.S.A. 79-1807 and amendments thereto.

0611 Sec. 23. Any territory or a portion thereof attached to a taxing
0612 district of a hospital which lies outside the county where the
0613 hospital is located may be detached from the taxing district in the
0614 manner provided in this section. Upon presentation to the board
0615 of county commissioners, of the county in which the hospital of
0616 any such taxing district is located, of a petition setting forth the
0617 boundaries of the area which desires to be detached from the
0618 district and signed by not less than 51% of the qualified electors
0619 of the area, to be determined by enumeration taken and verified
0620 for this purpose by some qualified elector of the area, it shall be
0621 the duty of the board of county commissioners, at its next regular
0622 meeting, to examine the petition. If the board of county commis-
0623 sioners finds that the petition is regular and in due form as
0624 provided in this section, the board shall enter an order in its
0625 proceedings detaching the area described in the petition from the
0626 taxing district, the detachment to take effect immediately upon
0627 entry of the order. The petition shall be accompanied by a copy of
0628 a resolution adopted by the board, which resolution shall state
0629 that the board desires such area to be detached from the taxing
0630 district of the hospital. If there are no qualified electors in the
0631 area, then the required petition may be signed by the landowners
0632 of not less than 51% of the area to be detached, the sufficiency of
0633 which shall be determined by the board of county commission-
0634 ers. Such area so detached shall not be liable for payment of
0635 outstanding bonded indebtedness of the taxing district of the
0636 hospital, except for payment of bonds issued during the period
0637 area was attached to the district. If any such taxing district

has authorized the issuance of bonds at a special election, the election shall be in no way affected by the passage of this act, and the bonds authorized at the election may be legally issued notwithstanding the detachment of any portion of the taxing district which was included at the date of the bond election.

If the board and the owner of any real property desired by the board for hospital purposes cannot agree as to the price to be paid therefor, the board may institute condemnation proceedings in the manner prescribed by article 5 of chapter 26 of the Kansas Statutes Annotated and acts amendatory of the provisions thereof or supplemental thereto.

Sec. 24. (a) Any hospital, or board thereof, which holds no property other than books, records and any remaining hospital moneys may disorganize in the manner provided in this section.

(b) When all debts and obligations of such hospital and board have been paid, and the board finds it is in the best interests of such hospital that its operation be closed and terminated, the treasurer of the board shall proceed to apportion the funds of the hospital among the political subdivisions or portions thereof comprising the taxing district of the hospital. The treasurer shall pay to each political subdivision comprising such district an amount equal to the proportion that the assessed valuation of each political subdivision or portion thereof bears to the total assessed valuation of the district.

(c) Upon the payment of funds in accordance with the provisions of this section, the board shall pass a resolution closing and terminating operation of the hospital, which resolution shall be published once in a newspaper of general circulation in the area, after which the taxing district of the hospital shall be considered disorganized and all books and records of the district shall be delivered to the custody of the board of county commissioners of the county in which the greater portion of the hospital property was located.

Sec. 25. The board may issue and sell revenue bonds for the purpose of acquiring an existing hospital building or buildings and improving, remodeling or repairing and equipping the same, or for the purpose of acquiring a site, constructing, equipping and furnishing an addition to an existing hospital building, or for the purpose of acquiring a site for constructing, equipping and furnishing a new hospital building, separate and apart from an existing hospital building. Before any such bonds shall be issued, the board shall publish a resolution declaring its intention to issue such bonds, stating the purpose for which such bonds are to

0675 ... issued, and the amount thereof~~; and stating that the question of~~
0676 ~~...ng the same will be submitted to a vote of the qualified~~
0677 ~~electors at the next annual meeting thereof~~. Such resolution shall
0678 be published, once each week for two consecutive weeks, in a
0679 newspaper of general circulation in the taxing district of the
0680 hospital~~; the last publication of such resolution to be made not~~
0681 ~~more than six days prior to the holding of the meeting. Such~~
0682 ~~resolution shall also be included in the notice of the annual~~
0683 ~~meeting given by the board as required in subsection (b) of~~
0684 ~~section 12. No revenue bonds shall be issued under authority of~~
0685 ~~this section until the question of the issuance of the same has~~
0686 ~~been submitted to the qualified electors at the annual meeting~~
0687 ~~and a majority of those present at the meeting and voting on the~~
0688 ~~question shall have declared by their votes to be in favor of the~~
0689 ~~issuance of the same~~. **After publication, such bonds may be**
0690 **issued unless a petition requesting an election on the proposi-**
0691 **tion, signed by qualified electors equal in number to not less**
0692 **than 5% of the qualified electors of the district, is filed with the**
0693 **board within 20 days following the last publication of such**
0694 **resolution. If such a petition is filed, the board shall submit the**
0695 **proposition to the qualified voters at an election called for such**
0696 **purpose and held within 90 days after the last publication of the**
0697 **resolution, and no bonds shall be issued unless such proposition**
0698 **shall receive the approval of a majority of the votes cast thereon.**
0699 **Such election shall be called and held in the manner provided by**
0700 **the general bond law.**
0701 Sec. 26. At or prior to the issuance of revenue bonds under
0702 authority of this act, the board shall pledge either the gross or the
0703 net income and revenues of the hospital to the payment of
0704 principal and interest of such revenue bonds and shall covenant
0705 to fix, maintain and collect such fees and charges for the use of
0706 the hospital as will produce revenues sufficient to pay the rea-
0707 sonable cost of operating and maintaining the hospital and to
0708 provide and maintain an interest and sinking fund in an amount
0709 adequate to promptly pay both principal and interest on such
0710 ...ds and to provide a reasonable reserve fund. The board may
0711 ...e to pay the cost of operation and maintenance of the hospital

0712 from any other revenues of the hospital or of the board legally
0713 available for such purpose. In addition, the board in its discretion
0714 may pledge to the payment of principal and interest of such
0715 revenue bonds the proceeds of any gift, grant, donation or be-
0716 quest which may be received by the hospital or board from any
0717 source.
0718 Sec. 27. Revenue bonds issued under authority of this act
0719 shall not be an indebtedness of the taxing district of the hospital
0720 or the hospital or of the board or the individual members of the
0721 board, and shall not constitute an indebtedness within the mean-
0722 ing of any constitutional or statutory limitation upon the incur-
0723 ring of indebtedness.
0724 Sec. 28. Revenue bonds issued under authority of this act
0725 shall have all of the qualities and incidents of negotiable instru-
0726 ments, may bear interest at a rate not exceeding the maximum rate
0727 for revenue bonds prescribed in K.S.A. 10-1009 [and amendments thereto], may bear such
0728 date, may mature at such time or times not exceeding 40 years
0729 from their date, may be in such denomination or denominations,
0730 may be in such form, either coupon or registered, may carry such
0731 registration and conversion privileges, may be executed in such
0732 manner, may be payable in such medium of payment and may be
0733 subject to such terms of redemption, with or without premium, as
0734 may be provided by resolution adopted by the board, and such
0735 bonds shall not be registered with the state treasurer of the state
0736 of Kansas.
0737 Such bonds may be sold in such manner and at such price or
0738 prices not less than 95% of par and accrued interest to date of
0739 delivery as may be considered advisable by the board.
0740 Sec. 29. In order to secure the prompt payment of the princi-
0741 pal and interest upon revenue bonds and the proper application
0742 of the revenue pledged thereto, the board is authorized to:
0743 (a) Covenant as to the use and disposition of the proceeds of
0744 the sale of such bonds;
0745 (b) covenant as to the operation of the hospital and the col-
0746 lection and disposition of the revenues derived from such opera-
0747 tion;
0748 (c) covenant as to the rights, liabilities, powers and duties

0749 arising from the pledge of any covenant and agreement into
0750 ˙ich it may enter in authorizing and issuing the bonds;
0751) covenant and agree to carry such insurance on the hospital
0752 and the use and occupancy thereof as may be considered desir-
0753 able, and in its discretion to provide that the cost of such insur-
0754 ance shall be considered a part of the expense of operating the
0755 hospital;
0756 (e) fix charges and fees to be imposed in connection with and
0757 for the use of the hospital and the facilities supplied thereby,
0758 which charges and fees shall be considered to be income and
0759 revenues derived from the operation of the hospital, and to make
0760 and enforce such rules and regulations with reference to the use
0761 of the hospital for the accomplishment of the purposes of this act;
0762 (f) appoint a trustee to act under the terms of the resolution
0763 authorizing the issuance of the revenue bonds;
0764 (g) covenant against the issuance of any other obligations
0765 payable on a parity from the revenues to be derived from the
0766 hospital;
0767 (h) make covenants other than and in addition to those herein
0768 expressly mentioned of such character as may be considered
0769 necessary or advisable to effect the purposes of this act.
0770 All such agreements and covenants entered into by the board
0771 shall be binding in all respects upon the board and its officers,
0772 agents, employees, and upon their successors, and all such
0773 agreements and covenants shall be enforceable by appropriate
0774 action or suit at law or in equity which may be brought by any
0775 holder or holders of bonds issued hereunder against the board, or
0776 its officials, agents, employees, or their successors. The rents,
0777 charges and fees to be imposed under the provisions of this act
0778 shall not be limited by the provisions of any prior act.
0779 Sec. 30. The proceeds derived from the sale of the revenue
0780 bonds herein authorized shall be deposited to the credit of the
0781 board in a bank, banks or other depositories designated by the
0782 board and kept in a separate fund and used solely for the purpose
0783 for which the bonds are authorized. The board is authorized to
0784 make all contracts and execute all instruments which in its
0785 ͻretion may be deemed necessary or advisable to provide for

0786 the purposes for which the bonds were issued, and to provide for
0787 the manner of disbursement of the funds for such purposes.
0788 Nothing contained in this act shall be construed as placing in the
0789 general fund of any political subdivision in the taxing district of
0790 the hospital or other fund thereof any moneys collected under
0791 this act or requiring such action.
0792 Sec. 31. The interest on the revenue bonds issued hereunder
0793 shall be exempt from all state, county and municipal taxation in
0794 the state of Kansas, except inheritance taxes of the state of Kansas.
0795 Sec. 32. Any officer or officers, board or boards, having
0796 charge of any sinking fund or any other fund of the state of
0797 Kansas, or any department, agency or institution thereof, or any
0798 county, municipality or other public corporation or political
0799 subdivision, may invest such funds in bonds issued under the
0800 provisions of this act. Any bank, trust or insurance company
0801 organized under the laws of the state of Kansas may invest in
0802 revenue bonds issued under the provisions of this act. Such
0803 bonds shall also be approved as collateral security for the deposit
0804 of any public funds and for the investment of trust funds.
0805 Sec. 33. On July 1, 1984, K.S.A. 80-2101, 80-2102, 80-2103,
0806 80-2105, 80-2107 to 80-2116, inclusive, 80-2118, 80-2119, 80-
0807 2121, 80-2124, 80-2126, 80-2128 to 80-2132d, inclusive, 80-2134
0808 to 80-2142, inclusive, 80-2144, 80-2146, 80-2148 to 80-2154, in-
0809 clusive, 80-2156 to 80-2165, inclusive, 80-2167, 80-2169, 80-2171
0810 to 80-2177, inclusive, 80-2179 to 80-2186, inclusive, 80-2187a,
0811 80-2187c, 80-2187d, 80-2188, 80-2190, 80-2192, 80-2194 to 80-
0812 2197, inclusive, 80-2199, 80-21,100, 80-21,102 to 80-21,110, in-
0813 clusive, 80-21,112, 80-21,114, 80-21,116 to 80-21,134, inclusive,
0814 and K.S.A. 1982 Supp. 80-2104, 80-2106, 80-2117, 80-2120, 80-
0815 2122, 80-2123, 80-2125, 80-2127, 80-2131a, 80-2131b, 80-2132e to
0816 80-2132i, inclusive, 80-2133, 80-2143, 80-2145, 80-2147, 80-2155,
0817 80-2166, 80-2168, 80-2170, 80-2178, 80-2187, 80-2187b, 80-2189,
0818 80-2191, 80-2193, 80-2198, 80-21,101, 80-21,111, 80-21,113 and
0819 80-21,115 are hereby repealed.
0820 Sec. 34. This act shall take effect and be in force from and
0821 after July 1, 1984, and its publication in the statute book.