

House Budget Committee Report

Agency: Kansas Department of Health and Environment -
Health and Health Care Finance

Bill No. 2370 **Bill Sec.** 91/92

Analyst: Mariani

Analysis Pg. No. 2419

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Expenditure Summary	Agency Request FY 2016	Governor Recommendation FY 2016*	House Budget Committee Adjustments
Operating Expenditures:			
State General Fund	\$ 763,654,566	\$ 832,145,836	\$ 0
Other Funds	1,561,418,975	1,583,038,544	0
Subtotal	<u>\$ 2,325,073,541</u>	<u>\$ 2,415,184,380</u>	<u>\$ 0</u>
Capital Improvements:			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0
Subtotal	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
TOTAL	<u><u>\$ 2,325,073,541</u></u>	<u><u>\$ 2,415,184,380</u></u>	<u><u>\$ 0</u></u>
FTE positions	342.2	342.2	0.0
Non FTE Uncl. Perm. Pos.	281.0	281.0	0.0
TOTAL	<u><u>623.2</u></u>	<u><u>623.2</u></u>	<u><u>0.0</u></u>

***NOTE:** Includes GBA No. 1, Item 9 to delete \$82.9 million including \$24.6 million from the State General Fund to adjust for Spring Human Services Caseload estimate for FY 2016 and GBA No.1, Item 6 to delete \$9.6 million from the State General Fund and add the same amount to the Medical Program Fee Fund for KanCare medical assistance for FY 2016. Changes are reflected in the table only.

Agency Request

The **agency** requests operating expenditures for FY 2016 of \$2.3 billion, including \$763.7 million from the State General Fund, and \$7.1 million from the Children's Initiatives Fund. The request is an all funds increase of \$8.3 million, or 0.4 percent, a State General Fund decrease of \$529,014, or 0.1 percent, and a Children's Initiatives Fund decrease of \$930, or less than 0.1 percent, from the FY 2015 agency request. The all funds increase is largely due to an increase in other assistance for medical programs and an increase in contractual services expenditures. The State General Fund decrease is due to a reduction in agency operating expenditures in contractual services, commodities and capital outlay. The budget includes 342.2 FTE positions, a decrease of 12.3 FTE positions below, and 281.0 non-FTE unclassified positions, an increase of 6.1 non-FTE unclassified positions above, the FY 2015 agency request.

Governor's Recommendation

The **Governor** recommends FY 2016 operating expenditures of \$2.5 billion, including \$863.7 million from the State General Fund, and \$7.1 million from the Children's Initiatives Fund. The recommendation is an all funds increase of \$168.3 million, or 7.2 percent, and a

State General Fund increase of \$100.0 million, or 13.1 percent, above the agency request. The Children's Initiatives Fund recommendation is the same as the agency request.

The increase is largely attributable to the addition of \$162.7 million, including \$86.4 million from the State General Fund to fully fund the November Human Services Consensus Caseload estimates; the addition of \$64.4 million, including \$28.2 million from the State General Fund, as a result of the Managed Care Organization (MCO) privilege fee increasing from 1.0 percent to 5.5 percent; and an increase of \$12.0 million, all from the State General Fund, to replace the Medical Program Fee Fund transfer to the State General Fund in FY 2015 as part of the Governor's allotment plan.

The increases are partially offset by the reduction of \$57.0 million, including \$25.0 million from the State General Fund, for reduced expenditures due to policy changes in the KanCare Medical Program and the reduction of \$1.3 million, all from the State General Fund, to continue the 4.0 percent reduction to Cabinet and other State General Funded agencies as part of the Governor's FY 2015 allotment.

The Governor issued Executive Reorganization Order (ERO) No. 43 to transfer the responsibility for Medicaid eligibility determination and associated employees from the Department for Children and Families to the Department of Health and Environment effective January 1, 2016. The Governor indicates this reorganization is anticipated to increase accuracy in Medicaid eligibility determination and reduce program expenditures partially through uniform implementation of policy and processing changes. These associated savings will be split between this Department and the Department for Aging and Disability Services. In addition, ERO No. 43 will transfer foster care licensing responsibilities from the Department of Health and Environment to the Department for Children and Families effective July 1, 2015. The Governor indicates this reorganization is anticipated to streamline the licensing process.

House Budget Committee Recommendation

The **Budget Committee** concurs with the Governor's recommendation with the following adjustments and notations:

1. Transfer \$378,000 from the State General Fund operating expenditures account for administration to the State General Fund Aid to Local account for Primary Care - Safety Net Clinics for FY 2016.
2. Add language requiring the agency to submit a report regarding Reorganization Order (ERO) No. 43 implementation and the transition of the eligibility responsibilities and staff effective January 2016. The committee recommends the implementation be monitored and evaluated to determine whether the proposed changes were effective in decreasing the Medicaid Eligibility Payment Error Rate Measurement (PERM) rates for Kansas. The report should detail the findings and be reviewed by the 2017 Legislature.

The Budget Committee further notes the Kansas Medicaid eligibility payment error rate is 12.8 percent while the national average is 3.3 percent. The committee recommends the agency make improving the error rate and bringing the rate closer to the national average a priority focus.

3. The Budget Committee requests that Legislative Post Audit conduct an audit of the Kansas Eligibility and Enforcement System (KEES) implementation by the Department of Health and Environment and other project partner agencies. The committee notes the

project is more than two years delayed from its original implementation schedule and the agency has already expended \$93.5 million as of the September 30, 2014 Chief Information Technology Office (CITO) Report.

Contingent upon the passage of SB 7 or similar legislation by the 2015 Legislature, the committee further notes an audit may be pursued under the newly created audit provisions.

4. The Budget Committee notes the Governor's FY 2016 recommendation for the agency includes reductions of \$57.0 million, including \$25.0 million from the State General Fund. These reductions are based on anticipated savings from implementation of KanCare policy savings related to caseload cost reductions, Medicaid pharmacy administrative reforms, and Managed Care Organization (MCO) financial incentives for contracted providers. The Committee is concerned the savings anticipated from the proposed policy changes will not be fully realized and the agency may not have adequate funding for entitlement services for FY 2016.

House Committee Recommendation

The **Committee** concurs with the Governor's recommendation with the following adjustments and notations:

1. The Committee recommends the estimated costs of \$57.0 million, including \$25.0 million from the State General Fund, associated with the anticipated savings from implementation of the KanCare policy changes be reviewed at Omnibus, including the passage of 2015 SB 123 or similar legislation.
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Senate Subcommittee Report

Agency: Kansas Department of Health and Environment **Bill No.** 237

Bill Sec. 91/93

Analyst: Mariani

Analysis Pg. No. 2419

Budget Page No. 202

Expenditure Summary	Agency Request FY 2016	Governor Recommendation FY 2016	Senate Subcommittee Adjustments
Operating Expenditures:			
State General Fund	\$ 763,654,566	\$ 832,145,836	\$ 4,377,000
Other Funds	1,561,418,975	1,583,038,544	5,623,000
Subtotal	\$ 2,325,073,541	\$ 2,415,184,380	\$ 10,000,000
Capital Improvements:			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0
Subtotal	\$ 0	\$ 0	\$ 0
TOTAL	\$ 2,325,073,541	\$ 2,415,184,380	\$ 10,000,000
FTE positions	342.2	342.2	0.0
Non FTE Uncl. Perm. Pos.	281.0	281.0	0.0
TOTAL	623.2	623.2	0.0

*NOTE: Concur with GBA No. 1, Item 9 and delete \$82.9 million including \$24.6 million from the State General fund to adjust for Spring Human Services Caseload estimate for FY 2016 and GBA No.1, Item 6 and delete \$9.6 million from the State General fund and add the same amount to the Medical Program Fee Fund for KanCare medical assistance for FY 2016. Changes are reflected in the table only.

Agency Request

The **agency** requests operating expenditures for FY 2016 of \$2.3 billion, including \$763.7 million from the State General Fund, and \$7.1 million from the Children’s Initiatives Fund. The request is an all funds increase of \$8.3 million, or 0.4 percent, a State General Fund decrease of \$529,014, or 0.1 percent, and a Children’s Initiatives Fund decrease of \$930, or less than 0.1 percent, from the FY 2015 agency request. The all funds increase is largely due to an increase in other assistance for medical programs and an increase in contractual services expenditures. The State General Fund decrease is due to a reduction in agency operating expenditures in contractual services, commodities and capital outlay. The budget includes 342.2 FTE positions, a decrease of 12.3 FTE positions below, and 281.0 non-FTE unclassified positions, an increase of 6.1 non-FTE unclassified positions above, the FY 2015 agency request.

Governor's Recommendation

The **Governor** recommends FY 2016 operating expenditures of \$2.5 billion, including \$863.7 million from the State General Fund, and \$7.1 million from the Children's Initiatives Fund. The recommendation is an all funds increase of \$168.3 million, or 7.2 percent, and a State General Fund increase of \$100.0 million, or 13.1 percent, above the agency request. The Children's Initiatives Fund recommendation is the same as the agency request.

The increase is largely attributable to the addition of \$162.7 million, including \$86.4 million from the State General Fund to fully fund the November Human Services Consensus Caseload estimates; the addition of \$64.4 million, including \$28.2 million from the State General Fund, as a result of the Managed Care Organization (MCO) privilege fee increasing from 1.0 percent to 5.5 percent; and an increase of \$12.0 million, all from the State General Fund, to replace the Medical Program Fee Fund transfer to the State General Fund in FY 2015 as part of the Governor's allotment plan.

The increases are partially offset by the reduction of \$57.0 million, including \$25.0 million from the State General Fund, for reduced expenditures due to policy changes in the KanCare Medical Program and the reduction of \$1.3 million, all from the State General Fund, to continue the 4.0 percent reduction to Cabinet and other State General Funded agencies as part of the Governor's FY 2015 allotment.

The Governor issued Executive Reorganization Order (ERO) No. 43 to transfer the responsibility for Medicaid eligibility determination and associated employees from the Department for Children and Families to the Department of Health and Environment effective January 1, 2016. The Governor indicates this reorganization is anticipated to increase accuracy in Medicaid eligibility determination and reduce program expenditures partially through uniform implementation of policy and processing changes. These associated savings will be split between this Department and the Department for Aging and Disability Services. In addition, ERO No. 43 will transfer foster care licensing responsibilities from the Department of Health and Environment to the Department for Children and Families effective July 1, 2015. The Governor indicates this reorganization is anticipated to streamline the licensing process.

Senate Subcommittee Recommendation

The **Subcommittee** concurs with the Governor's recommendation with the following adjustment:

1. Add \$10.0 million, including \$4.3 million from the State General Fund, to fund Hepatitis C medications used in the Medicaid program for FY 2016. The Committee further recommends adding language to specify this amount can only be used for the purpose of funding the Hepatitis C medications and only after all funding approved for the Medicaid program by the 2015 Legislature for FY 2016 is fully expended. The committee further recommends that any of the additional State General Funds appropriated, but not expended for this purpose in FY 2016 be lapsed.

The **Committee** concurs with the Subcommittee's recommendation with the following adjustment:

1. Add language stating that no state monies will be appropriated in any appropriation act of the 2015 regular session of the legislature and no state agency shall expend any state monies for fiscal years 2016 for the purpose of implementing KanCare Health Homes –

Chronic Conditions unless the legislature expressly consents to such program and expenditures.

Senate Committee of the Whole Recommendation

The **Committee of the Whole** concurs with the Committee's recommendation.

Conference Committee Recommendation

The **Conference Committee** concurs with the Committee of the Whole recommendation with the following adjustments:

1. Add language requiring the agency to submit a report regarding Reorganization Order (ERO) No. 43 implementation and the transition of the eligibility responsibilities and staff effective January 2016. The committee recommends the implementation be monitored and evaluated to determine whether the proposed changes were effective in decreasing the Medicaid Eligibility Payment Error Rate Measurement (PERM) rates for Kansas. The report should detail the findings and be reviewed by the 2017 Legislature.
2. Add language stating that no state agency shall expend any state monies for fiscal years 2016 for the purpose of implementing KanCare Health Homes – Chronic Conditions unless the legislature expressly consents to such program and expenditures.
3. Concur with GBA No. 1, Item 9 and delete \$82.9 million including \$24.6 million from the State General Fund to adjust for Spring Human Services Caseload estimates for FY 2016.
4. Concur with GBA No.1, Item 6 and delete \$9.6 million from the State General Fund and add the same amount to the Medical Program Fee Fund for KanCare medical assistance for FY 2016.
5. Do not concur with GBA No. 1, Item 7 which would delete \$9.6 million from the State General Fund and add the same amount to the Health Care Access Improvement Fund for an increase to the health care provider assessment from 1.83 percent to 2.55 percent for FY 2016.
6. Add language directing the Director of Accounts and Reports to withhold 10.0 percent of each Children's Initiatives Fund account until the Children's Cabinet certifies all requested information has been provided for FY 2016.
7. Delete \$1.9 million including \$920,000 from the State General Fund, and 23.0 FTE positions to implement the provision in ERO No. 43 which transfers the foster care licensing program from KDHE - Div. of Public Health to the Department of Children and Families for FY 2016.
8. Add \$3.5 million, including \$869,000 from the State General Fund, and 138.0 FTE positions to implement the provision in ERO No. 43 which transfers the medicaid eligibility determination program to KDHE - Div. of Health Care Finance for FY 2016.

9. Adjust bill language for a technical correction to reflect the transfer of \$200,000 from the Health Care Stabilization Fund to the Health Facilities Review Fund of the Kansas Department of Health and Environment for FY 2016.
10. Add \$378,000, all from the State General Fund, to Primary Care - Safety Net Clinics for FY 2016. This is due to funds made available through a transfer from the Kansas Endowment for Youth to the State General Fund.
11. Transfer \$500,000, all from the Sponsored Overhead Project Fund, to the State General Fund for FY 2016.
12. Add language requiring an audit of the Health Care Access Improvement Fund and a report to the 2016 Legislature of a sustainability plan for the program using only assessment revenues.
13. Delete \$31.0 million, including \$119.8 million from the State General Fund, and add \$88.8 million for the Medical Assistance Fund to adjust funding to implement the HMO privilege fee changes at 3.31 percent and delete the expenditures contained in the Governor's Recommendation.
14. Delete \$298,982, including \$47,940 from the State General Fund, for the Division of Health and \$133,351, including \$35,898 from the State General Fund, for the Division of Health Care Finance to reduce the Kansas Public Employee Retirement System employer contribution rate from 12.37 percent to 10.91 percent for FY 2016. This implements the provisions of SB 228.
15. Delete \$65,346, including \$10,097 from the State General Fund, for Division of Public Health and \$30,238, including \$7,431 from the State General Fund, for Division of Health Care Finance to suspend employer contributions to the Kansas Public Employee Retirement System Group Insurance Fund, or Death and Disability Fund, for FY 2016.
16. Delete \$13,270, all from the State General Fund, for a 25.0 percent reduction of travel expenditures for FY 2016.
17. Add language to prohibit executive branch agencies, excluding regents institutions, the State Library, and the State Historical Society from making expenditures on newspapers and magazines, including electronic subscriptions, for FY 2016.

	Governor's Recommendation FY 2016	Legislative Action	Legislative Approved FY 2016	Governor's Vetoed FY 2016	Final Legislative Approved FY 2016
All Funds					
State Operations	\$ 194,512,963	\$ 1,042,703	\$ 195,555,666	\$ 0	\$ 195,555,666
Aid to Local Units	33,242,952	378,000	33,620,952	0	33,620,952
Other Assistance	2,265,658,251	(30,989,459)	2,234,668,792	0	2,234,668,792
Subtotal- Operations	\$ 2,493,414,166	\$ (29,568,756)	\$ 2,463,845,410	\$ 0	\$ 2,463,845,410
Capital Improvements	0	0	0	0	0
TOTAL	<u>\$ 2,493,414,166</u>	<u>\$ (29,568,756)</u>	<u>\$ 2,463,845,410</u>	<u>\$ 0</u>	<u>\$ 2,463,845,410</u>
State General Fund					
State Operations	\$ 18,044,015	\$ (165,636)	\$ 17,878,379	\$ 0	\$ 17,878,379
Aid to Local Units	5,808,937	378,000	6,186,937	0	6,186,937
Other Assistance	839,829,976	(101,126,151)	738,703,825	0	738,703,825
Subtotal-Operating	\$ 863,682,928	\$ (100,913,787)	\$ 762,769,141	\$ 0	\$ 762,769,141
Capital Improvements	0	0	0	0	0
TOTAL	<u>\$ 863,682,928</u>	<u>\$ (100,913,787)</u>	<u>\$ 762,769,141</u>	<u>\$ 0</u>	<u>\$ 762,769,141</u>
FTE Positions	382.6	0.0	382.6	0.0	382.6
Non-FTE Unclass. Perm. Pos.	0.0	0.0	0.0	0.0	0.0
TOTAL	<u>382.6</u>	<u>0.0</u>	<u>382.6</u>	<u>0.0</u>	<u>382.6</u>

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