

# **INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE**

## **Minutes of the 6th Meeting of the 2019 Interim**

**November 19, 2019**

### **Call to Order and Roll Call**

The 6th meeting of the Interim Joint Committee on Appropriations and Revenue was held on Tuesday, November 19, 2019, at 1:00 PM, in Room 149 of the Capitol Annex. Senator Christian McDaniel, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Christian McDaniel, Co-Chair; Representative Steven Rudy, Co-Chair; Senators Tom Buford, Matt Castlen, Rick Girdler, David P. Givens, Morgan McGarvey, Stephen Meredith, Gerald A. Neal, Dennis Parrett, Robin L. Webb, Stephen West, and Phillip Wheeler; Representatives Lynn Bechler, Danny Bentley, Myron Dossett, Joseph M. Fischer, Kelly Flood, Mark Hart, Angie Hatton, Russ A. Meyer, Jason Nemes, Ruth Ann Palumbo, Melinda Gibbons Prunty, Brandon Reed, Steve Riley, Rob Rothenburger, Sal Santoro, John Sims Jr, Wilson Stone, and Susan Westrom.

Guests: Neeli Bendapudi, President, University of Louisville; Dan Durbin, CFO, University of Louisville; Tom Miller, CEO, University of Louisville Health; Andrew McNeil, State Director, Americans for Prosperity; Bernard "Deck" Decker, Interim Executive Director, Kentucky Communications Network Authority; Doug Hendrix, General Counsel, Kentucky Communications Network Authority; Steve Murphy, Chief Financial Officer Kentucky Communications Network Authority; Robin Kinney, Associate Commissioner, Office of Finance and Operations; Charles Harman, Director, Division of Budgets and Financial Management; and Chay Ritter, Branch Manager, Funding and Reporting Branch.

LRC Staff: Jennifer Hays, Cynthia Brown, Kevin Branscum, Morgan King, and Chase O'Dell

### **Approval of Minutes**

A motion was made by Representative Fischer, seconded by Senator Parrett, to approve the minutes of the October 1 meeting. The minutes were approved by voice vote.

**University of Louisville Takeover of Jewish Hospital and Other Healthcare Networks**

Neeli Bendapudi, President, University of Louisville; Dan Durbin, CFO, University of Louisville; Tom Miller, CEO, University of Louisville Health; and Andrew McNeil, State Director, Americans for Prosperity (AFP) discussed the University of Louisville's takeover of Jewish Hospital and other healthcare networks.

President Bendapudi testified that on November 1, the University of Louisville acquired the Louisville-area assets of KentuckyOne Health, including facilities in Shelbyville and Bullitt County. This brought the total assets acquired by the university to five hospitals, four outpatient centers, and a couple of garages, with a significant medical staff.

President Bendapudi reviewed the history and reasoning behind the university's acquisition. The university's decision was whether to let Jewish Hospital close, or to step-up and be a part of the solution. The university believes that acquiring the assets is in the best interest of the university, the city, and the entire commonwealth. President Bendapudi added that the closure of Jewish Hospital would have been catastrophic. Greater Louisville Inc. (GLI), the chamber of commerce for Louisville, has unanimously resolved to support the University of Louisville in seeking a loan from the state. President Bendapudi expressed her gratitude towards the members of the General Assembly.

Dan Durbin testified that allowing Jewish Hospital to close would have resulted in a negative \$51 million fiscal impact annually to the university and its health system and health sciences center.

In response to a question from Senator McDaniel, Mr. Durbin stated that an Academic Affiliation Agreement (AAA) is an agreement between a hospital and a medical school or health sciences center that agrees to pay for faculty compensation, faculty services, faculty supervision of other physicians, and mission support.

Mr. Durbin stated that the assets in total lose money, thereby requiring capital investments to help bring the assets to where they should be. Under university management, the Jewish hospital will qualify for enhanced Medicaid reimbursement, also known as IGT. This will bring in \$33 million a year. Based on previous experience, the university believes that it will be able to manage the revenue cycle better, producing an additional \$15 million per year. The university also believes that \$30 million worth of synergies can be realized due to the hospital being brought into the University of Louisville Health system. Mr. Durbin stated that all these factors combined will produce a positive eight million dollars to the bottom line in the third year of operation.

In response to a question from Senator McDaniel, Mr. Durbin stated that in the third-year operations will stabilize and an \$8 million positive impact will be realized. In response to another question, he stated that the university is anticipating needing to make \$30 million

worth of capital investments each of the first two years after acquisition. In the third year, the university is anticipating making \$20 million worth of capital investments.

Mr. Durbin testified that Jewish hospital has a total payroll of \$103 million. The hospital employs 1,472 full-time Kentuckians. The state payroll tax from those employees totals \$10.2 million per year. Jewish hospital sees about 35,000 patients per year through the emergency room.

Tom Miller testified that there was no ability for the patients of Jewish hospital to be taken care of at another downtown Louisville facility if the hospital closed. Jewish hospital provided approximately \$41 million to the University of Louisville school of medicine this past year.

President Bendapudi stated that if Jewish hospital closed, it would jeopardize the university's R1 Research University status. For the University of Louisville, acquisition of the Jewish hospital assets will give the university an integrated health system, forge a path to expansion of the teaching and research mission, and it will allow the university to grow and have a stable financial future.

Senator Meredith stated that the university did not address the change in the payer mix at Jewish hospital. He continued to say that the majority of jobs lost from a Jewish hospital closure could be absorbed within the medical community. Senator Meredith said that he believes the university is underestimating the amount of capital investment that will be needed; adding that he doesn't see any job creation resulting from the takeover. President Bendapudi disagreed with Senator Meredith in regards to the absorption of lost jobs. Concerning payer mix, President Bendapudi stated that the university has added over 80 primary care physicians to the network, which will improve the payer mix as references are made. Senator Meredith discussed the importance of rural hospitals to their communities. Mr. Miller explained why Jewish hospital received a bad rating from the Leapfrog group.

In response to a question from Senator Wheeler, President Bendapudi stated that none of the university's investment is going towards payouts for the former executives of Jewish hospital.

In response to a question from Representative Reed, Toni Ganzel, the Dean of the School of Medicine, testified that the university has a regional campus in Madisonville, stating that the outcomes have been shown to be successful in returning students to be physicians in their communities. The university also has clinical outreach programs throughout the state. The university receives patients from throughout the state for the clinical programs.

Andrew McNeil testified that once funds are appropriated for a loan to the University of Louisville, those funds cannot be used elsewhere. Mr. McNeil stated that it was hard for him to believe that there is not a private sector solution to the university's financial need. Mr. McNeil continued to say that there is no reason for state government to intervene, subsidize a low interest loan, and take on the risk for the deal. Mr. McNeil also said that the deal has several troubling characteristics that are similar to the Kentucky Wired deal.

AFP's recommendation is to provide the University of Louisville with support to pursue private sector financial support for the deal.

In response to a question from Representative Rothenburger, Mr. Durbin testified that at this point, the enhanced Medicaid reimbursement would only be applicable to the downtown Jewish hospital. In response to another question, Mr. Durbin said that there is a potential for the other outlying hospitals to eventually receive the enhanced Medicaid reimbursement.

Senator Buford stated that the \$50 million requested by the University of Louisville would have to come out of the General Fund. In response to a question from Senator Buford, President Bendapudi said that the state will receive back \$25 million of the \$50 million it advances to the University of Louisville. Mr. Durbin stated that the payback would occur over 20 years. In response to another question from Senator Buford, President Bendapudi stated that the university cannot leave or renegotiate the deal.

Representative Nemes stated that the Kentucky Wired situation is very different from the university's takeover of Jewish hospital. Representative Nemes continued to say that the patients served by Jewish hospital are among the least wealthy. In response to a question from Representative Nemes, President Bendapudi stated that there are no beds available for the people currently served by Jewish hospital.

In response to a question from Senator McGarvey, Mr. Miller stated that the university will determine over the next year whether the capital payments will increase the life expectancy of Jewish hospital. Senator McGarvey questioned whether the University of Louisville may need increased bond capacity to either renovate Jewish hospital or to build a bed tower at the university.

### **Kentucky Wired Progress and Expected Budget Requests**

Bernard "Deck" Decker, Interim Executive Director, Kentucky Communications Network Authority; Doug Hendrix, General Counsel, Kentucky Communications Network Authority; and Steve Murphy, Chief Financial Officer Kentucky Communications Network Authority, discussed Kentucky Wired's progress and expected budget requests.

“Deck” Decker testified that rings 1A and 1B are lit. Ring two is done with construction and the Kentucky Communications Network Authority (KCNA) is working on lighting it. Ring three is expected to be completed by December. Ring four is expected to be completed by fall of 2020. The Commonwealth data center and the alternate data center are both up and running on Kentucky wired.

Steve Murphy stated that the KCNA budget request for Fiscal Year (FY) 2021-2022 is an increase from FY 2019-2020. The major new expenses fall under contractual obligations. Contractual obligations will cost \$13 million annually during the biennium. Debt service is over a third of KCNA’s total expenses.

In response to a question from Senator McDaniel, Mr. Murphy confirmed that there were not any savings or revenues factored into the budget numbers presented. In regards to wholesalers, Mr. Decker stated that until the wholesaler pays off their investment, the revenue earned will not be coming back to the state. He continued to say that revenue will come to the state in 2025. In response to further questioning, Mr. Murphy testified that the availability payments will last until 2045.

In response to a question from Senator Castlen, Mr. Decker stated that there were gaps with the Kentucky Wired project, and that KCNA would be spending money with other providers to close the ring of service until KCNA could close the gaps with their own construction. Senator Castlen expressed his concern with operations underperforming.

In response to a question from Representative Bechler, Mr. Decker stated that KCNA is charging agencies to use the Kentucky Wired network. In response to another question, Mr. Decker said that KCNA charges agencies the price they were paying for services in 2015. He continued to say that internet rates have gone down 40% in Kentucky. In response to another question, Mr. Decker said that agencies would be paying KCNA instead of commercial enterprises. In response to further questioning, Mr. Decker testified that the Department for Community Based Services office that will soon switch to Kentucky Wired will be paying more for services than it was previously. He continued to say that agencies will be receiving better service. Representative Bechler stated that some cities are contracting with other people and putting in their own fiber; adding that Kentucky Wired is a boondoggle.

Senator McDaniel stated that this year, the state is appropriating KCNA \$35 million. He continued to say that under the budget request proposed, the number would increase to \$50 million. In response to a question from Senator McDaniel, Mr. Decker said that he saw nothing that could ease the impact of the budgetary request made by KCNA in the next two years. He continued to state that he believed KCNA could refinance its debt down the road. Mr. Murphy added that once the network is completed and running, he believes that KCNA could refinance at a lower rate. He continued to say that the rest of the expenses are contractual, so there is little wiggle room.

Senator Buford thanked the presenters for their efforts.

**Kentucky Department of Education – Anticipated Pupil Growth and Expected Average Daily Attendance for the Upcoming Budget Biennium**

Robin Kinney, Associate Commissioner, Office of Finance and Operations; Charles Harman, Director, Division of Budgets and Financial Management; and Chay Ritter, Branch Manager, Funding and Reporting Branch, discussed anticipated pupil growth and expected average daily attendance for the upcoming budget biennium.

Chay Ritter testified that the Average Aggregate Daily Attendance (AADA) is a huge driver of funding, responsible for \$2.3 billion in funding in FY 2020. The AADA in Kentucky peaked in 2015 at almost 600,000; since then it has slowly declined. The AADA is projected to continue to decline in the next few years.

Mr. Ritter said that in 2002, 247,000 students were on free lunch. The number of students on free lunch has steadily increased over 18 years. KDE is predicting that number will increase slightly over the next couple of years. Over 100,000 students have been added to free lunch since 2002. Free lunch generates \$600 per student for the school districts. In 2022, 64 percent of the AADA will be comprised of students receiving free lunch.

Mr. Ritter testified that KDE predicts that in the next couple of years, over 100,000 Kentucky students will be considered exceptional children. The most severe category for exceptional children generates over \$9,000 per student, with the moderate category generating over \$4,000 per student.

Mr. Ritter stated that property assessments have increased in value from \$200 billion in 2002, to nearly double that in 2022. He added however that assessments vary between districts.

The base of the Support Education Excellence in Kentucky (SEEK) formula totals roughly two billion dollars. The biggest component of the formula is the AADA. In addition, 14.7 percent of the formula goes towards exceptional children, with 7.3 percent going towards at risk students.

Charles Harman testified that in the current SEEK formula, kindergarten is funded for half-days. KDE is requesting funding for full-day kindergarten for every school district in the state.

In response to a question from Representative Rudy, Mr. Harman stated that every district completes the National Board Certified Salary Supplement payment. He added that KDE supplies around 60 percent of the payment.

Senator Givens encouraged presenters to start graphs at zero, stating that it portrays information in a better fashion.

Representative Stone stated that there is basically full-time kindergarten in Kentucky, but that the state only funds half-time kindergarten. In response to a question from Representative Stone, Mr. Ritter stated that the second month growth data compares current year data to the prior year.

### **Correspondence Received**

Senator McDaniel reviewed the correspondence received from Jenny Bannister, Deputy Director, Office of Budget Review (LRC).

### **List of Reports Received Since October 2019**

Senator McDaniel reviewed the list of reports received since October 2019.

### **Adjournment**

With no further business before the committee, the meeting was adjourned.