

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson August Bogina at 11:00 a.m. on February 15, 1995 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: Kathy Porter, Legislative Research Department
Laura Howard, Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ronda Miller, Committee Secretary

Conferees appearing before the committee:

Marlin Rein, Associate University Director, University of Kansas Medical Center
Mike Herrick, Regional Director of Health Care Consulting for the firm of Arthur Andersen
Leo Vogel, Acting Director, Division of Purchases, Department of Administration

Others attending: See attached list

It was moved by Senator Salisbury and seconded by Senator Moran that bill draft 5 RS 1118 be introduced as requested by Senator Salisbury. The motion carried on a voice vote.

Senator Vancrum moved, Senator Rock seconded, that bill draft 5 RS 1103 be introduced as requested by the Energy and Natural Resources Committee. The motion carried on a voice vote.

- SB 170:** University of Kansas medical center, acquisition of data processing hardware and software for hospital, procedures
SB 171: University of Kansas medical center, authorizing affiliations, joint ventures, partnerships and equity ownerships to provide medical services or medical network participation
SB 173: University of Kansas medical center, lease and operation of off-campus medical facilities
SB 174: University of Kansas medical center, purchasing procedures, exemptions and purchasing consortiums

Mr. Marlin Rein appeared before the Committee in support of **SB 170**, **SB 171**, **SB 173**, and **SB 174** and reviewed his written testimony (Attachment 1). He introduced Dick Mann, the University Director of Administration; Dr. Charles Andrews, Executive Vice Chancellor of the Medical Center; Kim Russel, Chief Operating Officer of the University Hospital; Barbara Lockhart, Director of Purchasing for the Medical Center; and Robert Wunsch, Legislative Liaison for the University of Kansas Medical Center, who attended the meeting in support of the bills. In discussing **SB 174**, Mr. Rein told members that the University of Kansas Medical Center had entered into several contracts for medical supplies and the savings in cost to the University Hospital will be \$600,000 in the first year. He noted that if there is not a price advantage in using the University Hospital Consortium, the University Hospital can use normal purchasing procedures and sources.

The Chairman informed the Committee that all four of these bills were included as a proviso in 1994 SB 590, but noted that **SB 174** is not verbatim. He asked whether there was anything in these four bills which was not authorized in proviso in 1994. Mr. Rein stated that while the wording is different, the authority remains the same as the provisos. He noted that KUMC would support an amendment to bring the language in **SB 174** more in line with the 1994 proviso. In answer to a question, Mr. Rein stated that the authorization to lease or operate off campus facilities has not been used.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS, Room 123-S Statehouse, at 11:00 a.m. on February 15, 1995.

Mr. Michael Herrick, Regional Director of Health Care Consulting for the firm of Arthur Andersen, summarized the recommendations in a comprehensive management study of the University of Kansas Medical Center conducted by Arthur Andersen (Attachment 2). The Chairman noted that the four bills provide considerable latitude to the University of Kansas Medical Center to manage its own affairs, and asked whether the language would allow another company to acquire the Medical Center for proprietary purposes. Mr. Herrick stated that it was his understanding that the proposed legislation would not have an impact on the ability of a company to interface or not interface any differently with the Medical Center. In his opinion, the legislation would allow KUMC more flexibility to compete in the environment as opposed to being acquired.

In answer to Senator Kerr, Mr. Herrick stated that performance criteria should be developed to be a part of the interface between the University Hospital, the Medical Center and the Board of Regents. He stated one concern addressed in the study is that the current information systems that the Medical Center has do not allow for timely information. In response to Senator Kerr, he stated that his firm has experience developing performance criteria.

Responding to Senator Vancrum, Mr. Herrick stated that what has happened with other academic medical centers and what he would anticipate would occur with the University of Kansas Medical Center is the ability to interface with other providers and networks who may or may not have access to primary care physicians and potentially develop their own primary care network.

In answer to Senator Petty, Mr. Rein stated that at some point in the future, the Legislature will need to examine its policy that the University Hospital be self supporting and yet provide a higher level of service to the indigent population. He stated that the Hospital has done that, but there will come a point when those two expectations will conflict. Mr. Herrick stated that when the Hospital's mission is providing clinical care in a cost effective manner in conjunction with the education and research components, those functions may not be in conflict, but they can compete for the funding.

Mr. Leo Vogel appeared before the Committee in support of allowing KUMC to make new, innovative types of purchases in order to survive, but submitted an amendment that he recommended for each bill (Attachment 3). In response to the Chair, he stated that the amendment would have the effect of guaranteeing impartiality of purchases and assure that KUMC operates under the bid statutes through the bid process. In answer to Senator Morris, Mr. Vogel stated that he is unaware of any problems in the Medical Center's operations that have developed under the 1994 provisos, and stated that he is aware of substantial savings realized through the consortiums. He told members that he is trying to determine if other agencies can gain access to the savings that the Medical Center has realized through the purchasing program of the consortium.

Concern was expressed by proponents of the bills that the suggested amendment would dilute the original intent. The Chairman suggested that staff prepare language that would allow the Division of Purchases to be a part of the decision making process, but would not give the director veto power and stated that the Committee would take action on the bills on February 16, 1995.

The Chairman adjourned the meeting at 12:25 P.M. The next meeting is scheduled for February 16, 1995.

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: FEBRUARY 15, 1995

NAME	REPRESENTING
Stacey Gumpson	Hein, Robert & Wier, Ltd
Bob Wunsch	KUMC
Barton Leckart	KUMC
Michael Henrich	Arthur Andersen
Kim Russell	KUMC
Marlynn Reed	KU
Leo Vogel	Div of Purchasing
Charles Andrews	KUMC
DICK MANN	KU
Art Brown	Mid Am Lumberman Assn.
Rich Guthrie	Health Midwest
Canda Byrne	Meninger
Tom Bell	Ks. Hospital Assn.
Karl Peterjohn	Ks. Taxpayers Network
Marty Kennedy	DOB

TESTIMONY BEFORE THE SENATE WAYS AND MEANS COMMITTEE
SENATE BILLS 170, 171, 173, 174
MARLIN L. REIN
FEBRUARY 15, 1995

Thank you, Mr. Chairman. My name is Marlin Rein and I am here today on behalf of the University of Kansas Medical Center to testify in support of Senate Bills 170, 171, 173 and 174.

I appreciate the Chairman allowing us to combine our testimony for these four bills as they are all inter-related issues. The subject matter of these bills has been before the Legislature in prior sessions. In fact, hearings have been held before this committee on some of these subjects. The authorities that would be granted to the University Hospital under these four pieces of legislation were incorporated as "provisos" in the appropriations provided to the University of Kansas Medical Center for Fiscal Year 1995. Our purpose in seeking this legislation is to make these authorities statutory.

Following my testimony, which will be brief, you will hear from Mr. Michael Herrick of Arthur Andersen and Company. His firm was retained by the Board of Regents some eighteen months ago to conduct a management study of the University of Kansas Medical Center and specifically, the University Hospital. That study was commissioned by the 1993 Legislature. Arthur Andersen presented its final report to the Board of Regents in January, 1994, and, as you may recall, representatives of the firm made a presentation to the members of this legislative committee last session on their major findings which included the subjects contained in these four pieces of legislation.

Because there was not sufficient time a year ago to prepare the legislation and allow adequate time for hearings and legislative consideration, the Legislature granted the institution these authorities by proviso in the Appropriation Bill.

I would first like to highlight the substance of each of the bills. Senate Bill 170 would authorize the University Hospital to acquire data processing hardware and software without being subject to the existing statutory requirements and administrative approvals that generally govern such purchases by state agencies. Further, the bill would authorize the University Hospital to acquire such hardware and software through sole source negotiation. There is a requirement imposed on the institution to periodically report to the Secretary of Administration and to Chairs of the House and Senate Ways and Means Committees on all contracts entered into under this authority.

The subject of Senate Bill 171 has been included as an Appropriation Bill proviso for the two past sessions. This bill would authorize the University Hospital, subject to approval by the Board of Regents, to utilize revenues accruing to the Hospital Revenue Fund for the purpose of financing affiliations, partnerships and equity ownerships with other health care providers and third parties for purposes of providing medical services. Under the authority of the existing proviso, in 1993 the Hospital acquired an equity ownership in Health Source, Inc., a stock

SWAM
February 15, 1995
Attachment 1

corporation formed by Blue Cross and Blue Shield of Kansas City along with a number of other hospitals in the Kansas City area, which has as its principal business the operation of an HMO called Blue Advantage. The second use of this authority, also in 1993, was to form a Physician-Hospital Organization (PHO) linking together the University Hospital and the separate private practice foundations at the University of Kansas Medical Center. The purpose of the PHO is to enable the institution to negotiate and bid for patient care in a unified manner. Most recently this authority was used to form a not-for-profit corporation titled Jayhawk Primary Care, Inc. (JCPI), a joint venture of the University Hospital and the Kansas Family Medicine Foundation, for the purpose of establishing a primary care clinic in Johnson County.

The third bill before the committee today is Senate Bill 173 which authorizes the institution to enter into contracts to lease and operate off-campus medical care facilities without being subject to K.S.A. 75-3739.

Finally, the provisions of Senate Bill 174 has been before this committee in various forms in the past and relates to granting to the University Hospital additional latitude in purchasing. There are actually two separate authorities incorporated in this piece of legislation. The first would authorize the University of Kansas Medical Center direct purchasing authority for individual purchases of \$25,000 or less. Prior to the current year, the institution had been delegated authority by the Director of Purchases for acquisitions up to \$10,000. I believe the Department of Administration also proposed legislation a year ago which would have enabled the Director of Purchasing to increase that limit to \$25,000 or the same amount currently granted to the University through the Appropriation Bill proviso.

The second issue incorporated in this particular bill is the granting of authority to the University of Kansas Medical Center to enter into contracts with consortiums of other health care providers and purchasing groups for the acquisition of supplies, materials and equipment used by the Hospital. In December 1994, the University Hospital obtained membership in the University Hospital Consortium (UHC), an organization composed of sixty university health care centers and their affiliates. Member hospitals are located across the entire United States and include the University of Missouri, University of Nebraska, and University of Colorado from this immediate area. The consortium offers a number of services of which the purchasing program is one. The purchasing services offered by the University Hospital Consortium are divided into three major categories: materials and supplies, capital equipment, and pharmacy. All UHC agreements are competitively bid and a copy of the terms and conditions of those agreements is available.

Upon conclusion of the 1994 legislative session, the University initiated a series of meetings to discuss implementation of these provisos with the Secretary of Administration, the Director of Purchasing, and the Chief Attorney of the Department of Administration. The purpose of these discussions, the first of which occurred in July, was to ensure that the administration was fully apprised of our activities in implementing the provisos. Subsequent discussions occurred periodically throughout the fall. Most recently we have met to attempt to resolve any concerns the Department might have with the proposed legislation.

As we would prefer that the administration support this legislation, we are willing to seek

a common ground of understanding and agreement. However, at the risk of being overly dramatic, the reality is that passage of this legislation is imperative if the University Hospital is to survive. We like to use the reference "leveling the playing field" to illustrate the need to better enable the University Hospital to compete on equal standing with other providers. While this legislation is certainly helpful, it will only lessen the imbalance that currently exists.

Let me conclude my remarks with these observations. While federally legislated health care reform initiatives have stalled, regional, state and local market pressures have continued to accelerate. The race to managed care threatens the future viability of all hospitals, but in particular, academic health centers. Managed care will dramatically reduce the demand for health care services and place a premium on operational efficiency and cost containment. The provider that is not efficient or able to control cost is in trouble. We have an inherent disadvantage in that educational institutions are by their nature less efficient and have unavoidable costs that other providers do not have, even under the most ideal circumstances.

Another phenomena of this managed care movement is the transformation in the role of the hospital from being a principal income producer to becoming a cost center. The days of being able to pass along all costs, necessary and otherwise, are over. Marketplace economics will dictate being able to convince payers that you can enable them to reduce costs, and hopefully, that they will share some portion of that savings with you.

These four measures would enhance the University Hospital's capacity to be more efficient and to control costs. While these bills represent a rather bold break from traditional ways in which the University Hospital has functioned, other barriers to totally leveling the playing field will remain and likely always will.

Mr. Chairman, perhaps it would be best to hear from the other conferees and then stand for questions. I thank you for allowing this hearing on these bills.

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**ARTHUR ANDERSEN LLP
TESTIMONY
STATE OF KANSAS
WAYS AND MEANS COMMITTEE
FEBRUARY 15, 1995**

Thank you, Mr. Chairman. My name is Michael Herrick and I am the Regional Director of Health Care Consulting for the firm of Arthur Andersen. Arthur Andersen is a world-wide organization that offers accounting and consulting services to numerous industries, including health care. The Kansas City office covers a large geographical area from Denver to Chicago and Minneapolis to Houston. We are currently working with several academic medical centers on strategic issues.

Over the last 23 years, I have been both an hospital administrator and health care consultant. As a consultant, my clients include hospitals and medical schools. I am also a resident of the State of Kansas.

In September 1993, the Kansas Board of Regents retained Arthur Andersen to "conduct a comprehensive management study of the University of Kansas Medical Center."

*SWAM
February 15, 1995
Attachment 2*

Today, I am here to give information relating to our recommendations in that management study. I have provided a copy of my testimony today for your review.

In analyzing the relationships between the hospital, private practice corporations, and academic units, our objective was to determine what, if any, changes the University of Kansas Medical Center should consider to “take advantage of the changing conditions in the healthcare service market.”

The Arthur Andersen study first indicated the University of Kansas Medical Center should have a more flexible operational structure and a more expedient decision-making capability.

For example, University of Kansas Medical Center must possess information systems unique to hospitals that are capable of capturing

information from a variety of sites. Our study recommended the University of Kansas Medical Center implement common financial and cost accounting systems that provide appropriate operational management information and the appropriate data for negotiation with insurance companies and managed-care organizations.

To succeed in a predominantly managed-care market , the University of Kansas Medical Center should also possess systems that create and track vital operating components: common patient records, centralized patient scheduling ,and utilization management data. In our study, we recommended the University of Kansas Medical Center develop information systems capable of linking the University hospital with other provider sites to manage all aspects of patient care delivery (for example, from patient care to clinic visits).

In selecting these systems, the University of Kansas Medical Center will have information technology that is compatible with other Medical Center

system components, such as the afore mentioned cost accounting and financial system.

The installation or the conversion to new information systems can take considerable time; therefore, the University of Kansas Medical Center must quickly select systems that will best achieve these objectives. These management information systems are unique to the health care environment and would not be utilized by other agencies of the State of Kansas.

Outside of technology, we recommended the University of Kansas Medical Center develop a health care delivery network that provides an adequate supply of primary and specialty patients to the University of Kansas Medical Center in support of its financial, educational, and research objectives. We recommended the University of Kansas Medical Center pursue an integrated delivery network with other physician and hospital systems. Each relationship would provide for health care coverage through primary care and referral specialty care. This integrated network

would also provide the University of Kansas Medical Center with additional primary care teaching sites and specialty referrals. We further recommended the University of Kansas Medical Center develop a formalized outreach program for rural physicians and hospitals.

Other findings in our study suggest the University of Kansas Medical Center develop a primary care network of campus and satellite locations. The hospital needs to develop a plan to recruit and distribute primary care physicians within this network. Furthermore, as managed care becomes a dominant form of reimbursement for healthcare services in Kansas City and surrounding Kansas communities, increased emphasis will be placed on a highly developed integrated system with multiple care delivery sites.

The University of Kansas Medical Center should develop a central ambulatory facility of multispecialty practices near the University of Kansas Medical Center campus. We recommend the University of Kansas Medical Center develop, as appropriate, several primary care physician sites in the Kansas City area.

The proposed bill will provide the University of Kansas Medical Center with the flexibility to meet these strategic objectives that I have discussed.

The proposed legislation will allow for the development of affiliations, joint ventures, partnerships and equity ownerships with other health care providers. This legislation will also allow for the development and operation of off-campus ambulatory care sites, which are vital to the development of a health care delivery network.

As stated previously, our study indicated the University of Kansas Medical Center should have an operational structure that provides more flexibility. Additionally, the University of Kansas Medical Center could continue to take advantage of purchasing opportunities afforded by the participation and purchasing consortiums.

We proposed the University of Kansas Medical Center should have purchasing and procurement capabilities responsive to the hospital's requirements for routine capital asset acquisitions.

The proposed bills put forth for your discussion will offer the University of Kansas Medical Center the latitude it needs to become more cost competitive and to better manage patient care. From our experience, these requests are in line with other academic medical centers and teaching hospitals. These Bills will promote the access and delivery of primary and specialty care health care services to the residents of Kansas and bolster the University of Kansas Medical Center's mission to create an environment for education, research, and high-quality patient-centered health care.

STATE OF KANSAS



DEPARTMENT OF ADMINISTRATION
Division of Purchases

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Senate Ways and Means Committee
11:00 a.m. Wednesday, February 15, 1995
Testimony on SB No. 170 & 174
Acquisition of Data Processing Hardware and Software
Purchase of Goods and Services by KUMC
Leo E. Vogel, Acting Director of Purchases

Mr. Chairman, members of the committee, ladies and gentlemen. I am Leo Vogel, Acting Director of Purchases.

Although I advocate granting the University of Kansas Medical Center the authority in Senate Bill No. 170 & 174, I am concerned the bills allows the Medical Center the latitude to make purchases without regard to the purchasing statutes.

Above all, any public procurement system must insure integrity in its operation. That requires that a variety of safeguards, such as the purchasing statute (K.S.A. 75-3739), be put in place to preserve that integrity. The purchasing statutes removes procurement authority from using agencies, which may have parochial interests, to the Division of Purchases, which must abide by professional impartiality. This is done to assure that public purchasing is conducted without favoritism and without arbitrariness or caprice and to guarantee that all purchases are made in a manner that fosters maximum competition among a sufficient number of prospective bidders.

SWAM
February 15, 1995
Attachment 3

I am a proponent of the bills referenced above, but suggest the following paragraph be added to each bill:

All purchases or other acquisitions by the University of Kansas Medical Center pursuant to this section shall be under such conditions as may be prescribed and established by the state Director of Purchases.

I stand for any questions from the committee.