

HOUSE COMMITTEE ON
GENERAL GOVERNMENT AND REGULATORY REFORM

Hearing Room
Tapes - 35

MEMBERS PRESENT:

Rep. Bob Tiernan, Chair
Rep. Mike Lehman, Vice-Chair

Rep. Jerry Grisham
Rep. Bryan Johnston
Rep. Bill Markham
Re. Lonnie Roberts
Rep. Barbara Ross
Rep. Charles Starr
Rep. Ken Strobeck
Rep. Sharon Wylie

MEMBER EXCUSED:

Rep. Cedric Hayden
Rep. Ron Adams

STAFF PRESENT:

Greg Moore, Committee Counsel
Kay C. Shaw, Committee Assistant

MEASURES HEARD:

Government Efficiency
Informational Hearing
Invited Testimony Only

These minutes contain materials which paraphrase and/or summarize statements made during this session. Only text enclosed in quotation marks report a speaker's exact words. For complete contents of the proceedings, please refer to the tapes.

TAPE , A

005 ACTING CHAIR MARKHAM: Calls the meeting to order at 1:04 p.m. Absent members are excused. Gives introductory comments.

PRESTIGE CARE, INC.

PHIL FOGG, CEO/President, Prestige Care, Inc.: Introductory comments and submits (EXHIBIT A). Provides personal biographical background. Presents from prepared testimony with the use of an overhead projector.

ACTING CHAIR MARKHAM: Could you explain what each of the businesses do (i.e., retirement housing, assisted living, long-term care or nursing homes and respiratory management services)? What is long-term care?

052 MR. FOGG: Continues presentation and explains about their congregate retirement (i.e., one of those levels in the long-term continuum where independent retired folks who live in a building that has some type of communal support system). Explains about assisted living (i.e., the level of care in which health care services are provided in a social environment v. a medical model), long-term care (i.e., skilled nursing facilities).

REP. ROBERTS: How are you going to disconnect long-term care from something else?

MR. FOGG: Explains that terms can become confusing; however, the long-term care continuum refers to all the levels of care with each having their own terminology.

REP. WYLIE: Arrives at 1:10 pm.

ACTING CHAIR MARKHAM: Where does the retirement home in the Lloyd Center, just east of Penney's, that recently doubled in size, fit in?

MR. FOGG: Says it is an independent retirement or congregate retirement housing.

092 MR. FOGG: Continues presentation and explains the geographic coverage, staffing figures, and payroll/benefit figures.

REP. ROBERTS: So you have about a two-to-one margin of Oregon employees over Washington employees?

MR. FOGG: That's correct.

REP. ROSS arrives at 1:14 pm.

126 MR. FOGG: Continues presentation with a brief history of the company (page 7).

REP. ROBERTS: Is the core strategy that emerged anything like a core competency?

MR. FOGG: Core strategy has to do with company values. Continues presentation and explains their difference from other companies in the same business (page 8) is their reputation as the low-cost, high-quality provider.

REP. JOHNSTON: Arrives at 1:14 pm.

REP. LEHMAN: Arrives at 1:15 pm.

REP. ROBERTS: Is one of the major reasons that you charge \$2.50 per patient day for company management services instead of the \$5.00 charged by other facilities, because you run a flat organization (i.e., teamwork, empowerment, and decision making at the lower level)?

161 MR. FOGG: Exactly. Continues presentation and explains the graph about quality of care indicators (page 9). In comparison to the percentage of restraints in nursing homes nationally (top line) and physical restraints of his company's average (third line), there is a difference between 22% and approximately 9-9.5% in Prestige's facilities. Explains

that workers' compensation is a key result area that is in direct correlation to morale (page 10).

ACTING CHAIR MARKHAM: To what do you attribute the 23% average of claims to premium (i.e., education or management)?

MR. FOGG: It has to do with the things Prestige is doing to empower employees and involve them in the operations.

180 REP. ROBERTS: Your employees are encouraged to make decisions, but are they also told that if they make an honest mistake are they told "Don't worry, we not going to fire you type situation?"

MR. FOGG: Yes. It's called "drive out fear."

REP. ROBERTS: Comments about antipsychotic drugs and Prestige's figures at being lower than the national average. If people need antipsychotic drugs, does that mean its because of the type of people that you admit?

MR. FOGG: Explains the actual reason is the disciplines by which they manage people's care.

REP. ROBERTS: So you are managing a treatment?

MR. FOGG: Yes, plus providing better environments.

201 MR. FOGG: Continues presentation. Explains the history of why Prestige is a good company (page 12) and his belief that the cost-based reimbursement systems that have funded nursing home care over the years incen nursing homes to operate like bureaucracy or government.

REP. TIERNAN arrives at 1:23 pm and assumes Chair of meeting.

267 MR. FOGG: Explains a two-year loss of \$2 Million due to initiating an innovative Community Based Care Program and SDSD arbitrarily reduced reimbursement. Explains in 1987 when Prestige was unable to pay bills; SAIF said Prestige owed an \$1 million; and they started a three-phase austerity program (page 12).

REP. ROBERTS: When Prestige was in the financial situation, did the employees know of the financial condition?

MR. FOGG: Yes, at the beginning of the austerity program as they were involved in the correction/solution.

301 MR. FOGG: Continues presentation. Explains what they learned (i.e., cut top management's compensation; flattened the organization; eliminated regional managers, consultants, and temporary help; and significantly reduced accidents).

337 MR. FOGG: Continues presentation. Explains customer service, organizational changes, financial improvements and current company status (i.e., entry level people capable of working on a number of tasks).

375 MR. FOGG: Using an overhead, explains a graph that illustrates how a CNA gets one resident up and ready for breakfast.

REP. ROBERTS: Comments that in industry it is called "production management."

TAPE 35, A

003 MR. FOGG: Continues presentation. Unsure whether or not government can work the same way and be motivatee to make changes.

REP. ROBERTS: Explains that government cannot be selective, because government serves everyone.

023 MR. ROSS: How does Prestige manage the operation regardless of whether the beds are full?

MR. FOGG: Says it's a complex issue. Explains it is unnecessary to be 90% occupancy, because there are other things that assist (i.e., the Medicare program and some other potentially innovative programs).

REP ROSS: Do you think Oregon needs more/fewer skilled nursing beds?

MR. FOGG: Fewer.

REP. ROSS: What are the key factors you see and create in the environment that stimulates motivation on the part of the staff to go "above and beyond for customer satisfaction in your setting"?

MR. FOGG: Believes it starts with giving them a "fair shake with the leadership they are provided." Explains that nurses supervise and do a lot of personnel management in care facilities; have clinical skills, but no leadership skills -- attempts to strengthen in that area.

REP. JOHNSTON: Are your employees special, different or replicable as design agents?

045 MR. FOGG: Says they are replicable.

REP. JOHNSTON: Was there much of a turnover initially or is there much of a turnover now?

MR. FOGG: Explains turnover is high in the industry. Prestige's turnover is 87% and turnover is probably 150-200% in the rest of the industry.

REP. JOHNSTON: Is turnover a regular cost of operating and built into the company's expectations?

MR. FOGG: Correct?

057 MR. FOGG: Shares an example from December, 1993 when they took over five facilities in Oregon with severe bureaucracies and developed a system that removed the hierarchical system and created a different culture with deficiency-free surveys.

077 REP. JOHNSTON: Describes the situation with those facilities as having patient fatalities and on the verge of being shutdown -- "an absolutely terrible situation and they are now, if not 'roses in the garden,' quite nice."

REP STROBECK: Do you serve everybody who comes to Prestige for service or

"do you take all comers, but have the various levels of facility that you describe to meet the varying needs"?

MR. FOGG: Take anybody that fits within the broad convenes of the care delivered -- no discrimination. Explains there is occasionally some disagreement with the placement of individuals as to exactly where someone fits and in which level.

REP STROBECK: Would you suggest, to the analogy of state government and operational efficiencies, a look at where services are most appropriate for the various people coming to us for services v. one size fits all agency or administration?

MR. FOGG: That's true. Supports privatization of anything possible.

102 REP. ROBERTS: Explains his experience as a legislator with the nursing home industry and violent patient care.

MR. FOGG: Explains Prestige has four locked units that provide care for some violent patients.

REP. ROBERTS: Would a general nursing home with two or three houses be quite restricted?

MR. FOGG: Says it is true that decisions about safety/welfare of other residents are made for a specific group in some cases.

REP. ROBERTS: Does percentage of claims to premiums mean that for every dollar you take in you pay back in 23 cents in claims?

122 MR. FOGG: Explains that Prestige's pure premium is from the carrier, based on experience modification/premium established by the commission and set at the first of the year.

REP. WYLIE: Inasmuch as the industry and Prestige have high turnover, and in the best of all possible worlds, would you reduce the turnover and offer better patient care with less high turnover? What is the major reason that people leave?

MR. FOGG: Explains the facts seem to substantiate that. Cites the example of when the State of Washington increased the minimum wage for CNAs or entry-level people, which is the largest group of contributors to the turnover, that turnover was reduced. Yes.

REP. WYLIE: Are you now partially or fully self insured. Requests explanation about the risk management program/control of workers' compensation claims?

157 MR. FOGG: Agrees there is a serious problem and it is correlated with the price of care. Explains Prestige's health self insurance program, results and unlimited educational benefit program.

REP. WYLIE: What is a typical yearly, per employee, use of the educational benefit?

MR. FOGG: Doesn't know.

REP. ROSS Requests information about the key factors seen and that are created in the environment that stimulates motivation on the part of the staff to go "above and beyond for customer satisfaction in your setting"?

MR. FOGG: Believes it starts with giving them a fair shake with leadership provided. Illustrates Prestige's attempt to strengthen nurses' leadership skills, restore self worth, give ownership, restore self worth as the most valuable piece in providing care, encourage involvement, instill confidence they are to and drive out fear about retaliation.

195 CHAIR TIERNAN: If you were given a state agency with 1368 individuals and, based upon your dealings, perceptions, knowledge or lack of knowledge about state government, you were told to reduce by a minimum of 10% of the employees, how would you go about that and where would you start?

MR. FOGG: Very difficult question. Suggests looking for that opportunity to identify who is the customer, a training process to teach the basic process of continuous quality improvement, look for/remove the non-value-added pieces in the hierarchical structure.

CHAIR TIERNAN: If you entered a similar business in California and assumed management of 20 homes, do you feel, based on your experience, that you could flatten that organization?

MR. FOGG: Yes. Remarks that California has a reimbursement system that rewards a very efficient operator v. penalizing.

269 CHAIR TIERNAN: Do you believe you could go into Meridian Park Hospital and make it more efficient?

MR. FOGG: Believes he could make it somewhat more efficiency; however, explains that when DRGs were put in process, some level of improvement resulted in the hospital environment. Suggests there is still room for improvement. Remarks that the fee for service system is flawed and consideration should be given for ways to transition more quickly to a risk taking environment.

REP. MARKHAM: In comparison to the California market where there is a reward for efficiency, does that mean Oregon does not encourage efficiency and penalizes for efficiency?

MR. FOGG: Explains that Oregon has a system "by which if you don't spend the money you don't get the money" and; therefore anything saved is taken away -- no incentive for operator to save.

REP. MARKHAM: Is this the Department of Human Resources?

MR. FOGG: It's Senior Disabled Services Division.

295 CHAIR TIERNAN: Does the State of Washington operate the same way?

MR. FOGG: Explains that the Sate of Washington has a cost-based-reimbursement system that Title 19 Medicaid System allows the states to fashion their own system - almost all states are slightly different.

CHAIR TIERNAN: What does California do? How do they operate?

MR. FOGG: It is a flat-rate system. Everybody is paid the same daily rate regardless of what it costs to provide the care.

CHAIR TIERNAN: Do you know what your supervisor to employee or span of control ratio is?

MR. FOGG: Responds that it is a maximum of eight, but ideally would be five.

356 CHAIR TIERNAN: Do you have experience with various state agencies and state employees?

MR. FOGG: Yes.

CHAIR TIERNAN: What is your impression/opinion about what the state could do differently? What suggestions for improvement that you would have?

MR. FOGG: Explains Prestige is regulated by federal rules that takes precedence and then monitored by the state agency. The state agency has little latitude in how the inspection process is done. Suggests the regulatory process is punitive, detrimental and ineffective (i.e., a "Gotcha" type of mentality/attitude) and a revamping of the penalty form of inspection would be the most effective measure that could be taken..

TAPE 34, B

001 CHAIR TIERNAN: Comments about OSHA's voluntary review process. Is there anything like that in your industry? Would you like to see something like that?

MR. FOGG: Says nothing currently exists and agrees it would be healthy to have such a program. Explains the flaw is there is such a broad span to cover, an increasing problem with the adult foster homes, and more pressure on their time.

CHAIR TIERNAN: How often is one of Prestige's facilities inspected?

MR. FOGG: At least annually for the main inspection when the state survey teams inspects for both federal and state. Five additional surveys occur by fire marshals, county inspectors, local/city inspectors, etc.

TRUITT BROS. INC.

022 Peter Truitt, Truitt Bros. Inc.: Introductory comments. Presents testimony from prepared statement and submits (EXHIBIT B).

063 MR. TRUITT: Continues presentation. Explains they are a privately-owned firm, located in Salem, and the two principal product categories are processing of canned fruits/vegetables and individually-portioned-meal products in ready-to-serve containers.

CHAIR TIERNAN: Requests a description of one of the individually-portioned-meal products.

MR. TRUITT: Specifically process pasta products and beef/chicken casserole

products that are like meals in a frozen container except they are thermally processed and packaged in a different-type plastic container that provides an oxygen/humidity barrier to prevent the migration of oxygen/humidity into the product.

CHAIR TIERNAN: How do these products come out of a vending machine?

MR. TRUITT: It is a semi-ridged plastic and fairly low-profile container (i.e., 1-1.5(profile container).

094 REP. MARKHAM: Are you caught up in this legislation about plastic recycling by 25% or the product is unusable?

MR. TRUITT: Yes and explains it has a very direct impact on the business.

Says that SB 279 is an amendment to SB 66 to exempt food packaging from the Recycling Law. Explains why recycling is the only practical recourse to meet the requirements of the law and the risks to the consumer.

REP. MARKHAM: State law not the federal requirement?

MR. TRUITT: Yes. Explains they are put in a position whereby they are unable to meet FDA requirements and still comply with current law.

MR. TRUITT: Continues presentation about canned-food portion of the business. Explains the four segments of the company's history (page 1).

169 MR. TRUITT: Continues presentation. Comments about the competitive environment, the bewildering flood of intrusive/costly regulation from local, state and federal agencies, and the demands of a powerful distribution/retailing system.

187 CHAIR TIERNAN: If the Legislature could do something to help you become more competitive and grow, what would it be? Requests a memo to share with the Committee.

REP. ROSS: Additionally, requests suggestions about regulations that don't contribute in anyway to food safety or that benefit your customer, (i.e., totally useless regulations).

280 MR. TRUITT: Continues presentation. Talks about customer service and the company's elements of success (page 3) (i.e., recent developments in management and leadership/investment in people.

334 MR. TRUITT: Continues presentation and explanation about the company's elements of success (i.e., working relationships, individual employee growth, descent/conflict as a means for change, and different structures that are appropriate for the work to be done).

372 MR. TRUITT: Continues presentation. Explains their theory of short communication lines, decentralized decision making (i.e., a lean management structure), and adaptability to change (i.e., replanning).

TAPE 34, B

004 MR. TRUITT: Continues presentation. Explains about current company change, the mission statement, quality and philosophy for service.

055 MR. TRUITT: Continues presentation. Explains about conservatism of principles, carefulness with their people (i.e., the decisions about their work, direction of careers and place in the organization), and attention to costs.

077 REP. JOHNSTON: Questions about competition mainly in the midwest. Is the competition, mainly from the midwest, wage related, transportation related or more directly? To what extent is it state regulation related?

MR. TRUITT: Explains the principal source for differences in costs between the midwest and Oregon is the cost of the raw product (i.e., pay less for the raw product, pay significantly lower labor rates, significantly lower water/waste disposal costs, and pay less for cans). Comments there aren't state regulations that put them at a disadvantage.

097 CHAIR TIERNAN: What is your employee to supervisor ratio among full-time employees?

MR. TRUITT: Varies, by department, but overall between 8 to 1 and 10 to 1.

109 CHAIR TIERNAN: Where would you start within state government to help with efficiency?

MR. TRUITT: Opinion is that to reduce costs in the short-run works temporarily. Believes the only fundamental way to improve efficiency/productivity of a work organization is to change the underlying work that gets done and the way it gets done. Suggests evaluating "What services government ought to be involved in to begin with?" Government should decide what they do well and what they don't do well. Then, withdraw from those business areas they are not doing well rather than simply reducing size or cost of operations.

REP. MARKHAM: Do you sell your product line to the State?

MR. TRUITT: Yes, through the bid process (i.e., some school systems and big state institutions).

REP. MARKHAM: Is the system of bidding to your liking or overly bureaucratic/cumbersome?

180 MR. TRUITT: Says their bids in some areas are direct to the institutions; therefore, there is the appearance of being more efficient. Speculates the state might be better off "buying off the shelf products for their necessities and requirements, and let the market forces provide them with economies that naturally result from that as opposed to having the organizations assembled to perform that function."

REP. MARKHAM: What do you mean?

MR. TRUITT: Provides the example of buying from food service distributors on a wholesale basis.

CHAIR TIERNAN: Declares the meeting adjourned at 2:43 pm.

Submitted by, Reviewed by,

Kay C. Shaw Greg Moore
Committee Assistant Committee Counsel

EXHIBIT SUMMARY:

A - Prepared Testimony on Government Efficiency --Phil Fogg -- 15 pages

B - Prepared Testimony on Government Efficiency --Peter Truitt --4 pages