

HEALTH CARE STABILIZATION FUND BOARD OF GOVERNORS

	Actual FY 2014	Agency Est. FY 2015	Gov. Rec. FY 2015	Agency Req. FY 2016	Gov. Rec. FY 2016	Agency Req. FY 2017	Gov. Rec. FY 2017
Operating Expenditures:							
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Funds	32,751,621	32,268,668	32,255,847	32,941,484	32,927,563	37,325,545	37,311,345
TOTAL	\$ 32,751,621	\$ 32,268,668	\$ 32,255,847	\$ 32,941,484	\$ 32,927,563	\$ 37,325,545	\$ 37,311,345
Capital Improvements:							
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0	0	0	0	0
TOTAL	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
GRAND TOTAL	\$ 32,751,621	\$ 32,268,668	\$ 32,255,847	\$ 32,941,484	\$ 32,927,563	\$ 37,325,545	\$ 37,311,345
Percentage Change:							
Operating Expenditures							
State General Fund	-- %	-- %	-- %	-- %	-- %	-- %	-- %
All Funds	(11.9)	(1.5)	(1.5)	2.1	2.1	13.3	13.3
FTE Positions	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Non-FTE							
Perm.Uncl.Pos.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	19.5	19.5	19.5	19.5	19.5	19.5	19.5

AGENCY OVERVIEW

The 1976 Health Care Providers Insurance Availability Act created the Health Care Stabilization Fund (Fund) to stabilize the availability of medical professional liability coverage for health care providers. From 1976 to 1995, the Fund was the administrative responsibility of the Commissioner of Insurance. Beginning in 1995, the administration of the Fund was established as an independent state agency, separate from the Insurance Department.

Among the provisions of the Fund law are: a mandate for health care providers to maintain basic professional liability insurance as a condition to render services in Kansas, a requirement that the Fund provide excess professional liability insurance coverage, and the establishment of an availability plan to provide the required basic professional liability insurance coverage when such coverage is not available through insurance companies.

Fund loss exposures begin when a medical professional liability claim or legal action exceeds the required professional liability coverage of \$200,000 per claim, with an annual aggregate for all claims of \$600,000. Fund coverage may also be provided for claims and legal actions brought against eligible inactive health care providers. Since July 1, 1999, health care providers have selected one of three Fund coverage limits: \$100,000 / \$300,000; \$300,000 / \$900,000; or \$800,000 / \$2,400,000.

The Fund is financed by a surcharge levied on and paid by Kansas health care providers based on a rating classification system established by the Board of Governors. The surcharge revenue in FY 1991 was \$35.7 million. Surcharge receipts in FY 2014 were \$24.6 million and are estimated at \$26.5 million for FY 2015, FY 2016, and FY 2017. In addition to Fund surcharges, the Fund also receives interest on state agency investments. The investment income for FY 2014 was \$10.5 million and is expected to decrease to \$9.0 million in FY 2015, \$7.9 million for FY 2016, and \$7.5 million for FY 2017, due to the maturation of lower interest rate investments. Investments for the Board are administered by the Pooled Money Investment Board.

Full-time faculty, private practice foundations and corporations, and residents at the University of Kansas Medical Center (KUMC) and Wichita Center for Graduate Medical Education (WCGME) receive basic coverage through statutory self-insurance provisions and excess coverage from the Fund. Basic coverage provisions applicable to these individuals and entities are set forth in the Fund law, including a \$500,000 reserve fund maintained by the University of Kansas School of Medicine private practice foundations. The law also contains provisions for reimbursement to the Fund of basic coverage losses arising from these statutory basic coverage self-insurance provisions from the State General Fund.

MAJOR ISSUES FROM PRIOR YEARS

The **2005 Legislature** passed 2005 HB 2512, which added authority for the Pooled Money Investment Board to include high grade corporate bonds in the investment portfolio of the Fund.

The **2006 Legislature** added a 1.0 FTE legal assistant position to assist with increased case filings. This position was requested by the Board of Governors to assure claim file documentation, assist with attorney fee and claim expense billing processing, participate in settlement meetings, observe health care provider trials, and assist in other matters related to the increased number of health care provider cases and claims.

The **2008 Legislature** added \$75,000, all from special revenue funds, to fund an independent audit of the agency's claims procedures.

The **2009 Legislature** limited transfers from the State General Fund to the Health Care Stabilization Fund to \$2,805,000 in FY 2009 and FY 2010, which was 6.5 percent, or \$195,000 less than the \$3.0 million transfer projected in both years. The Governor, whose original recommendation had eliminated the entire projected \$3.0 million transfer in both years, vetoed language limiting the transfers and through the allotment process deleted those transfers.

The **2009 Legislature** also added \$251,834 in FY 2010, all from special revenue funds, for the sole purpose of technology improvements and professional development.

The **2010 Legislature** authorized an additional FTE position for the Fund beginning in FY 2011. This position is assigned to the Legal section and focuses on responding to Kansas Open Records Act requests. Although this is not a statutory duty of the Fund, external clients such as hospitals and insurance

companies rely on the Fund to provide information on levels of coverage and claims history for health care providers.

The **2010 Legislature** also passed SB 414, which amended the Health Care Provider Insurance Availability Act to exempt the Health Care Stabilization Fund from transfers to the State General Fund under the allotment authority delegated to the Secretary of Administration by KSA 75-3722. The bill also deferred payment to the Fund from the State General Fund for costs and expenditures associated with the administration of a self-insurance program for the full-time faculty, private practice foundations and corporations, and the residents of KUMC and WCGME. Payments scheduled for state Fiscal Years 2010, 2011, 2012, and 2013 will not be transferred until July 1, 2013. At that time, annual State General Fund payments will begin and continue through July 1, 2017, each in the amount of 20.0 percent of the total amount owed.

Miller v. Johnson Decision. On October 5, 2012, the Kansas Supreme Court upheld the \$250,000 cap on non-economic damage awards in a 5-2 decision. This cap on the amount of damages for pain and suffering awarded by juries to personal injury action claimants has been previously upheld (1990, Samsel II). The majority of the Court upheld KSA 60-19a02 as it applied to *Miller* (personal injury plaintiff, medical malpractice claim)—the statute provides for a \$250,000 cap on non-economic damages and applies to all personal injury actions, including medical malpractice claims, accruing on or after July 1, 1988.

The opinion also cited the Health Care Provider Insurance Availability Act by indicating, "As noted in several of our prior cases, the legislature's expressed goals for the comprehensive legislation comprising the Health Care Provider Insurance Availability Act and the non-economic damages cap have long

been accepted by this court to carry a valid public interest objective.”

The opinion also notes the legislature enacted this statute “in an attempt to reduce and stabilize liability insurance premiums by eliminating both the difficulty with rate setting due to the unpredictability of non-economic damage awards and the possibility of large non-economic damage awards.”

Missouri: *Watts v. Lester E. Cox Medical Centers*. On July 31, 2012, the Missouri Supreme Court struck down a 2005 law that had capped non-economic damage awards in Missouri medical malpractice actions at \$350,000 in a 4-3 decision. The plaintiff, Deborah Watts, filed suit against Cox Medical Centers in Springfield; her son was born with severe brain injuries in 2006. A jury had awarded Watts \$1.45 million for non-economic damages for the injuries (Watts also was awarded \$3.371 million for future medical expenses). Missouri law limited the awards to \$350,000. The Supreme Court found the cap unconstitutional because it violated the state constitutional right to trial by jury.

The decision states the statutory cap (§538.210) is “unconstitutional to the extent that it infringes on the jury’s constitutionally protected purpose of determining the amount of damages sustained by an injured party. Such a limitation was not permitted at common law when Missouri’s constitution first was adopted in 1820, and therefore, violates the right to trial by jury guaranteed by article I, section 22(a) of the Missouri Constitution.”

The **2014 Legislature** passed SB 311, which increased the statutory limit on non-economic damages in personal injury actions. On July 1, 2014, the “cap” increased from \$250,000 to \$300,000. The limit will increase again on July 1, 2018 to \$325,000 and then again on July 1, 2022 to \$350,000.

The **2014 Legislature** also passed HB 2516, which added five new categories of health care providers to the definition section of the Health Care Provider Insurance Availability Act. The new categories of providers include physician assistants, nurse-midwives, assisted living facilities, nursing facilities, and residential health care facilities. The Legislature added \$73,379, and 1.0 FTE position for FY 2015, to allow the agency to implement relevant provisions of the Act.

BUDGET SUMMARY AND KEY POINTS

FY 2015 Agency Estimate

The **agency** requests a revised estimate in FY 2015 of \$32.3 million, all from special revenue funds. This is a decrease of \$7,009,567, or 17.9 percent, below the amount approved by the 2014 Legislature. The decrease is primarily attributable to the agency’s revised estimate for claims payments and claims related expenditures, such as attorney and other legal fees. There was a significant increase in claims payments in FY 2013 compared to FY 2011 and FY 2012, so the agency had

projected increased payments using FY 2013 totals as a guide. A review of FY 2014 expenditures seem to indicate that FY 2013 was an outlier, so the agency re-estimated claims payments, and has reduced claims expenditures and legal costs in the revised budget estimate. The revised estimate includes 19.5 FTE positions, which is 0.5 FTE positions above the number approved by the 2014 Legislature. The increase is attributable to the agency hiring a part-time Legal Assistant.

FY 2015 Governor Recommendation

The **Governor** recommends expenditures of \$32.3 million, all from special revenue funds, in FY 2015. This is a decrease of \$12,821, or less than 0.1 percent, below the amount requested

by the agency. The decrease is attributable to a decrease in employer contributions for state employees KPERS, due to a change in the KPERS employer contribution rate.

FY 2016 Agency Request

The **agency** requests expenditures of \$32.9 million, all from special revenue funds, for FY 2016. This is an increase of \$672,816, or 2.1 percent, above the agency's revised estimate in FY 2015. The increase is primarily attributable to an

estimated 1.9 percent increase in the frequency of claims. The increase is also attributable to the first half of a contract for an actuarial review. The request includes 19.5 FTE positions, which is the same number as the revised FY 2015 estimate.

FY 2016 Governor Recommendation

The **Governor** recommends expenditures of \$32.9 million, all from special revenue funds, for FY 2016. This is a decrease of \$13,921, or less than 0.1 percent, below the amount

requested by the agency. The decrease is attributable to a decrease in the employer contributions to state employee health insurance.

FY 2017 Agency Request

The **agency** requests expenditures of \$37.3 million, all from special revenue funds, for FY 2017. This is an increase of \$4.4 million, or 13.3 percent, above the FY 2016 request. The increase is primarily attributable to an agency estimated increase in claims due to the addition of five additional health

care providers, and an agency estimated 1.9 percent increase in the frequency of claims. The increase is also attributable to the second half of a contract for an actuarial review, and payment of the 27th payroll period. The revised request includes 19.5 FTE positions, which is the same number as the FY 2016 request.

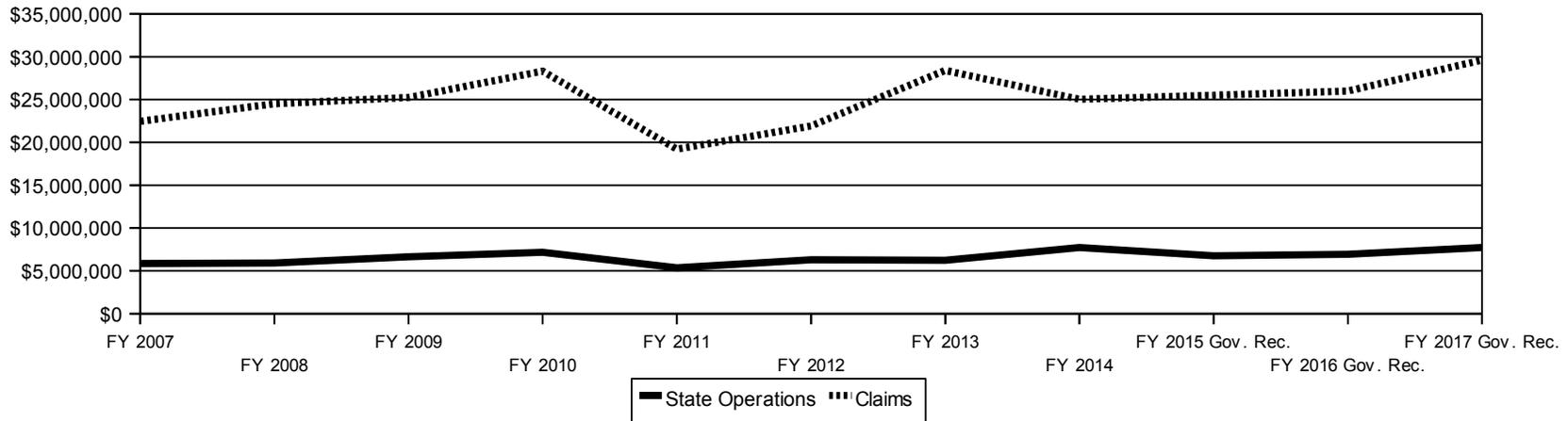
FY 2017 Governor Recommendation

The **Governor** recommends expenditures of \$37.3 million, all from special revenue funds, for FY 2017. This is a decrease of \$14,200, or less than 0.1 percent, below the amount

requested by the agency. The decrease is attributable to a decrease in the employer contributions to state employee health insurance.

BUDGET TRENDS

OPERATING EXPENDITURES FY 2007 – FY 2017



Fiscal Year	State Operations	% Change	Claims	% Change	FTE
2007	\$ 5,853,999	11.7 %	\$ 22,467,114	(6.2)%	17.0
2008	5,928,742	1.3	24,508,355	9.1	17.0
2009	6,655,856	12.3	25,236,640	3.0	17.0
2010	7,164,696	7.6	28,314,866	12.2	17.0
2011	5,373,243	(25.0)	19,207,586	(32.2)	18.0
2012	6,292,258	17.1	21,910,074	14.1	18.0
2013	6,250,365	(0.7)	28,405,415	29.6	18.0
2014	7,722,355	23.6	25,029,266	(11.9)	19.5
2015 Gov. Rec.	6,763,848	(12.4)	25,504,820	1.9	19.5
2016 Gov. Rec.	6,952,074	2.8	25,989,410	1.9	19.5
2017 Gov. Rec.	7,723,605	11.1	29,601,940	13.9	19.5
Eleven-Year Change	\$ 1,869,606	31.9 %	\$ 7,134,826	31.8 %	2.5

Summary of Operating Budget FY 2014 - FY 2016

	Actual 2014	Agency Estimate				Governor's Recommendation			
		Estimate FY 2015	Request FY 2016	Dollar Change from FY 15	Percent Change from FY 15	Rec. FY 2015	Rec. FY 2016	Dollar Change from FY 15	Percent Change from FY 15
By Program:									
Administration	\$ 1,657,751	\$ 1,843,213	\$ 1,937,949	\$ 94,736	5.1 %	\$ 1,830,392	\$ 1,924,028	\$ 93,636	5.1 %
Claims	31,093,870	30,425,455	31,003,535	578,080	1.9	30,425,455	31,003,535	578,080	1.9
TOTAL	<u>\$ 32,751,621</u>	<u>\$ 32,268,668</u>	<u>\$ 32,941,484</u>	<u>\$ 672,816</u>	<u>2.1 %</u>	<u>\$ 32,255,847</u>	<u>\$ 32,927,563</u>	<u>\$ 671,716</u>	<u>2.1 %</u>
By Major Object of Expenditure:									
Salaries and Wages	\$ 1,324,277	\$ 1,433,573	\$ 1,481,879	\$ 48,306	3.4 %	\$ 1,420,752	\$ 1,467,958	\$ 47,206	3.3 %
Contractual Services	6,339,680	5,261,075	5,396,105	135,030	2.6	5,261,075	5,396,105	135,030	2.6
Commodities	25,414	32,075	33,870	1,795	5.6	32,075	33,870	1,795	5.6
Capital Outlay	32,984	37,125	40,220	3,095	8.3	37,125	40,220	3,095	8.3
Debt Service	0	0	0	0	--	0	0	0	--
Subtotal - Operations	\$ 7,722,355	\$ 6,763,848	\$ 6,952,074	\$ 188,226	2.8 %	\$ 6,751,027	\$ 6,938,153	\$ 187,126	2.8 %
Aid to Local Units	0	0	0	0	--	0	0	0	--
Other Assistance	25,029,266	25,504,820	25,989,410	484,590	1.9	25,504,820	25,989,410	484,590	1.9
TOTAL	<u>\$ 32,751,621</u>	<u>\$ 32,268,668</u>	<u>\$ 32,941,484</u>	<u>\$ 672,816</u>	<u>2.1 %</u>	<u>\$ 32,255,847</u>	<u>\$ 32,927,563</u>	<u>\$ 671,716</u>	<u>2.1 %</u>
Financing:									
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	-- %	\$ 0	\$ 0	\$ 0	-- %
All Other Funds	32,751,621	32,268,668	32,941,484	672,816	2.1	32,255,847	32,927,563	671,716	2.1
TOTAL	<u>\$ 32,751,621</u>	<u>\$ 32,268,668</u>	<u>\$ 32,941,484</u>	<u>\$ 672,816</u>	<u>2.1 %</u>	<u>\$ 32,255,847</u>	<u>\$ 32,927,563</u>	<u>\$ 671,716</u>	<u>2.1 %</u>

Summary of Operating Budget FY 2016 - FY 2017

	Agency Estimate				Governor's Recommendation			
	Request FY 2016	Request FY 2017	Dollar Change from FY 16	Percent Change from FY 16	Rec. FY 2016	Rec. FY 2017	Dollar Change from FY 16	Percent Change from FY 16
By Program:								
Administration	\$ 1,937,949	\$ 2,012,515	\$ 74,566	3.8 %	\$ 1,924,028	\$ 1,998,315	\$ 74,287	3.9 %
Claims	31,003,535	35,313,030	4,309,495	13.9	31,003,535	35,313,030	4,309,495	13.9
TOTAL	\$ 32,941,484	\$ 37,325,545	\$ 4,384,061	13.3 %	\$ 32,927,563	\$ 37,311,345	\$ 4,383,782	13.3 %
By Major Object of Expenditure:								
Salaries and Wages	\$ 1,481,879	\$ 1,548,465	\$ 66,586	4.5 %	\$ 1,467,958	\$ 1,534,265	\$ 66,307	4.5 %
Contractual Services	5,396,105	6,098,370	702,265	13.0	5,396,105	6,098,370	702,265	13.0
Commodities	33,870	34,500	630	1.9	33,870	34,500	630	1.9
Capital Outlay	40,220	42,270	2,050	5.1	40,220	42,270	2,050	5.1
Debt Service	0	0	0	--	0	0	0	--
Subtotal - Operations	\$ 6,952,074	\$ 7,723,605	\$ 771,531	11.1 %	\$ 6,938,153	\$ 7,709,405	\$ 771,252	11.1 %
Aid to Local Units	0	0	0	--	0	0	0	--
Other Assistance	25,989,410	29,601,940	3,612,530	13.9	25,989,410	29,601,940	3,612,530	13.9
TOTAL	\$ 32,941,484	\$ 37,325,545	\$ 4,384,061	13.3 %	\$ 32,927,563	\$ 37,311,345	\$ 4,383,782	13.3 %
Financing:								
State General Fund	\$ 0	\$ 0	\$ 0	-- %	\$ 0	\$ 0	\$ 0	-- %
All Other Funds	32,941,484	37,325,545	4,384,061	13.3	32,927,563	37,311,345	4,383,782	13.3
TOTAL	\$ 32,941,484	\$ 37,325,545	\$ 4,384,061	13.3 %	\$ 32,927,563	\$ 37,311,345	\$ 4,383,782	13.3 %

BUDGET OVERVIEW

A. FY 2015 – Current Year

Adjustments to the Approved State General Fund Budget

	CHANGE FROM APPROVED BUDGET				
	Legislative Approved FY 2015	Agency Estimate FY 2015	Agency Change from Approved	Governor Rec. FY 2015	Governor Change from Approved
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
All Other Funds	39,278,235	32,268,668	(7,009,567)	32,255,847	(7,022,388)
TOTAL	\$ 39,278,235	\$ 32,268,668	\$ (7,009,567)	\$ 32,255,847	\$ (7,022,388)
FTE Positions	19.0	19.5	0.5	19.5	0.5

The **agency** requests a revised estimate in FY 2015 of \$32.3 million, all from special revenue funds. This is a decrease of \$7.0 million, or 17.9 percent, below the amount approved by the 2014 Legislature. The decrease is primarily attributable to the agency's revised estimate for claims payments and claims related expenditures, such as attorney and other legal fees. There was a significant increase in claims payments in FY 2013 compared to FY 2011 and FY 2012, so the agency had projected increased costs and payments using FY 2013 totals as a guide. The agency reports that a review of FY 2014 expenditures seem to indicate that FY 2013 was an outlier, so the agency re-estimated claims payments, and has reduced claims expenditures and legal costs in the revised budget estimate. The revised estimate includes 19.5 FTE positions, which is 0.5 FTE positions above the number approved by the

2014 Legislature. The increase is attributable to the agency hiring a part-time Legal Assistant.

The request is detailed below by category of expenditure.

- **Salaries and Wages.** The agency requests \$1.4 million, all from special revenue funds, for salaries and wages in FY 2015. This is the same amount approved by the 2014 Legislature.
- **Contractual Services.** The agency requests \$5.3 million, all from special revenue funds, for contractual services in FY 2015. This is \$1.3 million, or 19.9 percent, below the amount approved by the 2014 Legislature. The decrease

is primarily attributable to a decrease in legal and professional fees associated with claims, due to the agency re-estimating claims payments.

- **Commodities.** The agency requests \$32,075, all from special revenue funds, for commodities in FY 2015. This is a decrease of \$7,000, or 17.9 percent, below the amount approved by the 2014 Legislature. The decrease is attributable to a decrease in office and data processing supplies.
- **Capital Outlay.** The agency requests \$37,125, all from special revenue funds, for capital outlay in FY 2015. This is a decrease of \$1, or less than 0.1 percent, below the amount approved by the 2014 Legislature. The decrease is attributable to a decrease in computer equipment.

- **Other Assistance.** The agency requests \$25.5 million, all from special revenue funds, for other assistance in FY 2015. This is a decrease of \$5.7 million, or 18.2 percent, below the amount approved by the 2014 Legislature. The decrease is primarily attributable to reduced claims payments, due to a decrease in agency estimated claims payments.

The **Governor** recommends expenditures of \$32.3 million, all from special revenue funds, in FY 2015. This is a decrease of \$12,821, or less than 0.1 percent, below the amount requested by the agency. The decrease is attributable to a decrease in employer contributions for state employees KPERS, due to a change in the KPERS employer contribution rate.

B. FY 2016 – Budget Year

FY 2016 OPERATING BUDGET SUMMARY			
	Agency Request	Governor's Recommendation	Difference
Total Request/Recommendation	\$ 32,941,484	\$ 32,927,563	\$ (13,921)
FTE Positions	19.5	19.5	0.0
Change from FY 2015:			
<i>Dollar Change:</i>			
State General Fund	\$ 0	\$ 0	
All Other Funds	672,816	671,716	
TOTAL	<u>\$ 672,816</u>	<u>\$ 671,716</u>	
<i>Percent Change:</i>			
State General Fund	0.0 %	0.0 %	
All Other Funds	2.1	2.1	
TOTAL	<u>2.1 %</u>	<u>2.1 %</u>	
Change in FTE Positions	0.0	0.0	

The **agency** requests \$32.9 million, all from special revenue funds, for FY 2016. This is an increase of \$672,816, or 2.1 percent, above the agency’s revised estimate for FY 2015. The increase is primarily attributable to an agency projected 1.9 percent increase in the frequency of claims. The increase is partially attributable to the first half of a contract for an actuarial review. The agency requests 19.5 FTE positions, which is the same number as the revised FY 2015 estimate.

The request is detailed below by category of expenditure.

- **Salaries and Wages.** The agency requests \$1.5 million, all from special revenue funds, for salaries and wages for FY 2016. This is an increase of \$48,306, or 3.4 percent, above the revised FY 2015 estimate. The increase is primarily attributable to an adjustment to

shrinkage, and an increase in salaries and wages for temporary staff and associated fringe benefit expenditures.

- **Contractual Services.** The agency requests \$5.4 million, all from special revenue funds, for contractual services for FY 2016. This is an increase of \$135,030, or 2.6 percent, above the revised FY 2015 estimate. The increase is primarily attributable to an increase in legal and other professional fees associated with claims, as well as the first half of a contract for an actuarial review.
- **Commodities.** The agency requests \$33,870, all from special revenue funds, for commodities for FY 2016. This is an increase of \$1,795, or 5.6 percent, above the revised FY 2015 estimate. The increase is primarily attributable to an increase in conference refreshments and data processing supplies, partially offset by a decrease in stationary.

- **Capital Outlay.** The agency requests \$40,220, all from special revenue funds, for capital improvements for FY 2016. This is an increase of \$3,095, or 8.3 percent, above the revised FY 2015 estimate. The increase is primarily attributable to an increase in computer and printer equipment.
- **Other Assistance.** The agency requests \$26.0 million, all from special revenue funds, for other assistance for FY 2016. This is an increase of \$484,590, or 1.9 percent, above the revised FY 2015 estimate. The increase is primarily attributable to an agency estimated average rate of increase in claims.

The **Governor** recommends expenditures of \$32.9 million, all from special revenue funds, for FY 2016. This is a decrease of \$13,921, or less than 0.1 percent, below the amount requested by the agency. The decrease is attributable to a decrease in the employer contributions to state employee health insurance.

C. FY 2017 – Budget Year

FY 2017 OPERATING BUDGET SUMMARY			
	Agency Request	Governor's Recommendation	Difference
Total Request/Recommendation	\$ 37,325,545	\$ 37,311,345	\$ (14,200)
FTE Positions	19.5	19.5	0.0
Change from FY 2016:			
<i>Dollar Change:</i>			
State General Fund	\$ 0	\$ 0	
All Other Funds	4,384,061	4,383,782	
TOTAL	<u>\$ 4,384,061</u>	<u>\$ 4,383,782</u>	
<i>Percent Change:</i>			
State General Fund	0.0 %	0.0 %	
All Other Funds	13.3	13.3	
TOTAL	<u>13.3 %</u>	<u>13.3 %</u>	
Change in FTE Positions	0.0	0.0	

The **agency** requests \$37.3 million, all from special revenue funds, for FY 2017. This is an increase of \$4.4 million, or 13.3 percent, above the amount requested for FY 2016. The agency requests 19.5 FTE positions, which is the same as the FY 2016 request. The increase is primarily attributable to an increase in claims due to the addition of five additional health care providers, plus an agency estimated 1.9 percent increase in the frequency of claims. The increase is also attributable to the

second half of a contract for an actuarial review, and payment of the 27th payroll period.

The request is detailed below by category of expenditure.

- **Salaries and Wages.** The agency requests \$1.5 million, all from special revenue funds, for salaries and wages for FY 2017. This is an

increase of \$66,586, or 4.5 percent, above the FY 2016 request. The increase is primarily attributable to an increase in salaries and wages and associated fringe benefit costs, due to payment of the 27th payroll period.

- **Contractual Services.** The agency requests \$6.1 million, all from special revenue funds, for contractual services for FY 2017. This is an increase of \$6.1 million, or 13.0 percent, above the FY 2016 request. The increase is primarily attributable to an increase in legal and other professional fees associated with claims and payment of the second half of a contract for an actuarial review.
- **Commodities.** The agency requests \$34,500, all from special revenue funds, for commodities for FY 2017. This is an increase of \$630, or 1.9 percent, above the FY 2016 request. The increase is attributable to an increase in conference refreshments and data processing supplies, partially offset by a decrease in stationary.

- **Capital Outlay.** The agency requests \$42,270, all from special revenue funds, for capital outlay for FY 2017. This is an increase of \$2,050, or 5.1 percent, above the FY 2016 request. The increase is primarily attributable to an increase in computer equipment.
- **Other Assistance.** The agency requests \$29.6 million, all from special revenue funds, for other assistance for FY 2017. This is an increase of \$3.6 million, or 13.9 percent, above the FY 2016 request. The increase is primarily attributable to an anticipated 12.0 percent increase in the frequency of claims, as a result of the addition of five categories of health care providers, and an agency estimated average rate of increase in claims.

The **Governor** recommends expenditures of \$37.3 million, all from special revenue funds, for FY 2017. This is a decrease of \$14,200, or less than 0.1 percent, below the amount requested by the agency. The decrease is attributable to a decrease in the employer contributions to state employee health insurance.

Governor's Recommended Salary and Wage Adjustments

State Employee Pay Increases. The 2014 Legislature approved funding of \$11.3 million, including \$4.5 million from the State General Fund, in FY 2015 for a \$250 bonus for all full-time employees except elected officials who were employed on December 6, 2013, and which was paid December 6, 2014. **For this agency, the FY 2015 bonus totals \$5,406, all from special revenue funds, and affects 17 employees.**

Longevity Bonus Payments. For FY 2016 and FY 2017, the Governor recommends funding longevity bonus payments for eligible state employees at the statutory rate of \$40 per year of service, with a 10-year minimum (\$400), and a 25-year maximum (\$1,000). Classified employees hired after June 15, 2008 are not eligible for longevity bonus payments. The estimated cost for the recommended FY 2016 payments is \$7.2 million, including \$2.8 million from the State General Fund. For FY 2017, the estimated cost for the payments is \$7.7 million, including \$3.0 million from the State General Fund. **For this agency, FY 2016 longevity payments total \$2,560, all from special revenue funds, and FY 2017 longevity payments total \$2,600, all from special revenue funds.**

Group Health Insurance. The Governor recommends Group Health and Hospitalization employer contributions of \$282.8 million, including \$108.2 million from the State General Fund, for FY 2016 and \$289.2 million, including \$110.7 million from the State General Fund, for FY 2017. For FY 2016 and FY 2017, the Governor recommends reducing the employer contributions for group health insurance by 8.5 percent. **For this agency this is a reduction of \$13,921, all from special revenue funds, for FY 2016. This is a reduction of \$14,200, all from special revenue funds, for FY 2017.**

Kansas Public Employees Retirement System (KPERS) Rate Adjustments. The FY 2015 employer retirement contribution for KPERS regular and school members was scheduled to be 11.27 percent, an increase of 1.0 percent from 10.27 in FY 2014. The Governor reduced the employer contribution rate from 11.27 percent to 8.65 percent for the second half of FY 2015, for an effective contribution rate of 9.96 percent as part of the Governor's allotment plan. For FY 2016, the Governor recommends the retirement rate increase by 2.41 percent from 9.96 percent to 12.37 percent. For FY 2017, the Governor recommends the retirement rate increase by 1.2 percent from 12.37 percent to 13.57 percent. This increase is attributable to the annual statutory increase for financing the unfunded liability of the KPERS fund.

In addition, the employer contribution for the KPERS death and disability insurance rate will be increased to 1.0 percent, from 0.85 percent, for FY 2016 and for FY 2017.

The Governor further proposes offering \$1.5 billion in Pension Obligation Bonds, backed by the State General Fund, to be paid back over 30 years and extending the amortization on the current bonds by ten years to 2043. The proceeds of the bonds would be used to help reduce the future employer contribution rates of the State/School Group. The Kansas Public Employee Retirement System estimates this plan could reduce employer contributions by \$68.43 million in FY 2016 and \$132.85 in FY 2017. The Kansas Development Finance Authority estimates that the bond service would be \$90.3 million in FY 2016 through FY 2017, assuming the Kansas credit ratings are not downgraded.

Funding Sources

Funding Source	Agency Req. Percent of Total FY 2016	Gov. Rec. Percent of Total FY 2016	Agency Req. Percent of Total FY 2017	Gov. Rec. Percent of Total FY 2017
Health Care Stabilization Fund	100.0 %	100.0 %	100.0 %	100.0 %
Conference Fee Fund	0.0	0.0	0.0	0.0
TOTAL	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

Note: Percentages may not add due to rounding.

Health Care Stabilization Fund Analysis

The Health Care Stabilization Fund was established by KSA 40-3401. The Fund receives deposits from annual premium surcharges on every health care provider who has obtained basic professional liability insurance coverage and upon all self-insurers, investments, and transfers from the Health Care Provider Insurance Availability Plan.

KSA 40-3403 authorizes the transfer of monies from the State General Fund to reimburse the Fund for costs incurred defending any claim filed against a person participating in the University of Kansas Medical Center (KUMC) and Wichita Center for Graduate Medical Education (WCGME) residency programs and for that portion of the paid claims which is equal to the basic coverage liability of self-insurers. This statute also authorizes the transfer of monies from the State General Fund and the KUMC Private Practice Foundation Reserve Fund to reimburse the Fund for costs incurred to defend any claim filed

against KUMC foundations and full-time faculty and for that portion of any claim which is equal to the basic liability of self-insurers.

The Governor's July 2010 allotment eliminated the State General Fund transfer into the Fund related to KUMC and WCGME claims expenses. The Fund wrote off the transfer, which would have been approximately \$2.9 million, as not collectible. The 2010 Legislature passed 2010 SB 414, which exempted the Fund from future allotments. It also deferred payment to the Fund from the State General Fund for costs and expenses associated with the KUMC and WCGME claims expenses. The legislation stated that payments scheduled for state Fiscal Years 2010, 2011, 2012, and 2013 would not be transferred until July 1, 2013. At that time, annual State General Fund payments would begin and continue through July 1, 2017, each in the amount of 20.0 percent of the total amount owed.

Resource Estimate	Actual FY 2014	Agency Estimate FY 2015	Governor Rec. FY 2015	Agency Request FY 2016	Gov. Rec. FY 2016	Agency Request FY 2017	Gov. Rec. FY 2017
Beginning Balance	\$ 1,735,636	\$ 2,650,549	\$ 2,650,549	\$ 1,955,881	\$ 1,968,702	\$ 3,891,397	\$ 3,918,139
Revenue	63,979,539	62,260,000	62,260,000	65,565,000	65,565,000	62,409,000	62,409,000
Transfers in	3,786,676	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Total Funds Available	\$ 69,501,851	\$ 69,410,549	\$ 69,410,549	\$ 72,020,881	\$ 72,033,702	\$ 70,800,397	\$ 70,827,139
Less: Expenditures	32,739,306	32,254,668	32,241,847	32,929,484	32,915,563	37,313,045	37,298,845
Transfers Out	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Off Budget Expenditures	33,911,996	35,000,000	35,000,000	35,000,000	35,000,000	29,000,000	29,000,000
Ending Balance	\$ 2,650,549	\$ 1,955,881	\$ 1,968,702	\$ 3,891,397	\$ 3,918,139	\$ 4,287,352	\$ 4,328,294
Ending Balance as Percent of Expenditures	8.1%	6.1%	6.1%	11.8%	11.9%	11.5%	11.6%
Month Highest Ending Balance	January \$ 5,586,987	January \$ 5,587,000	January \$ 5,587,000	January \$ 5,586,994	January \$ 5,586,994	January \$ 5,586,994	January \$ 5,586,994
Month Lowest Ending Balance	November \$ 1,071,248	November \$ 1,071,250	November \$ 1,071,250	November \$ 1,071,249	November \$ 1,071,249	November \$ 1,071,249	November \$ 1,071,249

Staff Notes

The actual cash balance on any given day of the year is a function of three principal variables: (1) HCSF premium surcharges collected and remitted by commercial liability insurance companies, (2) investment maturity dates, and (3) pending claim payments. Because many medical professional liability insurance policies have effective dates and renewal dates at January 1 or July 1, HCSF premium surcharges are often collected by insurance companies in late December or late June. Because insurers have a statutory 30-day remittance period, the surcharge revenue is often received near the end of January or near the end of July. Therefore, those two months normally have a comparatively high ending balance.

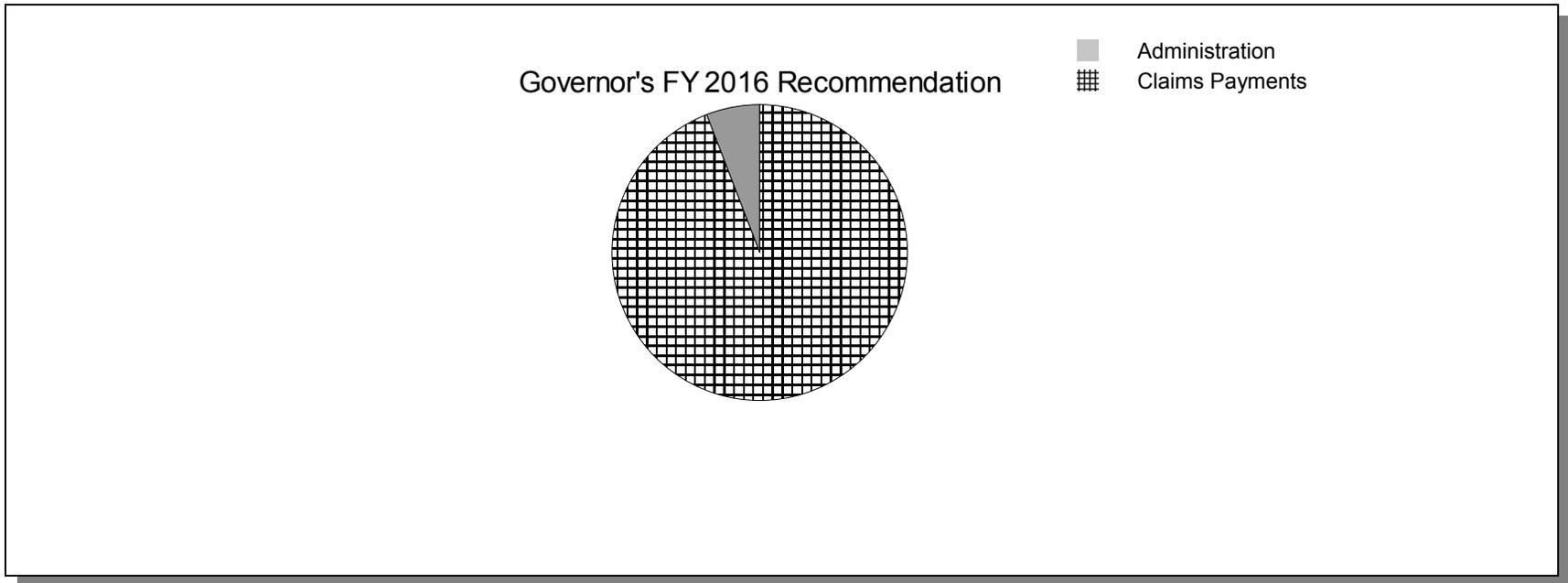
The HCSF Board of Governors employs a conservative, ladder investment strategy. Reserves are invested by the

Pooled Money Investment Board on behalf of the HCSF Board of Governors. As a result, there are maturities throughout the year. If a maturity occurs near the end of the month, there will of course be a higher ending balance at the conclusion of that particular month.

The Board's Chief Attorney maintains a contemporary accounting of settlements and jury awards that have been approved by the Courts. This includes scheduled future payments attributable to settlements and jury awards in prior fiscal years. The agency indicates that it is imperative that sufficient, unencumbered cash balances be maintained in order to promptly pay these statutory HCSF liabilities. Consequently, the ending balance is often a reflection of pending claim payments at the conclusion of a particular month.

PROGRAM DETAIL

EXPENDITURES BY PROGRAM-- GOVERNOR'S FY 2016 RECOMMENDATION



Program	Gov. Rec. All Funds FY 2016	Percent of Total
Administration	\$ 1,924,028	5.8 %
Claims Payments	31,003,535	94.2
TOTAL	<u>\$ 32,927,563</u>	<u>100.0 %</u>

FTE POSITIONS BY PROGRAM FY 2014 – FY 2017

Program	Actual FY 2014	Agency Est. FY 2015	Gov. Rec. FY 2015	Agency Req. FY 2016	Gov. Rec. FY 2016	Agency Req. FY 2017	Gov. Rec. FY 2017
Administration	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>

A. Administration

The Administration program is responsible for state operations at the Health Care Stabilization Fund. The program includes the Board of Governors and the Executive Director as well as the Legal, Compliance, Fiscal and Information

Technology, and Administrative Support departments. The administrative expenditures of the Fund have traditionally been subject to an expenditure limitation as opposed to the Claims program, which is no-limit.

ADMINISTRATION
SUMMARY OF EXPENDITURES FY 2014 – 2017

Item	Actual FY 2014	Agency Est. FY 2015	Gov. Rec. FY 2015	Agency Req. FY 2016	Gov. Rec. FY 2016	Agency Req. FY 2017	Gov. Rec. FY 2017
Expenditures:							
Salaries and Wages	\$ 1,324,277	\$ 1,433,573	\$ 1,420,752	\$ 1,481,879	\$ 1,467,958	\$ 1,548,465	\$ 1,534,265
Contractual Services	276,854	342,760	342,760	384,300	384,300	389,600	389,600
Commodities	23,636	29,755	29,755	31,550	31,550	32,180	32,180
Capital Outlay	32,984	37,125	37,125	40,220	40,220	42,270	42,270
Debt Service	0	0	0	0	0	0	0
Subtotal - Operations	\$ 1,657,751	\$ 1,843,213	\$ 1,830,392	\$ 1,937,949	\$ 1,924,028	\$ 2,012,515	\$ 1,998,315
Aid to Local Units	0	0	0	0	0	0	0
Other Assistance	0	0	0	0	0	0	0
TOTAL	<u>\$ 1,657,751</u>	<u>\$ 1,843,213</u>	<u>\$ 1,830,392</u>	<u>\$ 1,937,949</u>	<u>\$ 1,924,028</u>	<u>\$ 2,012,515</u>	<u>\$ 1,998,315</u>
Financing:							
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
All Other Funds	1,657,751	1,843,213	1,830,392	1,937,949	1,924,028	2,012,515	1,998,315
TOTAL	<u>\$ 1,657,751</u>	<u>\$ 1,843,213</u>	<u>\$ 1,830,392</u>	<u>\$ 1,937,949</u>	<u>\$ 1,924,028</u>	<u>\$ 2,012,515</u>	<u>\$ 1,998,315</u>
FTE Positions	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Non-FTE Uncl. Perm. Pos.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>	<u>19.5</u>

The **agency** requests \$1.9 million, all from special revenue funds, for the Administration Program for FY 2016. This is an increase of \$94,736, or 5.1 percent, above the agency's approved budget in FY 2015. The increase is detailed below.

increase of \$48,306, or 3.4 percent, above the amount of the revised FY 2015 estimate. The increase is attributable to anticipated higher employer benefits costs and no budgeted shrinkage.

- **Salaries and Wages.** The agency requests \$1.5 million, all from special revenue funds, for salaries and wages for FY 2016. This is an

- **Contractual Services.** The agency requests \$384,300, all from special revenue funds, for

contractual services for FY 2016. This is an increase of \$41,540, or 12.1 percent, above the amount of the revised FY 2015 estimate. The increase is primarily attributable to budgeting for the first half of a contract for a second actuarial review.

- **Commodities.** The agency requests \$31,550, all from special revenue funds, for commodities for FY 2016. This is an increase of \$1,795, or 6.0 percent, above the revised FY 2015 estimate. The increase is attributable to an increase in conference refreshments and data processing supplies, partially offset by a decrease in stationary.
- **Capital Outlay.** The agency requests \$40,220, all from special revenue funds, for capital improvements for FY 2016. This is an increase of \$3,095, or 8.3 percent, above the revised FY 2015 estimate. The increase is primarily attributable to an increase in computer and printing equipment.
- **Other Assistance.** The agency does not request other assistance for FY 2016.

The **Governor** recommends expenditures of \$1.9 million, all from special revenue funds, for FY 2016. This is a decrease of \$13,921, or 0.7 percent, below the agency's request for FY 2016. The decrease is attributable to a change in the employer contributions to state employee health insurance.

The **agency** requests \$2.0 million, all from special revenue funds, for the Administration Program for FY 2017. This is an increase of \$74,566, or 3.8 percent, above the amount

requested for FY 2016. The increase is primarily attributable to the following factors:

- **Salaries and Wages.** The agency requests \$1.5 million, all from special revenue funds, for salaries and wages for FY 2017. This is an increase of \$66,586, or 4.5 percent, above the amount requested for FY 2016. The increase is attributable to payment of the 27th payroll period.
- **Contractual Services.** The agency requests \$389,600, all from special revenue funds, for contractual services for FY 2017. This is an increase of \$5,300, or 1.4 percent, above the amount requested for FY 2016. The request includes the second half of the contract for a second actuarial review.
- **Commodities.** The agency requests \$32,180, all from special revenue funds, for commodities for FY 2017. This is an increase of \$630, or 2.0 percent, above the FY 2016 request. The increase is attributable to an increase in conference refreshments and data processing supplies, partially offset by a decrease in stationary.
- **Capital Outlay.** The agency requests \$42,270, all from special revenue funds, for capital outlay for FY 2017. This is an increase of \$2,050, or 5.1 percent, above the FY 2016 request. The increase is attributable to an increase in computer equipment.

- **Other Assistance.** The agency does not request other assistance for FY 2017.

The **Governor** recommends expenditures of \$2.0 million, all from special revenue funds, for FY 2017. This is a decrease of \$14,200, or 0.7 percent, below the agency's request for FY 2017. The decrease is attributable to a change in the employer contributions to state employee health insurance.

B. Claims

The Claims program was instituted as a separate program in FY 2010 as the portion of the Fund responsible for the payment of court-approved claims, attorneys' fees, and other costs associated with claims activity. Historically, expenditures for the

payment of claims have been treated as no-limit by the Legislature. No-limit means that although the Claims program operates within a budget, it does not have an appropriated limit on its expenditures.

CLAIMS
SUMMARY OF EXPENDITURES FY 2014 – 2017

Item	Actual FY 2014	Agency Est. FY 2015	Gov. Rec. FY 2015	Agency Req. FY 2016	Gov. Rec. FY 2016	Agency Req. FY 2017	Gov. Rec. FY 2017
Expenditures:							
Salaries and Wages	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Contractual Services	6,062,826	4,918,315	4,918,315	5,011,805	5,011,805	5,708,770	5,708,770
Commodities	1,778	2,320	2,320	2,320	2,320	2,320	2,320
Capital Outlay	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0
Subtotal - Operations	\$ 6,064,604	\$ 4,920,635	\$ 4,920,635	\$ 5,014,125	\$ 5,014,125	\$ 5,711,090	\$ 5,711,090
Aid to Local Units	0	0	0	0	0	0	0
Other Assistance	25,029,266	25,504,820	25,504,820	25,989,410	25,989,410	29,601,940	29,601,940
TOTAL	<u>\$ 31,093,870</u>	<u>\$ 30,425,455</u>	<u>\$ 30,425,455</u>	<u>\$ 31,003,535</u>	<u>\$ 31,003,535</u>	<u>\$ 35,313,030</u>	<u>\$ 35,313,030</u>
Financing:							
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
All Other Funds	31,093,870	30,425,455	30,425,455	31,003,535	31,003,535	35,313,030	35,313,030
TOTAL	<u>\$ 31,093,870</u>	<u>\$ 30,425,455</u>	<u>\$ 30,425,455</u>	<u>\$ 31,003,535</u>	<u>\$ 31,003,535</u>	<u>\$ 35,313,030</u>	<u>\$ 35,313,030</u>
FTE Positions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-FTE Uncl. Perm. Pos.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>

The **agency** requests \$31.0 million, all from special revenue funds, for FY 2016. This is an increase of \$578,080, or 1.9 percent, above the agency's approved budget in FY 2015. The request includes the following details.

- **Salaries and Wages.** The agency does not request funding for salaries and wages for FY 2016.

- **Contractual Services.** The agency requests \$5.0 million, all from special revenue funds, for contractual services for FY 2016. This is an increase of \$93,490, or 1.9 percent, above the revised estimate in FY 2015. The increase is based on increased legal expenditures related to estimated payments for settlements and jury awards for FY 2016.

- **Commodities.** The agency does not request funding for commodities for FY 2016.
- **Capital Outlay.** The agency does not request funding for capital outlay for FY 2016.
- **Other Assistance.** The agency requests \$26.0 million, all from special revenue funds, for other assistance. This is an increase of \$484,590, or 1.9 percent, above the revised estimate in FY 2015. The increase is based on an agency projected 1.9 percent average annual increase in the frequency of claims.

The **Governor** recommends expenditures of \$31.0 million, all from special revenue funds, the same as the agency's request for FY 2016.

The **agency** requests \$35.3 million, all from special revenue funds, for FY 2017. This is an increase of \$4.3 million, or 13.9 percent, above the amount requested for FY 2016. The request includes the following detail.

- **Salaries and Wages.** The agency does not request funding for salaries and wages for FY 2017.

- **Contractual Services.** The agency requests \$5.7 million, all from the special revenue funds, for FY 2017. This is an increase of \$696,965, or 13.9 percent, above the amount requested for FY 2016. The increase is based on increased legal expenditures related to estimated payments for settlements and jury awards for FY 2017.
- **Commodities.** The agency does not request funding for commodities for FY 2017.
- **Capital Outlay.** The agency does not request funding for capital outlay for FY 2017.
- **Other Assistance.** The agency requests \$29.6 million, all from special revenue funds, for FY 2017. This is an increase of \$3.6 million, or 13.9 percent, above the amount requested for FY 2017. The increase is attributable to an agency projected 1.9 percent average annual increase in the frequency of claims, plus a 12.0 percent increase in the frequency of claims due to adding five new health care providers under the Health Care Stabilization Fund.

The **Governor** recommends expenditures of \$35.3 million, all from special revenue funds, the same as the agency's request for FY 2017.

PERFORMANCE MEASURES

<u>Measure</u>	<u>Gov. Rec. for FY 2014</u>	<u>Actual FY 2014</u>	<u>Gov. Rec. FY 2015</u>	<u>Gov. Rec. FY 2016</u>	<u>Gov. Rec. FY 2017</u>
Number of cases opened	500	576	600	672	700
Number of cases closed	510	525	550	575	645
Unassigned reserves as percent of indicated liabilities	34.3%	37.6%	19.9%	N/A	N/A