

MINUTES OF THE SENATE WAYS AND MEANS.

The meeting was called to order by Chairperson Dave Kerr at 11:00 a.m. on January 25, 1999 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: Alan Conroy, Legislative Research Department
Debra Hollon, Legislative Research Department
Rae Anne Davis, Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ann Deitcher, Committee Secretary

Conferees appearing before the committee: Paul West, Legislative Research Department
Irene Cumming, President of the Hospital Authority
Jon Jackson, Hospital Authority Chief
Operating Officer
Marlin Rein, Office of Kansas University Chancellor

Others attending: See attached list.

Senator Kerr introduced Paul West of the Legislative Research Department who explained to the Committee the conclusions and recommendations of the Joint Committee on Oversight of the University of Kansas Hospital Authority. (Attachment 1).

Irene Cumming, President and Chief Executive Officer of the University of Kansas Hospital Authority then spoke of the activities since the establishment of the Authority in 1998. In speaking of the transfer of the hospital to the Authority she said that it was done three months ahead of the December 31 deadline. She also said that all but three of the Authority's 2200 employees transferred.. (Attachments 2 and 3).

Jon Jackson, Chief Operating Officer of the Authority spoke in regard to the Transfer Agreement of the University of Kansas Hospital to the Authority. (Attachment 4).

In continuing, Ms. Cumming spoke of the shortage of nursing staff. When asked if all hospitals in the Kansas City area have the same problems, she said that everyone was facing the same competitive pressures, but because they've not been able to be as aggressive in the market place since they're a state agency, this has limited them.

A status report on **SB 373** from the 1998 session was distributed. (Attachment 4).

Marlin Rein, of the Kansas University's Chancellor's Office, explained **SB 56** to the Committee saying that most of the changes that are in the bill, which amend **SB 373**, are technical. What is proposed in this piece of legislation is to call for the expiration date of Trustee terms in office to occur on March 15 rather than the current date of May 26, and to stagger the years of expiration.

Mr. Rein then spoke of **SB 25**, which was introduced and recommended by the Joint Committee on Oversight of the Kansas University Hospital. (Attachment 5).

During discussion of the phrasing of the bill, it was agreed that the word "approved" would not be acceptable since the Legislature is not allowed to delegate the Legislative authority for approval to a committee.

The Committee agreed to delay any possible action on **SB 24** until a later date.

CONTINUATION SHEET

MINUTES OF THE SENATE WAYS AND MEANS, Room 123-S Statehouse, at 11:00 a.m. on January 25, 1999, 1999.

It was moved by Senator Feleciano and seconded by Senator Salisbury that **SB 56** be recommended for passage. The motion carried on a roll-call vote.

It was moved by Senator Morris and seconded by Senator Ranson that **SB 25** be recommended for passage. The motion carried on a roll-call vote.

It was moved Senator Salisbury and seconded by Senator Jordan that the minutes of January 19, 20 and 21 be approved. The motion carried on a voice vote.

It was moved by Senator Salisbury and seconded by Senator Morris that the Governor's budget bills be introduced as they come to us in a blanket bill. The motion was adopted by a voice vote.

The meeting was adjourned at 12:05 p.m. The next meeting is scheduled for Tuesday, January 26, 1999.

JOINT COMMITTEE ON OVERSIGHT OF THE UNIVERSITY OF KANSAS HOSPITAL AUTHORITY

HOSPITAL AUTHORITY TRANSITION OVERSIGHT*

CONCLUSIONS AND RECOMMENDATIONS

The Committee recommends the introduction of legislation which would permit the Authority to make improvements to property leased from the state and which abolish the Committee as of July 1, 1999. The Committee also recommends that subcommittees of the Senate Ways and Means Committee and House Appropriations Committee review post transition workers' compensation payments to former state employees.

BACKGROUND

The 1998 Legislature created the University of Kansas Hospital Authority with the passage of Senate Bill No. 373. The Authority is responsible for the operation of the hospital program associated with University of Kansas Medical Center in Kansas City, Kansas. Under the terms of the legislation, responsibility for and authority over the hospital transfers from the Board of Regents to the University of Kansas Hospital Authority no later than December 31, 1998. After the transfer date the hospital's receipts and expenditures will no longer be considered a part of the state budget.

The Legislation also created the Joint Committee on Oversight of the University of Kansas Hospital Authority. The Joint Committee is charged to:

- monitor the implementation of the legislation including the transfer of assets and liabilities from the University of Kansas Medical Center to the Authority and the development of operational policies by the Authority's Board

of Directors;

- review administrative systems implemented by the authority including the establishment of personnel and financial management systems;
- analyze the quantity and quality of services rendered by the authority and the need for such services;
- conduct an ongoing review of revenues and costs; and
- review the Authority's capital structure, plans for the issuance of indebtedness for major equipment acquisitions or capital investments, and long range physical development plans.

COMMITTEE ACTIVITIES

The Joint Committee held hearings at the University of Kansas Medical Center and in Topeka. During these meetings the Joint Committee received briefings from representatives of the Authority and the University of Kansas Medical Center.

The Authority's Board of Directors were

* S.B. ____ and S.B. ____ accompany this report.

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appointed by the Governor on May 22, 1998. Effective October 1, 1998, the assets and liabilities of the hospital program were transferred from the University of Kansas Medical Center to the Authority.

Assets Transferred. The net assets received by the Authority are estimated to total \$90.0 million. Physical assets transferred to the Authority include the Bell Hospital Building and the Radiation/Oncology Building. These facilities, as well as equipment used by the hospital, were transferred since the primary purpose was for patient care. The parking lot is retained by the state, but a long term goal will be the creation of some free parking available to hospital patients and visitors. The land on which the buildings are constructed is retained by the state, with the Authority holding a 99-year lease. Both the Medical Center and the Authority will continue to share some facilities through a series of mutual leases.

Financial assets transferred include \$23.4 million in cash, accounts receivable worth an estimated \$36.0 million and partial interest in three health care organizations worth an estimated \$4.3 million. The Authority has assumed \$9.1 million in long term capital leases and \$8.2 million in accrued employee pay and benefits. The Authority has also signed an indemnification agreement to hold the Board of Regents harmless for past and future transactions.

All employees working in functions transferred to the Authority were given the opportunity to retain their positions with the new organizations. After a series of meetings and the distribution of information, only three of the 2,200 full time employees chose not to transfer to the Authority.

Operational Items. The Authority has signed affiliation agreements with the appropriate groups associated with the Medical Center to emphasize the mutual goal of maintaining excellence in medical education while improving the market position of the hospital program. Task forces comprised of members of both the Authority and the Medical Center reviewed the existing

business functions in order to evaluate the comparative advantages of shared versus stand alone services. It was determined that some services, such as telecommunications and security, would be shared between the two entities. The Authority has developed its own separate systems or contracted with private sector firms for accounting, materials management, public relations, personnel, and payroll services.

The Authority in the Marketplace. Representatives of the Authority's Board of Directors characterize the Kansas City area health care industry as having excess capacity and too many health plans. While the hospital program has maintained a positive cash flow, patient days and market share have continued to decline. If the status quo is maintained, the five year outlook for the Authority is not positive. The Authority faces several challenges to reverse this trend, including increasing competition and more uninsured patients and decreasing reimbursement rates and low cash reserves.

The Authority has set a goal of increasing their market share by two percent by 2003. To achieve this goal the Authority plans to increase the availability of ambulatory care services and conduct a more aggressive marketing campaign aimed at building long-term consumer relationships and emphasizing the Authority's position as an academic medical center with over 300 physicians.

The Authority is also developing long term strategic capital and financial plans, with the goal of obtaining an "A" rating from the national financial rating services. Compared to the median "A" rated hospital, the Authority has low cash availability but a positive debt to capitalization ratio.

Other Issues. Representatives of the Authority have identified two areas of difficulty with the transition which were not anticipated in the original legislation. Under current law, if the Authority desires to make improvements to space owned by the Medical Center but leased to the Authority specific Legislative authorization is required for each project. Improvements spon-

sored by the endowment association only require the approval of the Board of Regents and review by the Joint Committee on State Building Construction. The Authority requests the consideration of legislation which permits them to make improvements on property leased from the Medical Center subject to the approval of the Board of Regents and review by the Joint Committee on State Building Construction.

At the Committee's last meeting, the Authority also discussed a difficulty with some existing workers' compensation claims. Under the state's self insurance program, estimated payments for workers' compensation claims are budgeted annually and then all state agencies are assessed a percentage of their payroll at the rate required to collect sufficient funds to pay the estimated expenditures. This contrasts with the common private sector insurance contract where the insurer is responsible for all claims resulting from injuries which occurred while the insurance contract was in force. Several Authority employees were injured while state employees and have been receiving periodic workers' compensation payments from the Department of Administration. With the transition to the new governance structure, the Department of Administration has determined that the Authority would be responsible for all the payments still owed to these former state employees. Authority officials have estimated the cost of these payments at approximately \$500,000.

CONCLUSIONS AND RECOMMENDATIONS

The transition of responsibility for hospital operations from a state agency to a public authority has been accomplished in a very thorough and professional manner but not without a great deal of work and difficulty. The people involved deserve a lot of credit in accomplishing the transition with a minimum of upset to ongoing hospi-

tal operations and employees. The Committee especially wishes to recognize the efforts of Dr. Donald Hagen, Executive Vice Chancellor, University of Kansas Medical Center. Many other executives would not be so willing to reduce their sphere of influence and control for the betterment of the whole organization. The Committee believes many positive things are developing with the Authority which will help ensure the long term viability of the hospital while maintaining excellence in education and research at the Medical Center.

The Committee recommends the introduction of legislation which authorizes the Authority to make improvements to facilities leased from the Medical Center with the approval of the Board of Regents and review by the Joint Committee on State Building Construction. The Committee also recommends that the appropriate subcommittees of the Senate Ways and Means Committee and House Appropriations Committee review the workers' compensation issue to determine if the University of Kansas Hospital Authority should be held responsible for payments to employees who were injured while the hospital was part of state government.

Finally, the Committee recommends the introduction of legislation which will abolish the Joint Committee on Oversight of the University of Kansas Hospital Authority as of July 1, 1999. The most difficult areas of implementing S.B. 373 have already been accomplished, specifically the creation of the Authority and the transfer of responsibility for the hospital operations. The challenges facing the Authority are of the sort requiring decisions from the Authority's Board of Directors. The Board of Directors has several university officials as well as current and former legislators serving as members. In conjunction with the Senate's confirmation oversight, this membership seems adequate to ensure the state's interests in the Authority's operations.

TESTIMONY TO SENATE WAYS AND MEANS COMMITTEE
JANUARY 25, 1999

Status Report on the University of Kansas Hospital Authority

My name is Irene Cumming. I serve as the President and Chief Executive Officer of the University of Kansas Hospital Authority. My purpose today along with my colleague, Jon Jackson, who is the Chief Operating Officer of the University of Kansas Hospital Authority, is to provide an overview of the activities since the establishment of the Authority last year, and the future direction of the Authority. Senate Bill 373 established the Hospital Authority as an independent instrumentally of the State with its own governing board.

As set forth in Senate Bill 373, the Authority's governing board is a 14-member board. The external board members were appointed by the Governor on May 22, 1998. The handout lists the Board members, their affiliation and terms. Three ex-officio voting members consist of the Chancellor of the University of Kansas, the Executive Vice Chancellor of the University of Kansas Medical Center and the Executive Dean of the University of Kansas School of Medicine. Three non-voting ex-officio members include the Chief of Staff of the University of Kansas Hospital medical staff, the President of the Authority and the Dean of the University of Kansas School of Nursing.

The legislation also required that of the eight members appointed to the initial board representing the general public, two were to be members of the Kansas Legislature, two were to be members of the Kansas Board of Regents and four were general public members. The two

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members currently serving on the Authority Board whose terms will expire during calendar year 2000 are Senator Sandy Praeger and Senator Sherman Jones.

The first board meeting was held on July 14 & 15, 1998. We had 100% board member attendance. Prior to the first meeting, the Chancellor and I spent several hours with each individual board member to ensure that each board member had appropriate orientation. The Board met again in August and September.

During those meetings, the Board developed its corporate bylaws in accordance with Senate Bill 373 and addressed the Board organization, such as appointment of officers and committees and a conflict of interest policy. The Board approved the Hospital Authority's mission statement, a copy of which is included in your handout, as well as operational policies of the Hospital such as investment guidelines, personnel compensation and benefit plan, personnel policies and procedures, retirement plans, and medical staff bylaws.

The Board assigned a task force to address the master affiliation agreement, transfer agreement and master ground lease, all of which we will briefly describe to you today. The Board approved the Hospital's strategic initiatives for fiscal year 1999 and the 1999 operating and capital budget. As you can see, there was a significant amount of very important work to be accomplished and the direction and oversight of the Board has been invaluable.

One of the most important agreements between the Authority and the University is the Master Affiliation agreement. This agreement establishes the working relationship of these two entities. Communication and collaboration are essential. The Master Affiliation Agreement sets forth guiding principles to establish collaborative working relationships and to strengthen all parties. These principles are as follows:

- Further the respective interests of each party to support and carry out the intent and purpose of the Act, which created the Hospital Authority.
- Recognize that the parties share a common campus and, as a result, each party is mutually dependent upon certain shared services and each party commits to the efficient and effective delivery of those shared services.
- Recognize the benefit to patients if patient care areas and clinical space are arranged in a manner that best meets the patients' convenience and needs.
- Promote collaboration through effective communication to strengthen KUPI, the academic medical center and each of its components.
- Recognize each party's right to conduct its own business and make independent decisions, which shall be balanced by each party's commitment to collaborative planning and decision making.
- Commit each party to the development of quality programs and services for its constituencies, including adoption of measurable performance standards.

The Authority's responsibility to the University are as follows:

- Operate the hospital as a state of the art teaching and research hospital.
- Facilitate and support the education, research and public service activities of the University.
- Support the academic programs established by the University.
- Support current Graduate Medical Education funding and work with the University on any future modification to funding.
- Consult with University on hiring of key Authority executive management.

We accomplished the transfer of the Hospital on September 30, three months in advance of the December 31 deadline. At that time all but three of the Authority's 2200 employees transferred to the Hospital Authority.

Jon Jackson is prepared to provide information to you about the legal and operational aspects of that transfer.

Now the real work has begun. As we have testified previously, the changes in healthcare and the competitive marketplace place considerable stress on the future of the Hospital. We have conducted a detailed assessment of the Hospitals Authority's current position and are focused on the opportunities and challenges ahead. In December, we added 33 primary care physicians to our complement to provide easier access to our services. In February we will open KU Med West, which is a 60,000-sq. ft. multispeciality physician clinic and ambulatory surgical suite in Shawnee. We are taking steps to be accredited as a Level I trauma center. We have added resources to develop a spinal cord injury center. We will be opening this summer a new renal dialysis center in Westwood. Our new burn center and recovery pavilion had its opening last week. We are in the process of building a new unit for our pediatric patients, adding a skilled nursing facility and developing a senior resource center to support our patients. We have implemented a call center to improve accessibility for our patients to our services. Our new public relations and marketing staff have been extremely successful in positioning the Authority as the academic medical center and our rate of positive media coverage has far exceeded our expectations.

The Board of Directors meets every other month for a full day. The Executive Committee of the Board routinely meets on the alternate months and on as-needed basis. On February 5, the Board of Directors will participate in a strategic planning retreat to define our future strategy and capital financing plans. There is much to be done but the expertise and commitment is there to make the Authority a success.

STATUS REPORT

SENATE BILL No. 373

UNIVERSITY OF KANSAS HOSPITAL AUTHORITY

SENATE WAYS AND MEANS COMMITTEE

JANUARY 25, 1999

Senate Ways and Means Committee

Date 1/25/99

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University of Kansas Hospital

University of Kansas Hospital Mission

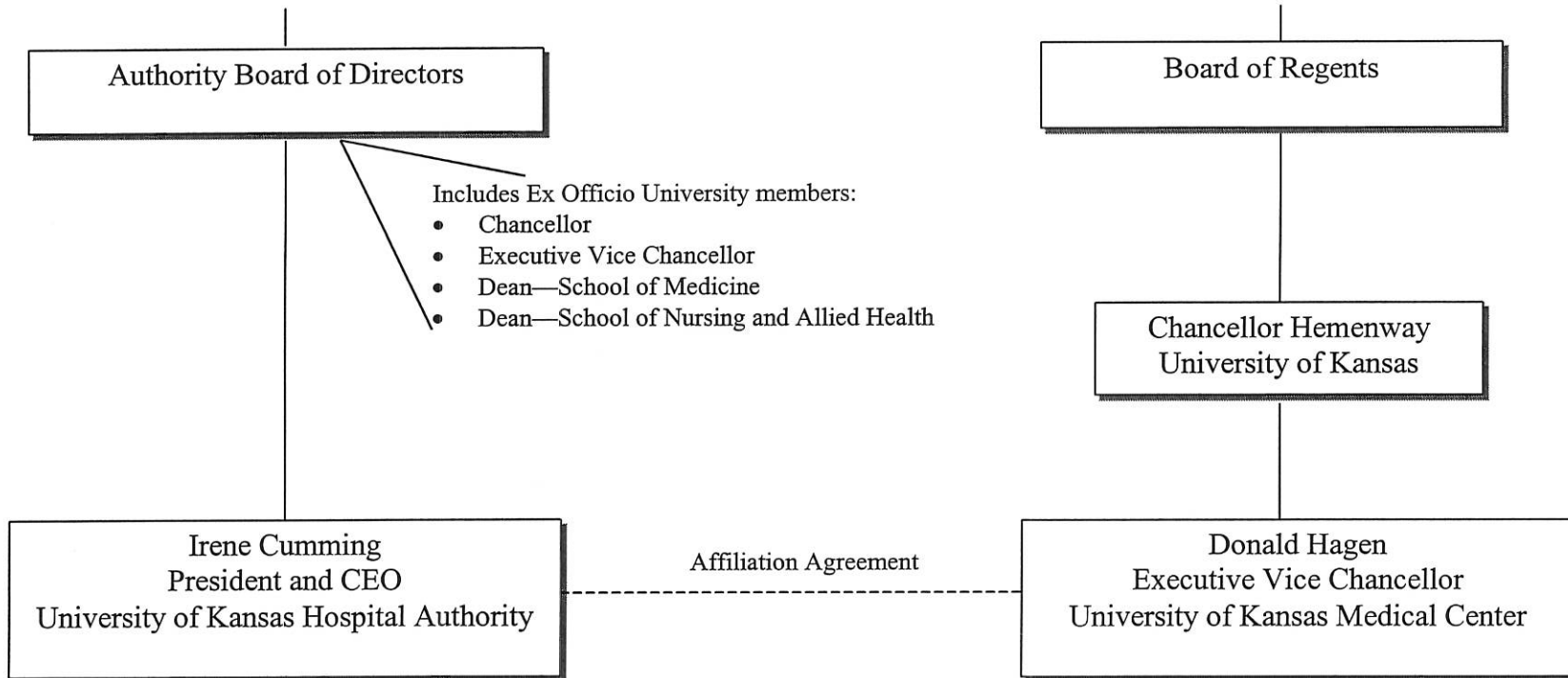
With a dedication to excellence, it is the mission of the University of Kansas Hospital with its partner physicians to maintain and enhance the health of all people living within the communities that we serve and to facilitate and support the education, research, and public service activities of the University of Kansas Medical Center.



KU Hospital

University of Kansas Hospital Authority and the University of Kansas Medical Center

Executive Level Affiliations





University of Kansas Hospital Authority Board

BOARD OF DIRECTORS

H. William Barkman, M.D.

Dr. Barkman is the Chief of Staff of the University of Kansas Hospital. He was appointed Chief of Staff in July 1998. Dr. Barkman came to the Medical Center in 1989, serving as associate professor of Internal and Preventive Medicine, and senior physician and director of the Center for Environmental and Occupational Health. Before joining the University of Kansas Medical Center, Dr. Barkman spent nine years with Tulane Medical Center in New Orleans. He received his bachelor of arts degree in biology from Drake University, doctor of medicine degree from Creighton University, and master of science degree in public health from the University of Utah. Dr. Barkman is a member of the Great Plains College of Occupational and Environmental Medicine and served as its vice president in 1993 and president in 1994. Dr. Barkman is a non-voting *ex officio* member of the University of Kansas Hospital Authority Board of Directors.

Edward J. Chapman, Jr., Esq.

Mr. Chapman is a partner in Chapman and Waters, a private law practice in Leavenworth, Ks. He serves on a number of civic and community organizations, including the Leavenworth County Community Health Assessment Task Force, the Leavenworth Area Development Corporation and the Leavenworth Historical Museum Association. He earned his undergraduate and law degrees from the University of Kansas. Mr. Chapman's appointment to the University of Kansas Hospital Authority was confirmed on January 19, 1999. His term will expire on May 25, 2001.

Irene M. Cumming

Ms. Cumming is the President and Chief Executive Officer of the University of Kansas Hospital Authority. She was appointed Chief Executive Officer in April 1996. At KU, Ms. Cumming has served as the Chief Operating Officer and the Chief Financial Officer. Before joining KU, Ms. Cumming was Associate Director of Medical Affairs and Chief Executive Officer of Saint Luke's Medical Development Corporation in Kansas City. From 1989 to 1993, she was Executive Vice President and Chief Financial Officer of Allegheny Health Education and Research Foundation. She was also Senior Associate Dean of its medical school, the Medical College of Pennsylvania. Ms. Cumming was one of the first females to become a partner in the national health care division of Price Waterhouse. Ms. Cumming is a non-voting *ex officio* member of the University of Kansas Hospital Authority Board of Directors.

William R. Docking, Esq., Regent

Regent Docking is President, Director and Chief Executive Officer of the Union State Bank in Arkansas City and Chairman of the Board of City National Bank and Trust Company in Guymon, Oklahoma. Regent Docking holds three degrees, each from the University of Kansas. He has served on the Kansas Board of Regents since 1995. Mr. Docking is a trustee of the Cowley County Community College Endowment Association and a trustee of the University of Kansas Endowment Association. Regent Docking's appointment to the University of Kansas Hospital Authority was confirmed on January 19, 1999. His term will expire on May 25, 1999.

**George J. Farha, M.D.
Vice Chairman**

Dr. Farha is Chairman of the Board and President of Wichita Surgical Specialists, PA in Wichita. He was the founding Chair of the Department of Surgery at the University of Kansas School of Medicine-Wichita. Dr. Farha is an active member in a number of medical and surgical professional organizations and has been awarded several honors for his work by various professional and academic groups. Dr. Farha's appointment to the University of Kansas Hospital Authority was confirmed on January 19, 1999. His term will expire on May 25, 2001.

Donald F. Hagen, M.D.

Dr. Hagen is the Executive Vice Chancellor of the University of Kansas Medical Center, the administrator for the Kansas City and Wichita campuses of KU Medical Center. He was appointed Executive Vice Chancellor in June 1995. Previously, Dr. Hagen was the 31st Surgeon General of the United States Navy, he served as Commander of the National Naval Medical Center in Bethesda, MD and as Commanding Officer, Naval Hospital in Camp Pendleton, CA. He was commissioned in the Navy in 1964 and served as a battalion surgeon with the Marine Corps in Vietnam, a general medical officer aboard the hospital ship USS Repose off the coast of Vietnam and as staff surgeon with the Navy's Riverine Assault forces, Mekong Delta. Dr. Hagen received his BS degree from the University of North Dakota, his medical degree from Northwestern University, and completed his surgical residency in 1973 at the Naval Hospital, Portsmouth, VA. Dr. Hagen is an *ex officio* member of the University of Kansas Hospital Authority Board of Directors.

**Dr. Robert E. Hemenway, Chancellor
Chairman**

Dr. Hemenway is Chancellor of the University of Kansas, which includes the main campus in Lawrence; the Medical Center in Kansas City, Kan., with a clinical campus in Wichita; and the KU Regents Center in Overland Park. He was appointed Chancellor in June 1995. Dr. Hemenway served as chancellor of the University of Kentucky's Lexington campus for six years before becoming KU's 16th chancellor. He received his bachelor's degree from the University of Nebraska at Omaha and his doctorate in English from Kent State University in Ohio. Chancellor Hemenway is an *ex officio* member of the University of Kansas Hospital Authority Board of Directors and serves as Chairman of the Board for the Authority.

Sherman Jones, Senator

Senator Jones serves the 4th Kansas Senate District of Kansas City, Kansas and Wyandotte County. After serving four years in the Kansas House, Senator Jones was elected to the state Senate in 1992 and was re-elected in 1996. Senator Jones serves on the Senate Federal & State Affairs, Education and Public Health & Welfare Committees. He is a retired police officer and former major league baseball player. Senator Jones is a member of the National Black Legislative Caucus, the Kansas Black Legislative Caucus, Optimists International and the Masons. Senator Jones' appointment to the University of Kansas Hospital Authority was confirmed on January 19, 1999. His term will expire on May 25, 2000.

Dorothy W. Lynch

Ms. Lynch is active in the University of Kansas Alumni Association and serves on the Board of Trustees of the University of Kansas Endowment Association. In addition, Ms. Lynch has served in a variety of civic and community functions in Salina including the Salina Airport Authority, the Salina Community Theater and endowment boards for Asbury Hospital and the Salina YWCA. Ms. Lynch's appointment to the University of Kansas Hospital Authority was confirmed on January 19, 1999. Her term will expire on May 25, 2000.

Karen L. Miller, RN, PhD, FAAN

Dr. Miller is Dean of the University of Kansas School of Nursing and Dean of the University of Kansas School of Allied Health. She was appointed Dean of the School of Nursing in February 1996 and Dean of the School of Allied Health in April 1998. Prior to joining KUMC, Dr. Miller was Vice President for Nursing at the Children's Hospital, Denver, and associate professor at the University of Colorado Health Sciences Center (UCHSC). She was appointed to the NIH National Institute of Nursing Research Advisory Council in 1995, and is a member of the editorial boards for the Journal of Nursing Administration and IMAGE: Journal of Nursing Scholarship. Dr. Miller earned her doctor of philosophy and master's degrees from the University of Colorado Health Sciences Center. She completed her baccalaureate degree in nursing from Case Western Reserve University, Cleveland. Dr. Miller is a non-voting *ex officio* member of the University of Kansas Hospital Authority Board of Directors.

Mark V. Parkinson, Esq.

Mr. Parkinson is a founding partner of Parkinson, Foth and Orrick, LLP, a private law practice in Olathe. Mr. Parkinson serves as Chairman of the Board of the Mission Springs Assisted Living Facility. He is a former state lawmaker, serving in the Kansas House of Representatives from 1991 through 1993, and in the Kansas Senate from 1993 through 1996. Mr. Parkinson earned an undergraduate degree from Wichita State University and a law degree from the University of Kansas. Mr. Parkinson's appointment to the University of Kansas Hospital Authority was confirmed on January 19, 1999. His term will expire on May 25, 2001.

Deborah E. Powell, M.D.

Dr. Powell is the Executive Dean and Vice Chancellor for Clinical Affairs of the University of Kansas School of Medicine. She was named Executive Dean in April 1997. Prior to joining KUMC, she was professor and chair of pathology and laboratory medicine at the University of Kentucky College of Medicine, Lexington. Dr. Powell earned her bachelor's degree cum laude at Radcliffe College at Harvard University and medical degree at Tufts University School of Medicine. After a pathology internship at Georgetown University Medical Center, she was a pathology resident and staff fellow and then a research pathologist and fellow at the National Institutes of Health. She has received several academic honors, including the University of Kentucky William R. Willard Dean's Recognition Award in 1995. Dr. Powell is an *ex officio* member of the University of Kansas Hospital Authority Board of Directors.

Sandy Praeger, Senator

Senator Praeger serves the 2nd Kansas Senate District of Lawrence and Douglas County. After serving on the Lawrence City Commission as Lawrence Mayor and in the Kansas House, Senator Praeger was elected to the state Senate in 1992 and was re-elected in 1996. She chairs the Senate Public Health & Welfare Committee and serves on the Assessment & Taxation and Financial Institutions & Insurance Committees. Senator Praeger serves on a variety of community organizations, including the Board of Directors of CASA (Court Appointed Special Advocates). Senator Praeger's appointment to the University of Kansas Hospital Authority was confirmed on January 19, 1999. Her term will expire on May 25, 2000.

Sylvia L. Robinson, Regent

Regent Robinson is the Manager and Program Officer of the Ewing Marion Kauffman Foundation, Kansas City. She has had a diverse career in public education as a teacher and administrator. Regent Robinson has served on the Kansas Board of Regents since 1996. She earned two post-graduate degrees from the University of Kansas and an undergraduate degree from Kansas State University. She is active in a number of academic organizations, including the National Alliance of Black School Educators. Regent Robinson's appointment to the University of Kansas Hospital Authority was confirmed on January 19, 1999. Her term will expire on May 25, 1999.

Status report on the University of Kansas Hospital Authority
Senate Ways and Means Committee
January 25, 1999

My name is Jon Jackson. I am vice president and chief operating officer of the University of Kansas Hospital Authority. I will be giving the Committee some brief information on the other agreements and activities which were part of this very complex transition which transferred the University of Kansas Hospital from the University to the Authority.

The Transfer Agreement was to provide a comprehensive agreement governing the transfer of the facilities, assets, employees and obligations of the University of Kansas Hospital to the Authority. Major provisions of the agreement provided for the transfer of all tangible and intangible assets owned by the University which were associated with the operation of the University of Kansas Hospital or would typically appear on the Hospital's balance sheet. Examples of such assets included cash and prepaid expenses, accounts receivable, the Radiation Oncology and the Bell Hospital buildings, hospital fixtures and equipment, records, licenses and contracts. The agreement also provided for the transfer all of the liabilities and obligations of the University relating to the operation of the Hospital whether fixed or contingent, recorded or unrecorded, known or unknown. Examples of such liabilities included accounts payable, accrued expenses, assumed contracts, collective bargaining agreements, third party payor obligations and third party claims. Complicating this identification was the historical operation of the Hospital as a division of the Medical Center with its assets and liabilities combined within other Medical Center divisions.

To provide a reasonable level of assurance that Hospital assets and liabilities in the transfer agreement were appropriately identified and quantified, a due diligence process was undertaken using an outside accounting firm. A request for proposal was issued to seven audit firms with the due diligence procedures scope established in conjunction with the Medical Center. Ernst and Young was the firm selected. For purposes of closing, Hospital assets and liabilities were quantified as of June 30 with an updated (October 1) balance sheet prepared post-closing. Any adjustments to the closing balances will be reported to the Authority Board and the Kansas Board of Regents. At closing, \$23.4 million was transferred to the Authority and \$10.9 million remained in the Hospital Revenue Fund as a hospital asset to liquidate open encumbrances.

Another major agreement which was required for closing is the Master Ground Lease. While two of the buildings which were primarily used by the Hospital were transferred to the Hospital Authority, most others on the campus did not, nor did the land upon which the two buildings are sited. The land, as required by Senate Bill 373, is retained by the State and is leased to the Authority for 99 years. The Master Ground Lease provides the exact legal description of this property as determined by a land survey. It also grants the Authority non-exclusive access easements and defines responsibilities for utilities used by the Hospital. The Master Ground lease also defines maintenance and repair responsibilities for those shared infrastructure systems

used by all parts of the campus, such as utility systems and tunnels, building control systems, telephone and information systems to name a few examples.

While two buildings which are predominantly used by the Hospital were transferred to the Authority, Hospital and University space is intermingled throughout the campus. Because the Hospital has programs in areas within the University and likewise the University has programs within the buildings owned by the Authority, we have established leases and sub-leases to define the terms for utilization of space, rights of access, provide guidance for maintenance, repairs, utilities and services, alterations and improvements, and damage or destruction of each party's premises. With the establishment of the Authority, property insurance was obtained for all buildings which house Hospital operations.

In addition to the shared physical location of the University and the Authority, many support services are also shared. While some functions such as human resources, materials management and accounting appropriately were established separately within the Authority, many other areas continue to provide service to both the University and Authority. To provide appropriate guidance and proper accounting for these areas, over 25 service agreements were established between the Authority and University. These define responsibilities, accountabilities, terms and reimbursements for these shared services. A few examples of these shared services include police, parking, facilities management, architectural and engineering, housekeeping, telephone and networking.

Other major transition activities included the assignment of private payor contracts to the Authority, obtaining a "private letter ruling" from the Internal Revenue Service concerning the tax exempt status of the Authority, change of ownership notifications and the "transfer" of collective bargaining agreements for the Kansas University Nurses Association and the Public Service Employees Union.

The Authority also established several core systems which had to be created with the separation from the State. These systems include general finance and accounting, materials management, human resources and payroll. A compensation and benefits structure was established and arrangements were made for participation in KPERS and the State health insurance plans through calendar 1999. Many employee meetings were held during this time to ensure that all employees had enough information concerning the new Authority to make an informed decision about whether or not to transfer to the Authority. I believe that one of our most significant accomplishments during this period was that of the approximately 2200 hospital staff, only 3 decided not to accept a position with the Hospital Authority. As scheduled, on October 30 these employees received their first paychecks from the Hospital Authority, which were accurate and on time.

SENATE BILL 25
TESTIMONY TO SENATE WAYS AND MEANS COMMITTEE
January 25, 1999

My name is Marlin Rein and I am here representing the University of Kansas Medical Center on Senate Bill 25.

Senate Bill 25 was introduced by the Joint Committee on Oversight of the University of Kansas Hospital Authority and would authorize the Authority to repair, remodel or renovate facilities which it leases from the University. Funding, of course, would be from Hospital Authority funds. As outlined in the bill, such renovations or construction would require approval of the Board of Regents. Also, the Board must consult with the Joint Committee on State Building Construction prior to granting that approval. Capital improvement projects become the property of the State of Kansas upon completion and acceptance by the Secretary of Administration.

During the transition or the separation of the Hospital from the University of Kansas Medical Center, two principal physical assets were transferred from the State to the Hospital Authority, they being what is commonly referred to as the Bell Memorial Hospital and the Radiation Therapy facility. These two facilities largely house Hospital activities although some nonhospital activities are located in those facilities. Throughout the remainder of the institution, which was retained by the University, the Hospital leases space from the Medical Center. It is these spaces which this legislation addresses. With the approval of the University, the Hospital could modify space it leases from the University to address the Hospital's changing program needs. In the absence of such authority, the University would have to modify the space after it first sought legislative authority for such capital improvement and bid the project going through the normal bureaucratic processes for constructing a State improvement. Through some mechanism the Hospital Authority would have to reimburse the State for the cost of the project. Such a cumbersome process would be very time consuming and certainly be counter to the purposes for which we sought and the Legislature approved Senate Bill 373. This legislation is patterned after current statutes which permit endowment associations at Regents institutions authority to construct or modify facilities on State space. Required approvals adequately protect the interest of the University and the State while still enabling the Authority to make space modifications in a timely and cost-efficient manner.

The University of Kansas Medical Center is in strong support of this legislation and would urge that the committee approve Senate Bill 25.

Senate Ways and Means Committee

Date 1/25/99

Attachment # 5