



Before the Senate Committee on Health Care
Opposition to Senate Bill 861

Amy Fauver
Director, Government Relations
Kaiser Permanente Northwest

March 14, 2017

Thank you for the opportunity to present testimony in opposition to Senate Bill 681 on behalf of Kaiser Permanente's Northwest Region. Kaiser Permanente Northwest (KPNW) is comprised of four legal entities: Kaiser Foundation Health Plan; Northwest Permanente Medical Group; Permanente Dental Associates; and Kaiser Foundation Hospitals. Together, these entities provide integrated health care for more than 550,000 members in Oregon and Southwest Washington. KPNW operates two hospitals in Oregon, Kaiser Sunnyside Medical Center and Kaiser Westside Medical Center.

SB 681 deletes from statute provisions that allow facilities that receive a preponderance of their revenue from associated comprehensive group-practice prepayment health care service plans to utilize established accounting systems and to report costs and revenues in a manner consistent with the operating principles of such plans and generally accepted accounting principles. It also deletes provisions that allow such organizations to report data as a group rather than on an institutional level when those facilities are operated as units of coordinated group of health facilities under common ownership.

As a managed care organization, KPNW budgets, plans and forecasts from a consolidated view that encompasses both the health plan and hospitals. The vast majority of patients that are seen at our hospitals are Kaiser Permanente members, and we monitor and manage financial performance at a consolidated level rather than at an individual hospital level. We do not view our hospitals as "profit centers" that are expected to be stand alone businesses and realize specific rates of return. This perspective is reflected in our accounting and financial reporting and sets KPNW apart from other systems.

KPNW simply does not track financial data in way that could provide the data currently required by the Oregon Health Authority's (OHA) DataBank and FR-3 reports directly from our accounting systems. Significant cost allocations to each hospital would have to be developed and that would cause data to be potentially misleading in comparison to other organizations. Rather than create a level playing field, KPNW would be forced to report data that is not comparable to that reported by other hospitals in the state.

A few examples of data KPNW would be required to submit and the challenges we face as an integrated delivery system are:

- Medicare Inpatient Charges: For certain lines of business such as Medicare, the hospital legal entity is paid a capitated per member per month payment that is not based on specific services provided during that period of time.
- Net Patient Revenue: Patient service revenues are not recorded within our financial statement for any line of business by individual hospital. Accordingly, bad debt, charity care, and contractual allowances are at the patient level and are unconnected to location of services.
- Physician Payroll Amount: Under the health plan's contract with Northwest Permanente Medical Group, we pay a capitated, per member per month payment that is not connected to services provided during the period. This payment is to provide care for KPNW members whether in the clinic or hospital.

Additionally, the bulk of the administrative costs are incurred by the health plan and allocated to Kaiser Foundation Hospitals through cost drivers. These are not calculated nor allocated at the individual hospital level.

KPNW complies with generally accepted accounting standards (GAAP), including the Financial Accounting Standards Board (FASB) guidelines related to reporting capitation and prepaid health care. However, KPNW's underlying contracts and payment arrangements are different than non-managed care organizations. Accounting treatment follows the legal agreements and underlying requirements of the contracts, such as the payment arrangement with Northwest Permanente Medical Group and between Kaiser Foundation Health Plan and Kaiser Foundation Hospital.

Importantly, the FASB guidance does not comment on reporting requirements at the individual hospital level based on cost allocations (unless the hospital constitutes the full and complete legal entity). GAAP in this case would relate only to the consolidated hospital financial reporting, which for KPNW's two hospitals, rolls up into the overall Kaiser Foundation Hospital reporting that includes all of the other KP hospitals in Hawaii and California.

For the past decade Oregon has been working to move away from fee-for-service and to encourage alternate payment methods and value based care. State policy has gradually shifted to encourage, and in some cases mandate, that we pay for care in a way that promotes health rather than reimbursing every individual service and supply. If passed, SB 861 would require KPNW to pretend we are not an integrated care delivery system and to attempt to back into numbers that fit OHA's buckets. Rather than force KPNW and other health systems that are moving away from the fee-for-service model to report numbers that would not accurately represent the cost of care, the state would be better served by taking a fresh look at the reporting requirements and investigating how to truly capture cost data in this new era of alternate payment methods and managed care. KPNW would be pleased to partner with OHA in this effort.

Thank you