Approved: 3-14-97
Date

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Dave Kerr at 11:00 a.m. on March 6, 1997 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: Alan Conroy, Legislative Research Department
Kathy Porter, Legislative Research Department
Mark Burenheide, Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Revisor of Statutes
Judy Bromich, Administrative Assistant
Janet Henning, Committee Secretary

Conferees appearing before the committee: Phyllis Nolan, Chairman, Board of Regents
Robert Hemenway, Chancellor, University of Kansas
Dr. David Ross, Kansas Medical Society
Mary Ellen Conlee, Via Christi Health Systems
Don Wilson, Kansas Hospital Association
Scott Stone, KAPE

Others attending: See attached list

SB 318: Veterans' home established at Winfield state hospital and training center

Chairman Kerr advised Committee members that a memorandum from Gloria Timmer, Director of Division of Budget, was being distributed reference SB 318 (Attachment 1).

SB 373: University of Kansas Hospital Authority

Phyllis Nolan, Chairman, Kansas Board of Regents, appeared before Committee members in support of SB 373 (Attachment 2). Chairman Nolan told Committee members the provisions of this bill reflect a business decision of the Board and the University to propose that a public authority operate the Hospital in order to maintain its viability in a highly competitive environment. By enhancing its competitive position, the Hospital will be able to deliver on its mission of supporting education, research and public service to the KU Medical Center and continuing the tradition of providing health care to medically indigent Kansans.

Robert Hemenway, Chancellor, University of Kansas, testified before the Committee members in support of SB 373 (Attachments 3 - 4). Committee members were informed that SB 373 would transform the University Hospital from a state agency to a public authority under the governance of a 16-member board of directors. Chancellor Hemenway told Committee members that SB 373 described the interest of the state in protecting and promoting the health and welfare of its citizens, and acknowledges that the education of medical and health science professionals and medical research are essential. It also described the relationship between the University of Kansas Medical Center and its teaching hospital, and specifies that the needs of the state and the Medical Center would best be served if the KU Hospital were transferred to an independent public authority required to operate the hospital for the benefit of the Medical Center. Employees of the authority would not be part of the unclassified or classified service under the Kansas civil service act, but would be employed under the terms and conditions established by the board of the authority. The authority would have its own personnel, payroll, benefit and other systems as approved by the board. The authority would establish its own health insurance plan and qualified retirement plan, but employees whose jobs change from the Medical Center to the authority could retain membership in the Kansas Public Employees Retirement System (KPERS).

Dr. David Ross, Kansas Medical Society, testified before the Committee members in support of

SB 373 (Attachment 5). Dr. Ross told the Committee that the Kansas Medical Society supports SB 373 because the competitive pressures of the new managed care marketplace will reward institutions that are efficient and can move quickly to form strategic alliances that represent good business opportunities. The KU hospital in the future will need to be a true center of excellence that competes on the basis of price as well as quality.

Mary Ellen Conlee, Via Christi Health System, appeared before the Committee in support of the concept and vision of SB 373 because it is important that the urban academic medical center have a strong state university medical school enhanced by a viable quality medical center. The Wichita community based medical school training program for the third and fourth year University of Kansas medical students as well as a strong residency program display the way the public and private can partner together to address the medical needs of this state. The state university has a key role to play in the medical research and training opportunities.

Don Wilson, Kansas Hospital Association, appeared before the Committee members in support of SB 373 (Attachment 6). Mr. Wilson acknowledged that today's health care system is undergoing rapid and comprehensive changes. Kansas hospitals realize the critical importance of the University of Kansas Hospital to the state and its health care system. The Kansas Hospital Association supports the placement of the University of Kansas Hospital under the governance and control of a new public authority.

Questions from Committee members were answered by staff members of the University of Kansas and University of Kansas Medical Center.

Scott Stone, Executive Director and Chief Counsel, Kansas Association of Public Employees (KAPE), appeared before Committee members to express KAPE's concern over certain parts of SB 373 (Attachment 7). Mr. Stone stated he was also representing the Kansas University Nurses Association (KUNA) which is a KAPE chapter and bargaining unit. He stated KAPE is completely satisfied with the section 11(g) on page 11 of SB 373 which guarantees the employees rights to unionize. However, the following amendments are proposed which would remove any KAPE opposition to the reorganization:

* Add the Dean of the School of Nursing to the Board as an ex officio member

  The School of Medicine is represented by the Dean of the school as an ex officio members of the Board of Directors for the new authority. For the same reasons, the School of Medicine needs to be represented as should the Dean of the School of Nursing

* Guarantee that all current employees have the right to transfer to the new authority

  In Section 11(c), the authority and medical center are allowed to arbitrarily decide who has the right to transfer and who does not. Claims of discrimination and favoritism could result from those employees not given the option to transfer to the new authority.

* Long term concern over reduction in salaries and benefits.

  KAPE has a more general concern over the possible erosion of wages and benefits over the long term. The new authority will be able to set any package of salaries and benefits for all new hires after the transfer. Over time, the ex-state employees will leave and if the new hires are started at a reduced level, standards of living for workers will generally decline.

The Chairman advised Committee members that testimony and discussion regarding SB 373 would be held until March 7, 1997. The meeting was adjourned at 12:15 p.m.

The next meeting is scheduled for March 7, 1997.

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: 3-6-97

NAME	REPRESENTING
Dawn Reid	KSNA
Rich Gilliam	Health Midwest
Shaun Jacobs	GKCHC
Donald A. Wilson	KHA
Nancy Lyden	Saint Lukes Shawnee Mission Health
MaryEllen Conlee	Via Christi Health System
Bucky Walters	Town Gazette
Rochelle Chronister	Self
Marlin Rees	KU
Joe Steineck M.D.	KU - Wichita
Nedra Norris	KU
Charles V Spock	KUMC
Jon Jackson	KUMC
Scott Chasnoff	KUMC
Herbert Swick	KUMC
Irene Cummings	KUMC
[illegible]	KMS
[illegible]	[illegible]
Ken Bahr	KHA

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: 3-6-91

NAME	REPRESENTING
Jon Josserand	KU
Marvin Burgis	Regents
James M. Meek	Wichita
FRED L. MARRS	WICHITA
EARL E. "GENE" BROWN	WICHITA
Patrick Hurley	Koch and Family Businesses

STATE OF KANSAS

DIVISION OF THE BUDGET
Room 152-E
State Capitol Building
Topeka, Kansas 66612-1504
(913) 296-2436
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Bill Graves
Governor

Gloria M. Timmer
Director

MEMORANDUM

TO: Senator Greta Goodwin

FROM: Gloria M. Timmer, Director of the Budget

DATE: February 27, 1997

SUBJECT: Winfield Soldiers Home

This memo provides preliminary budget information regarding the proposed conversion of Winfield State Hospital to a Kansas Soldiers Home under the administration of Kansas Commission on Veterans Affairs. The memo reviews the capital improvement cost and schedule projections, three-year projections of the operating expenditures, census, direct care staff to resident ratios at the Winfield Soldiers Home, and cost comparisons among the existing Kansas Soldiers Home at Fort Dodge, the SRS nursing-home and assisted-living programs, and the Soldiers Home at Winfield. It must be noted that whenever possible, actual data or detail was used in the analysis. However, in several situations, estimates and assumptions had to be used. These are clearly identified.

The Kansas Commission on Veterans Affairs and the City of Winfield have jointly developed a proposal to utilize the Winfield State Hospital and Training Center as another Kansas Soldiers Home. Under the proposal, the new Soldiers Home at Winfield would provide nursing home care and assisted living accommodations for a maximum of 401 Kansas veterans.

I. Veterans Population Trend

According to projections prepared by the U.S. Department of Veterans Affairs, the veterans population, especially the young veteran population, will continue to decline. The continuing decline in the number of veterans age 45 is a direct result of the downsizing of the military. However, the number of veterans 65 years and over is expected to increase from 8.3 million in 1993 to a peak of 9.3 million in the year 2000. A second peak of close to 9 million veterans aged 65 years

and over is expected to occur in the mid-2010s as a result of the aging of Vietnam era veterans.

Veterans population trend in Kansas mirrors the national trend. From 1998 to 2010, the overall Kansas veteran population will continue to decline. However, the number of veterans 65 years and over will increase from 98,006 in 1998 to 113,002 in 2010 (See figure in attachments).

Based on the above projections of veteran population, the Kansas Commission on Veterans Affairs believes it is necessary to establish another Soldiers Home at Winfield to meet the needs of aging veterans in Kansas. Since the number of Kansas veterans age 65 and over is expected to increase, the Commission is optimistic about placing veterans in the new Winfield Soldiers Home. It is important to note that the Commission does not intend to transfer eligible veterans currently residing in nursing homes under the SRS programs. The Commission plans to work with the Department on Aging to inform eligible veterans about the option of Winfield Soldiers Home under the screening program for nursing homes. The Commission is confident that there will be enough eligible veterans choosing to receive treatment and care in the Winfield Soldiers Home (Attachment A).

II. Capital Improvement Costs

The Veteran's Commission has developed a capital improvement plan to convert the Winfield State Hospital to a Soldiers Home based on the cost estimates prepared by a private architecture engineering design firm. The Commission proposes to divide the conversion projects into two phases. Phase I includes remodeling Holly Building and Juniper Building. The cost for Phase I is estimated at $2,952,382 for 201 beds, including 105 nursing-home beds in Holly Building, and 96 assisted-living apartments in Juniper Building. Phase II includes remodeling the Medical Services Building and Treatment Building. The cost is estimated at $3,987,800 for 200 bed. It is proposed that the Medical Services Building and Treatment Building would accommodate patients who need nursing-home care and residents who needs living assistance. Overall, a total of $6,940,182 is estimated for completion of the conversion project.

The Commission believes that the conversion project would be financed by 65 percent federal grants and 35 percent state funds, or $4,511,118 from federal grants, and $2,429,064 from state funds. The Commission indicates that it will apply for the federal grant and is very positive about its prospects. However, the agency indicates that if it does not receive federal grants this year, an additional $523,318 from the state funds to finance the capital improvement project will be necessary. The agency anticipates that the conversion project can be funded by federal grants next year.

Currently, the State Institutions Building Fund (SIBF) has an uncommitted balance of approximately $6.5 million. The State of Kansas could appropriate approximately $2.5 million for the conversion project. However, if the Kansas Commission on Veterans Affairs fails to get federal grants as planned, the State Institutions Building Fund does not have enough balance for FY 1998 to finance the entire conversion project of $6.9 million. It should also be noted that significant

to finance the entire conversion project of $6.9 million. It should also be noted that significant balances in the SIBF are uncommitted because of potential construction for a maximum security juvenile detention facility. Therefore, it would be unwise to assume the entire balance is available until decisions are made about the construction.

It is important to note that the capital improvement project has to be approved by the 1997 Legislature and is the first step toward converting the Winfield State Hospital into a Soldiers Home. The project also very much depends on the availability of federal grants and the timely receipts of federal monies. The Kansas Commission on Veterans Affairs plans to submit the capital improvement proposal to the Veterans Administration in April, 1997 and expects a decision from the federal government around August, 1997. In that case, the project could not begin until after August, 1997. Finally, the agency estimates that completion of the conversion project will take six to nine months. The timeline on the completion of the project gives two scenarios. The first would be that it takes a whole year to complete the project, which means that no operating expenditures need to be appropriated for FY 1998. The second scenario, which we believe is optimistic, assumes that the facility would be ready to receive patients or residents at the second half of FY 1998. If the second scenario were achieved, operating expenditures for half of FY 1998 need to be appropriated (Attachment B).

Note: Under the plan of Kansas Commission on Veterans Affairs, the capital improvements necessary for conversion project of the facility would be financed by 65 percent federal grants, and 35 percent state funds. However, it is possible local entities may also be willing to share part of the costs for the conversion project. If the local units of government could contribute $2.5 million to the project, it will not be necessary to appropriate state funds for the capital improvement project in FY 1998.

III. Census, and Staff to Resident Ratios

The Kansas Commission on Veterans Affairs is very optimistic about helping eligible veterans choose to receive care and treatment in the new Winfield Soldiers Home. The agency indicates that seventeen prospective residents already have requested placement in the Winfield Soldiers Home if the proposal is approved. In addition, the Wichita VA Medical Center has indicated its intention to give the Winfield Soldiers Home priority when discharging approximately 10 patients monthly to local nursing homes. The agency would also work with the Department on Aging to identify veterans and their family members eligible to the Soldiers Home under the CARE program. And SRS survey shows that there are approximately 26,000 patients in 400 Kansas nursing homes. Over 13,000 of those patients are on Medicaid. The agency estimates that 25 percent of those on Medicaid are eligible for care at a state veterans home.

Upon completion of the project, the Winfield Soldiers Home would have a capacity of 401 beds, with 247 beds for nursing-home care and 154 beds for assisted living. For FY 1998, the Division of the Budget estimates a 25 percent occupancy rate, which means 102 residents. Of those, 64 would be placed in the nursing home unit in Holly Building, and 38 for assisted living in Holly

Building. More veterans could be admitted in FY 1999 after the remodeling work is done in the Medical Service Building and the Treatment Building.

For FY 1998, the agency requests 80.0 FTE positions which includes 25.0 direct care staff. Under the 25 percent occupancy plan, 102 veterans would be placed in the Winfield Soldiers Home which would provide a resident to direct care staff ratio of 4.08, which is below the KDHE requirements. KDHE requires that there be a minimum of 2 hours of direct care contact with the nursing-home patient for every 24 hours. Currently in the Kansas Soldier Home at Fort Dodge, the resident to direct care staff ratio is 3.44. To achieve a ratio comparable to that at Fort Dodge, the Division of the Budget has increased the number of direct care staff from 25.0 to 30.0 in FY 1998, from 42 to 48 in FY 1999, and from 68 to 95 in FY 2000 (Attachment C).

IV. Operating Expenditures for the Winfield Soldiers Home: FY 1998 - FY 2000

The Division of the Budget estimates for FY 1998 are based on the assumption that operating expenditures at Winfield Soldiers Home will be necessary for the second half of FY 1998. The agency has originally submitted a three-year budget plan which assumed funding for the full fiscal year. The agency believes that it will be able to achieve 40 percent occupancy rate in FY 1998, 60 percent in FY 1999, and 80 percent in FY 2000. The Division of the Budget believes that the agency will be able to accept patients at the second half of FY 1998 and therefore would achieve a 25 percent occupancy rate in FY 1998, 40 percent in FY 1999, and 80 percent in FY 2000. After discussions with DOB, the agency agrees with those projections in terms of the facility's occupancy rate.

For the half year of FY 1998, the Division of the Budget estimates $1,465,850 for operating expenditures. This includes $1,018,354 for salaries and wages, and $447,496 for other operating expenditures. Of the total expenditures, $577,335 would be from fees, and $888,515 from the State General Fund. The estimated amounts would finance 85.0 FTE positions. Unlike the agency's proposal, the Division of the Budget believes that the agency would need another 5.0 direct care staff positions to meet the requirements of Kansas Department of Health and Environment (KDHE). The Division of the Budget also believes that a superintendent is needed to manage the Winfield Soldiers Home. The Division of Budget eliminates the Public Service Executive II position and adds an unclassified position of a superintendent.

For FY 1999 and FY 2000, the Division of the Budget estimates $3,963,700 and $7,944,750 respectively, for the operating expenditures. DOB estimates are higher than the budget plan submitted by the agency as the estimates are based on the current cost per capita at the Kansas Soldiers Home at Fort Dodge. Currently, the cost per capita is approximately $30,800 for a nursing-home resident and $14,750 for an assisted-living resident. Again, DOB assumes the occupancy rate will be 40 percent in FY 1999 and 80 percent in FY 2000.

For FY 1999 and FY 2000, the Division of the Budget again believes that the agency has somewhat underestimated the total number FTE positions needed in the new facility. Therefore,

Division of the Budget has increased the numbers of direct care staff and supporting staff from 94.0 to 100.0 for FY 1999, and from 127.0 to 184.0 for FY 2000. The increase in FY 2000 is much greater since the occupancy rate is doubled from FY 1999 to FY 2000. In other words, the number of veteran residents would increase from 161 to 321. Please see details of DOB estimates in the attachments.

The Division of the Budget estimates that it will cost $7,944,750 to operate the Winfield Soldiers Home in FY 2000. The amount includes $4,924,750 for salaries and wages and finances 184.0 FTE positions. The average salary per position would be $26,765 a year, including fringe benefits. The average cost per position would be approximately $43,178 in FY 2000.

V. Financing Mechanisms and Cost Comparisons among KSH at Fort Dodge, SRS programs, and KSH at Winfield

The sources of financing of the operating expenditures are also different from the agency's draft. The agency indicates that the amount of funding available from federal government would be more than adequate to finance the operating costs in the Winfield Soldiers Home. In that light, the agency's projections of federal receipts and grants are higher than its estimated expenditures for both FY 1999 and FY 2000. However, review of the budget of the existing facility shows that the State General Fund finances approximately 25 percent of the operating expenditures at Fort Dodge. KSH at Fort Dodge has three levels of care: nursing-home care, assisted-living in the dormitory, and cottage living. Since the new Soldiers Home at Winfield would not have cottages, the Division of Budget estimates that 20 percent of the operating expenditures would be financed by the State General Fund for FY 1999 and FY 2000. For FY 1998, due to a possible delay in receiving federal reimbursements, the Division of Budget conservatively estimates that 60 percent of the operating cost would be financed by the State General Fund (Attachment D).

Major sources of financing come from State General Fund, Veterans Administration per diem reimbursement, and other incomes. The Veterans Administration pays $39.74 per day for all veterans receiving nursing-home care, and $16.13 for all other non-combat veterans. This means that KSH at Fort Dodge receives directly from the federal government $14,306 annually for a nursing-care veterans and $5,868 annually for a non-combat veterans. Other incomes include pension, social security payment, VA Aid & Attendance payment, and other personal income. The most significant is the VA Aid & Attendance payment which pays $1131/monthly ($13,572 annually) to the combat-veterans who need nursing-home care. It is important to note two things. First, not all combat-veterans are eligible for the VA Aid & Attendance payment, only those who reside in a nursing-home unit are eligible. Second, not all of the payments are going to cover the cost in the Soldiers Home. VA Aid & Attendance payment goes directly to the veterans. The veterans are allowed to keep income and assets worth approximately $10,000 for themselves. So only part of the VA Aid & Attendance payments are used to cover costs in the Soldiers Home.

Currently the cost per capita at the KSH at Fort Dodge is $30,800 for the nursing home, and $14,750 for assisted-living dormitory. Federal reimbursement and veterans payments have been

insufficient to cover the operating cost at Fort Dodge. For the past few years, an average of 25 percent of the cost at Fort Dodge is financed by the State General Fund. For the Winfield Soldiers Home, the Division of the Budget estimates are largely based upon the model at Fort Dodge.

Per Capita Cost Comparison

Type of Patients	KSH Fort Dodge	KSH Winfield	SRS Program
Nursing Home	30,800	30,800	20,856
Assisted Living	14,750	14,750	18,000
Financing:			
State	25%	20%	35%
Federal	75%	80%	51%
Other	0%	0%	14%
Total	100%	100%	100%

$76 x 365 = 27,740.

Under the Medicaid Program, SRS provides assistance to the elderly who need nursing home care and in-home living. The Long-Term Care program is financed by 41 percent state funds and 59 percent federal funds. According to SRS estimates, the average payment per nursing home patient is approximately $20,856 a year, and the average cost per assisted-living resident is approximately $18,000 a year (see table above). The number for the assisted living residents includes the cost of room and board so that it is comparable to the assisted living cost at the Soldiers Home. The costs of care are shared by 35 percent state funds, 51 percent federal funds, and 14 percent private income.

The table above indicates that costs per year for nursing home care at the Soldiers Home are $9,944 above the payments made by SRS. However, the costs for the assisted living at the Soldiers Home are $3,250 below the SRS payments. It is difficult to compare costs in assisted living since the elderly under the SRS assisted living program often stay in their own homes. Therefore, any comparison needs to take this fact into account.

The table below compares the share of State General Fund at the Winfield Soldiers Home and that under the SRS program. The comparisons are based on the same occupancy rates, which are 25 percent in FY 1998, 40 percent in FY 1999, and 80 percent in FY 2000. The table shows that the State General Fund contributions at Winfield Soldiers Home are lower than those under the SRS program for all three years. This is because only 20 percent of the operating costs is financed by the State General Fund at Winfield Soldiers Home.

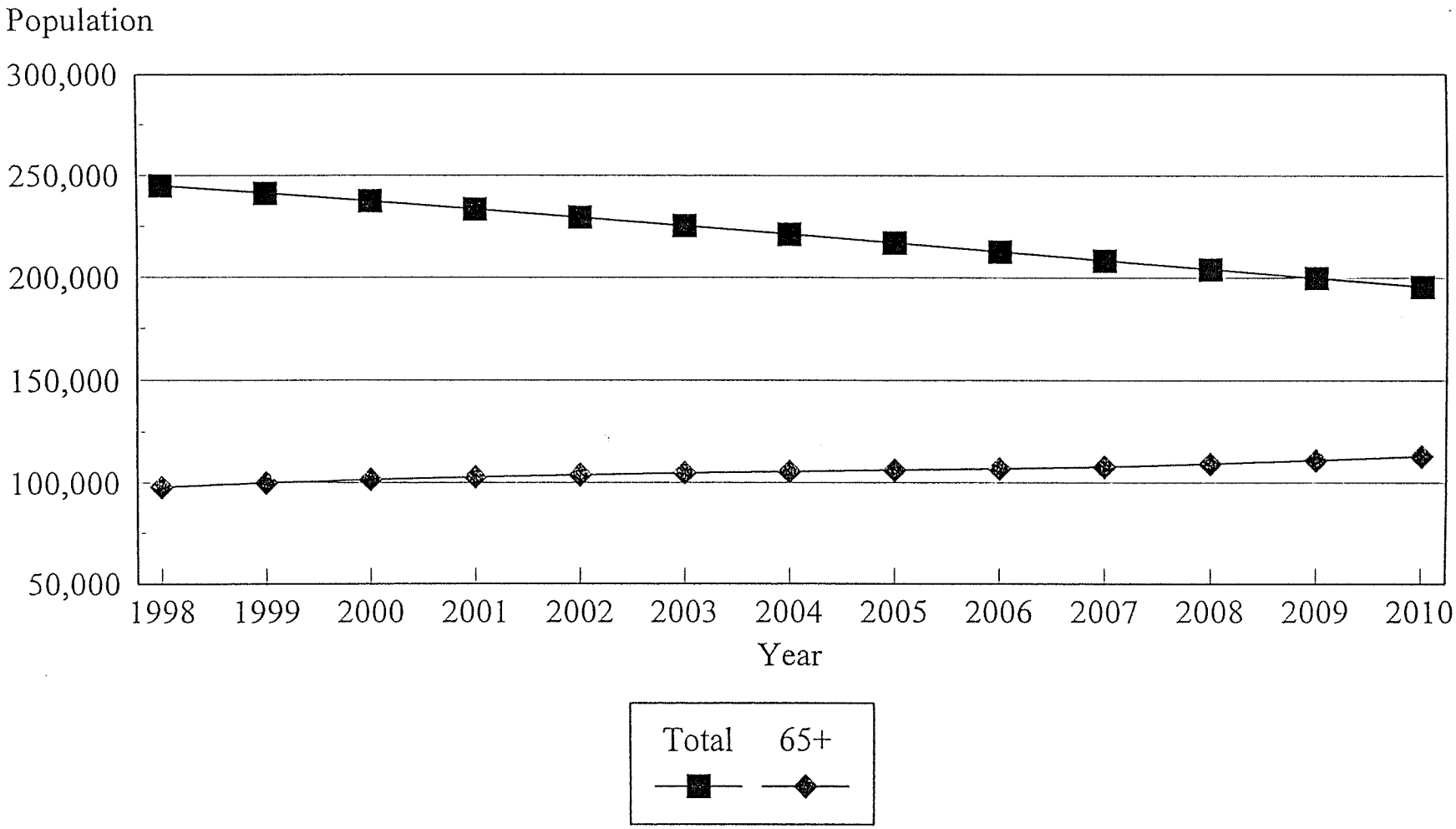
State General Fund Comparison

	FY 1998	FY 1999	FY 2000
KSH Winfield			
Federal Fund	577,335	3,170,960	6,355,800
State General Fund	**888,515**	**792,740**	**1,588,950**
Total	1,465,850	3,963,700	7,944,750
SRS			
Federal Fund	1,029,659	1,613,263	3,226,087
State General Fund	**715,525**	**1,121,081**	**2,241,857**
Private	273,600	446,400	878,400
Total	2,018,784	3,180,744	6,346,344

It is important to note that these "savings" apply only if the clients would be either in an SRS nursing home bed or at KSH Winfield. In reality, the proposal is expected to increase the number of clients served. Therefore, the "savings" are not expected, rather state costs would be incurred for a newly served clientele.

The Division of the Budget analysis in the previous section indicates that it will cost less state monies to provide institutional care for the veterans in the Winfield Soldiers Home than under the Medicaid Program administered by SRS. This is because operating expenditures in the Winfield Soldiers Home are less expensive than assistance provided to nursing home patients by Medicaid. DOB estimates that it will take at least ten years to accumulate enough operating savings to equal the amount spent on the capital improvement project to establish the new Soldiers Home at Winfield. In other words, the capital improvement project would "pay out" in about ten years. See Attachment E for comparison information.

Projection of Kansas Veterans Population: 1998-2010



Attachment A

Capital Improvement Cost for the Kansas Soldier Home At Winfield: FY 1998

Phase I: East Campus	Estimated Cost	Federal Grants 65%	State Fund 35%
Juniper & Holly Buildings	2,708,607		
Architecture Fee	243,775		
Subtotal	2,952,382	1,919,048	1,033,334

Phase II: West Campus	Estimated Cost	Federal Grants 65%	State Fund 35%
Medical Services & Treatment Buildings]	3,658,532		
Architecture Fee	329,268		
Subtotal	3,987,800	2,592,070	1,395,730

Total	6,940,182	4,511,118	2,429,064
Contingent Appr.			523,318
			2,952,382

Bed Count Summary:				
Building		Nursing Beds	Assisted Living	Total
Holly Building		105	0	105
Juniper Building		0	96	96
Med. Serv. Building		85	28	113
Treatment Building		57	30	87
Subtotal		247	154	401

Occupancy	FY 1998 25%	FY 1999 40%	FY 2000 80%
Nursing Home Unit	64	99	200
Assisted-Living	38	62	121
Total	102	161	321

For Nursing-Home Unit and Assited-Living Dormitary:

	Fort Dodge	FY 1998 Winfield	FY 1999	FY 2000
Op Exp.	3,366,800	1,465,850	3,963,700	7,944,750
Resident	151	102	161	321
Per capita	22,297	14,371	24,619	24,750
FTE	134	85	100	184
Resident	151	102	161	321
R/F Ratio	1.13	1.20	1.61	1.74
Direct Care	41	30	48	95
Patient	151	102	161	321
P/D Ratio	3.68	3.40	3.35	3.38
Total FTE		85	100	184

Kansas Soldiers Home at Winfield: Three Year Budget Planning

	Agency Estimate:			DOB Estimate:		
Expenditures	FY 98	FY 99	FY 00	FY 98	FY 99	FY 00
Salaries & Wages	1,861,707	2,377,467	2,655,375	1,018,354	2,853,700	4,924,750
Contractual Services	362,700	585,750	508,000	173,350	500,000	1,500,000
Commodities	655,166	841,500	944,000	254,146	600,000	1,500,000
Capital Outlay	0	0	0	20,000	10,000	20,000
Total	2,879,573	3,804,717	4,107,375	1,465,850	3,963,700	7,944,750
Federal Fund	1,830,595	4,562,659	6,393,495	577,335	3,170,960	6,355,800
State General Fund	1,048,978	0	0	888,515	792,740	1,588,950
Total	2,879,573	4,562,659	6,393,495	1,465,850	3,963,700	7,944,750
Percent SGF	36%	0%	0%	61%	20%	20%
FTE	80	94	127	85	100	184
Occupancy Rate	40%	60%	80%	25%	40%	80%
Total Expenditures:						
State Operation	2,879,573	3,804,717	4,107,375	1,465,850	3,963,700	7,944,750
Capital Improvement	6,940,182	0	0	6,940,182	0	0
Total	9,819,755	3,804,717	4,107,375	8,406,032	3,963,700	7,944,750
Financing:						
Federal Receipts	1,830,595	4,562,659	6,393,495	577,335	3,170,960	6,355,800
Federal Grants	4,511,118	0	0	4,511,118	0	0
State General Fund	3,478,042	0.	0	3,317,579	792,740	1,588,950
Total	9,819,755	4,562,659	6,393,495	8,406,032	3,963,700	7,944,750

Comparison between Kansas Soldiers Home at Fort Dodge and at Winfield

	KSH at Fort Dodge			KSH at Winfield		
	FY 1996	FY 1997	FY 1998	FY 1998	FY 1999	FY 2000
Expenditures	Actual	Gov Rec	Gov Rec	Estimate	Estimate	Estimate
Salaries & Wages	3,395,621	3,436,666	3,645,348	1,018,354	2,858,700	4,924,750
Contractual Services	338,356	367,126	357,325	173,350	500,000	1,500,000
Commodities	539,437	503,970	520,400	254,146	600,000	1,500,000
Capital Outlay	28,921	25,500	0	20,000	10,000	20,000
State Operations	4,302,335	4,333,262	4,523,073	1,465,850	3,963,700	7,944,750
Capital Improvement	653,517	708,475	377,500	6,940,182	0	0
Total Expenditures	4,955,852	5,041,737	4,900,573	8,406,032	3,963,700	7,944,750
Financing:						
State General Fund	983,824	934,080	1,030,612	888,515	792,740	1,588,950
KSH Fee Fund	3,301,271	3,381,971	3,475,250	5,088,453	3,170,960	6,355,800
Gift & Benefit fund	17,240	17,211	17,211	0	0	0
SIBF	653,517	708,475	377,500	2,429,064	0	0
Total	4,955,852	5,041,737	4,900,573	8,406,032	3,963,700	7,944,750
Total FTE	141.8	138.8	138.8	85.0	100.0	184.0

Staffing:	FTE	Salaries	SGF
Administration	7.0	239,456	91,457
Dormitory Operations	27.0	650,172	138,278
Social & Recreational	4.0	135,130	25,320
Nursing Home	50.8	1,401,495	355,931
General Maintenance	21.0	573,587	291,433
Dietary	21.0	466,798	211,365
Housekeeping	8.0	178,710	41,356
	138.8	3,645,348	1,155,140

SENATE COMMITTEE ON WAYS AND MEANS

TESTIMONY ON SENATE BILL 373

Presented by
Phyllis Nolan, Chairman, Kansas Board of Regents

March 6, 1997

Good morning, Chairman Kerr and members of the Committee. I am Phyllis Nolan, Chairman of the Kansas Board of Regents. I appreciate the opportunity to testify on behalf of the Board of Regents in support of Senate Bill 373, which establishes the University of Kansas Hospital Authority. Much of the impetus for this legislation comes from the 1994 Arthur Andersen Consulting study of the Hospital, which was requested by the Legislature and commissioned by the Board of Regents. Andersen's recommendations were clear and specific. The Hospital needed to take specific steps to remain viable in the evolving medical environment. When Chancellor Bob Hemenway was hired two years ago, he was given three charges, one of which was to determine how to position the Hospital to fulfill its mission of providing high quality medical care and training future Kansas medical professionals. The Board asked him to study the issue and come back with recommendations. On January 22, 1997, the Board heard a compelling presentation from the University and the Lash Group, which outlined options for the University of Kansas to maintain its mission.

Following considerable discussion, the Board authorized the Chancellor to proceed with the development of draft legislation to establish a public authority to operate the University of Kansas Hospital. On February 13, 1997, the Board devoted an entire special meeting to reviewing the draft legislation. The product of that meeting is Senate Bill 373. The

provisions of this bill reflect a business decision of the Board and the University to propose that a public authority operate the Hospital in order to maintain its viability in a highly competitive environment. By enhancing its competitive position, the Hospital will be able to deliver on its mission of supporting education, research and public service of the KU Medical Center and continuing the tradition of providing health care to medically indigent Kansans.

The Board of Regents is united in its position that the Hospital governance structure must be changed to allow the Hospital to deliver on its mission. The public authority governance structure proposed by the Board of Regents and the University of Kansas will provide the Hospital the management flexibility to achieve this goal, while continuing to make the Hospital accountable to the State and its citizens.

As you know, governing boards are not noted for giving up control of anything. But the case for repositioning the Hospital is so compelling that this Board made a unanimous business decision. The proposed process allows the Board of Regents to withdraw in an orderly manner, in that there would be Regents membership on the Hospital Authority Board initially to facilitate the transition.

Because the health care environment is changing so rapidly, the Board and the University believe that enabling legislation should be enacted during this Session. Therefore, I urge your favorable consideration of Senate Bill 373. I would be pleased to respond to your questions.

March 6, 1997

TESTIMONY BEFORE THE SENATE WAYS AND MEANS COMMITTEE
Senate Bill 373

INTRODUCTION

Thank you, Mr Chairman. I'm the Chancellor of the University of Kansas and seek your support of Senate Bill 373 which would place the University of Kansas Hospital under the governance and control of a new public authority. The University of Kansas Hospital has a rich history of quality patient care as well as serving as the clinical teaching laboratory to generations of physicians, nurses and other health care professionals. We have introduced this legislation in order to insure that the Hospital can continue its tradition of service to future Kansans. From a public policy standpoint, SB 373 is undoubtedly the most significant issue we have brought to the Legislature. After careful study of all the reasonable options, we concluded that the significant changes in the health care delivery system dictate a change of equal magnitude in the governance and operation of the University Hospital.

MISSION

Our reason for proposing this legislation can be simply stated. We want to preserve the vision of education, research and service of the KU Medical Center. We want the people of Kansas to be able to continue to be treated at the Medical Center. For 90 years, the KU Medical Center--with its Medical School, Nursing School and School of Allied Health, with its programs for doctors and nurses throughout the State, with its hospital that receives 400,000 patient visits each year--has been one of the key reasons that people of Kansas have access to high quality medical care.

Fifty percent of the doctors practicing in Kansas are KU graduates. Sixty percent of the primary care doctors in Kansas are KU graduates.

Two thousand nurses practicing in Kansas were trained at KU Medical Center.

KU's hospital and clinics served patients from 101 of 105 counties in Kansas last year.

This legislation comes forth because an important part of this Medical Center complex--the University Hospital--is threatened, and rather than simply bringing to you this problem, we also feel we should offer a solution.

YESTERDAY AND TODAY'S HEALTH CARE INDUSTRY

The changes that have occurred in recent years in the health care industry are as rapid and as comprehensive as those confronted by any major industry in the United States. We are witnessing a

transformation of America's health care system. Historically hospital, physician practices and payers (insurance companies and government) made up our health care system. Today, consolidated services with all three components operating within a single organizational unit increasingly characterize the system.

In the past our stand alone hospitals, and solo practitioners were the cornerstones of our health care environment. Now, we have hospital systems and group practices. The customer's willingness to accept some limitations in provider choice in return for lower costs, represents the single greatest stimulus for a dramatic system overhaul. Greater price competition has replaced the sharp cost increases that marked the health care marketplace during the past two decades. Today, the purchasers of health care services see themselves as the customer in a very competitive marketplace, and they consider cost as well as quality of care.

A decade ago, health insurance premiums escalated at an annual rate twice the rate of overall inflation. Today, the premium increases are probably no greater than the general rate of inflation. That same decade saw patient care shift from an inpatient acute care setting to ambulatory care and home health care. The traditional belief that more health care was better gave way to the view that less may be more appropriate and of better quality.

Perhaps the most significant result of this reform is that hospitals and physicians share the risk of providing care. The days of fee-for-service or cost plus contracts are rapidly passing away. Today, capitation or discounted fee-for-service payments are the basis for contracts. Increased emphasis on outpatient and preventive care has dropped hospital use dramatically and quickly. The awareness that one HMO, in a single act, can redirect the care of thousands of patients by simply contracting with a different group of providers is a bit sobering, but it is a reality we live with.

The impact on expected revenues can be devastating to an organization that has not prepared itself to succeed in this new world of health care delivery. As this market evolves, hospitals pursue a variety of strategies to maintain a competitive niche. Like other major urban areas, Kansas City has experienced continued consolidation of previously separate and competing institutions.

POSITIONING KU HOSPITAL FOR THE FUTURE

As a public institution, the University of Kansas Hospital deals with a unique set of obstacles. In the decade of the 70s and 80s, in spite of not being able to adjust to changes in the marketplace as rapidly as other institutions, it was still possible to be profitable. Those familiar with the Kansas budget in years past will remember that the University of Kansas Hospital was often viewed as an income producer for the State. As the health care environment began to change, the Kansas Legislature responded by providing the institution additional forms of flexibility. Those changes included the ability to establish separate classifications for nursing personnel to better compete in the marketplace for nurses; removal of the expenditure limitation on the Hospital Revenue Fund so the Hospital could adjust its budget in direct response to the availability of revenue and program needs; and authority to enter joint ventures,

partnerships and equity ownerships with other health care providers and third parties for provision of medical services. In 1993, the Legislature directed the Board of Regents conduct a comprehensive management study of the University of Kansas Medical Center and Hospital. Many of the new forms of flexibility provided to the Hospital were outgrowths of the Arthur Andersen report provided to the Board and the Legislature in 1994.

Since 1994, changes in the marketplace accelerated even more rapidly. Admissions and length of stay declined sufficiently that inpatient utilization at the University Hospital dropped from 109,000 patient days in 1993 to 92,000 in 1996. While outpatient utilization continued to grow, it has not been sufficient to offset the revenue losses from reduced inpatient activity.

Over the last fiscal year, KU Hospital has moved to control costs and to downsize its operation in keeping with its service load. However, it is increasingly apparent that the current structure of the University Hospital poses too many constraints to overcome. Without some dramatic change, the State will have to assume an increasing role in financing institutional operations. Not only does KU Hospital currently finance its operating budget without State support, it must also absorb a large volume of unreimbursed indigent care in addition to the costs of education. To even the most cautious traditionalist, it is increasingly apparent that the long-term viability of the Hospital dictates a need for change.

This fall, the University of Kansas retained a consulting firm, The Lash Group. This firm helped develop a strategy to ensure that the University of Kansas Hospital will remain a viable part of the Medical Center and its teaching mission. The consultant investigated alternative forms of structural change, and the University has opted to pursue establishing a hospital public authority.

SENATE BILL 373

Senate Bill 373 will transform the University Hospital from a state agency to a public authority under the governance of a 16-member board of directors. This legislation will allow the University Hospital to meet the business requirements of today's health care marketplace like its competitors, but maintain its historical commitment to the people of Kansas and their elected representatives.

Currently, the hospital must comply with all of the legal and regulatory requirements of its competitors, as well as the additional requirements placed upon state agencies which are not primarily engaged in business activities and are supported by tax dollars rather than business earnings.

Senate Bill 373 describes the interest of the state in protecting and promoting the health and welfare of its citizens, and acknowledges that the education of medical and health science professionals and medical research are essential. It also describes the relationship between the University of Kansas Medical Center and its teaching hospital, and specifies that the needs of the state and the Medical Center would best be served if the KU Hospital were transferred to an independent public authority required to operate the hospital for the benefit of the Medical Center.

Governing Board. The authority would be governed by a 16-member board of directors. Nine public members are appointed by the Governor with the consent of the Senate. Five members would serve by virtue of their office; and, two at-large members would represent the clinical faculty of the University of Kansas School of Medicine. The nine public members would serve a three year term, and are eligible to serve two consecutive, full terms. Each Congressional district in Kansas would have at least one member on the board, so the interests of the entire state are represented. The number of public members is both a majority as well as a quorum. Thus, the authority will always remain accountable to the public through the members appointed by the Governor.

On the initial board, two public members are to be appointed from the Kansas Board of Regents and two from the Kansas Legislature, one from the House and one from the Senate, with the appointees to be from different political parties. This is done to guide the development of the authority's bylaws, policies, and other governance issues during the authority's initial years. While these board positions may continue to be designated in future boards, the legislation doesn't require it.

The authority will have five ex-officio, voting board members--the Chancellor of the University of Kansas, Executive Vice Chancellor of the University of Kansas Medical Center, Chief Executive Officer of the hospital, Executive Dean of the University of Kansas School of Medicine, and Chief of Staff of the hospital. The board maintains a direct tie to the University and Medical Center through these positions. This ensures that our educational mission is always honored, and guarantees the medical staff representation, as is common on most private hospital boards.

Meetings and Records. Board meetings are subject to the Kansas open meetings act, but the board may enter executive session. Examples of items that could be considered in executive session are plans affecting the value of property, contracts for the provision of health care services and marketing or operational strategies where disclosure would harm the competitive position of the authority, and peer review and risk management activities.

The records of the authority are subject to the Kansas open records act. However, records relating to marketing and operational strategies where disclosure would harm the competitive position of the authority, proprietary information obtained from others upon a promise of confidentiality, consulting reports relating to strategic planning and goals, and contract cost estimates used in awarding contracts for construction or the purchase of goods or services would be specifically exempt. Any general exemptions in the open records act are also available to the authority. This is very different from the meetings and records of other competitive hospitals, which do not have such public oversight of their deliberations and actions.

Legal Powers. Senate Bill 373 defines the legal powers of the authority to conduct its business activities. The powers specified in the bill are designed to provide the authority with many of the same powers that would be available to a not-for-profit corporation established under the state's corporate powers act. An important difference is the continuing public accountability through ties to the Governor and Legislature. For example, the authority could enter into contracts, purchase or acquire property and develop procedures for the procurement of goods, services, and construction based upon sound business

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practices. The authority could also participate in joint ventures, borrow money and issue bonds, deposit its moneys in any banking institution, establish charges for its services, and hire a president. Also, the authority would have the ability to initiate the power of eminent domain, but only for acquisitions in the public interest and necessary for public use, and then only after securing the prior approval of the Governor. The act specifically precludes selling or merging the Hospital with another institution without specific legislative authorization.

Employees. Employees of the authority would not be part of the unclassified or classified service under the Kansas civil service act, but would be employed under the terms and conditions established by the board of the authority. The authority would have its own personnel, payroll, benefit and other systems as approved by the board. The bill requires that policies and procedures be developed to provide authority employees with grievance rights, ensure that employment decisions are based upon merit and fitness of the applicant, and to prohibit discrimination because of race, religion, color, sex or national origin.

The authority would establish its own health insurance plan and qualified retirement plan, but employees whose jobs change from the Medical Center to the authority could retain membership in the Kansas Public Employees Retirement System. The ability to maintain membership in KPERS is very important to our employees with long-standing state employment. The Medical Center and authority would jointly agree upon employees who would be given the option to transfer their employment to the authority.

Assets. Following the establishment of the hospital authority, the Regents would transfer the assets of the hospital to the authority. By assets, we mean the records, property or rights in property used by the University or Medical Center for the benefit of the hospital in its normal course of operations. This includes contracts, joint ventures, partnerships or equity ownerships entered into by the Medical Center on behalf of the hospital. This transfer is contingent upon the authority's agreement to assume the hospital's liabilities and to support the education, research, patient care, care to the medically indigent and public service activities of the University of Kansas Medical Center. The land would be leased to the authority for a nominal amount.

Both the authority and Medical Center are authorized to enter into agreements for the provision of services to the other. This will avoid duplication of services and provide cost savings to both the Medical Center and authority. Examples of these could be housekeeping services, or maintenance of the hospital building's sophisticated mechanical systems. When the Medical Center wishes to acquire a service from the authority, it may do so on a sole source basis.

CONCLUSION

This was a very brief overview of the major provisions of Senate Bill 373. We, at the University, understand full well the significance of this legislation. The decision to pursue such a dramatic change came only after careful consideration. The implications of a "staying the course" policy were untenable. We must change with the industry.

KU Hospital is a unique public asset. Kansans of all walks have an interest in protecting this asset. When the intent to pursue this legislation became known, the response from other health care providers, including hospitals, professional associations, and provider groups has been positive. Representatives of a number of those interested groups are in the audience. Others have provided letters of support for this legislation which we will provide to the Committee. The importance of protecting this unique asset, so essential to the education of the next generation of doctors, nurses and allied health workers, is resulting in strong support from across the state.

With those comments, I urge your support for Senate Bill 373.

Letters of Support

Senate Bill 373

1. Association of Independent Hospitals
2. City of Westwood, Kansas
3. Children's Mercy Hospital
4. Columbia Wesley Medical Center
5. Hays Medical Center
6. Health Midwest
7. Kansas Academy of Family Physicians
8. Kansas Hospital Association
9. Kansas University Medical Alumni Association
10. Kansas University Physicians, Inc.
11. Providence Medical Center
12. St. Francis Hospital and Medical Center
13. Via Christi

Senate Ways and Means Committee
Date 3-6-97
Attachment # 4

AIH
Association
of Independent
Hospitals

Jeff A. Tindle
President / CEO

March 3, 1997

Irene Cumming, CEO
University of Kansas Medical Center
3901 Rainbow Blvd.
Kansas City, KS 66160

Dear Ms. Cumming:

The Association of Independent Hospitals (AIH), its 70 members (23 Kansas hospitals) and Network/Alliance partners, are very pleased with the news that the University of Kansas Medical Center is seeking to make changes in its governing structure.

AIH's twenty-three (23) Kansas hospitals are located throughout central, northeast, eastern, and southeast Kansas. Our Network and Alliance relationships include: Med. Op. located in northwest Kansas, Pioneer Alliance located in southwest Kansas, Heart of America Alliance located in south-central Kansas, Community Health Alliance located in central Kansas, and Jayhawk Health Alliance located in east-central Kansas. These Networks/Alliances represent a total of 74 hospitals in Kansas. Senate bill 373, currently before the Kansas State Senate, will have an effect on all of these institutions. The University of Kansas Medical Center provides a large percentage of the physicians, nurses and allied health professionals that practice in these healthcare organizations. The University of Kansas Hospital has been an intricate part of this manpower development.

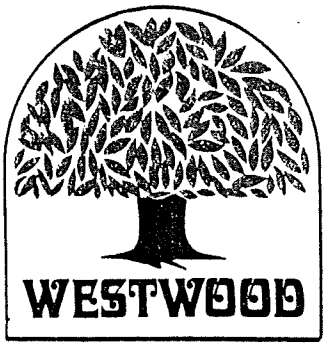
AIH is witness to many healthcare organizations. The changes in the healthcare environment over the past decade have been significant. It is imperative that hospitals be able to compete on a level playing field. Without consideration of SB 373, University of Kansas Hospital is put at an unfair disadvantage.

On behalf of the Association of Independent Hospitals, I would like to express our support and the support of the AIH members and Network/Alliances for Senate bill 373. Clearly this legislation is in the best interest of the University of Kansas Medical Center, the University of Kansas Hospital, and the patients it serves.

Sincerely,

Jeff Tindle
President/CEO

JT:pw



February 24, 1997

Mr. Donald F. Hagen, M.D.
Executive Vice Chancellor
University of Kansas Medical Center
3901 Rainbow Boulevard
Kansas City, KS 66160-7100

Dear Don:

Thanks very much for the timely information concerning the proposed governance change for the hospital. That issue has arisen at a number of meetings recently and an understanding of the planning process as well as the resultant recommendation is helpful to all of us.

We're well aware of the very competitive and rapidly evolving nature of health care and it would appear that by making the hospital a separate not-for-profit entity, you would enhance its ability to prosper in such an environment. I would think, then, that the institution so important to our communities would be putting itself in the strongest possible position for long-term success.

If I can be of assistance in this undertaking, please feel free to call on me.

Very Truly Yours,

William L. Kostar
Mayor

4700 RAINBOW • WESTWOOD, KANSAS 66205 • (913)362-1550
"THE BIGGEST LITTLE CITY IN KANSAS"

4-3

The CHILDREN'S Mercy Hospital

2401 GILLHAM ROAD
KANSAS CITY, MISSOURI 64108
(816) 234-3000 FAX # (816) 842-6107
In Affiliation with The University of Missouri • Kansas City School of Medicine

RANDALL L. O'DONNELL, Ph.D.
President/Chief Executive Officer

(816) 234-3650

February 6, 1997

Donald F. Hagen, M.D.
Executive Vice Chancellor
University of Kansas Medical Center
3901 Rainbow Boulevard
Kansas City, KS 66160-7100

Dear Don:

Thank you for the updates that you and Irene Cumming provided on KU Medical Center's efforts to restructure the hospital's governance. As a result of this information, I strongly support your efforts to establish a new public authority and 16 member board to govern the hospital.

These are trying times for teaching hospitals such as KU Medical Center and Children's Mercy Hospital. The days when a broad base of financial support for medical education stemmed from governmental and commercial sources are now just history. Couple this with the intricacies of managed care, wherein teaching is "someone else's" responsibility, and the need for flexibility and efficiency in decision making becomes paramount. The accomplishments of the several children's hospitals with comprehensive teaching programs that I have worked with over the past 25 years, can in large part be attributed to the community boards who governed their activities.

Again, I appreciate the opportunity to comment on the timely measures you are taking to develop an organizational structure that will be sensitive and responsive to the dynamics of our current healthcare marketplace and wish you every success in your endeavor.

Sincerely,

Randall L. O'Donnell, Ph.D.
President/Chief Executive Officer

RLO/pk

C JMBIA Wesley
M ical Center

550 North Hillside
Wichita, Kansas 67214-4976
COLUMBIA's home page is *http://www.columbia.net*

February 19, 1997

Donald F. Hagen, M.D.
Executive Vice Chancellor
University of Kansas Medical Center
3901 Rainbow Blvd.
Kansas City, KS 66160

Dear Dr. Hagen:

The management and staff of Columbia Wesley Medical Center are pleased to support the legislative initiative to grant additional freedom for the University of Kansas Hospital by forming a public authority to govern the institution.

In this highly chaotic and difficult economic time for all academic institutions, it is imperative that those hospital systems who are an integral part of an academic health center have every opportunity to successfully manage themselves. The public authority would give the hospital that opportunity while retaining its relationship with the State.

We at Columbia Wesley receive medical students during the third and fourth year of medical school from the University of Kansas. These students are well prepared for their clinical years, partly because of the excellent training they receive at Kansas University Hospital in Kansas City. Together we comprise the future of academic medicine, which others will soon emulate, for we combine the core training which is so closely aligned to the basic sciences at Kansas City, and the community-based perspective which the students receive in Wichita. We are important partners in our quest for excellence, and are proud of that status.

We support you and wish you success.

Sincerely,

Kevin J. Gross
Interim President and CEO
Columbia Wesley Medical Center
President, Mid-West Division

KJG:jd

4-5

HaysMedicalCenter OFFICE OF PRESIDENT & CEO

February 26, 1997

FEB 27

Donald Hagen
Executive Vice Chancellor
2F Murphy Bldg.
Kansas University Medical Center
3901 Rainbow Blvd.
Kansas City, KS 66160

Dear Dr. Hagen:

Please accept this letter fully supporting SB 373. This legislation allowing your Center to be transferred an independent public authority is timely and in the best interest of the citizens of the state. The autonomy this bill affords KUMC will serve to enhance your mission to provide patient care, education, and research in the years to come.

You have always been supportive of our efforts here in Hays. I believe that SB 373 is in the best interest of the people and will further promote quality medicine in Western Kansas.

With warmest regards.

Sincerely,

Stephen Ronstrom

Stephen F. Ronstrom
President & CEO

Box 8100 Hays, Kansas 67601 913-623-5000

4-6

HEALTH MIDWEST

March 3, 1997

Ms. Irene M. Cumming
Chief Executive Officer
The University of Kansas Hospital
3901 Rainbow Boulevard
Kansas City, KS 66160-7200

Dear Ms. Cumming:

The University of Kansas Medical Center has played a key role in providing physicians, nurses and allied health professionals throughout Kansas. The University of Kansas Hospital has supported this role as the primary clinical education site for the Medical Center.

The changes in the health care environment over the past decade have been rapid and continuous. All of us with responsibilities to our communities and organizations must constantly seek to improve the way in which we provide service to our patients, to operate efficiently, and provide the best value to the community.

On behalf of Health Midwest, I would like to express our support of Senate Bill 373 which would establish the University of Kansas Hospital Authority and allow the hospital to continue to support the education and research mission of the University of Kansas Medical Center.

Yours truly,

Richard W. Brown
President

RWB:db

Richard W. Brown, FACHE
President and Chief Executive Officer
2304 East Meyer Boulevard, A-20 ■ Kansas City, MO 64132 ■ 816/276-9181 ■ FAX 816/276-9320

4-7

Kansas Academy of Family Physicians

889 N. Maize Rd, Suite 110 • Wichita, KS 67212 • 316-721-9005
1-800-658-1749 • Fax 316-721-9044 • kafp@southwind.net • http://www2.southwind.net/~kafp/

March 5, 1997

Donald Hagen, M.D.
Executive Vice Chancellor
KUMC
39th & Rainbow Blvd.
Kansas City, KS 66160

Dear Dr. Hagen,

Thank you for making a presentation to our Board of Directors on Saturday regarding SB 373, and the need for a governance change at KU Hospital. Our Board agreed with your assessment of the situation and your proposal as outlined in the bill. We support you in your efforts to secure the adoption of SB 373. If there is anything else we can do, please feel free to contact me.

Thanks again for your presentation, and best wishes for a successful hearing.

Sincerely,

Diane Klingman MD

Diane K. Klingman, M.D.
President

DK/cg

4-8

KANSAS HOSPITAL ASSOCIATION

Memorandum

Donald A. Wilson
President

To: Senate Ways and Means Committee

From: Kansas Hospital Association
Donald A. Wilson, President

Re: SENATE BILL 373

Date: March 6, 1997

The Kansas Hospital Association appreciates the opportunity to comment in support of Senate Bill 373, which would place the University of Kansas Hospital under the governance and control of a new public authority.

As the committee well knows, today's health care system is undergoing rapid and comprehensive changes. The growth of managed care, provider risk sharing and integrated delivery systems demonstrates the extent of these changes. This reorganization of our health care system affects **all** health care providers.

Just like other hospitals in Kansas, the University of Kansas Hospital must prepare itself to succeed in the changing environment. The key to these increasing demands to "do more with less" is the type of flexibility that Senate Bill 373 will provide.

Kansas hospitals understand the critical importance of the University of Kansas Hospital to the state and its health care system. For that reason, we urge the state to give every consideration to the changes necessary to allow the hospital to continue to serve the state and its citizens.

Thank you for your consideration of our comments.

215 S.E. 8th • P.O. Box 2308 • Topeka, Kansas 66601-2308 • (913) 233-7436 • FAX (913) 233-6955

Johnson County Medical Group

7301 Frontage Road, Suite 100
Shawnee Mission, Kansas 66204
(913) 432-2280
Fax: (913) 432-8605

BRADD SILVER, M.D., F.A.C.P.
Board Certified
Endocrinology & Metabolism

MAUREEN DUDGEON, M.D., F.A.C.P.
Board Certified - Internal Medicine

KEVIN RING, M.D.
Board Certified - Internal Medicine

SHELLEY GARLAND, M.D.
Board Certified - Internal Medicine

LOUISE KAINE, D.O.
Board Eligible - Internal Medicine

March 4, 1997

Donald F. Hagen, M.D.
Executive Vice Chancellor
University of Kansas Medical Center
3901 Rainbow Blvd
Kansas City, KS 66160-7100

Dear Dr. Hagen:

On behalf of the KU Medical Alumni Association, it is with great enthusiasm that I pledge our support of SB 373. Having seen firsthand the barriers to efficiency and, ultimately, success, under which the KU Hospital has had to operate, I lend my personal support as well. We must strive for obtaining an environment that allows us to focus on the three major components of KUMC's mission: education, research, and patient care.

Best wishes for a successful transition.

Sincerely,

Maureen Dudgeon, M.D., F.A.C.P.
President, KU Medical Alumni Association

MD:kvl

Shawnee Mission Medical Center
SAINT LUKE'S SHAWNEE MISSION HEALTH SYSTEM

4-10

Kansas University Physicians, Incorporated

March 5, 1997

Ms. Irene M. Cumming
Chief Executive Officer
The University of Kansas Hospital
3901 Rainbow Boulevard
Kansas City, KS 66160-7200

Dear Ms. Cumming:

On behalf of Kansas University Physicians, Incorporated. I would like to express our support of Senate bill 373 to establish the University of Kansas Hospital Authority. This important initiative is necessary to continue the KU tradition of excellent patient care and to allow the hospital to compete in the managed health care market. The success of the KU Hospital is vital to the support of the education and research mission of the University of Kansas Medical Center.

Yours truly,

Norton J. Greenberger, M.D.
President,
KU Physicians, Inc.

Donald B. Tower
Executive Director,
KU Physicians, Inc.

3901 Rainbow Boulevard • Suite 5032 Robinson• Kansas City, Kansas 66160-7816 • (913)-588-2500 • Fax (913)-588-1445

4-11

Providence
Medical Center

Office of the President

March 3, 1997

Ms. Irene M. Cumming
Chief Executive Officer
The University of Kansas Hospital
3901 Rainbow Blvd.
Kansas City, KS 66160-7200

Dear Ms. Cumming:

The University of Kansas Medical Center has played a key role in providing physicians, nurses and allied health professionals throughout Kansas. The University of Kansas Hospital has supported this role as the primary clinical education site for the Medical Center.

The changes in the health care environment over the past decade have been rapid and continuous. All of us with responsibilities to our communities and organizations must constantly seek to improve the way in which we provide service to our patients, to operate efficiently, and provide the best value to the community.

On behalf of Providence Medical Center, I would like to express our support of Senate bill 373 which would establish the University of Kansas Hospital Authority and allow the hospital to continue to support the education and research mission of the University of Kansas Medical Center.

Sincerely,

Frank Creeden
President

8929 Parallel Parkway • Kansas City, Kansas 66112-3607 • (913) 596-4882 • fax (913) 596-4098

4-12

ST. FRANCIS
HOSPITAL AND MEDICAL CENTER
Office of the President

March 3, 1997

Ms. Irene M. Cumming
Chief Executive Officer
The University of Kansas Hospital
3901 Rainbow Boulevard
Kansas City, KS 66160-7200

Dear Ms. Cumming:

The University of Kansas Medical Center has played a key role in providing physicians, nurses and allied health professionals throughout Kansas. The University of Kansas Hospital has supported this role as the primary clinical education site for the Medical Center.

The changes in the health care environment over the past decade have been rapid and continuous. All of us with responsibilities to our communities and organizations must constantly seek to improve the ways in which we provide service to our patients, to operate efficiently, and provide the best value to the community.

On behalf of St. Francis Hospital and Medical Center, I would like to express our support of Senate Bill 373 which would establish the University of Kansas Hospital Authority and allow the hospital to continue to support the education and research mission of the University of Kansas Medical Center.

Sincerely,

Sister Loretto Marie

SLM/jas

1700 West 7th Street
Topeka, Kansas 66606
913 295-8993
Fax 913 295-5584

4-13

929 North St. Francis
Wichita, KS 67214-3882
Tel 316-268-5102
Fax 316-291-4673
LeRoy Rheault
Chief Executive Officer

Via Christi
Health System

February 27, 1997

Donald F. Hagen, M.D.
Executive Vice Chancellor
University of Kansas Medical Center

Dear Doctor Hagen:

We at Via Christi Health System have reviewed SB 373, the legislative initiative to create a public authority to govern the Kansas University Hospital. We understand the need and support the concept. Further we support the provision in SB 373 which leaves any decision to merge or sell the university hospital in the hands of the legislature. We agree that this decision should stay with the people of Kansas to be exercised by their elected legislators.

We at Via Christi Health System can appreciate the difficulties that the University of Kansas Medical Center is having as it tries to compete in the Kansas City metropolitan area. Urban academic medical centers throughout the United Sates must absorb significant non-reimbursed costs related to teaching, research and indigent care. As the health care marketplace demands lower insurance premiums and government programs pay less than cost for medical services, innovative cost cutting arrangements must be found and often require organizational flexibility. We have to face similar challenges at Via Christi and we understand that the Kansas University Hospital must face these challenges as well. However, the Kansas University Hospital works under additional state regulations that place it at a serious disadvantage as it tries to maneuver in the health care marketplace. The public authority that would be established by SB 373 would have broad powers that could better enable the medical center to respond to the managed care demands of the marketplace.

We support the concept envisioned in the proposal because it is important to us to have a strong state university medical school enhanced by a viable, quality medical center. For Wichita, the community based medical training program for third and fourth year University of Kansas medical students as well as the strong residency programs display the way that public and private can partner to address medical education needs. The state university has a key role to play in medical research and training programs. Our community based hospitals have a key role in providing significant training opportunities, but could not carry the load of medical student education and training alone. Our Kansas trained physicians benefit from the blend of the traditional university hospital experience with the community based perspective. This public/private partnership has worked well, but its continued success depends on the economic viability of all the partners.

Sincerely,

LeRoy Rheault

LeRoy E. Rheault

4-14

KANSAS MEDICAL SOCIETY

David K. Ross, MD, President
PO Box 1148, Arkansas City, KS 67005
316.442.2100

March 6, 1997

TO: Senate Ways & Means Committee

FROM: David K. Ross, MD

SUBJECT: SB 373; concerning the establishment of a Kansas hospital authority

The Kansas Medical Society appreciates the opportunity to appear today in strong support of SB 373, which would create a hospital authority to govern the hospital at KUMC. We would particularly like to commend Chancellor Hemenway and Executive Vice Chancellor Hagen for their leadership in bringing this historic vision closer to reality.

As you have heard from others, it is apparent that the KU hospital simply could not continue to operate as it had in the past. The competitive pressures of the new managed care marketplace reward institutions that are efficient and can move quickly to form strategic alliances that represent good business opportunities. It is not enough to just be the medical school's hospital. KU hospital in the future will need to be a true center of excellence that competes on the basis of price as well as quality. We believe the new structure affords the hospital that opportunity, without sacrificing the core missions of education and service to Kansans.

Subsections (1) through (5) of Section 2 of the bill set forth an important mission statement, if you will, for the university hospital. It identifies the key educational and services components, while emphasizing the role of the hospital in caring for the medically indigent. We believe the core values and mission of the entire health services complex at KUMC will be assured for the future with this new governance structure.

We are concerned that without the changes proposed in this legislation, the future of the university hospital could be in jeopardy. As we like to say in the family of physician service companies we at KMS are building, "the best way to predict the future is to create it." That kind of proactive approach is at the heart of the proposal contained in this bill. We urge you to support SB 373. Thank you.

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Senate Ways and Means Committee
Date 3-6-97
Attachment # 5

KANSAS HOSPITAL ASSOCIATION

Memorandum

Donald A. Wilson
President

To: Senate Ways and Means Committee

From: Kansas Hospital Association
Donald A. Wilson, President

Re: SENATE BILL 373

Date: March 6, 1997

The Kansas Hospital Association appreciates the opportunity to comment in support of Senate Bill 373, which would place the University of Kansas Hospital under the governance and control of a new public authority.

As the committee well knows, today's health care system is undergoing rapid and comprehensive changes. The growth of managed care, provider risk sharing and integrated delivery systems demonstrates the extent of these changes. This reorganization of our health care system affects **all** health care providers.

Just like other hospitals in Kansas, the University of Kansas Hospital must prepare itself to succeed in the changing environment. The key to these increasing demands to "do more with less" is the type of flexibility that Senate Bill 373 will provide.

Kansas hospitals understand the critical importance of the University of Kansas Hospital to the state and its health care system. For that reason, we urge the state to give every consideration to the changes necessary to allow the hospital to continue to serve the state and its citizens.

Thank you for your consideration of our comments.

Senate Ways and Means Committee
Date 3-6-97
Attachment # 6

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TESTIMONY OF SCOTT A. STONE
Executive Director and Chief Counsel,
Kansas Association of Public Employees (KAPE)

Before the Senate Committee on Ways and Means

March 6, 1997, 11:00 a.m.
State Capitol, Room 123-S

Proposed amendments to SB 373

My name is Scott A. Stone and I am the Executive Director and Chief Counsel for the Kansas Association of Public Employees (KAPE). Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you today to voice KAPE's concern over certain parts of SB 373.

I am here today representing KAPE as an organization and more specifically, the nurses of the KU Medical Center. The Kansas University Nurses Association (KUNA) is a KAPE chapter and bargaining unit. What has been proposed through this bill causes some major changes from an employee point of view. I must also say that I am not here today to simply oppose this bill. Rather, I feel that this proposal has been thought out and numerous protections and guarantees are already included. We are discussing the reorganization of a highly unionized operation. Nearly all of the employees are unionized. The service and maintenance is represented by the Service Employees International Union, the nurses are represented by KAPE and the physicians also have an organization that they

Affiliated with the Federation of Public Employees / AFT / AF

Senate Ways and Means Committee
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may not call a union, but is similar in many respects. It would be very difficult to make this proposed transition without good communications with the unions. The Administration of KU Medical Center has respected this ideal and has been very open to the various employee groups throughout the process.

KAPE is completely satisfied with the section 11(g) on page 11 of the bill which guarantees the employees rights to unionize. We are also pleased with the wage and benefit carryover provisions and have nothing that should be added to the list of salary, KPERS, health care and leave balances.

We would, however, propose a few minor amendments that would remove any KAPE opposition to the reorganization. They are:

1. Add the Dean of the School of Nursing to the Board as an ex officio member.
2. Guarantee that all current employees have the right to transfer to the new authority.
3. Long term concern over reduction in salaries and benefits.

First, the School of Medicine is represented by the Dean of the school as an ex officio member of the Board of Directors for the new authority. For the same reasons that the School of Medicine needs to be represented on the Board, so should the Dean of the School of Nursing. The nurses are the backbone of the service delivery at KU and their input into decision making would be invaluable.

Second, there is a potential problem that could result in claims against the state. In Section 11(c), the authority and medical center are allowed to arbitrarily decide who has

the right to transfer and who does not. Whether discrimination actually occurs is irrelevant since claimants could still use the open-ended statement to bolster their claim anyway. Claims of discrimination and favoritism could result from those employees not given the option to transfer to the new authority. A better and safer alternative would be to allow all current employees the option to transfer. There currently are, and there will continue to be, procedures for the removal of unsatisfactory employees, so that should not be a concern.

Third, and finally, KAPE has a more general concern over the possible erosion of wages and benefits over the long term. The new authority will be able to set any package of salaries and benefits for all new hires after the transfer. Over time, the ex-state employees will leave and if the new hires are started at a reduced level, standards of living for workers will generally decline.

Overall, KAPE and the nurses are willing to give this proposal a try. We are not sure that the proposed changes will cure all of the perceived ills of KU medical center, but it seems that management is trying to make the transition as smooth as possible. By working with the employees, the transition is more likely to proceed smoothly.

Mr. Chairman, I would like to thank the members of this committee for their time and consideration on this matter. I would also be pleased to respond to your questions.