

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairman Stephen Morris at 10:35 a.m. on January 21, 2004, in Room 123-S of the Capitol.

All members were present except:
Senator Jim Barone- excused

Committee staff present:

Alan Conroy, Director, Kansas Legislative Research Department
J. G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department
Amy Deckard, Kansas Legislative Research Department
Debra Hollon, Kansas Legislative Research Department
Susan Kannarr, Kansas Legislative Research Department
Norman Furse, Revisor of Statutes
Jill Wolters, Senior Assistant, Revisor of Statutes
Judy Bromich, Administrative Analyst
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Irene Cumming, President and Chief Executive Officer, University of Kansas Hospital Authority
Bill Keeton, Assistant Vice President and Economist, Economic Research Department, Federal Reserve Bank of Kansas City

Others attending:
See Attached List.

Bill Introduction

Senator Adkins moved, with a second by Senator Helgerson, to introduce a bill concerning the State General Fund; relating to revenue estimates (3rs1451). Motion carried on a voice vote.

Chairman Morris welcomed Irene Cumming, President and Chief Executive Officer, University of Kansas Hospital Authority, who reported on the status of the University of Kansas Hospital Authority (Attachment 1). Copies of the Fiscal Year 2003 Annual Report for the University of Kansas Hospital Authority were distributed by Ms. Cumming. Copies of the annual report are on file with the Kansas Legislative Research Department.

Ms. Cumming informed the Committee of the achievements of the Hospital Authority over the past five years and spoke about issues they still must face. She mentioned that even though the Kansas Legislature has been a national leader in tort reform, the hospital's malpractice insurance costs continue to climb. Ms. Cumming noted that the hospital's annual malpractice premiums have gone up an average of 47 percent each year.

This past year Ms. Cumming indicated that the hospital provided nearly \$52 million in uncompensated care with about 15 percent of the uncompensated care from Missouri. She explained in her testimony about the lawsuit against Missouri regarding low out-of-state hospital payments. Ms. Cumming explained that upon final settlement, Missouri issued a new set of rules which basically will shut off 99 percent of the Missouri Medicaid patients and payments to out-of-state hospitals. Senator Kerr offered to send a personal letter to the Senate President of the Missouri State Legislature regarding the situation. Ms. Cumming mentioned that she felt that would be helpful and offered to help in drafting an appropriate letter to define things a little more. There were committee questions and discussion followed.

Chairman Morris welcomed Bill Keeton, Assistant Vice President and Economist, Economic Research Department, Federal Reserve Bank of Kansas City, who presented an update on the Kansas Economy (Attachment 2). Mr. Keeton mentioned that the Kansas economy has strengthened since the summer. Employment has begun to edge up and unemployment has been stable after increasing sharply during the recession and in the early stages of recovery. In other positive news, retailers throughout our region were generally pleased with holiday sales and consumer sentiment seems to have firmed. Manufacturing has also

CONTINUATION SHEET

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE at 10:35 a.m. on January 21, 2004, in Room 123-S of the Capitol.

rebounded somewhat. Housing activity has been showing some signs of slowing but it remains quite high by historical standards. Farmers have benefitted from high grain and cattle prices being up until the outbreak of BSE disease in the state of Washington at the end of December. Mr. Keeton noted that looking ahead prospects for a continued recovery in 2004 appear good.

Mr. Keeton mentioned that a key question in both Kansas and the nation is whether businesses will start hiring and spending soon enough to take some of the pressure off of the consumer who up until now has really been keeping the recovery going. He noted that, fortunately, they are seeing some signs in the region of such a rebound in business hiring and spending. Equally important for Kansas is the farm outlook for Kansas has also brightened. Grain prices are likely to rise in 2004 in response to historically low inventories and cattle prices are poised to rebound if and when foreign bans on U. S. Beef exports are lifted.

In summarizing, Mr. Keeton explained that:

- Like the nation, Kansas is slowly recovering from the recession
- For recovery to continue, businesses must start investing and hiring
- Most economists think this will happen, allowing recovery to continue

The meeting adjourned at 11:50 a.m. The next meeting is scheduled for January 22, 2004.

**SENATE WAYS AND MEANS COMMITTEE
GUEST LIST**

DATE January 21, 2004

NAME	REPRESENTING
Julia Thomas	DOB
Aaron Dunkel	DOB
Cheryl Sillard	Coventry Health Care
Lindsay Campbell	Intern
Bill Speed	UKHA
Dennis McCulloch	UKHA
Erene Cumming	UKHA
Kaci Austin	UKHA
T Don Schnack	KSOGA

THE UNIVERSITY OF KANSAS HOSPITAL

KUMED

Testimony

Irene Cumming

President and Chief Executive Officer

Kansas Senate Ways and Means Committee

January 21, 2004

Mr. Chairman, Members of the Committee, I want to thank you for the opportunity to once again report on the status of the University of Kansas Hospital Authority. This year marks the hospital's fifth year as a public authority of the State of Kansas. I believe that the University of Kansas Hospital has fulfilled the vision the Legislature set forth.

The public authority structure has allowed the hospital to continue its focus on providing the best patient care, not only for the Kansas City area, but for patients across Kansas and throughout the region.

It has enabled the hospital to invest heavily in new space and new technology necessary to fulfill the hospital's mission.

It has provided a remarkable influx of patients to support the educational and research mission of the schools of medicine, nursing and allied health.

It has given the hospital a much stronger financial footing, which is important as we face unprecedented challenges.

It has given the hospital a much sounder platform to support the education and research of the Schools of Medicine, Nursing and Allied Health.

You should all have in front of you the Fiscal Year 2003 annual report...hot off the presses. I encourage you to read through it. It not only has facts and figures but also some remarkable stories of patients, talented physicians and dedicated nurses.

But, I would like to use our time today to inform you of the achievements of the past five years and make you aware of the many issues we still must face.

First, let's begin with some numbers.

Senate Ways and Means
1-21-04
Attachment 1

In the four years before the Authority was established, the hospital's patient volume dropped by ten per cent, to a low of just over 13,000 inpatient discharges in Fiscal Year 1998. This placed the hospital in serious financial jeopardy and put the residency programs and medical student clinical training at risk.

During Fiscal Year 2003, the hospital served more than 18,700 inpatient discharges, an increase of 43 per cent over five years.

How did this happen? First, we had a Board of Directors dedicated to creating a patient-focused and financially sound organization. The Board supported investment in a strong management team. The Board also supported significant investment in training staff throughout the hospital to create a new culture that was based upon patient satisfaction.

We also invested in new programs, including a revitalized heart program. And, we invested a great deal of money quickly and effectively to improve the physical environment of the hospital.

The Hospital Authority structure has enabled us to do what we understand that the Legislature expected. We brought a sound business model to decision-making for the hospital. Investments were made only after rigorous analysis of their financial viability and their relationship to the hospital's strategic plan.

However, even though the increased patient volume has validated our management system, hints of the challenges ahead do surface.

For example, the hospital's Emergency Department patient volume has climbed more than 30 per cent in the last two years. This was due to many factors, but primarily it was the closing of nearby Bethany Hospital and Trinity Lutheran Hospital. It is also due to the challenge of providing access to primary care for the uninsured.

We also have seen significant growth as our area's only nationally accredited Level I Trauma Center. The hospital is currently the only accredited Trauma Center of any level on the Kansas side of the metropolitan area.

The hospital's heart and cancer programs both have a lot to do with the growth. But, patient numbers have increased in almost every medical specialty, which means every specialty is asking for more room and more staff to accommodate the volumes. This is especially true in the operating rooms, which are often booked late into the night.

This year, the hospital experienced the highest patient volumes the hospital has seen in its history. When you consider how much medicine is done on an outpatient basis these days, and how managed care has mandated shortened stays, these inpatient volume numbers are even more remarkable.

This is the primary reason we are creating new patient care space. This year we more than doubled the space for our outpatient Cancer Center, and added a new Breast Center with the latest technology for diagnosing breast cancer.

We also added a sixth floor to the hospital building, which was built in the late 1970s. The floor has spaces for six patient units, but, in an effort to hold down costs, we have only opened two patient units there. The other two-thirds of the floor have been shelled in for later expansion when it makes economic sense.

We have broken ground on a new heart hospital and emergency room to accommodate the growth in those programs. The heart hospital will combine all the inpatient, outpatient and surgical needs of the heart program in one efficient setting. This is not only important for the heart program, which grew at a 40 per cent rate for some procedures last year, but will free up clinical and operating room space for other specialties.

The need for capital is one of the biggest challenges we ^{face}. As the patient volume continues to grow and technology changes the way medicine is practiced, there is a constant demand for more space. It is not just space for space sake. Rooms must be larger now to accommodate the technology. New conduits must be readied to handle the equipment, computers and modern communication tools used in today's hospital environment.

The equipment itself requires special facilities in handling. For example, we have invested in a combination PET/CT scanner that offers unparalleled quality in diagnostic tests, but requires changes to the building to be able to accommodate it.

And it requires electrical power. Two years ago, we invested in new emergency generators to supply critical power to the hospital in the event of an emergency.

Since then, both the University and the Hospital jointly reviewed their power needs. The University's needs were growing along with the Hospital's needs. We both realized that it would be difficult for the University to upgrade its power facility to meet its own growth needs, as well as providing the reliability and redundancy required to meet the patient care needs of the Hospital.

Therefore, we will begin constructing our own power facility on campus, which will not only provide the reliable power and utilities we need for patient care, but also will take some of the pressure off the university's utility infrastructure.

Our ability to make these critical investments quickly and efficiently has been an essential factor in the success of the hospital authority.

In the five years leading up to the Authority, the hospital was able to have only \$30 million in capital investment for space and equipment. In the five years since the Authority was created, we have invested more than \$150 million.

This is not just for the new floor and buildings...or for new equipment. This capital program has met long-standing needs. For example, when we started, the majority of the beds in the hospital were purchased when Jimmy Carter was president. Now, we have modern beds that aid in the quality of patient care.

It has taken strong financial stewardship to generate the funds to put back into the facility and operation. Thanks to the financial leadership of the Kansans on our board, we have experienced hands guiding us through bond markets and other financial avenues. We have developed very exacting procedures to ensure the need and cost effectiveness of any capital program. We have also worked to ensure that our operational costs are kept in line with industry standards.

The balance sheet and operating performance of the Authority has been strengthened, allowing the hospital to maintain a solid credit rating and access to capital markets.

Some of you may remember that we were facing the prospect of a \$20 million loss before the Authority was created. I mentioned that we have invested more than \$150 million in capital programs. Compare that to our total net income of \$38 million for the past five years. The hospital was able to make these investments through funds generated by operations, but mostly through tax-exempt bond financing.

For the first time, our program to invest in patient care is being supported by an active fundraising effort. Our Treads and Threads event at the Kansas Speedway alone has raised more than \$400,000 in two years which we have used for new equipment and patient programs. Although minor compared to the University's fundraising, it is very important to the hospital.

For fundraising, we could have contracted with a number of organizations, but we chose to work with the Kansas University Endowment Association so we would be raising funds in cooperation with the University, not in competition with it.

Five solid years of financial performance is impressive, but we have not yet caught up with the industry in some key areas.

For example, days of cash on hand reflects how much money we have on hand to fund the operation if no new revenue was coming in. It is a good indicator of how much cash is available to weather a sudden upturn in costs, a downturn in the economy, or changes or delays in reimbursement. It also indicates how quickly an organization can invest in a program or capital project to meet a sudden change in the marketplace. A strong cash balance is essential to our ability to access the bond markets.

The Hospital Authority ended the year with 92 days of cash on hand, a significant improvement from where we started, and we are pleased to have reached this improved position. However, we still have much work to do to in order to meet the expectations of the bond market and to put the Authority in a financial position comparable to its competitors. Being in that comparable position is important to maintain the patient volume necessary to support our mission.

As examples of these expectations, the Sisters of Charity, which runs the other hospital in Wyandotte County and others in Kansas and across the country, reports more than 400 days of cash on hand. Olathe Medical Center in Johnson County has 245 days of cash on hand. Saint Luke's has 261 days. Even the city-owned North Kansas City Hospital on the Missouri side reports nearly 150 days of cash on hand.

And these are just the local players. This past year, the largest for-profit hospital organization in the country, HCA, entered the marketplace in a big way and has been aggressive in the marketplace...even to the extent of recruiting some of our key staff away and forcing one program to close temporarily. Shawnee Mission Medical Center has been taken over the national Adventist hospital group and the two-hospital Carondolet system has been sold to a large Catholic Hospital organization, Ascension Health. This means organizations with deep pockets are coming in to invest in programs and people.

To remain competitive, we must continue to work on the hospital's facilities and technology. Much remains to be done to renovate and improve all areas of the hospital. For example, we still have some patient units and operating rooms that have not been renovated since the 1970's.

Even without this pressure, our personnel costs have risen dramatically, fueled in part by the shortage of key healthcare workers. The annual increases in personnel costs have averaged more than 17% over the last four years.

And even though the Kansas Legislature has been a national leader in tort reform, the hospital's malpractice insurance costs continue to climb. The hospital's annual malpractice premiums have gone up an average of 47% each year.

While costs are going up, there is revenue pressure as well. This past year, we provided nearly \$52 million in uncompensated care. That is a million dollars a week. While a large amount comes from Wyandotte County, there are also significant uncompensated care numbers from Johnson County and from Kansas Counties outside the Kansas City metropolitan area. We see patients from every county in Kansas and it stands to reason that some of them cannot pay.

As a point of comparison, when Health Midwest was sold to HCA last year, its board chairman wrote in The Kansas City Star that its 13 hospitals together provided \$50 million in uncompensated care. This year we provided \$52 million in uncompensated care at one sole hospital.

About 15 percent of that uncompensated care is from Missouri, which brings me to a point I know many lawmakers are concerned about.

I have good news and bad news to report to you today on the issue of Missouri Medicaid payments.

If you recall, we had sued the state of Missouri for its horribly low out of state hospital payments. We argued that the lower payments violated both Missouri and federal law.

The good news is that we won the case. The judge issued a summary judgment in our favor. Missouri agreed on a settlement amount representing back payment for the last two years. The agreement also established an increase in payments per day from \$300 to \$1500.

Then came the bad news. Upon final settlement, Missouri issued a new set of rules, which basically will shut off 99 per cent of the Missouri Medicaid patients and payments to out of state hospitals.

This rule will force long term cancer patients treated at the hospital to find different physicians in Missouri in the event of hospitalization. It will force us, as well as other border state hospitals, to transfer patients to Missouri facilities as soon as the patients are stabilized.

In many cases, this will not mean simply a transfer to another Kansas City area hospital. Since we have the only burn unit in the region, patients will be shipped to Columbia. For many other specialty services, it would mean the patient would have to go to St. Louis.

The state quietly issued the rule in mid December and we had until January 15 to comment. Many border state hospitals and patient advocates strongly protested this proposal, but it appears to have the support of Missouri legislators. The state of Kansas also responded strongly to the proposal. We continue to push this issue, along with border hospitals from other states. We will continue to aggressively work to change this rule until all of our options are exhausted.

These are just a few of the marketplace challenges we face to fulfill the legislature's vision for the Hospital Authority.

Another key part of that vision is to support the education and research missions of the University of Kansas Schools of Medicine, Nursing and Allied Health.

As a center for advanced medicine, the hospital provides an environment of quality education for the next generation of medical professionals, who learn from treating patients with challenging and rare medical conditions and from ongoing clinical research. Our role is to provide the patient volume, as well as the space and technology, for education and research in a hospital setting.

The University of Kansas Hospital also provides substantial direct financial and resource support to educational and research endeavors of the School of Medicine. For Fiscal Year 2003, that amounted to \$¹³~~20~~ million in direct support of faculty and programs and \$~~7~~⁷ in the purchase of services from the University.

One major concern is the University's ability to recruit and retain outstanding clinical faculty who serve as the hospital's medical staff. I again urge this committee and the entire legislature to help us keep talented faculty/physicians available to the people of Kansas. The hospital supports several faculty/physician positions and is in discussions about doing more.

The five years of the Hospital Authority have been a learning experience for both the University and hospital leadership. What I have learned from this is that there is no issue that can't be resolved by people of good faith looking for a win-win solution. As our relationship continues to evolve and mature, I look forward to innovative ideas that are consistent with the charge the legislature has given us and the one given to the University.

Five years ago, at midnight on October 1, 1998, I was handed the keys to the front door and a check for \$23 million. That's all the cash we had to start with. However, we also had a clear mandate from the legislature, a board of directors filled with quality Kansans and a management team hungry to do the right things and do things right.

It turned out that those were the three things we needed most. Those are the things that created the financial stability that allowed critical investments to be made.

Those are the things that created a new patient-focused culture throughout the organization.

And those are the things that will continue to be our best assets in meeting the challenges ahead.

I will be happy to answer any questions you might have.

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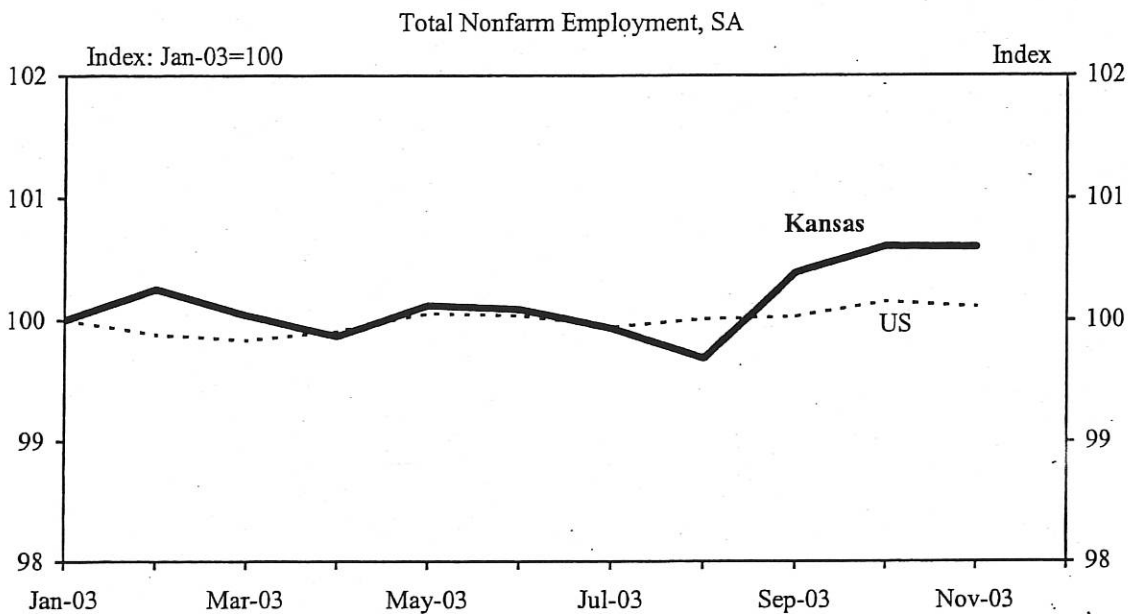
Update on the Kansas Economy

Presentation to
Senate Ways and Means Committee
Kansas State Legislature
January 21, 2004

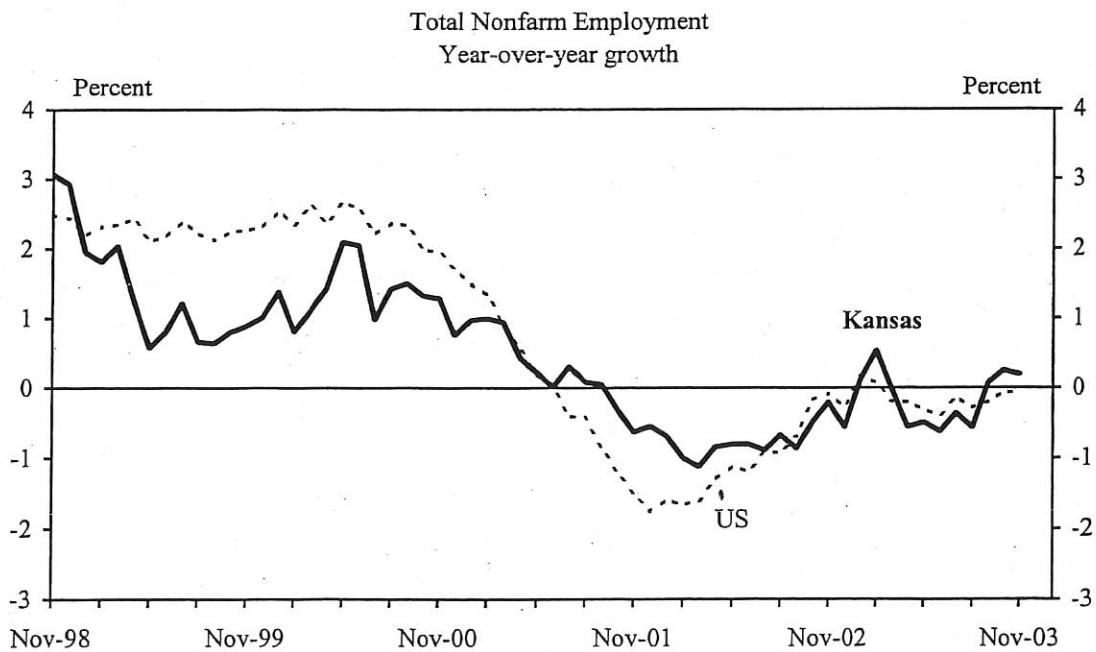
Bill Keeton
Assistant Vice President and Economist
Economic Research Department
Federal Reserve Bank of Kansas City

Senate Ways and Means
1-21-04
Attachment 2

Employment in Kansas has edged up recently...

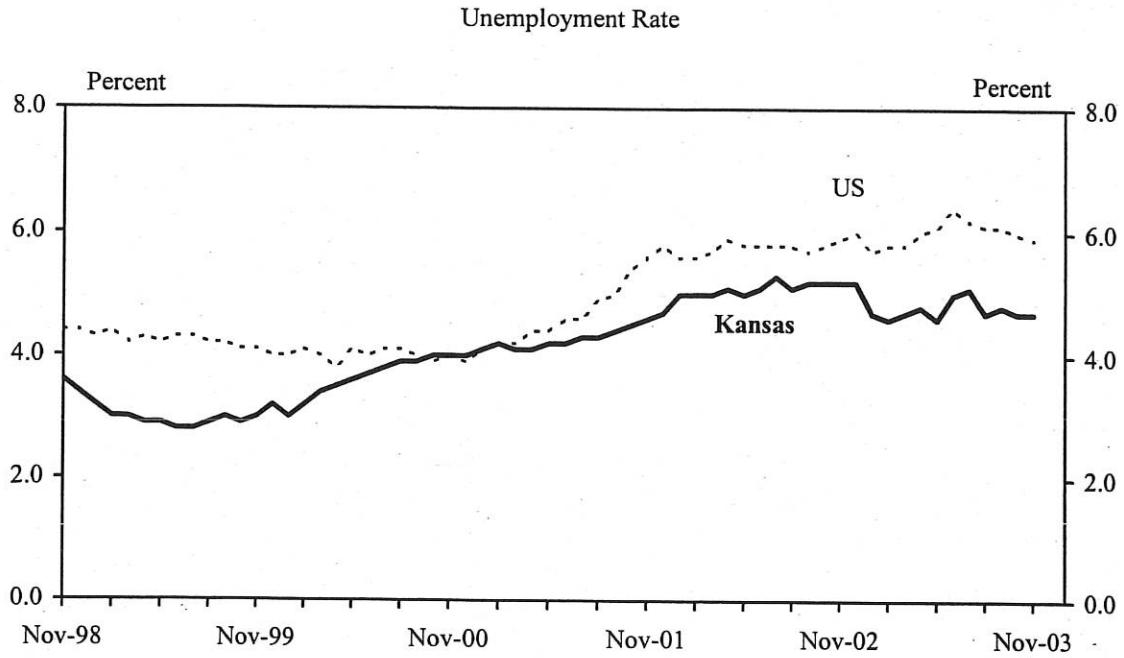


...and is back above year-ago levels

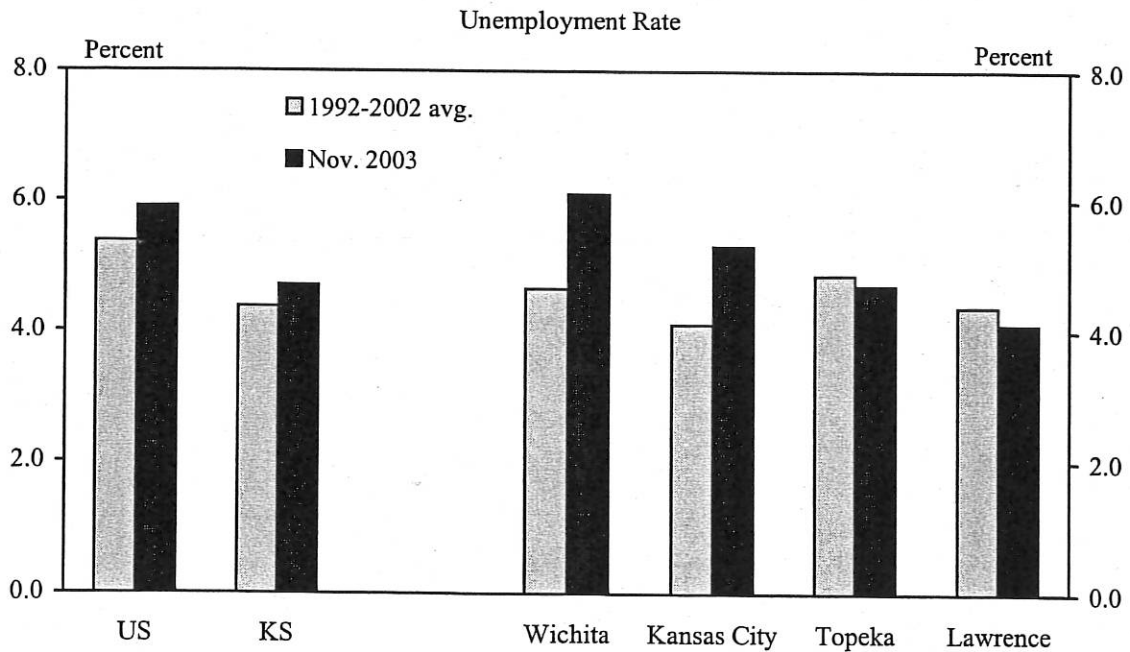


Source: Bureau of Labor Statistics

Unemployment has leveled off in the state...



...but remains well above historical averages in Wichita and Kansas City

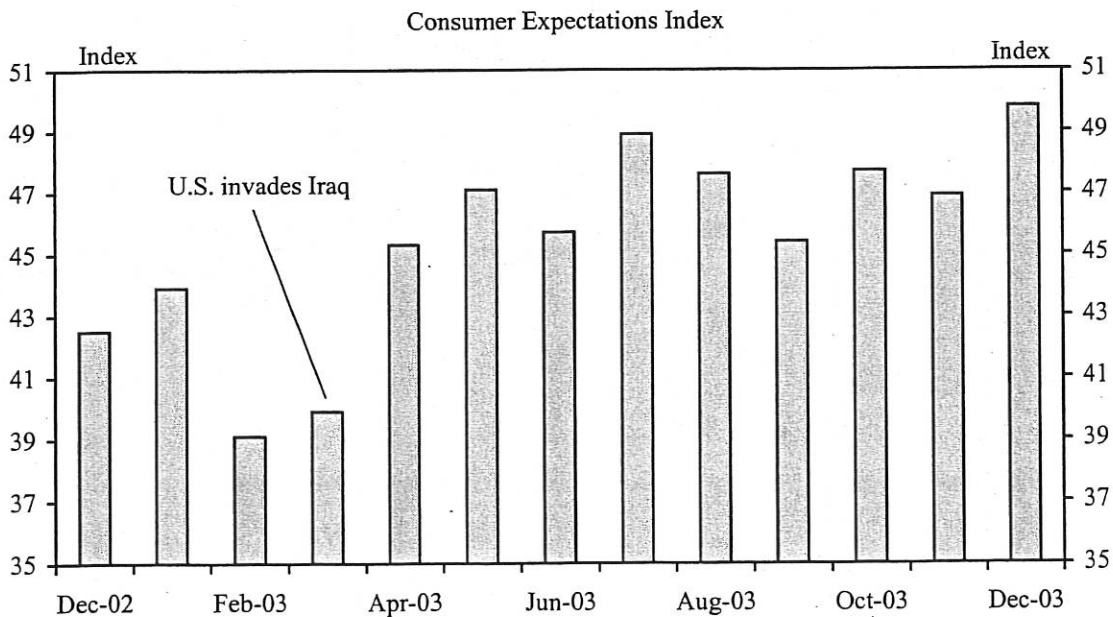


Source: Bureau of Labor Statistics

Consumer spending was solid during the holidays ...

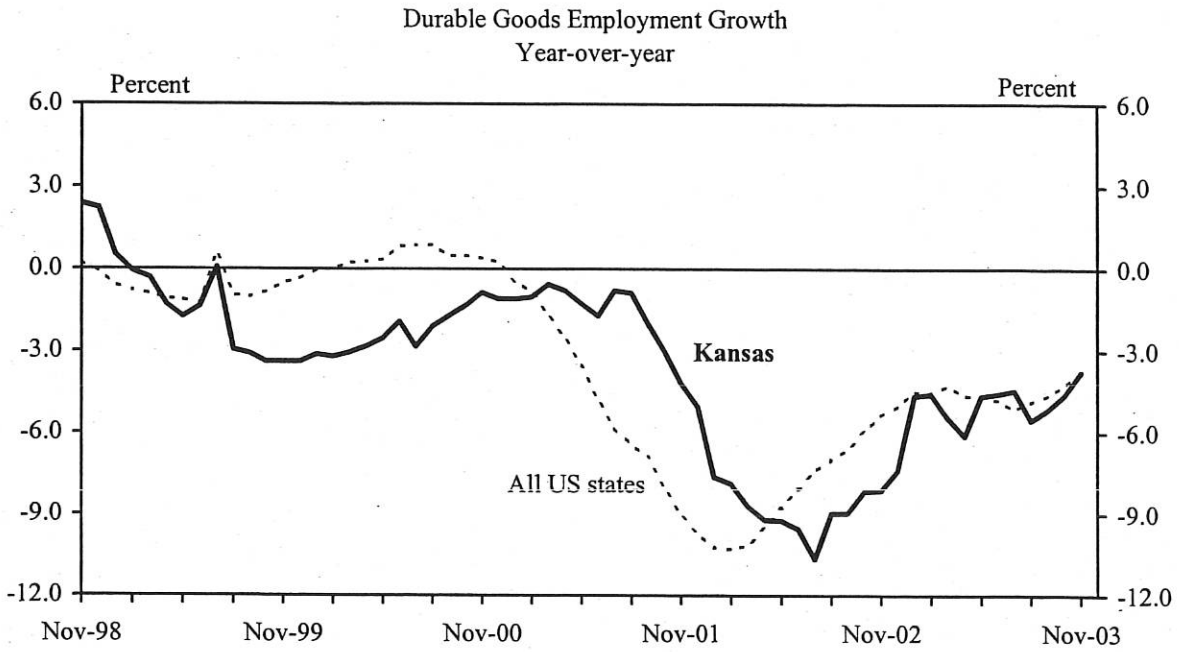
- Retailers throughout the district said they were generally pleased with holiday sales.
- Sales at some discount stores were below plan, but sales of high-end items were strong.

... and consumer sentiment has improved even in Wichita

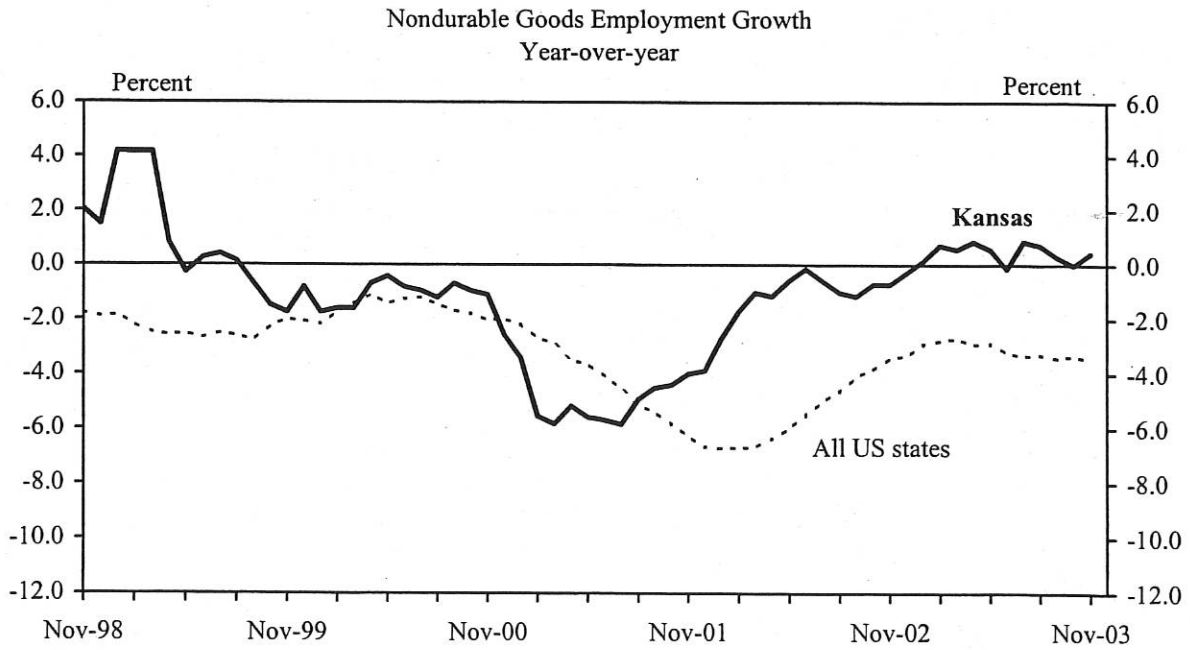


Source: Grubb & Ellis/Wichita State University

*Durable manufacturing has been in a slump,
due partly to declining aircraft production ...*

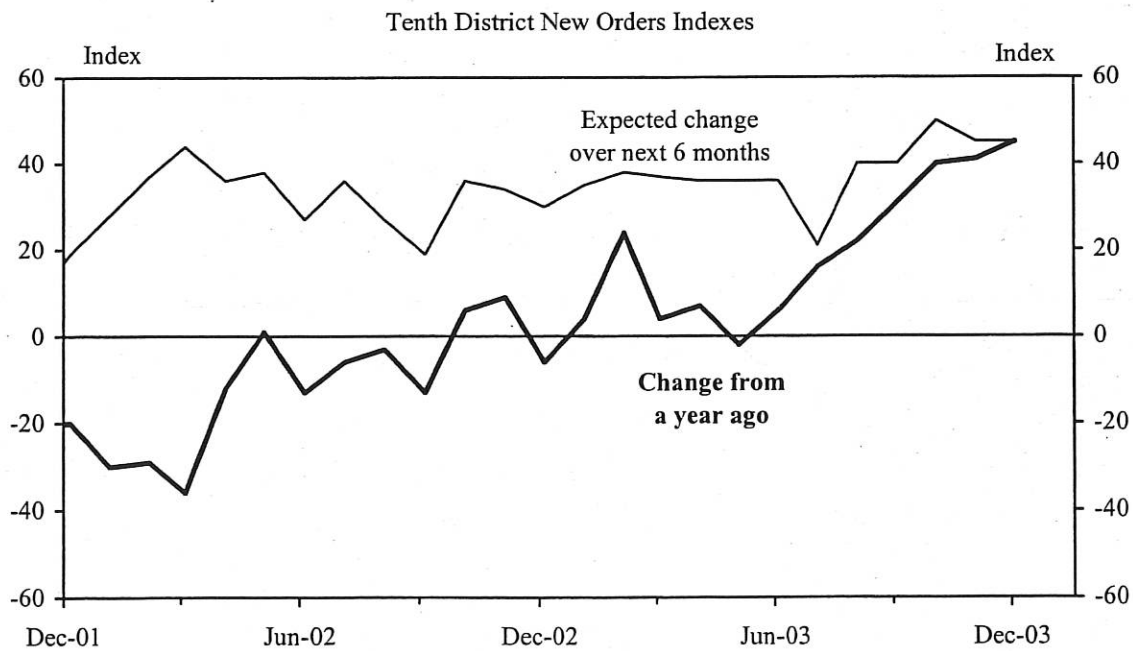
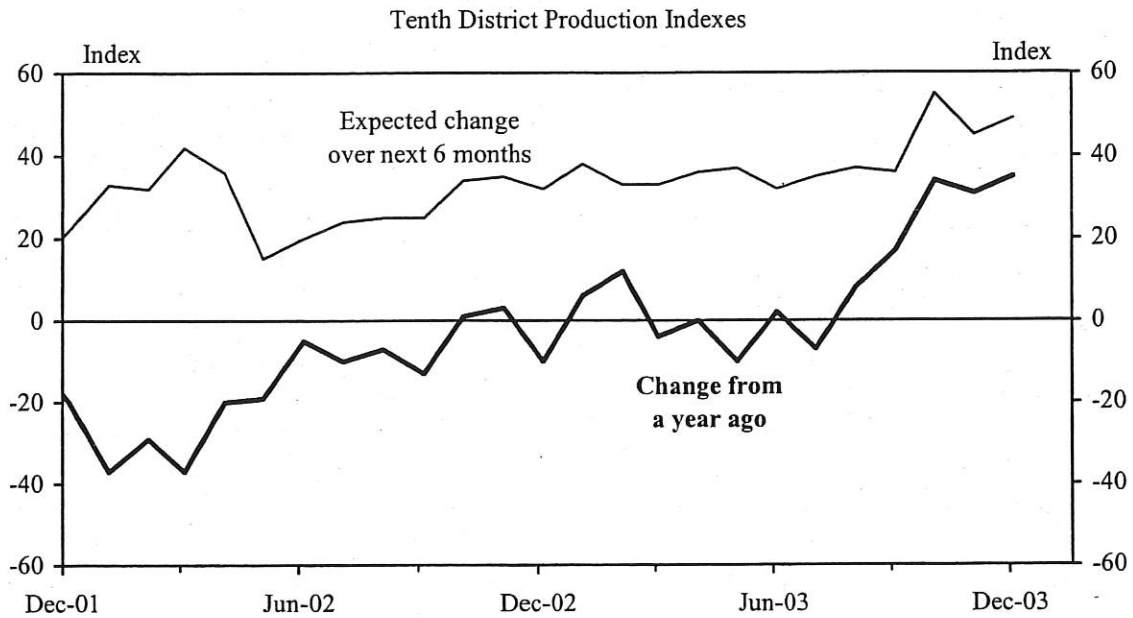


... but greater reliance on food processing has helped nondurables



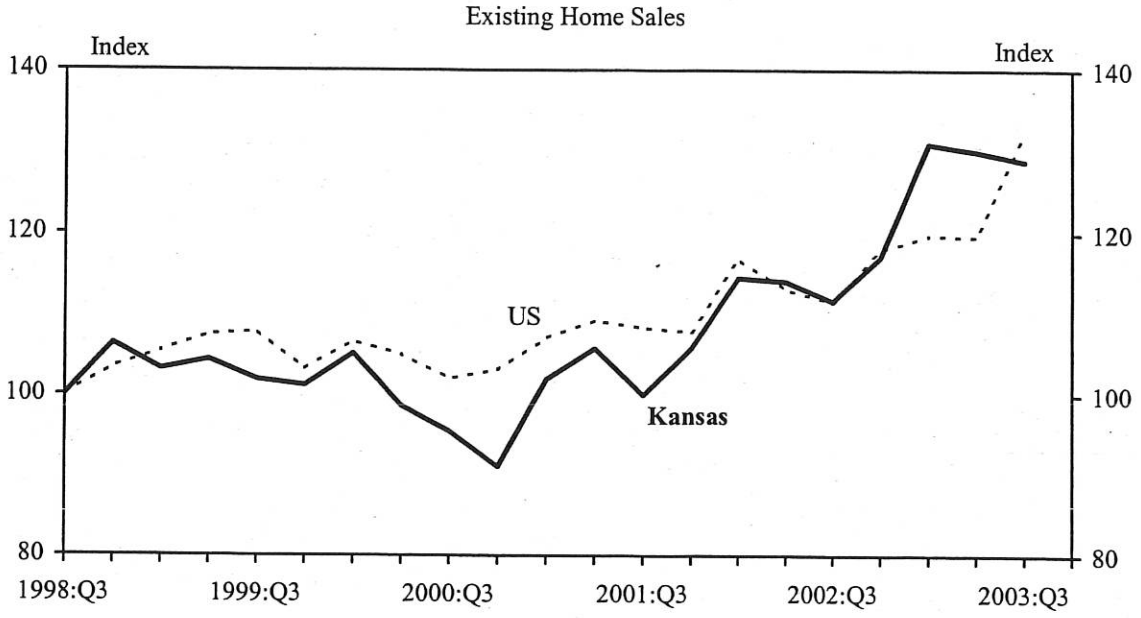
Source: Bureau of Labor Statistics

Meanwhile, smaller manufacturers in the region report increased activity

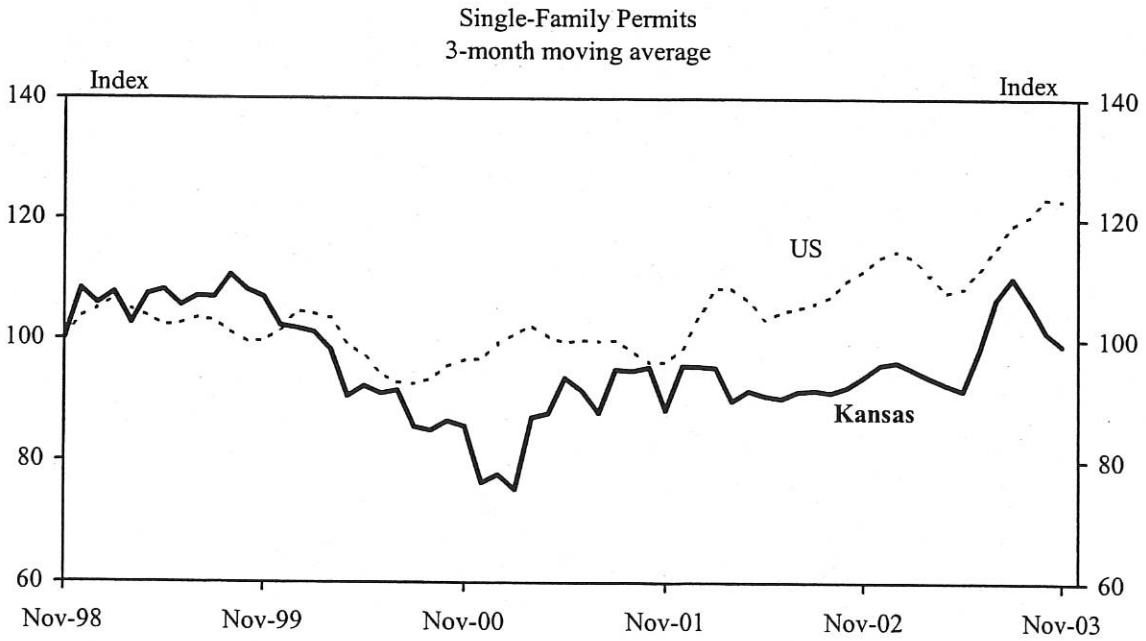


Source: FRBKC Manufacturing Survey

Housing activity has been solid but may be leveling off

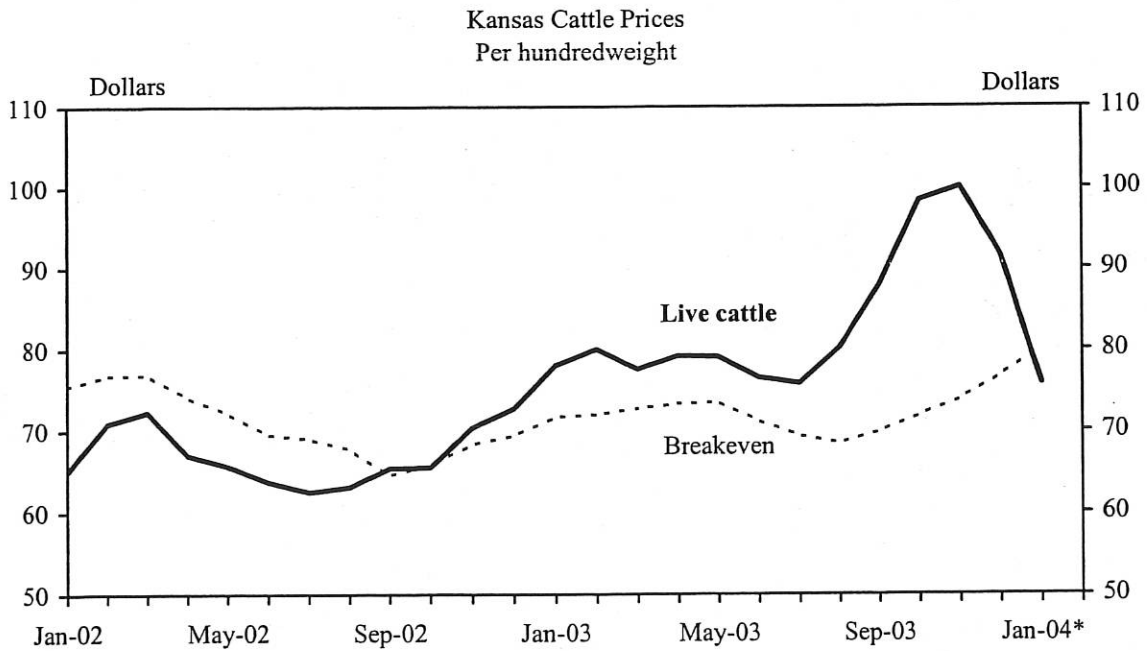
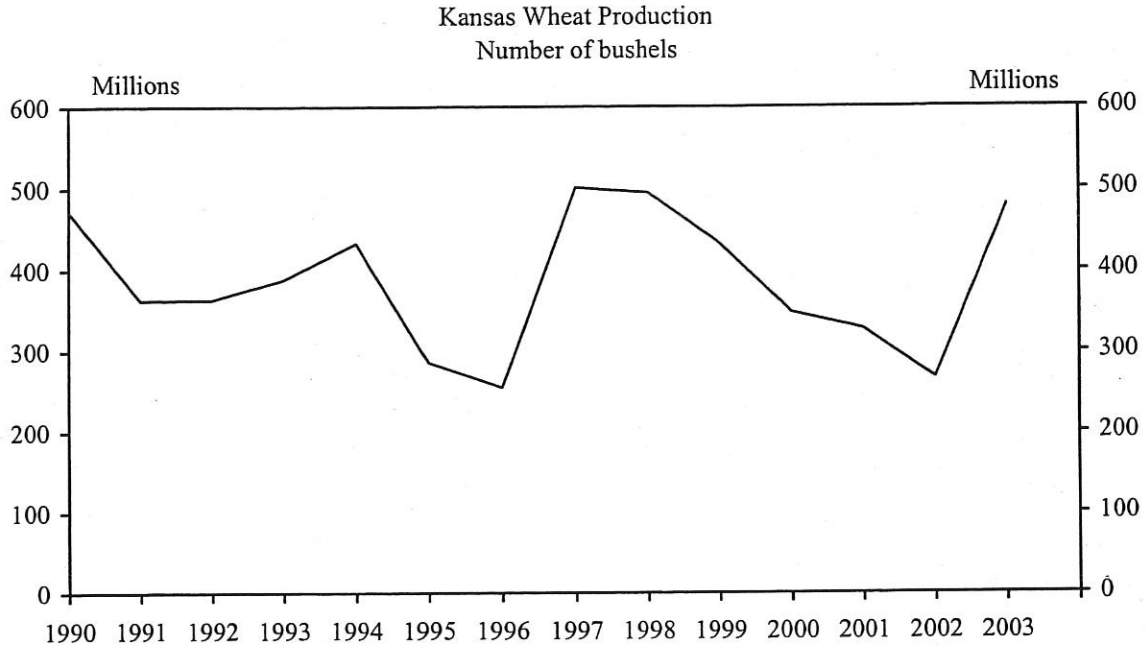


Source: National Association of Realtors



Source: Census Bureau

*The farm sector has been helped by a good wheat harvest,
but mad cow disease has depressed cattle prices*



* First three weeks

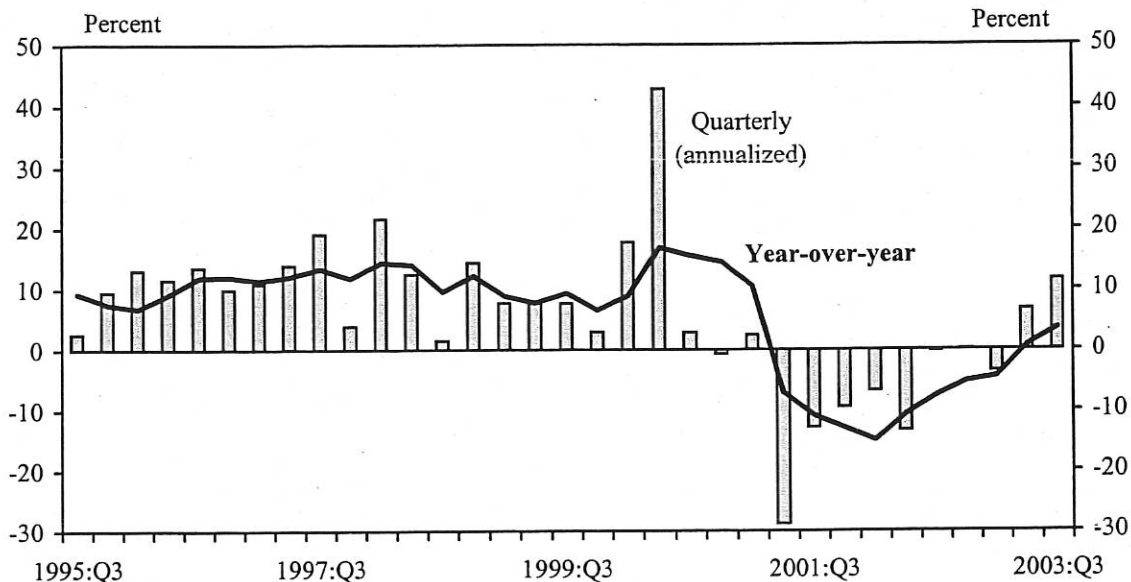
Source: U.S. Department of Agriculture

Factors affecting the economic outlook for Kansas

- When will businesses start investing again?
- When will employment start growing again?
- What will happen to farm incomes?

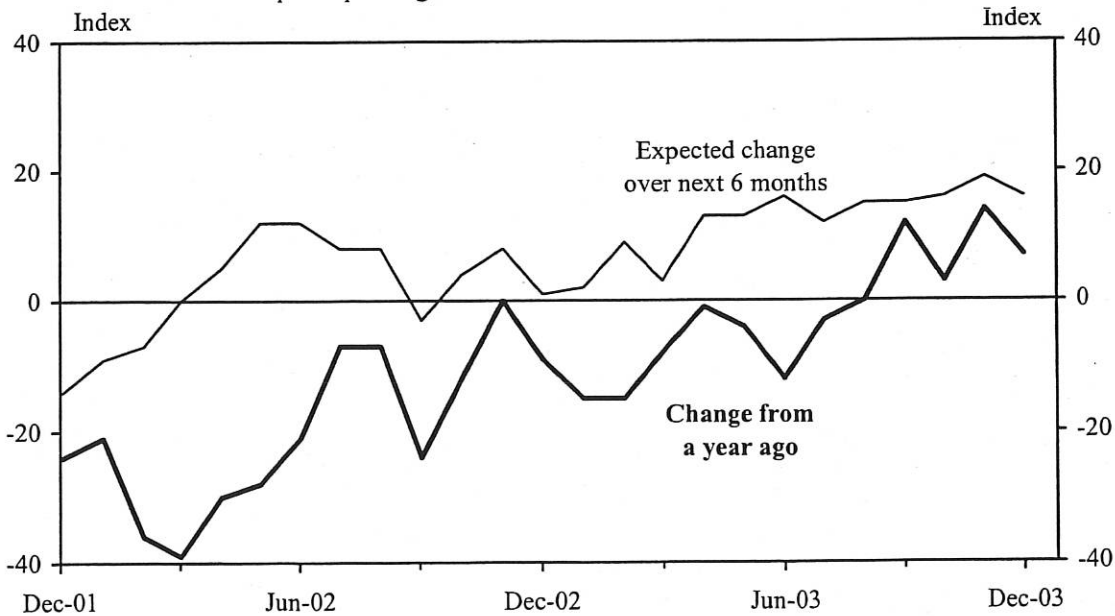
Investment fell sharply in the recession, but may be coming back

Growth in Business Fixed Investment in the U.S.



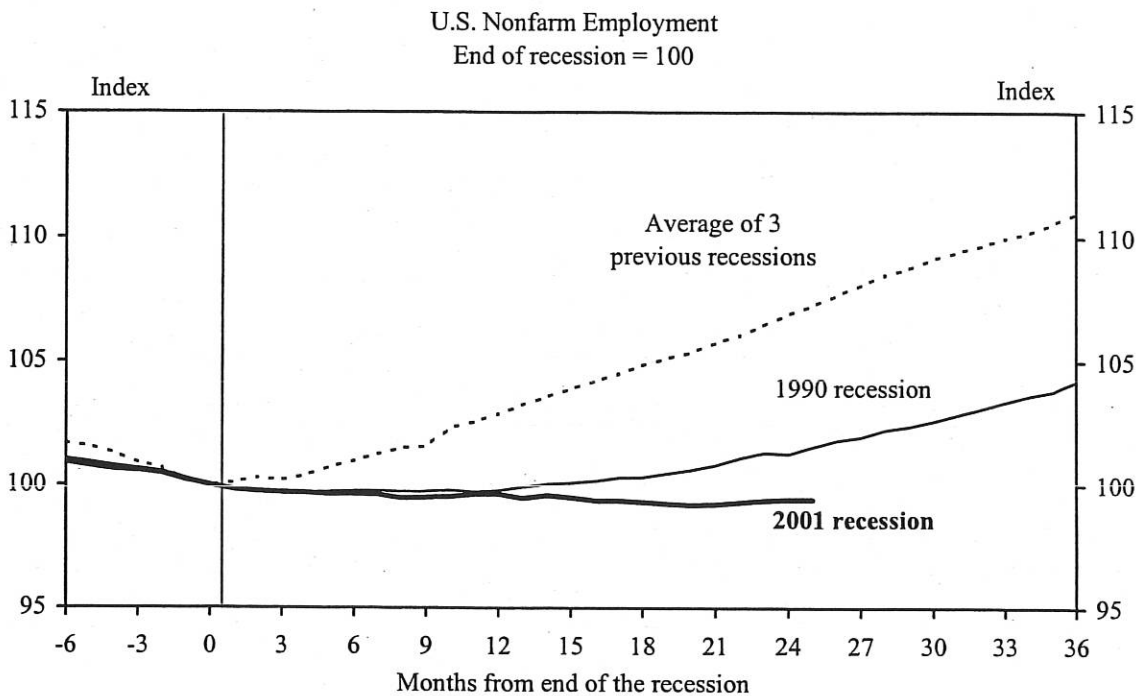
Source: Bureau of Economic Analysis

Capital Spending Indexes for Tenth District Manufacturers

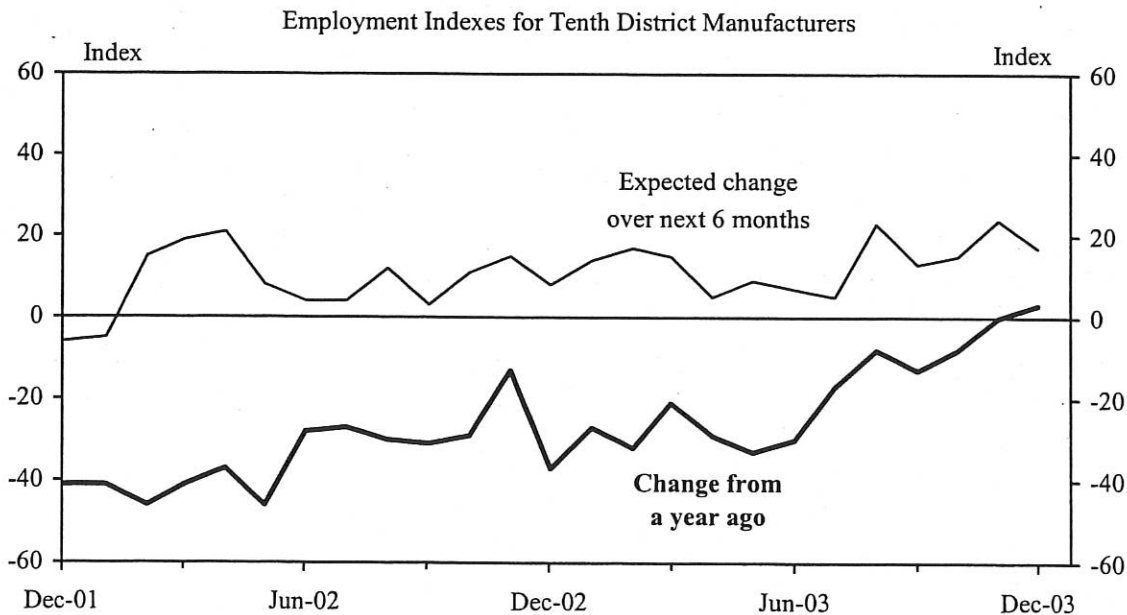


Source: FRBKC Manufacturing Survey

Recovery has been jobless, but there are hints of a turnaround



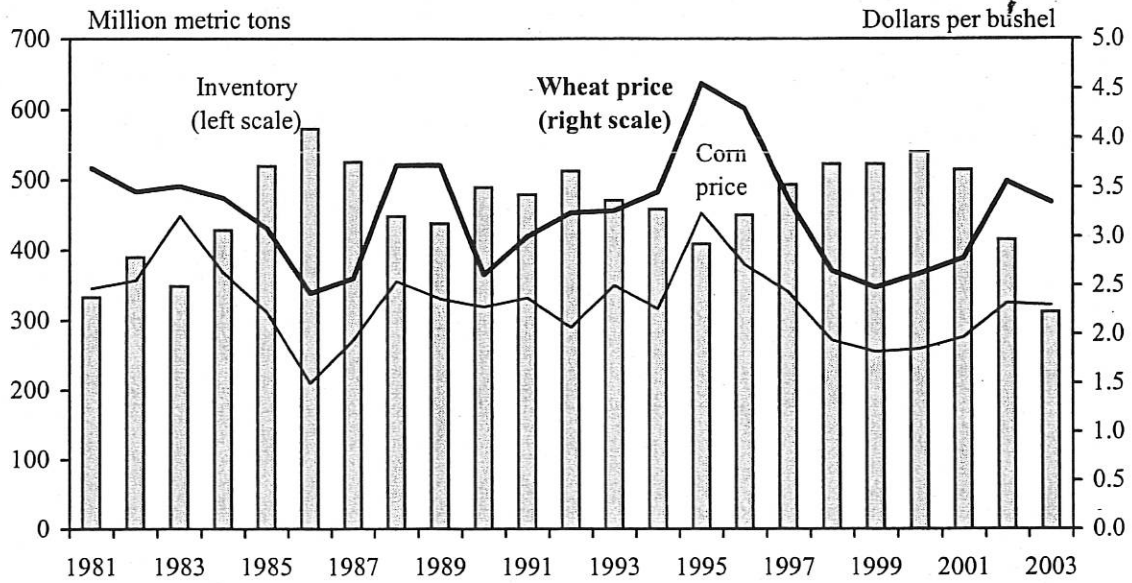
Source: Bureau of Labor Statistics



Source: FRBKC Manufacturing Survey

*With historically low global supplies,
the stage is set for higher grain prices in 2004*

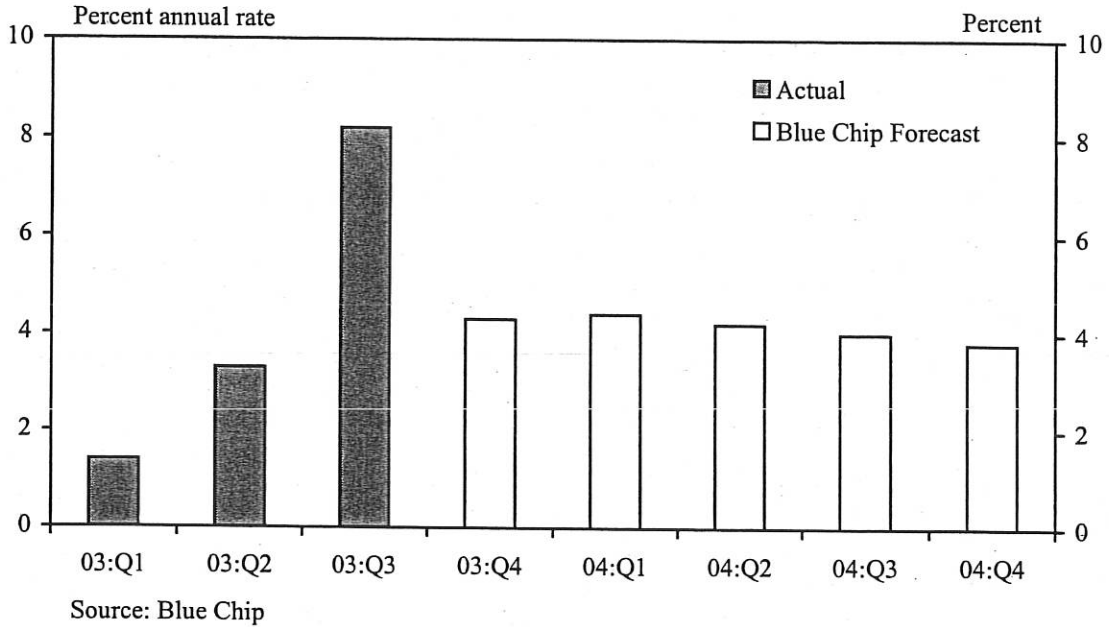
World Grain Inventories and U.S. Prices



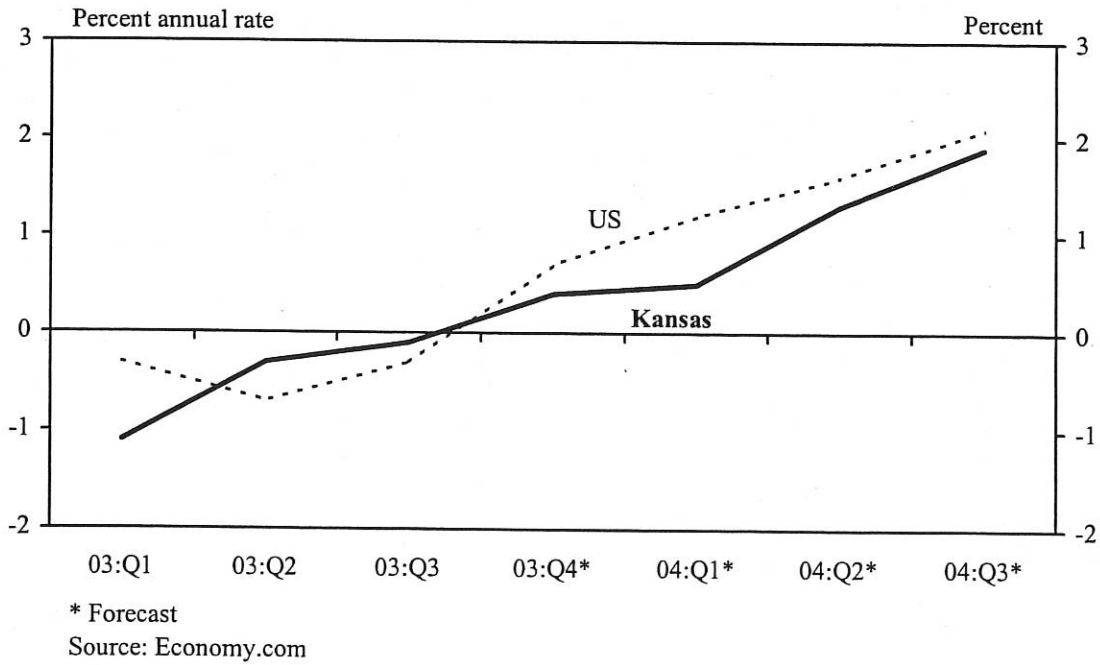
Sources: USDA and Chicago Board of Trade

Despite the risks, most economists predict the recovery will continue

Blue Chip Forecast for Real GDP Growth in U.S.



Economy.com Forecast for Employment Growth in Kansas and the U.S.



Summing Up

- Like the nation, Kansas is slowly recovering from the recession
- For recovery to continue, businesses must start investing and hiring
- Most economists think this will happen, allowing recovery to continue