

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 5th Meeting of the 2020 Interim

October 21, 2020

Call to Order and Roll Call

The 5th meeting of the Interim Joint Committee on Appropriations and Revenue was held on Wednesday, October 21, 2020, at 1:00 PM, in Room 171 of the Capitol Annex. Representative Steven Rudy, 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, David P. Givens, Alice Forgy Kerr, Morgan McGarvey, Stephen Meredith, Gerald A. Neal, Michael J. Nemes, Dennis Parrett, Robin L. Webb, Stephen West, and Phillip Wheeler; Representatives Lynn Bechler, Danny Bentley, Myron Dossett, Joseph M. Fischer, Kelly Flood, David Hale, Mark Hart, Angie Hatton, Jason Nemes, Ruth Ann Palumbo, Melinda Gibbons Prunty, Brandon Reed, Steve Riley, John Sims Jr, Wilson Stone, James Tipton, and Susan Westrom.

Guests: Tom Miller, CEO, University of Louisville (UofL) Health; Ken Marshall, COO, UofL Health; David McArthur, UofL Health; Shannon Rickett, Government Relations, University of Louisville; Nancy Galvagni, President, Kentucky Hospital Association; Sheila Currans, Chief Executive Officer, Harrison Memorial Hospital; Dan Mosely, County Judge Executive, Harlan County; Steve Henry, County Judge Executive, Webster County; David Fields, County Judge Executive, Pendleton County; and J. C. Young, Executive Director, Kentucky Coal & Mineral County Coalition.

LRC Staff: Cameron Childress, Jennifer Hays, Sarah Watts, and Chase O'Dell.

Approval of Minutes

A motion was made by Representative Reed, seconded by Representative Hart, to approve the minutes of the September 16, 2020, meeting. The motion passed by voice vote.

University of Louisville Hospital Purchase Update

Tom Miller, CEO, UofL Health; Ken Marshall, COO, UofL Health; David McArthur, UofL Health; and Shannon Rickett, Government Relations, University of Louisville, provided an update on the University of Louisville hospital purchase.

Tom Miller expressed UofL's gratitude for the legislature's support of its acquisition of KentuckyOne Health hospitals in Louisville. Without the support of the legislature and local foundations, jobs and access to care would have been jeopardized in the Louisville community. UofL Health is one of several economic development engines in the community. It provides care for patients in every county in the state. UofL Health has over 12,000 full-time and part-time team members.

Mr. Miller provided a recap of the timeline of events that led to UofL's acquisition. He continued to review the numbers and costs of the acquisition.

UofL Health met every objective that it outlined to the legislature during the 2020 regular session. The system made approximately \$34 million in normalized net income in Fiscal Year 2020; it had expected to lose about \$11 million. For Fiscal years 2020-2021, \$140 million have been budgeted for capital investments back into the hospital. COVID-19 has had a negative \$93 million impact on UofL Health. The system has received CARES Act funding from the federal government which has offset that amount by \$31 million.

Mr. Miller discussed the keys to the success of the acquisition. UofL Health received enhanced reimbursement from the federal government, which was facilitated by the state. Operational improvements in the revenue cycle has allowed the system to collect more from its patients and ensure that they are billed appropriately. Corporate overhead was reduced. Capital investments were made in MRIs, information technology, and more.

The integration of KentuckyOne Health and UofL health into one system has been successful while dealing with the pandemic, community and social unrest, and the difficulty of credentialing some insurance payers. The Leapfrog rating of Jewish Hospital has improved from an "F" to a "C" rating.

UofL Health is continuing to expand its medical education out into communities, including into rural communities. The system has also continued to make capital investments into its hospital. All of the current commitments of the loan from the Kentucky Economic Development Finance Authority (KEDFA) have been met. The loan requires UofL Health to maintain 5,880 full-time Kentucky jobs. There are over 6,000 Kentucky jobs within the system today. The system is also meeting the needs of the underserved and investing in new clinics in West Louisville and in rural communities.

In response to a question from Senator McDaniel, Mr. Miller testified that UofL Health had approximately \$650 million in net revenues before its acquisition of KentuckyOne Health. The system has close to \$1.7 billion after the acquisition. In response to another question, Mr. Miller stated that the 5,880 jobs benchmark in the KEDFA loan included UofL Health and KentuckyOne Health jobs. In response to further questioning, Mr. Miller confirmed that the KEDFA loan did not require UofL Health to retain the Old Jewish hospital in Downtown Louisville. UofL has invested millions of dollars into Jewish

Hospital, and that it is the system's intent to continue to operate both Jewish Hospital and the University Medical Center. UofL Health could not take care of all its patients without Jewish Hospital. The hospital hit records on its inpatient census last month.

In response to a question from Representative Bechler, Mr. Miller testified that the KEDFA loan is being used to invest back into hospitals. In response to another question, Mr. Miller testified that the increase of reimbursement generated \$50 million that UofL Health did not anticipate. Without this increase, the system would have lost \$11 million. In response to further questions, Mr. Miller defined a rural community as any community with a certain population base that is not served well by healthcare. Every medical student at UofL has to go to a rural area as a part of their training requirements. With telehealth, academic medicine can be provided anywhere in the state.

Update on Effect of COVID-19 on Kentucky Hospitals

Nancy Galvagni, President, Kentucky Hospital Association; and Sheila Currans, Chief Executive Officer, Harrison Memorial Hospital, provided an update on the effect of COVID-19 on Kentucky Hospitals

Nancy Galvagni testified that the collective speed of response to COVID-19 both federally and in Kentucky has been unprecedented. Ms. Galvagni reviewed the timeline of events of the COVID-19 pandemic. The impact on Kentucky hospitals has been no less acute than on any other business. Hospitals throughout Kentucky have been hit hard. Hospitals are doing an excellent job at managing their capacity. The Kentucky Hospital Association works with hospitals daily to ensure that capacity and PPE needs are met. Hospitals will continue to face significant challenges from COVID-19 in the year ahead. It will take time for a vaccine to become widely accepted and used.

Hospitals are on the frontlines fighting COVID-19, and will continue to face financial challenges from the effects of the pandemic. Hospitals are also economic engines for their community. Kentucky hospital losses in 2020 from responding to COVID-19 are estimated to exceed \$2.6 billion. Federal relief funds have covered less than half of that amount, leaving over \$1 billion in uncovered losses by the end of 2020. Ms. Galvagni expressed her appreciation for the work done by Kentucky's federal congressional delegation.

Hospitals have faced losses due to the shutdown of elective procedures and from fear. Inpatient treatment has returned to better than 85 percent of pre-COVID levels. Emergency room use has not rebounded above 70 percent of pre-COVID levels. Ms. Galvagni cited a study conducted by the CDC which found that 41 percent of adults have avoided treatment during COVID-19. She continued to say that citizens should not skip or delay treatment, adding that hospitals are clean, safe, and ready to offer care.

Many hospitals requested and received advance payments from Medicare to help with critical cash flow when elective procedures were stopped. Under the CARES Act, these payments are treated as loans and must be repaid. Hospitals are the largest employer in many communities. Hospitals had to furlough over 3,000 employees as elective procedures were stopped and a surge of COVID patients into hospitals didn't occur. If a number of hospitals are forced to close or cut back on services, the impact on employment and the economy will be devastating on many communities. Ms. Galvagni also discussed the impact of hospital closings on healthcare availability in rural communities.

Sheila Currans testified that Harrison Memorial Hospital is completely independent and has a wholly rural service area. It is the only remaining hospital in its service area. The hospital depends significantly on its Disproportionate Share Hospital (DSH) classification since the service area serves a large share of Medicare and Medicaid patients. The hospital also employs over 450 people, whose wages are higher than most in the community. The ability to provide care is as threatened today as it has ever been in the history of the hospital.

Harrison Memorial Hospital became the first hospital in Kentucky to treat a known COVID patient on March 6, 2020. Fifty-four clinical employees had to isolate for 14 days after the patient's diagnosis. The hospital had to shut down elective procedures 16 days earlier than the rest of the hospitals in the Commonwealth. The expense of COVID response continued to grow as little revenue came in. A surge never happened for Harrison Memorial. By the end of April, the hospital was at a 159 percent negative operating margin. Fear causes people to put off their preventative and chronic care.

Harrison Memorial Hospital ended the fiscal year on September 30 with a negative 21 percent operating margin. Had it not been for the paycheck protection program, the advance payments from Medicare, and CARES Act money, the hospital would have faced dire consequences as early as May. Utilization is down by double digits in most service areas. Ms. Currans testified that rural hospitals are critical to a community when facing a pandemic.

In response to questioning from Representative Rudy, Ms. Currans stated that the positivity rate in Harrison County is determined by the number of swab tests that come back positive out of all swab tests administered. She continued to say that in Harrison County the positivity rate is measured by the total number of swabs that have been executed for testing and have resulted in a positive test result.

In response to a question from Representative Tipton, Ms. Galvagni testified that the number of people on Medicaid has gone up because of presumptive eligibility. Up to 1.6 million people in Kentucky are now on Medicaid, representing an increase of 400,000. On average, about 70 percent of patients in hospitals are covered by a government program. Medicare on average only pays 90 cents of every dollar in costs. Medicaid pays about 75 percent of actual costs. Elective procedures are crucial to hospitals. Kentucky was one of

the first states to order elective procedures to be stopped. The hospital association is working with the state's federal delegation to get additional relief to Kentucky hospitals.

In response to a question from Representative Flood, Ms. Currans advocated for improving the Medicare and Medicaid reimbursement of costs.

In response to a question from Representative Stone, Ms. Currans testified that no one owns Harrison Memorial Hospital, and that it does not receive support from the local fiscal court. If the hospital were to fail, the assets of the hospital would be taken to cover the debt service. Ms. Currans stated that her belief was that the county would then decide what would happen to what remained of the hospital.

In response to a question from Senator Wheeler, Ms. Currans stated that the Harrison Memorial Hospital operates as a non-profit. She continued to say that nothing in the facility is owned by the county, and that the hospital does not receive any tax dollars. She concluded by stating her assumption that if the hospital were to fail the county would have to determine what to do with the building.

Coal & Mineral Severance for Counties

Dan Mosely, County Judge Executive, Harlan County; Steve Henry, County Judge Executive, Webster County; David Fields, County Judge Executive, Pendleton County; and J. C. Young, Executive Director, Kentucky Coal & Mineral County Coalition, discussed coal and mineral severance for counties

Dan Mosely testified that even though production is down, coal is still viable for many Kentucky counties and still provides jobs. The 2021 state budget projects coal severance tax revenues to the state to reach \$46.1 million in Fiscal Year 2021. The budget appropriated \$26.2 million of these revenues for debt service. A projected \$18.2 million in revenues will be returned to coal producing counties. Collections were slightly above projections through the first quarter of Fiscal Year 2021.

Steve Henry testified that coal severance revenues are used by county governments to provide basic services such as 911 call centers or jails.

Mr. Mosley stated that mineral severance, like coal severance, is a state-assessed tax shared with counties. Mineral severance revenues are projected to total \$32.6 million in Fiscal Year 2021. Historically, the state splits collections in half with mineral producing counties. A projected \$16.3 million in revenues will be returned to mineral producing counties in Fiscal Year 2021. Mineral severance is slightly down through the first quarter of the fiscal year.

David Fields stressed the importance of mineral severance funds for counties. The bulk of these funds are used for providing emergency services in Pendleton County. The funds are also used for roads, bridges, and economic development.

The Kentucky Coal & Mineral County Coalition requests that mineral and coal severance revenues continue to be returned to local communities.

In response to a question from Senator Wheeler, Mr. Mosley requested that the debt service be evaluated.

With no further business before the committee, the meeting was adjourned at 2:27 p.m.