

Approved: 3-17-97
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 7, 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: Shirley Moses, Director, Accounts and Reports
Fred Marrs

Others attending: See attached list

It was moved by Senator Jordan, seconded by Senator Gilstrap, to approve the minutes for February 24, 25, and 26. The motion carried on a voice vote.

SB 104: State officers and employees, reimbursement of moving expenses

Shirley Moses, Director, Accounts and Reports, appeared before Committee members to respond to questions regarding **SB 104** as previously requested (Attachment 1). The bill concerns changes in allowable moving expense reimbursements to state employees and authorizes the option for state agencies to pay lodging expenses for traveling employees directly to the lodging establishment. Director Moses told Committee members a memorandum was directed to all state agencies regarding the fiscal impact due to the expansion of moving provisions. There were 58 agencies who responded and the majority indicated no impact as a result of **SB 104**. Director Moses stated there were three amendments (Attachment 1-2) which should be considered by Committee members: Section 5 (b) (1); Section 5 (c); and New Section 1 (a).

Senator Salisbury moved that the amendments in Subsection 5 (b) (1), subsection (c) and New Section 1 (a) be approved. Seconded by Senator Feleciano. The motion carried on a voice vote.

Senator Salisbury moved, seconded by Senator Jordan, the bill be recommended favorably for passage as amended. The motion carried on a roll call vote.

SB 373: University of Kansas Hospital Authority

Fred Marrs appeared before Committee members in opposition of **SB 373** (Attachment 2). Mr. Marrs stated the Lash Group report indicates the total bad debt control for the University of Kansas Medical Center is listed as \$55,715,000 and total accounts receivable is listed as \$129,380,000, less allowance for doubtful accounts (\$76,442,000) and leaving accounts receivable as \$52,938,000. The total bad debt control, therefore, appears to be 43.1% of total accounts receivable.

Mr. Marrs presented a graph from the Lash Group (Attachment 3) which identified data indicating 74% of the indigent Kansas patients are from Wyandotte and Johnson counties and 14% of the indigent Kansas patients are from 35 other counties. Mr. Marrs also stated the graph indicates the Kansas University Hospital's Missouri indigent patients were 17% of the Kansas indigent patients. Missouri indigent patients charges constituted 19% of Kansas indigent patient charges or

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS, Room 123-S Statehouse, at 11:00 a.m. on March 7, 1997.

\$2,298,000. Mr. Marrs expressed concern in asking Kansas taxpayers to expend \$2.3 million dollars annually to fund K.U. hospital healthcare for indigent Missouri residents.

Mr. Marrs stated it appeared to him this is a quasi socialized medicine program to turn the K.U. hospital into an indigent care hospital for the State of Kansas and include Missouri residents as well.

Questions from Committee members regarding the Kansas University Hospital Authority were answered by members of University of Kansas Medical Center and Mr. Marrs. Senator Ranson expressed concern regarding the content of **SB 373** as well as the structure of the authority. Chairman Kerr advised Committee members that final discussion of **SB 373** would occur next week. Senator Ranson advised she would prepare questions to be answered by University of Kansas officials.

The meeting was adjourned at 12:00 p.m.

The next meeting is scheduled for March 11, 1997.

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: 3-7-97

NAME	REPRESENTING
Ken Baker	KHA
Scott Stone	KAPE
Ann Wagner	KUMC
Bill Watts	KDOT
DALE JOST	KDOT
Victoria Thomas	KU
Marlene Reem	KU
Jon Jackson	KU
Susan Baker	Hein + Wein
Ron Heiri	Columbia
Sue W. Lockett	CASA / C.R.B
Don Ruffalo	SRS
Marvin Purvis	Bd of Regents
Charles Sitzler	KDHE
Galen Hewson	Citizen
Sheryl Feltner	dept of Admin
Shirley Massey	Dept of Admin
Scott Glasrud	KUMC
Tom BASSING	KUMC



DEPARTMENT OF ADMINISTRATION
Division of Accounts and Reports

BILL GRAVES
Governor

DAN STANLEY
Secretary of Administration

SHIRLEY A. MOSES
Director of Accounts and Reports
900 S.W. Jackson, Room 351S
Landon State Office Building
Topeka, KS 66612-1248
(913) 296-2311
FAX (913) 296-6841

March 6, 1997

The Honorable Senator Dave Kerr, Chairperson
Senate Ways and Means Committee
Room 123-S, Statehouse
Topeka, Kansas 66612

Dear Senator Kerr:

Pursuant to the hearing of Senate Bill 104 in the Senate Ways and Means Committee on February 12, 1997, a response to Committee members was prepared by the Department of Administration, Division of Accounts and Reports, and submitted on February 19, 1997. The bill concerns changes in allowable moving expense reimbursements to state employees and authorizes the option for state agencies to pay lodging expenses for traveling employees directly to the lodging establishment. However, to obtain requested fiscal information for moving expenses, identified as "Committee Request #5" in the February 19 response, required a survey of all state agencies. State agencies were given through February 24, 1997 to respond. This letter is in response to this remaining question and also identifies several amendments to be considered by the Committee.

COMMITTEE REQUEST #5:

What is the statewide fiscal impact due to the expansion of moving provisions within Senate Bill 104?

RESPONSE:

Each state agency was requested to provide: (1) the number of additional moves anticipated to be paid during the next fiscal year, given the provisions within Senate Bill 104; and (2) an estimated cost associated with such moves and the funding source(s). A summary of this information is enclosed. Of the 112 agencies solicited, 58 agencies, or 52%, responded. The majority indicated no impact as a result of Senate Bill 104. Based upon the responses received, the annual fiscal impact for FY 1998 is estimated at nearly \$92,000. Over 39% of the fiscal impact is for moves by the Kansas Department of Transportation and would be funded from the State Highway Fund. Parsons State Hospital reported an FY 1998 potential impact of \$20,000 due to unique one-time hiring of staff for a new program. Annual expenditures for moving costs in an average fiscal year would be \$2,500 to \$5,000. Several agencies also reported the existence of internal policies that would limit the fiscal impact notwithstanding any changes in the allowable moving provisions.

Senate Ways and Means Committee

Date 3-7-97

Attachment # 1

The Honorable Senator Dave Kerr

March 6, 1997

Page 2

AMENDMENTS #1 AND #2 FOR COMMITTEE CONSIDERATION:

Sec. 5 amends K.S.A. 1996 Supp. 76-727, which specifically and more strictly governs the eligibility for payment of moving expenses by the Board of Regents and its educational institutions. The proposed amendments below broaden the eligibility of positions, within the Board of Regents only, to receive payment for moving expenses pursuant to their request, as well as a technical amendment in section (c).

(b) (1) Subject to the limitations of rules and regulations adopted by the secretary of administration, the state board of regents may agree to reimburse an applicant for the position of chief executive officer of a state educational institution or an applicant for ~~the position of executive officer of the state board of regents~~ *any position in the office of the state board of regents* for all or part of the applicant's moving expenses from the applicant's usual place of ~~out-of-state~~ residence to the applicant's *new* place of residence ~~in this state~~ as an inducement to the applicant to accept such position of employment.

(c) The provisions of K.S.A. 75-3218 ~~and 75-3219~~, and amendments thereto, and *section 1(a)*, shall not apply to state educational institutions. ~~or to the state board of regents, except that the provisions of K.S.A. 75-3218, and amendments thereto shall apply to employees of the office of the state board of regents other than the executive officer of the state board of regents.~~


If the Committee elects not to adopt the above amendments to K.S.A. 76-727, a technical amendment is still requested on page 5, line 6, to read "*and section 1(a)*" rather than "*and section 1*" to maintain the authority and/or restriction of current law.

AMENDMENT #3 FOR COMMITTEE CONSIDERATION:

New Section 1(a) should include the statement, "*The prior approval of the governor shall be required if the applicant resides out-of-state.*" The statement is recommended to be inserted on page 1, line 22, preceding the statement "*The amount to be paid for moving expenses shall not exceed the amount of the actual moving expenses as verified by receipts.*"

If the Committee has any further questions or information needs, please contact me at 296-2314. Thank you for the opportunity to provide input on these issues and for your consideration of the requested amendments.

Sincerely,


Shirley A. Moses, Director
Division of Accounts and Reports

SAM:sf

cc: Dan Stanley, Secretary of Administration

Enclosure

Agency Survey on Fiscal Impact of Senate Bill 104
Prepared by the Department of Administration, Division of Accounts and Reports

Agency		Estimated	
<u>No.</u>	<u>Agency Name</u>	<u>No. of Moves</u>	<u>Annual Cost</u>
			<u>Funding Source</u>
016	ABSTACTERS' BOARD OF EXAMINERS	0	
028	ACCOUNTACY, BOARD OF	0	
034	ADJUTANT GENERAL	0	
036	STATE COUNCIL ON VOCATIONAL EDUCATION	0	
039	AGING, DEPART+MENT ON	0	
046	DEPARTMENT OF AGRICULTURE	0	
055	ANIMAL HEALTH DEPARTMENT	0	
058	KANSAS HUMAN RIGHTS COMMISSION	0	
082	ATTORNEY GENERAL	0	
083	ATTORNEY GENERAL -KBI	0	
094	BANK COMMISSIONER	0	
100	KANSAS BOARD OF BARBERING	0	
102	BEHAVIORAL SCIENCES REGULATORY BOARD	0	
105	HEALING ARTS, STATE BOARD OF	0	
118	DEPARTMENT OF CIVIL AIR PATROL	0	
122	CITIZENS' UTILITY RATEPAYER BOARD	0	
140	CORPORATION FOR CHANGE	0	
143	CORPORATION COMMISSION	0	
147	OMBUDSMAN OF CORRECTIONS	0	
149	COSMETOLOGY, KANSAS STATE BOARD OF	0	
159	STATE DEPARTMENT OF CREDIT UNIONS	0	
167	DENTAL BOARD	0	
172	DEPARTMENT OF ADMIN - DIVISION OF PRINTING	0	
173	DEPARTMENT OF ADMINISTRATION	0	
176	KANSAS DEVELOPMENT FINANCE AUTHORITY	0	
177	ELLSWORTH CORRECTIONAL FACILITY	0	
195	EL DORADO CORRECTIONAL FACILITY	0	
204	STATE BOARD OF MORTUARY ARTS	0	
206	EMERGENCY MEDICAL SERVICES BOARD	0	
234	FIRE MARSHAL	0	
246	FORT HAYS STATE UNIVERSITY	0	
247	COMM. ON GOVERNMENTAL STANDARDS AND CONDUCT	0	
252	GOVERNOR	0	
258	GRAIN INSPECTION DEPARTMENT	0	
261	KANSAS GUARDIANSHIP PROGRAM	0	
264	DEPARTMENT OF HEALTH AND ENVIRONMENT	0	
266	HEARING AID DISPENSERS, BOARD OF EXAMINERS OF	0	
270	HEALTH CARE STABILIZATION FUND BOARD OF GOVERNORS	0	
276	DEPARTMENT OF TRANSPORTATION	10	36,000 4100
280	HIGHWAY PATROL	8	2,472 1000

Agency Survey on Fiscal Impact of Senate Bill 104
Prepared by the Department of Administration, Division of Accounts and Reports

<u>Agency No.</u>	<u>Agency Name</u>	<u>No. of Moves</u>	<u>Estimated Annual Cost</u>	<u>Funding Source</u>
288	HISTORICAL SOCIETY, STATE			
296	DEPARTMENT OF HUMAN RESOURCES	0		
300	DEPARTMENT OF COMMERCE AND HOUSING		2,000	
313	HUTCHINSON CORRECTIONAL FACILITY			
319	YOUTH CENTER AT TOPEKA	0		
325	YOUTH CENTER AT BELOIT	0		
328	STATE BOARD OF INDIGENTS' DEFENSE SERVICES	0		
331	INSURANCE DEPARTMENT			
349	JUDICIAL COUNCIL			
355	YOUTH CENTER AT ATCHISON	0		
359	KANSAS ARTS COMMISSION	0		
360	KANSAS, INC.			
363	KANSAS NEUROLOGICAL INSTITUTE			
365	KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM			
367	KANSAS STATE UNIVERSITY	0		
368	KSU-SALINA, COLLEGE OF TECHNOLOGY			
371	KANSAS TECHNOLOGY ENTERPRISE CORPORATION	0		
373	STATE FAIR BOARD	1	3,891	5182
379	EMPORIA STATE UNIVERSITY			
385	PITTSBURG STATE UNIVERSITY	0		
391	KANSAS WHEAT COMMISSION	0		
400	LANSING CORRECTIONAL FACILITY			
408	LARNED CORRECTIONAL MENTAL HEALTH FACILITY	0		
410	LARNED STATE HOSPITAL			
412	LARNED STATE HOSPITAL-YOUTH CENTER AT LARNED			
422	LEGISLATIVE COORDINATING COUNCIL	0		
425	LEGISLATIVE RESEARCH DEPARTMENT			
428	LEGISLATURE			
434	LIBRARY, STATE			
446	LIEUTENANT GOVERNOR	0		
450	KANSAS LOTTERY	0		
454	CONSUMER CREDIT COMMISSIONER			
482	NURSING, BOARD OF			
488	OPTOMETRY EXAMINERS, BOARD OF			
494	OSAWATOMIE STATE HOSPITAL	1-2	10,000	
507	PARSONS STATE HOSPITAL AND TRAINING CENTER	8	20,000	
521	DEPARTMENT OF CORRECTIONS			
522	DEPARTMENT OF CORRECTIONS-CORRECTIONAL INDUSTRIES			
523	KANSAS PAROLE BOARD			
531	PHARMACY, BOARD OF			
540	POST AUDIT, LEGISLATIVE DIVISION OF	1	3,800	

1-4

Agency Survey on Fiscal Impact of Senate Bill 104
Prepared by the Department of Administration, Division of Accounts and Reports

Agency <u>No.</u>	<u>Agency Name</u>	<u>No. of Moves</u>	<u>Estimated Annual Cost</u>	<u>Funding Source</u>
543	REAL ESTATE APPRAISAL BOARD			
549	REAL ESTATE COMMISSION	0		
553	KANSAS RACING COMMISSION	0		
555	RAINBOW MENTAL HEALTH FACILITY			
561	BOARD OF REGENTS	0		
562	BOARD OF TAX APPEALS	0		
565	DEPARTMENT OF REVENUE	1	1,300	
579	REVISOR OF STATUTES			
581	NORTON CORRECTIONAL FACILITY	2	2,500	1000
604	KANSAS STATE SCHOOL FOR THE BLIND	0		
610	SCHOOL FOR THE DEAF			
622	SECRETARY OF STATE	0		
625	OFFICE OF THE SECURITIES COMMISSIONER OF KANSAS	0		
626	KANSAS SENTENCING COMMISSION	0		
629	DEPT. OF SOCIAL AND REHABILITATION SERVICES			
634	STATE CONSERVATION COMMISSION	0		
652	DEPARTMENT OF EDUCATION			
660	TOPEKA CORRECTIONAL FACILITY			
663	TECHNICAL PROFESSIONS, STATE BOARD OF			
664	TOPEKA STATE HOSPITAL			
670	STATE TREASURER	0		
677	JUDICIAL BRANCH			
682	UNIVERSITY OF KANSAS			
683	UNIVERSITY OF KANSAS MEDICAL CENTER			
694	COMMISSION ON VETERANS AFFAIRS	0		
700	VETERINARY EXAMINERS, BOARD OF			
709	KANSAS WATER OFFICE	0		
710	KANSAS DEPARTMENT OF WILDLIFE AND PARKS	0		
712	WINFIELD CORRECTIONAL FACILITY	0		
713	WINFIELD STATE HOSPITAL AND TRAINING CENTER			
715	WICHITA STATE UNIVERSITY	10	10,000	
Total Estimated Cost			91,963	
% of Agencies that Responded			51.79%	

To: Senate Ways & Means Committee

For: Hearing re: S.B. No. 373
March 06, 1997

By: Fred L. Marrs

Senate Ways and Means Committee

Date 3-7-97

Attachment # 2

February 28, 1997

Senator Pat Ranson
Assistant Majority Leader/Whip
District 25, Sedgwick County, KS
State Capitol, Room 136-N
Topeka, KS 66612

Senator Barbara Lawrence
Chairman Senate Education Committee
District 30, Sedgwick County, KS
State Capitol, Room 143-N
Topeka, KS 66612

Re: K.U. Hospital Bill, Senate Bill No. 373

Dear Pat and Barbara:

I have reviewed items 1 and 2, and section 4 of item 4 of the documents I identified to you via fax this morning. I would offer the following selected brief comments:

First with respect to the document entitled University of Kansas Hospital Summary of Financial Results for the Six Months ending December 31, 1996, I have selected the following:

Page 1 identifies bad debt expense for December of 1996, in the amount of \$3,506,000. It further identifies year to date F.Y. 1997 and year to date F.Y. 1996 as \$11,691,000 and \$10,247,000, respectively. Accordingly, bad debt expense as exhibited by this chart, would appear to be increasing significantly.

With respect to page 2 for 1996, bad debt expense is listed as follows:

July	\$1,647,000
August	\$1,646,000
September	\$1,740,000
October	\$1,691,000
November	\$1,461,000
December	<u>\$3,506,000</u>
Year to date F.Y. 1997 total	\$11,691,000.

This is 14.1% increase for a six month time period, over the amount for the same time period for the previous F.Y. '96 fiscal year. And, the average for the six month time period in bad debt

expenses, is \$1,948,500 a month.

Page 7 of the report indicates that over the last two and a half years, admissions are averaging around 14,000 patients per year. Since the Executive Summary of the Board of Regents Lash Group Report indicates 64% of the K.U. hospital patients come from the Kansas City metropolitan area, it is hard to contend that the K.U. hospital is in fact substantively serving the entire populous of the State of Kansas.

Page 8 of the report indicates accounts receivable sent to bad debt from in-house collections for December 1996, was \$2,669,000. Accounts with attorneys/collection agents as of December 1996 is listed as \$55,704,000. Total bad debt control is listed as \$55,715,000. Total accounts receivable is listed as \$129,380,000, less allowance for doubtful accounts (\$76,442,000), leaving accounts receivable as \$52,938,000. Total bad debt control, therefore appears to be 43.1% of total accounts receivable.

Since the document entitled University of Kansas Hospital Summary of Financial Results for the Five Months Ending November 30, 1996, is in the same format as the previously cited document above, contains some of the same numbers, obviously, and is simply the report for the previous month, I have elected not to comment.

The following are my comments concerning the fourth document, Report to the Board of Regents, The Ownership/Governance Change, at K.U. Hospital, January 22, 1997, Lash Group, 129 pages, Section 4 only. Even with respect to Section 4, I am only going to make selected comments for brevity purposes, as if you obtain the document I am sure will review it in more detail.

On page 4-4, ¶2, I note the comment:

"In a quickly changing environment, systems are not prone to purchase 'bricks and mortar' unless there is a significant additional value attached to the facility (e.g., the K.U. name)."

In short, the envisioned rationale for expending vast sums of state moneys for bricks and mortar and expanded site projects, is that we will be able to attach the K.U. name to the projects. Perhaps that is a significant rationale for the K.U. folks, but the rest of the taxpaying citizens of the State of Kansas, might have a rather different view.

Page 4-4 ¶3, states:

"The lack of historical balance sheet and clearly delineated flow of funds (sources of cash and expenditures) preclude a definitive

projection of the hard assets which could be considered the hospital's. While we are attempting to unbundle the accounts and programs to define the relationship between the clinic and the academic programs, years of inter-mingling funding sources and operational responsibilities prevent a quick and accurate analysis from being completed." (Emphasis added.)

Why then should we suspect, that even more unbridled authority will be used with any greater amount of efficiency?

On page 4-6, first paragraph, I note the statement:

"A decline in both admissions and patient days has occurred over the past several years and is a growing concern, with regards to both the ongoing financial viability of the hospital and the availability of patients to support the teaching programs....

"These volume declines are consistent with trends in the industry and it is likely that they will continue for the near term." (Emphasis added.)

The K.U. Hospital's dilemma is that in an overbedded market with K.U. hospital admissions and patient days declining, and with K.U. hospital's need for patients to support training programs, they feel compelled to admit more and more uninsured/indigent patients, the cost of which they can no longer support.

On page 4-7 I note the following comments:

"The volume of uncompensated care continues to increase despite the decline in overall patient volumes....

"As more healthcare providers experience the same competitive pressures, one natural result is that more indigent patients are being directed to, or will initially seek care from the University of Kansas hospital. (Emphasis added.)

This statement would appear to imply that for profit hospitals direct indigent patients to the K.U. hospital, so as to maximize their profits; and further that indigents initially seek out the K.U. hospital, apparently because they are aware that they may ignore the invoices. And, of course, indigent is defined as including folks who simply won't respond to invoices.

On page 4-8, I note the statement:

"Since 1980, the State of Kansas has approved the write-off of \$128 million in K.U. Hospital patient charges."

This is an average of \$8 million a year for the last 16 years. However, the report states:

"From F.Y. 1980-1989 the average annual write-off was \$4.5 million per year. Since F.Y. 1990 the average annual write-off has been \$11.8 million per year, a 262% increase." (Emphasis added.)

"In addition to those accounts actually written-off by the state, at June 30, 1996 another \$48 million was currently placed with collection agencies. The collectibility of these types of accounts has decreased from an average collection percentage of around 15% in F.Y. '90 to an average of about 12% in F.Y. '96. Consequently, it is expected that \$42 million of the \$48 million in accounts currently placed with collection agencies will ultimately be written-off as well. As a result of these trends, annual bad debt expense for K.U. hospital approached \$20 million dollars in F.Y. 1996 as compared to 9 million in F.Y. '90." (Emphasis added.)

It is interesting to compare this 20 million dollar F.Y. 1996 statement to page 1 of the Executive Summary of the Lash Group Report which states:

"In addition to being a leading Medicaid provider in Kansas, K.U. Hospital provided approximately 12.0 million dollars in uncompensated care throughout Kansas and the metropolitan Kansas City area in 1996." (Emphasis added.)

On page 4-9, the full Lash Group Report continues:

"KUH's overall service area encompasses the entire state of Kansas and over half of Missouri." (Emphasis added.)

"The following is a profile by county of the uninsured Kansans who received inpatient care at KUH during FY 1995 and FY 1996, but could not pay on their accounts."

The graph is presented on page 4-10, and presents data for seven Kansas counties roughly within about a 50 mile radius of the K.U. hospital, Wyandotte, Johnson, Leavenworth, Miami, Franklin, Douglas, Shawnee, and Other (which includes Kansans from 35 counties in F.Y. 1996). The table indicates 74% of the indigent Kansas patients come from Wyandotte and Johnson counties, and only 14% of the indigent Kansas patients come from 35 other counties. In short, 86% of the indigent Kansas patients, come from an area in Kansas within about a 50 mile radius of the K.U. hospital. Further, the table for F.Y. '96 indicates that these indigent Kansas patients constituted charges in the amount of \$12,067,000. Total uncompensated charges for F.Y. 1996 is identified as \$15,981,000.

Continues the report:

"The above data indicates that over the past two years, KUH had a total of 2,221 uninsured inpatient cases from 46 counties in Kansas which resulted in write-offs totaling \$22.7 million. It is not surprising that half of indigent care services are provided to Wyandotte County residents, however it was somewhat unexpected to find another 25% originating from Johnson County. In addition to the indigent care provided to Kansans, KUH also serves indigent patients from Missouri due to its Kansas City metropolitan location and because of its capability to provide certain specialized tertiary services." (Emphasis added.)

The table exhibited on page 4-11, indicates for F.Y. 1996, that KUH's Missouri indigent patients was 17% of the Kansas indigent patients, and that Missouri indigent patients charges constituted 19% of Kansas indigent patient charges. While Kansas residents were accruing \$12,067,000 in charges, Missouri indigent patients were accruing \$2,298,000 in charges. In F.Y. 1995, these numbers were 19.2% and 21.6%, respectively, even worse than F.Y. 1996. Upon what justification we can now ask Kansas taxpayers to expend 2.3 million dollars annually and growing, to fund K.U. hospital healthcare for indigent Missouri residents, is unexplained. To put it in perspective, while we expended 18 million dollars to expand Hoke Auditorium for K.U. library purposes in the 1993 time frame, and 18 million dollars to expand Farrell library for Kansas State in the 1993 time frame; Wichita State is currently canvassing the community in an attempt to raise 1 million dollars in private moneys to support increased costs for books and publications, at a time in which we are supporting 2.3 million dollars in indigent healthcare charges for Missouri residents. Who in the legislature will stand up and argue that this is justifiable?

On page 4-12 I note the statement:

"What is most striking about the above data is the relative high cost of hospital transfer cases, illustrated by the fact that transfers only constituted 6% of total cases but constituted 14% of total charges. One interpretation could be that high cost cases are being directed to KUH for services." (Emphasis added.)

Under "Summary of Uncompensated Care Trends", the report states, in part:

"A steady decline in patient volumes and reimbursement rates poses a threat to KUH's teaching mission and its ability to subsidize uncompensated care....

"The annual amount of uncompensated care provided by KUH has accelerated rapidly since 1990. Total uninsured/uncompensated care now approximates \$16 million annually, of which \$12 million relates to Kansans with no ability to pay." (Emphasis added.)

And, of course, some \$2.3 million is directly attributable to Missouri residents.

I note on page 4-17, under "Funding Options Could Include the Following", the statement:

"A transportation program potentially could also be incorporated to facilitate patient referrals from rural areas of the state."

In my footnoted comments to the Executive Summary report of the Lash Group, you will see that I wondered aloud whether or not there was an intent to establish a state wide air ambulance service to the K.U. hospital. The legislature should understand, that any such transportation system, would not be inexpensive, but would involve significant millions of dollars.

I further note the statement on page 4-17, concerning indigent care and a transportation system statewide, thusly:

"A significant need exists for coordinated approach to providing and funding indigent care for Kansans....

"Over the longer term, a concept could be developed where KUH's current role would be expanded by designating it as a primary pro-

vider of inpatient indigent care to uninsured Kansans... A transportation program potentially could also be incorporated to facilitate patient referrals from rural areas of the State." (Emphasis added.)

This appears to be a back door quasi socialized medicine program to turn the K.U. hospital into an indigent care hospital for the State of Kansas, no doubt also including Missouri residents, complete with an air ambulance service for indigents. And of course, indigents are defined as uninsured patients. Once a significant number of citizens of the State of Kansas find out that if they no longer pay their insurance premiums, and become uninsured, they can then make use of an air ambulance service to the K.U. hospital for free medical services, with what would essentially be the process of ignoring two or three invoices, the cost of the indigent care program will increase exponentially, and without reasonable estimation. Moreover, since apparently the legislature has not been provided the 129 page Lash Group Report, the prospect of these potential circumstances was not intended to be disclosed to the legislature. Rather, the legislature is being asked simply to approve essentially autonomous authority to implement new programs and services, and simply respond with appropriations for the cost.

On page 4-20, under "K.U. Hospital Operating Trends", I note the statement:

"KUH's current low market share position in the Kansas City metropolitan area puts the hospital in a vulnerable competitive position in an overbedded market." (Emphasis added.)

An overbedded market would imply that capacity is greater than need, but we are to expend moneys to build more brick and mortar and provide sites, which would apparently further overbed the market.

Also under "K.U. Hospital Operating Trends", on page 4-21, is the statement:

"Bad debt expense approaches \$20 million annually, representing 11% of net patient revenues."

On pages 4-22, 4-23, 4-24, and 4-25, you will find presented 3 base line scenarios for the current structure of the K.U. hospital, each of which results in losses by the year 2000, in the amount of \$24 million operating loss, \$10.3 million operating loss, and \$6.1 million operating loss. On page 4-25, under scenario 4 for a new structure of the K.U. hospital, with all the assumptions made, we are to believe that the results will be a \$2.3 million operating margin by fiscal 2000. One of the assumptions is

however, that:

"KUH issues \$35 million in tax-exempt debt during FY 1998 at a 6.5 interest rate."

Of course, the \$35 million in new debt, could ultimately be the responsibility of the Kansas taxpayers. And, this \$35 million, represents about 31% of the governor's 112 million that he seeks in tax relief for the Kansas taxpayers. It would further seem that this \$35 million is being contemplated as bond debt, for use for construction of additional hospital facilities. If so, this \$35 million would be over and above the normal operating costs of the K.U. hospital, which I am led to believe is approaching some \$175 million a year, although I note that I have not seen the latest appropriation report numbers, as they have not yet arrived.

Another assumption is that the K.U. hospital enjoys a 2% increase in market share by the year 2000. However, the report offers no hard evidence that the current negative loss of market share, can in fact be projected with any certainty to a 2% increase by the year 2000. And, if this increased market share is uninsured/uncompensated care, it will be detrimental, not affirmative.

Another assumption is that bad debt expense percentage remains at the fiscal year 1997 level. Why this assumption would be made in face of the current rapidly expanding indigent costs evidenced, including the dumping of such cases on the K.U. hospital, by other Kansas City area hospitals, is not within my understanding.

Another assumption that may relate to the \$35 million increase in debt assumption, is stated thusly:

"Capital expenditures for the years 1998-2000 related to infrastructure, future expansion and new programs are increased to \$12 million annually."

Query, is the report now talking about three additional years at \$12 million, for a total of \$71 million in additional expenditures by the year 2000? I believe it is.

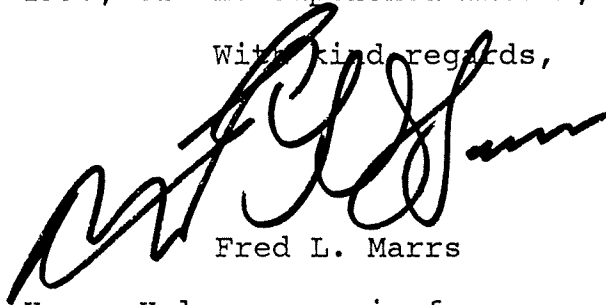
I should further point out that I believe this \$71 million in additional expenses over and above the normal operating costs of the hospital, does not appear to include the cost of establishing an air ambulance service for the state of Kansas. Nor do I suspect there is any place identified by the Lash Group Report, any projection for the total amount of expected expenditures, should the legislature give decision making autonomy to a public authority to essentially allow the K.U. hospital executives to implement their strategic agenda. I should note however that I have not had the time to review the first three sections of the full Lash Group Report that I received yesterday but have only seen today.

I should further point out that this \$71 million in additional expenses over and above the normal operating costs of the hospital, does not include additional, rapidly expanding, millions for write-off of bad debt, which the taxpayers will be asked to fund.

Nor do I believe, from the information I have presently reviewed, that the legislature can presently have any reasonable estimation of the additional costs that the Kansas taxpayers will be asked to fund, should the legislature pass Senate Bill 373, let alone a definitive understanding of said potential increased costs.

In the hope that this partial analysis will at least be of some benefit to your preparation for the Senate Ways and Means hearing on March 6, 1997, of the captioned matter, I am

With kind regards,



Fred L. Marrs

cc: Representative Henry Helgerson, via fax

FLM/dds

P.S. (Saturday 3/01/97) Last night I reviewed Section 1 of the 129 page Lash Group Report and this morning I have accomplished additional calculations from the data exhibited on pages 4-10 and 4-11 in Section 4 of the report, and have the following additional comments:

TOTAL UNINSURED INDIGENT CASES/COSTS, F.Y. 1996

For F.Y. 1996, total uninsured indigent cases is listed as 1,399, the total cost of which is listed as \$15,981,000. From the data presented, one can determine that Wyandotte and Johnson Counties, together with Missouri residents, constitute 70.3% of the total uninsured indigent costs. Wyandotte County constitutes 37.2% of total costs, Johnson County 18.7% of total costs, and Missouri residents 14.4% of total costs. 5 counties within an approximate 50 mile radius of the K.U. hospital, consisting of Leavenworth, Miami, Franklin, Douglas, and Shawnee, constitute 8.7% of the total cost. Wyandotte and Johnson Counties, together with the five counties mentioned in a 50 mile radius of the K.U. hospital, together with Missouri residents, constitute 79% of the total costs.

35 Kansas counties constitute 10.9% of the total costs. However, there are 63 Kansas counties with no cases and no costs. Accordingly, 98 Kansas counties out of 105 total Kansas counties,

constitute 10.9% of the total uninsured indigent costs.

Accordingly, one can see that 98 Kansas counties out of 105 total Kansas counties make up 10.9% of the total insured indigent costs, compared to Missouri residents which make up 14.4% of the total uninsured indigent costs. Stated in another fashion, Missouri residents make up 31.9% more costs, than Kansas residents from 98 out of 105 Kansas counties. Johnson County alone, constitutes 71.6% more costs, than that of 98 of 105 Kansas counties.

What the facts show is that the K.U. hospital indigent care program, is essentially a subsidy program for the K.C. metropolitan area, including Missouri residents, primarily -- either directly or indirectly -- at the expense of the rest of the taxpayers of the State of Kansas, and, in justice and reason, ought to be stopped. It is in my opinion a circumstance, if known to the general populous of Kansas would not be condoned. It is further a prime example of what happens when you allow a packed Board of Regents.

Further, it appears the only viable way to stop the injustice is to sell the assets of the hospital.

Moreover, given its geographical location, the K.U. hospital cannot serve proportionately, indigents statewide, and no air ambulance service can be justified in an attempt to do so.

PARTNER OR JOINT VENTURE RATIONALE

On page 1-39 of Section 1 of the 129 page Lash Group Report, Vulnerability no. 1 is identified as follows:

"Vulnerability 1 - No Defined Linkage Strategy

Providers are rapidly consolidating in the Kansas City market. The absence of a strategic partnership places K.U. hospital in an 'at risk' position."

However, under regulatory relief page 1-29 and page 1-30, the report advises that the K.U. hospital received this ability in 1995, by Senate Bill 171, and Senate Bill 174.

Generally stated, why would other K.C. area hospitals want to partner or joint venture with the K.U. hospital, when they use the K.U. hospital as dumping grounds for uninsured cases, by directing their uninsured potential patients to the K.U. hospital? It is not because K.U. hospital does not have the flexibility to partner or joint venture (see 1995 S.B. 171 and S.B. 174), that is causing the present K.U. hospital problems, but it is precisely because of the K.U. hospital bad debt, now approximately 20 million dollars a year

as of 1996 (see p. 1-19), with an additional approximate \$42 million as of June 30, 1996, that is causing the hospital to be at risk.

In an overbedded market, the K.U. hospital cannot obtain enough patients to remain profitable, or even sufficient patients for training purposes, and a larger and larger proportion of the patients they do obtain, are indigents dumped upon them by the other Kansas City area hospitals.

The K.U. hospital's dilemma is that they need patients for training purposes, so they take indigents from other hospitals including Missouri residents, but in the process absorb sufficient losses so that they cannot remain profitable. The K.U. hospital solution, is to directly dump the cost on the taxpaying citizens of the State of Kansas, for direct reimbursement.

MISCELLANEOUS OBSERVATIONS

In passing I should note that in Section 1, page 1-11, the graph identifies "Other". The data however, from which the graph was made, comes from page 4-11, and "Other" is in fact the data for uninsured patient costs for Missouri residents. It was perhaps deemed embarrassing to the Board of Regents and the Lash Group, to identify the uninsured patient costs for Missouri residents, compared to such costs for Kansas residents.

I should also note in Section 1, page 1-22, the K.U. hospital and Lash Group projections for revenues and expenses. The graph indicates a \$400,000 shortfall for 1997, and 7 million dollar shortfall for 1998. Given this 7 million dollar shortfall for 1998 -- if it is assumed to be believable -- *vis-a-vis* potential open ended liability associated with establishing a public authority with unbridled ability to make decisions, spend money, and pass the costs along to the Kansas taxpayer, there would seem to be no justification to rush to instantly act to establish a public authority. Rather, I believe, taking the time to properly study the facts, will reasonably lead to the conclusion that the most viable alternative is to sell the assets of the hospital coupled with a training agreement. Ownership of the assets of the hospital does not preclude teaching agreements. Nor should the K.U. hospital attempt to compete with the private healthcare market. And, the table presented on 1-28 identifies for diversification and marketing, that the K.U. hospital is prohibited by law from competing with private firms, private hospitals, and physicians. However, I should note throughout the report references by the K.U. hospital and Lash Group to attempts to compete.

Section 1, page 1-19, presents revenues, operating expenses, and bad debt for the K.U. hospital for 1993, 1994, 1995, and 1996, which I assume to be fiscal year data. Since I recall from reviewing State appropriation reports some two years ago, that the

cost to operate the K.U. hospital in F.Y. 1995 was \$151 million, I pulled the reports to check, and determined that the total number was \$151,611,788 that was approved. However, the actual operating expenses for the K.U. hospital as contained in the State appropriations report for the fiscal year 1994, was \$148,554,693. The graph on page 1-19, indicates that K.U. hospital operating expenses for 1994 was \$163 million. Accordingly, there is a \$15 million discrepancy between what it is the State appropriations report says was the K.U. hospital's operating expenses, and what it is the Lash Group says from reviewing K.U. hospital documents, is the K.U. hospital operating expenses for 1994. The Lash Group 129 page report also states:

"While we are attempting to unbundle the accounts and programs to define the relationship between the clinic and the academic programs, years of inter-mingling funding sources and operational responsibilities prevent a quick and accurate analysis from being completed." (Emphasis added.) (See page 4-4 ¶3.)

I therefore suspect that approximately \$15 million of the K.U. medical center expenses for 1994, funded by the State for the K.U.M.C., are considered by the Lash Group to properly be expenses of the K.U. hospital. On its face, the accounting exhibited by the State Appropriations Report, would not seem to be reconcilable with that presented by the Lash Group for 1994 hospital expenses for the K.U. hospital. If the Lash Group is incorrect, by some \$15 million in 1994 operating costs, then how much should we rely upon the Lash Group analysis and recommendations. If on the other hand the Lash Group is correct, and because of a quagmire of years of inter-mingling funding sources and operational responsibilities, the legislature has not received accurate data for its Appropriations Reports with respect to the K.U. hospital, then how is it can we justify with any degree of knowledgeable reliance, providing decision making autonomy so that the K.U. hospital executives can achieve their "strategic agenda"?

I should also note on page 1-38, under "Limited Attractiveness as a Potential Business Partner" the exhibited rationale: "High fixed administrative and personnel costs." However, in the Executive Summary Lash Group Report, there is listed a need to raise salaries to compete with other area hospitals. On the one hand, rationale is offered for the K.U. hospital's limited attractiveness as a potential business partner, being in part related to high fixed administrative and personnel costs, compared to other Kansas City area hospitals; while on the other hand, rationale is offered that said costs are lower than other Kansas City area hospitals, and that there is therefore a need to increase salaries for the K.U. hospital personnel in order to be competitive. These two circumstances are mutually exclusive. I can only

draw the conclusion that the Lash Group is willing to argue whatever rationale sounds good at a particular instant, without concern for the consistency of subjective rationale.

Although I have not had the opportunity to review Sections 2 or 3 of the 129 page Lash Group Report, I do note on page 2-2, that:

"Responding to market and financial pressures, many teaching hospitals are implementing ownership/governance or structural changes to sustain mission effectiveness.",

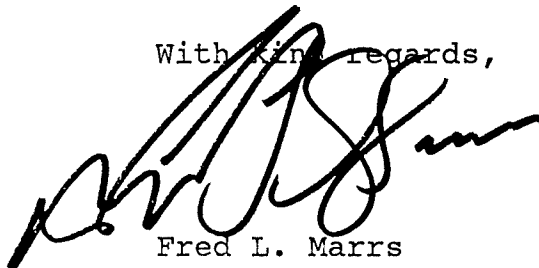
and that Indiana, Minnesota, Tulane, South Carolina, and Oklahoma, have elected to divest their hospitals. The graph also indicates Louisville as having a separate hospital from the university, implying a public authority. In my footnote 59 to the Executive Summary, I identified Louisville as 1 of 14 schools not operating a hospital. I called my source who advised his notes indicate Louisville sold its hospital to Humana. Accordingly, I wonder if both of these charts are not correct, and Louisville first went to a public authority, but then later sold the hospital to Humana? I believe we may have now identified approximately 19 medical schools that do not operate hospitals, but rather use training agreements.

From my review of the above, what leaps at me is the process by which the legislature is presented a sanitized selective mostly subjective report from the Board of Regents, presented as an Executive Summary of the 129 page Lash Group Report, with no K.U. hospital financial data, and then asked to approve a bill to create a public authority with autonomous ability to make decisions and expend funds, and to thereafter send the bill to the legislature. The circumstance presents precise evidence of why it is there is a need to preclude packing of the Board of Regents, so as to potentially preclude these problems in the first instance; and so that when problems do occur, issues can be determined on the merits, and presented to the legislature on the merits, so that the legislature can knowledgeably determine what is in the best interest of the citizens of the State of Kansas.

I am not certain whether I will have any additional time to study Sections 2 and 3 of the 129 page Lash Group Report prior to the hearing on March 6th, but I will appear and try to present some of what it is I am able to accomplish.

In the hope that the above will be of some benefit to your deliberations, I am

With kind regards,



Fred L. Marrs

Table 10

KU School of Medicine Graduates,
Percent Practicing in Kansas in 1994
by Graduation Year Groups

<u>Graduation Year Group</u>	<u>Surviving Graduates</u>	<u>Avg/yr</u>	<u>Graduates Active in Kansas in 1994</u>		<u>#Avg.</u>
			<u>Number</u>	<u>Percent</u>	
1956-1960	471	94.2	89	19	17.8
1961-1965	452	90.4	127	28	25.4
1966-1970	528	105.6	121	23	24.2
1971-1975	741	148.2	245	33	49
1976-1980	847	169.4	273	32	54.6
1981-1985	862	172.4	371	43	74.2
1986-1990	<u>867</u>	<u>173.4</u>	<u>73</u>	<u>8</u>	<u>14.6</u>
Total		4,768	1,299	27	

In the last 5 year time period 86-90 for which data is offered KUH produced 73 M.D.s for Kansas, an average of 14.6/year.

During that same time period we spent on K.U.M.C. and K.U.H. directly for operating budget alone:

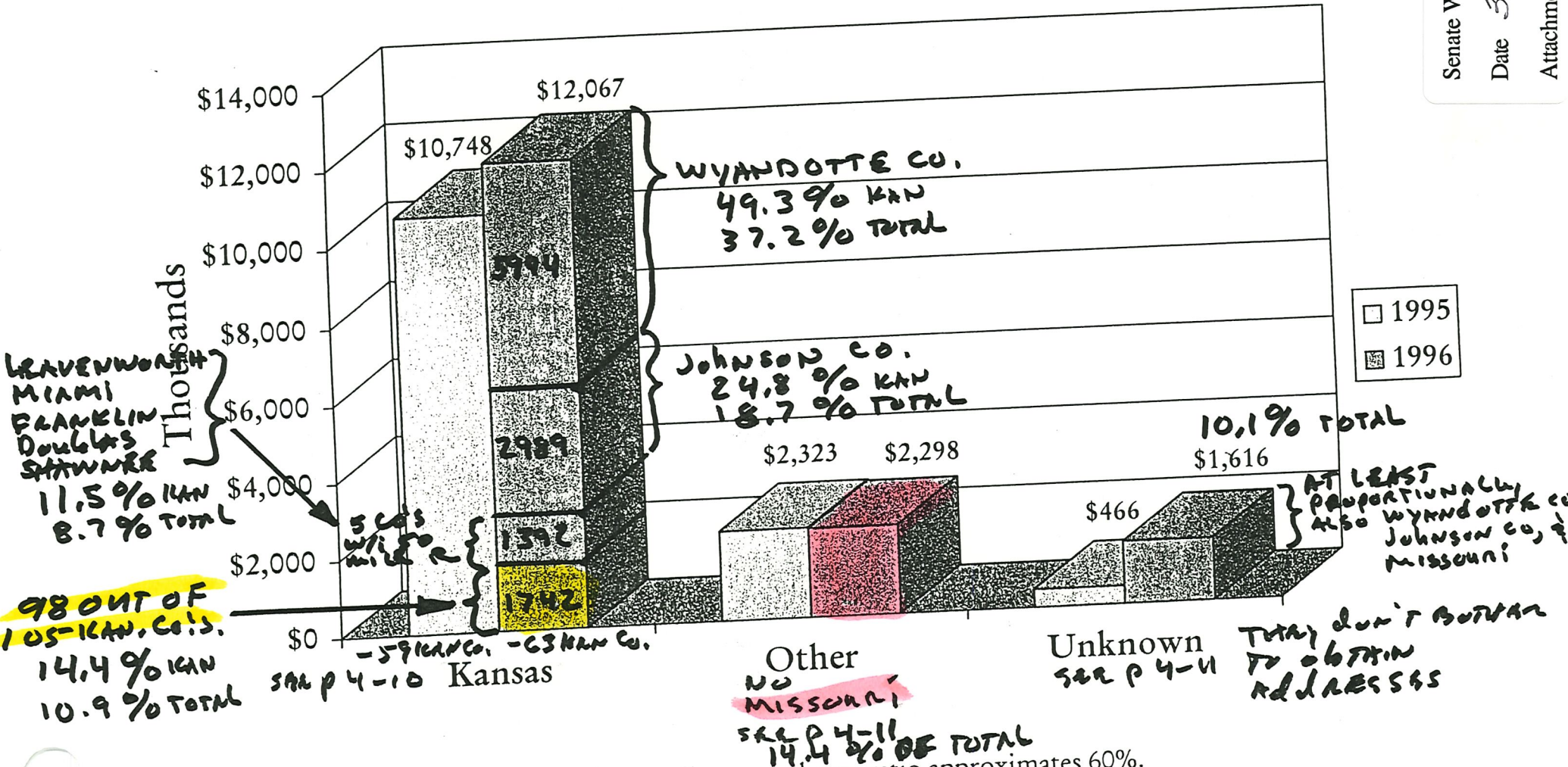
<u>F.Y.</u>	<u>K.U.M.C. & K.U.H.</u>	<u>K.U.M.C and K.U.H. data from State Appropriations Reports.</u>
1985-86	\$166,208,344	
1986-87	175,925,643	
1987-88	188,532,173	
1988-89	200,172,329	
1989-90	<u>216,276,632</u>	Approved numbers.
5 yr totals	\$947,115,121	

There were 73 K.U.H. graduates that stayed in Kansas, during the 5 year time period.

Accordingly, we spent for operating costs only, \$12,974,180 per K.U.H. graduate that stayed in Kansas during this time period.

To put it in perspective, if we offer \$100,000 in stipends for 2 physicians, \$50,000 each, to the 100 least populated counties in the State, it would cost \$10 million per year, or \$50 million over the 5 year period, as compared to \$947,115,121. And, we would obtain 200 doctors instead of 73, at an average cost per doctor for the total 5 year period of \$250,000, compared to \$12,974,184. The counties of course would have to provide the difference between the \$50,000 per doctor, and the actual cost to obtain the doctor, assuming his income from practice would not be sufficient otherwise. The question becomes: what is the most efficient use of taxpayer dollars, to provide physicians for the State of Kansas; and could the differences in these moneys be more appropriately used for other educational needs within the regents system?

Over the past two years, KU Hospital had a total of 2,221 uninsured inpatient cases from 46⁴² counties in Kansas, with write-offs totaling \$22.7 million.*



* Based on gross charges. KU Hospital's overall cost-to-charge ratio approximates 60%.

UNIVERSITY OF KANSAS HOSPITAL
RECONCILIATION OF ACCOUNTS RECEIVABLE (A/R)
DECEMBER, 1996

	<1 IMPENDING BILLINGS	CURRENT RECEIVABLES	IN-HOUSE COLLECTIONS	DEC. 1996 TOTAL	DEC. 1995 TOTAL
Active A/R 11/30/96	\$7,461,000	\$54,881,000	\$13,198,000	\$75,540,000 <2	\$69,333,000
Net Patient Charges	(25,000)	16,884,000		16,859,000	15,519,000
Curr. to In-House Collections		(1,589,000)	1,589,000	0	0
Accounts Receivable Collections		(15,737,000)	(328,000)	(16,065,000)	(11,644,000)
A/R sent to Bad Debt			(2,669,000)	(2,669,000)	(1,233,000)
Active A/R 12/31/96	<u>\$7,436,000</u>	<u>\$54,439,000</u>	<u>\$11,790,000</u>	<u>\$73,665,000</u>	<u>\$71,975,000</u>
Accts. with Attorneys/Collection Agents				\$55,704,000	\$43,906,000
Accts. awaiting Write-Off				11,000	243,000
Total Bad Debt Control				<u>\$55,715,000</u>	<u>\$44,149,000</u>
Total Accounts Receivable				\$129,380,000	<u>\$116,124,000</u>
Less: Allowance for Doubtful Accounts				<u>(76,442,000)</u>	
Net Accounts Receivable				<u>\$52,938,000</u>	

43.1%

NOTES:

<1 Impending Billings include in-house and discharged not final billed inpatient activity.

RR1296
01/23/97
09:13 AM