

## House Budget Committee Report

**Agency:** Kansas Department of Health and Environment - **Bill No.** 2370  
 Health and Health Care Finance

**Bill Sec.**  
 92/94

**Analyst:** Mariani

**Analysis Pg. No.** 2419

**Budget Page No.** 202

Expenditure Summary	Agency Request FY 2017	Governor Recommendation FY 2017	House Budget Committee Adjustments
<b>Operating Expenditures:</b>			
State General Fund	\$ 763,990,817	\$ 848,599,201	\$ 0
Other Funds	1,548,735,154	1,568,511,882	0
Subtotal	<u>\$ 2,312,725,971</u>	<u>\$ 2,417,111,083</u>	<u>\$ 0</u>
<b>Capital Improvements:</b>			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0
Subtotal	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>TOTAL</b>	<u><u>\$ 2,312,725,971</u></u>	<u><u>\$ 2,417,111,083</u></u>	<u><u>\$ 0</u></u>
FTE positions	341.2	341.2	0.0
Non FTE Uncl. Perm. Pos.	281.8	281.8	0.0
<b>TOTAL</b>	<u><u>623.0</u></u>	<u><u>623.0</u></u>	<u><u>0.0</u></u>

**NOTE:** Includes GBA No. 1, Item 9 to delete \$38.8 million including \$17.9 million from the State General Fund to adjust for Spring Human Services Caseload estimate for FY 2017 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 2017. Changes are reflected in the table only.

### Agency Request

The **agency** requests operating expenditures for FY 2017 of \$2.3 billion, including \$764.0 million from the State General Fund and \$7.1 million from the Children's Initiatives Fund. The request is an all funds decrease of \$12.3 million, or 0.5 percent, and a State General Fund increase of \$336,251, or less than 0.1 percent, from the FY 2016 agency request. The Children's Initiatives Fund request is the same as the FY 2016 agency request. The all funds decrease is largely due to a reduction in contractual services expenditures partially offset by an increase in other assistance for medical program expenditures. The request also reflects an increase in salaries and wages due to the 27th payroll expenditure which occurs in FY 2017. The State General Fund increase is due to an increase in salary and wages and contractual services expenditures partially offset by a decrease in expenditures for capital outlay. The budget includes 341.2 FTE positions, a decrease of 1.0 FTE positions below, and 281.8 non-FTE unclassified positions, an increase of 0.8 non-FTE unclassified positions above, the FY 2016 agency request.

## **Governor's Recommendation**

The **Governor** recommends FY 2017 operating expenditures of \$2.5 billion, including \$884.3 million from the State General Fund and \$7.1 million from the Children's Initiatives Fund. The recommendation is an all funds increase of \$143.2 million, or 6.2 percent, and a State General Fund increase of \$120.3 million, or 15.7 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 \$164.7 million, including \$109.6 million from the State General Fund, to fully fund the November Human Services Consensus Caseload estimates; addition of \$66.6 million, including \$29.3 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 \$21.0 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; a decrease of \$1.3 million, all from the State General Fund, for operating expenses to continue the 4.0 percent reduction to Cabinet and other State General Funded agencies as part of the Governor's FY 2015 allotment; and the reduction of \$29.5 million, including \$13.0 million from the State General Fund, for an anticipated reduced Medicaid eligibility payment error rate and associated savings.

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:

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 2017.
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 notes the FY 2017 Governor's recommendation for the agency includes reductions of \$86.5 million, including \$38.0 million from the State General Fund. These reductions are based on anticipated savings from implementation of KanCare policy changes related to caseload cost reductions, Medicaid pharmacy administrative reforms, Managed Care Organization (MCO) financial incentives for contracted providers, and improvement of the Payment Error Rate Management (PERM). The Committee is concerned the the projected savings from the proposed policy changes will not be realized and the agency may not have adequate funding for entitlement services for FY 2017.

### **House Committee Recommendation**

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

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.
- 
-

**Senate Subcommittee Report**

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

**Bill Sec.** 93/94

**Analyst:** Mariani

**Analysis Pg. No.** 2419

**Budget Page No.** 202

Expenditure Summary	Agency Request FY 2017	Governor Recommendation FY 2017	Senate Subcommittee Adjustments
<b>Operating Expenditures:</b>			
State General Fund	\$ 763,990,817	\$ 848,599,201	\$ 0
Other Funds	1,548,735,154	1,568,511,882	0
Subtotal	<u>\$ 2,312,725,971</u>	<u>\$ 2,417,111,083</u>	<u>\$ 0</u>
<b>Capital Improvements:</b>			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0
Subtotal	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>TOTAL</b>	<u><u>\$ 2,312,725,971</u></u>	<u><u>\$ 2,417,111,083</u></u>	<u><u>\$ 0</u></u>
FTE positions	341.2	341.2	0.0
Non FTE Uncl. Perm. Pos.	281.8	281.8	0.0
<b>TOTAL</b>	<u><u>623.0</u></u>	<u><u>623.0</u></u>	<u><u>0.0</u></u>

**NOTE:** Includes GBA No. 1, Item 9 to delete \$38.8 million including \$17.9 million from the State General Fund to adjust for Spring Human Services Caseload estimate for FY 2017 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 2017. Changes are reflected in the table only.

**Agency Request**

The **agency** requests operating expenditures for FY 2017 of \$2.3 billion, including \$764.0 million from the State General Fund and \$7.1 million from the Children’s Initiatives Fund. The request is an all funds decrease of \$12.3 million, or 0.5 percent, and a State General Fund increase of \$336,251, or less than 0.1 percent, from the FY 2016 agency request. The Children’s Initiatives Fund request is the same as the FY 2016 agency request. The all funds decrease is largely due to a reduction in contractual services expenditures partially offset by an increase in other assistance for medical program expenditures. The request also reflects an increase in salaries and wages due to the 27th payroll expenditure which occurs in FY 2017. The State General Fund increase is due to an increase in salary and wages and contractual services expenditures partially offset by a decrease in expenditures for capital outlay. The budget includes 341.2 FTE positions, a decrease of 1.0 FTE positions below, and 281.8 non-FTE unclassified positions, an increase of 0.8 non-FTE unclassified positions above, the FY 2016 agency request.

## **Governor's Recommendation**

The **Governor** recommends FY 2017 operating expenditures of \$2.5 billion, including \$884.3 million from the State General Fund and \$7.1 million from the Children's Initiatives Fund. The recommendation is an all funds increase of \$143.2 million, or 6.2 percent, and a State General Fund increase of \$120.3 million, or 15.7 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 \$164.7 million, including \$109.6 million from the State General Fund, to fully fund the November Human Services Consensus Caseload estimates; addition of \$66.6 million, including \$29.3 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 \$21.0 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; a decrease of \$1.3 million, all from the State General Fund, for operating expenses to continue the 4.0 percent reduction to Cabinet and other State General Funded agencies as part of the Governor's FY 2015 allotment; and the reduction of \$29.5 million, including \$13.0 million from the State General Fund, for an anticipated reduced Medicaid eligibility payment error rate and associated savings.

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.

## **Senate Committee Recommendation**

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

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 year 2017 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 Governor's 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 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 2017 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 \$38.8 million including, \$17.9 million from the State General Fund, to adjust for Spring Human Services Caseload estimates for FY 2017.
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 2017.
5. Do not concur with GBA No. 1, Item 7 which would delete \$14.8 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 2017.
6. Delete \$2.0 million including \$938,000 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 to the Department of Children and Families for FY 2017.
7. Add \$6.9 million, including \$1.7 million 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 2017.
8. 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 2017.
9. Delete \$29.6 million, including \$123.7 million from the State General Fund, and add \$94.1 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.

10. Delete \$579,085 including \$93,768 from the State General Fund, for the Division of Public Health and \$268,758, including \$70,477 from the State General Fund, for Division of Health Care Finance to reduce the Kansas Public Employee Retirement System employer contribution rate from 13.57 percent to 10.81 percent for FY 2017. This implements the provisions of SB 228.
11. Delete \$71,672, including \$11,042 from the State General Fund, for the Division of Public Health and \$33,234, including \$8,168 from the State General Fund for the 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 2017.
12. Delete \$14,941, all from the State General Fund, for a 25.0 percent reduction of travel expenditures for FY 2017.
13. 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 2017.

	Governor's Recommendation FY 2017	Legislative Action	Legislative Approved FY 2017	Governor's Vetoed FY 2017	Final Legislative Approved FY 2017
All Funds					
State Operations	\$ 176,121,022	\$ 4,034,763	\$ 180,155,785	\$ 0	\$ 180,155,785
Aid to Local Units	32,733,239	0	32,733,239	0	32,733,239
Other Assistance	2,208,256,822	(29,585,530)	2,178,671,292	0	2,178,671,292
Subtotal- Operations	\$ 2,417,111,083	\$ (25,550,767)	\$ 2,391,560,316	\$ 0	\$ 2,391,560,316
Capital Improvements	0	0	0	0	0
TOTAL	<u>\$ 2,417,111,083</u>	<u>\$ (25,550,767)</u>	<u>\$ 2,391,560,316</u>	<u>\$ 0</u>	<u>\$ 2,391,560,316</u>
State General Fund					
State Operations	\$ 18,361,380	\$ 600,604	\$ 18,961,984	\$ 0	\$ 18,961,984
Aid to Local Units	5,808,937	0	5,808,937	0	5,808,937
Other Assistance	860,103,572	(104,965,926)	755,137,646	0	755,137,646
Subtotal-Operating	\$ 884,273,889	\$ (104,365,322)	\$ 779,908,567	\$ 0	\$ 779,908,567
Capital Improvements	0	0	0	0	0
TOTAL	<u>\$ 884,273,889</u>	<u>\$ (104,365,322)</u>	<u>\$ 779,908,567</u>	<u>\$ 0</u>	<u>\$ 779,908,567</u>
FTE Positions	381.6	115.0	496.6	0.0	496.6
Non-FTE Unclass. Perm. Pos.	0.0	0.0	0.0	0.0	0.0
TOTAL	<u>381.6</u>	<u>115.0</u>	<u>496.6</u>	<u>0.0</u>	<u>496.6</u>