

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Representative Kenny Wilk at 9:00 a.m. on January 24, 2002, in Room 514-S of the Capitol.

All members were present.

Committee staff present: Alan Conroy, Legislative Research
Amy Kramer, Legislative Research
Julian Efrid, Legislative Research
Jim Wilson, Revisor of Statutes
Mike Corrigan, Revisor of Statutes
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Steve Richards, Secretary of Revenue
Connie Hubbell, Secretary of Aging
Glenn Deck, KPERS
Bobbi Mariani, Division of Personnel

Others attending: See Attached

Representative Melvin Neufeld moved for the introduction of proposed legislation amending the Senior Care Act. Motion was seconded by Representative Stone. Motion carried.

Steve Richards, Secretary of the Department of Revenue, presented testimony on the progress of their collection initiatives and on the conversion of the corporate income tax system (Attachment 1). He forecast a reduction in the collection of corporate income taxes for the remainder of the year due to a reduction in taxable income for corporations and refund issues. They have written off more than \$53 million as uncollectable corporate tax. Many of the returns were more than 15 years old, businesses were in or had taken bankruptcy, business no longer exists, or individuals involved are deceased. The state does not have a priority to collect taxes in a bankruptcy. They must work within the statutes of limitations and contact must be continually made within every three-year period in order to keep the case open. The recommendations for such writeoffs are sent to the Board of Tax Appeals for approval, and that information is forwarded to the Department of Administration where the names of individuals are recorded. If the delinquent individuals receive property through inheritance or some other manner that the state could be aware of, such goods can be seized by the state.

Members of the Committee complimented Secretary Richards and the Department of Revenue for meeting and exceeding their goals, their willingness to work with individuals in a very flexible manner, and the amicable attitude of the collection staff.

The following matters were raised by committee members as being tax issues with their constituents:

- Required prepayment of sales tax for companies or individuals who pay \$100,000 per annum in sales tax. This is causing some businesses who issue credit to customers to prepay the sales tax before they have received the payment for goods.
- Is the agency user-friendly in solving tax issues with the individuals who are involved in back or late payment issues? Why has it been reported repeatedly that the individual cannot solve problems with the agency but a single call from a legislator on the issue is oftentimes successful? In response to questions on why the agency is reluctant to discuss back tax issues with outside tax accountants, Secretary Richards said they were not allowed to give out confidential information to unauthorized persons.

- In response to questions regarding the difference between aggressiveness and harassment in the collection of owed taxes, Secretary Richards defended his approach and stated his department was attempting to meet the goals set by the Legislature. Some problems exist within the data system and there have been a few errors made in amounts owed, dates due and names of individuals involved in the attempt to collect back taxes. There is still \$500 million owed, \$200 million is considered uncollectable at this time and \$100 million is due from illegal drug tax cases which would be difficult at best to collect.

Connie Hubbell, Secretary of the Department on Aging, informed the Committee of the various programs being offered to assist seniors with the cost of prescription medications (Attachment 2). She said her department was interested in working with SRS in an attempt to drive down the cost of prescriptions. Seniors are made aware of these programs through SHICK, SRS registers, Department on Aging journals, and area agencies on aging. As an alternative to deal with the proposed \$2 million budget cut, the agency may have to stop senior care meals for four months to make up the deficit.

Action on HB 2621 – Benefits and eligibility of members of KPERS

Representative Stone moved for the passage of HB 2621. Motion was seconded by Representative Shriver. Motion carried.

Action on HB 2626–Rollover of certain retirement distributions for the purpose of the purchase of service credit in KPERS

Staff from Legislative Research and Glenn Deck, Executive Director of KPERS, explained that this bill would allow trustee to trustee transfers with no federal or state taxes applied. The money could not be taken from the retirement plan, KPERS, except in the case of extreme and defined emergency without penalty. If the money is removed prior to age 59 ½ years, taxes would apply as well as a 10% penalty. The Committee discussed the fiscal impact on KPERS as it appears the bill encourages early retirement.

Representative Stone moved to report the bill favorably for passage. The motion was seconded by Representative Campbell. Motion carried.

Action on HB 2622–Contribution rates for local police and fire pension plans

Representative Stone moved to report the bill favorably for passage. The motion was seconded by Representative Pottorff. Motion carried.

Discussion on HB 2619–Employer contributions for tax sheltered annuities for certain school district and community college employees

Bobbi Mariani, Division of Personnel, a proposed amendment to this legislation to permit a 403(a) plan as an adjunct plan to the state deferred compensation plan for state employees, subject to appropriations. Policy decisions would be made at a later date.

The meeting was adjourned at 10:35 a.m. The next meeting is scheduled for Tuesday, January 29, 2002.

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Office of the Secretary

**Secretary Stephen Richards
House Appropriations Committee**

January 24, 2002

Mr. Chairman and members of the Committee. I want to thank you for the opportunity to appear before you today and share with you the progress the Department of Revenue has made in its Collection Initiatives and report on our conversion of corporate income tax system.

Last session, the legislature recognized the need to improve the collections of our accounts receivable and was gracious enough to provide the necessary resources to begin the task of improving tax collections. We established, with the legislature help, some sizable goals for the Department. Those goals, we believe, are still within our reach.

Before I share the results of our collections, let me begin with my story of the file cabinet. (Slide 1) When I became Secretary, I recognized the need to improve our collections of account receivables. The level of receivables and the method employed were alarming. However, when I opened the file cabinet that contained the tax accounts, we discovered several additional concerns. Not only were there collections dating back several years, but the Department had not adequately notified taxpayers of balances due.

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ATTACHMENT 1

As we looked deeper into the file cabinet, we recognized that a significant number of taxpayers had unfiled returns, we were not matching IRS data with Kansas returns, had not fully participated in the IRS tax refund offset program and needed to continue notifying taxpayers of changes in sales tax filing frequency. These compliance programs needed immediate attention.

I also discovered that we had 100,000 unanswered letters from taxpayers and 134,000 tax returns needing additional information. Tax returns had to be worked and taxpayer correspondence had to be answered before we could correctly bill and collect delinquent amounts. Our file cabinet was full and required work beyond tax collections.

I instituted a strategy that simultaneously re-instituted tax billings, began compliance initiatives focused on tax filings, attacked the backlog of tax returns and correspondence and began tax collections. This strategy worked, but not without criticism. Taxpayers and tax-preparers are hearing from the Department, in some cases after a long time. We have sent out over 250,000 notices covering delinquent balances, unfiled returns, unpaid 1999 and 2000 taxes, and changes in filing frequency. At the same time we have resolved taxpayer correspondence and work over 100,000 tax returns. **Slide 2** shows the significantly reduction in our backlogs from over 238,000 to 82,000 today. This is a major accomplishment for the Department and positions us to respond to taxpayers inquires within 30-45 days.

What has all this meant to collections?

I am please to report that in addition to our compliance efforts, collections are ahead of the goals set at the end of last session. We are two positions short of our staffing plan, yet all new associates have received appropriate training.

As you can see, (slide 3) we have progressively increased our collections over last year. Through January 15th, we had collected \$22.1 million in FY01. The same period this fiscal year, we have collected \$41.1 million compared to our goal of \$38.1 million. We are on target - on schedule - to finish this year in meeting our goal of \$48 million in increase collections.

While these compliance initiatives contribute to more accounts receivables, they are a critical component to increasing tax collections and ensure all taxpayers pay their fair share.

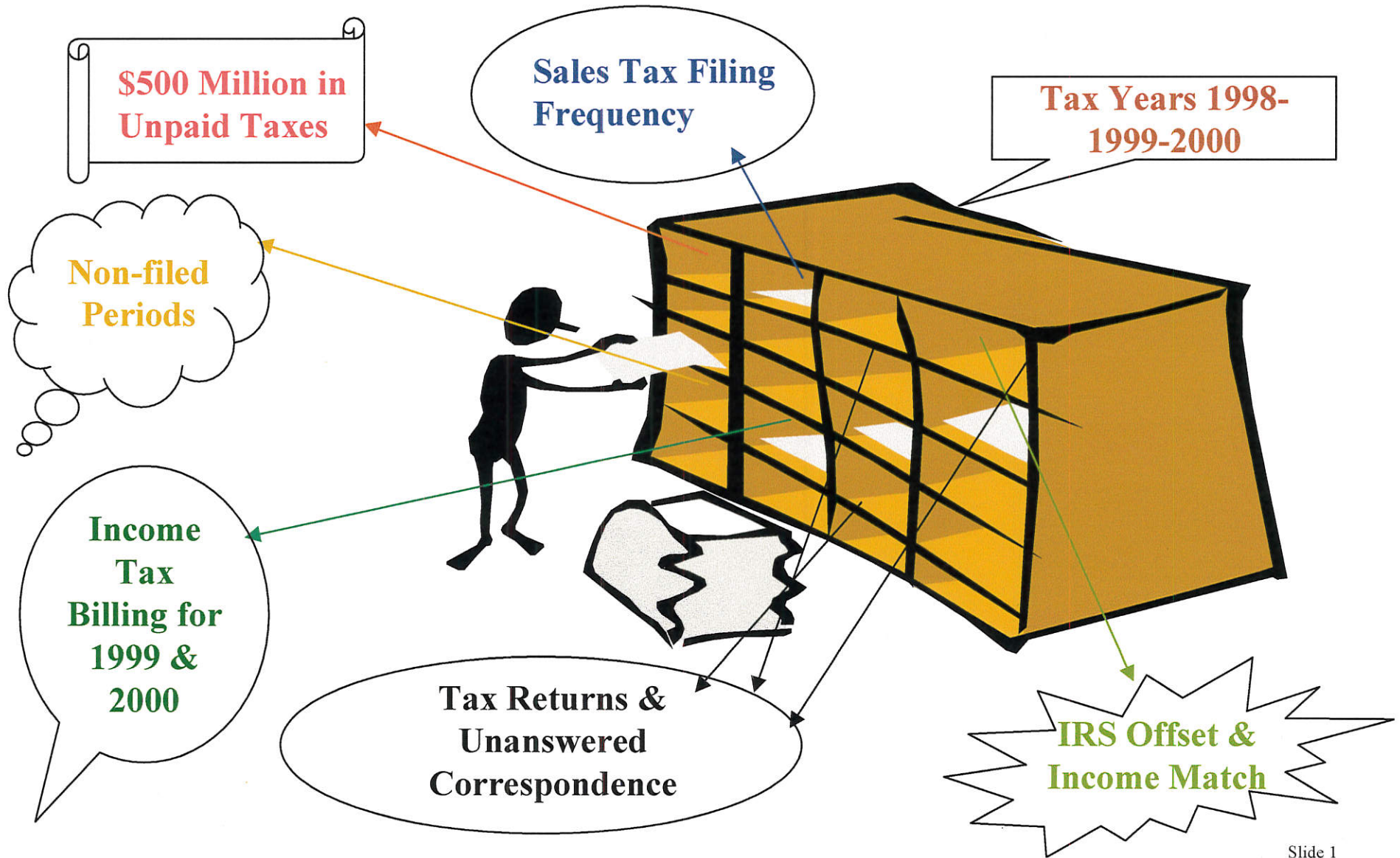
Mr. Chairman, you also asked about our conversion of corporate income tax system to the integrated ASTRA processing. This past July, we completed the conversion of 81,000 accounts from the old legacy system to our integrated system. The conversion was well managed and provided us the opportunity to clean up some of the data contained in these accounts. We are now processing corporate income tax in the new environment without incident.

As you tackle the challenge of balancing the budget, keep in mind the contribution our compliance and collection initiatives have toward state revenues and maintain funding for this important activity.

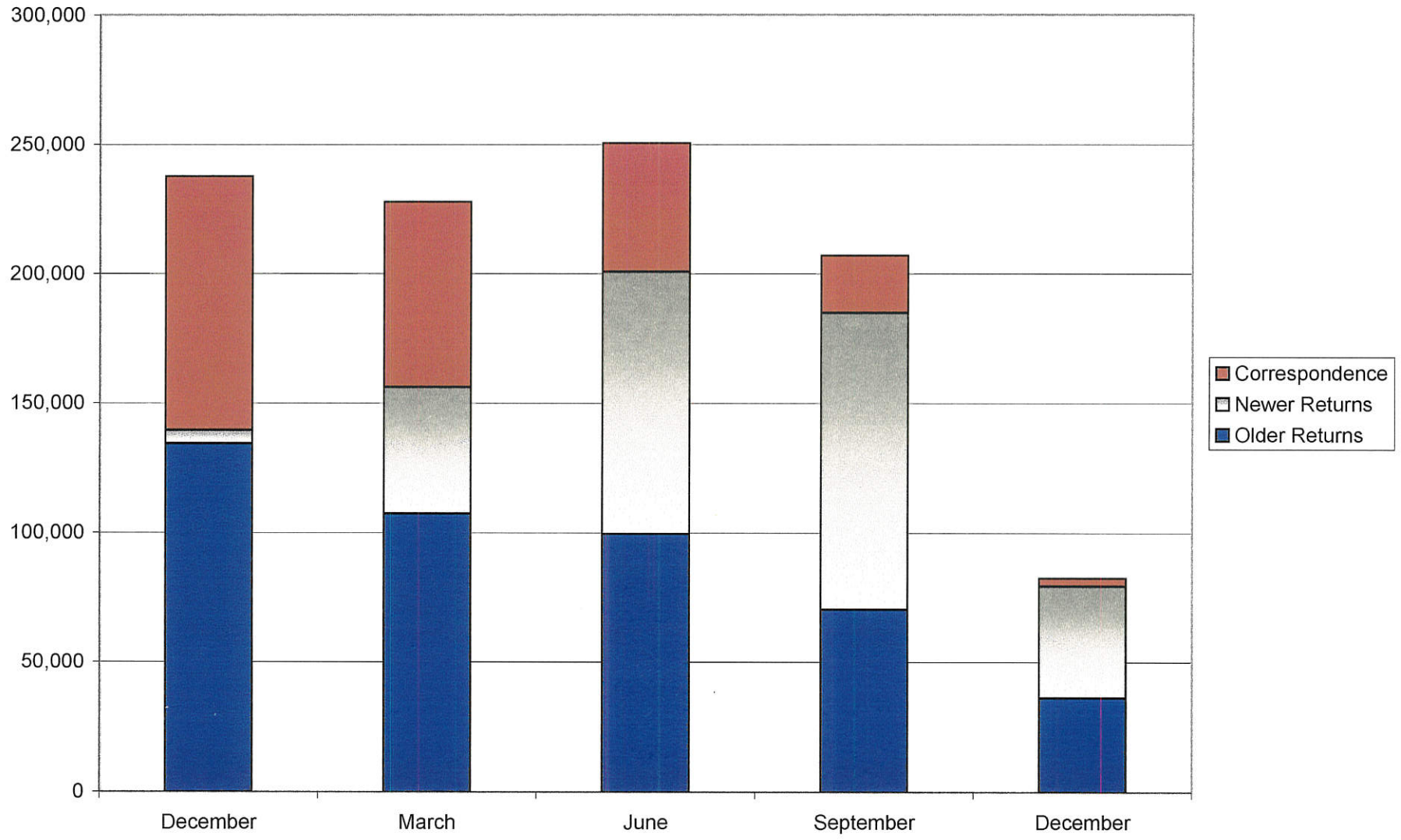
Mr. Chairman, I will be happy to answer any questions the Committee may have.

Department of Revenue Compliance File Cabinet

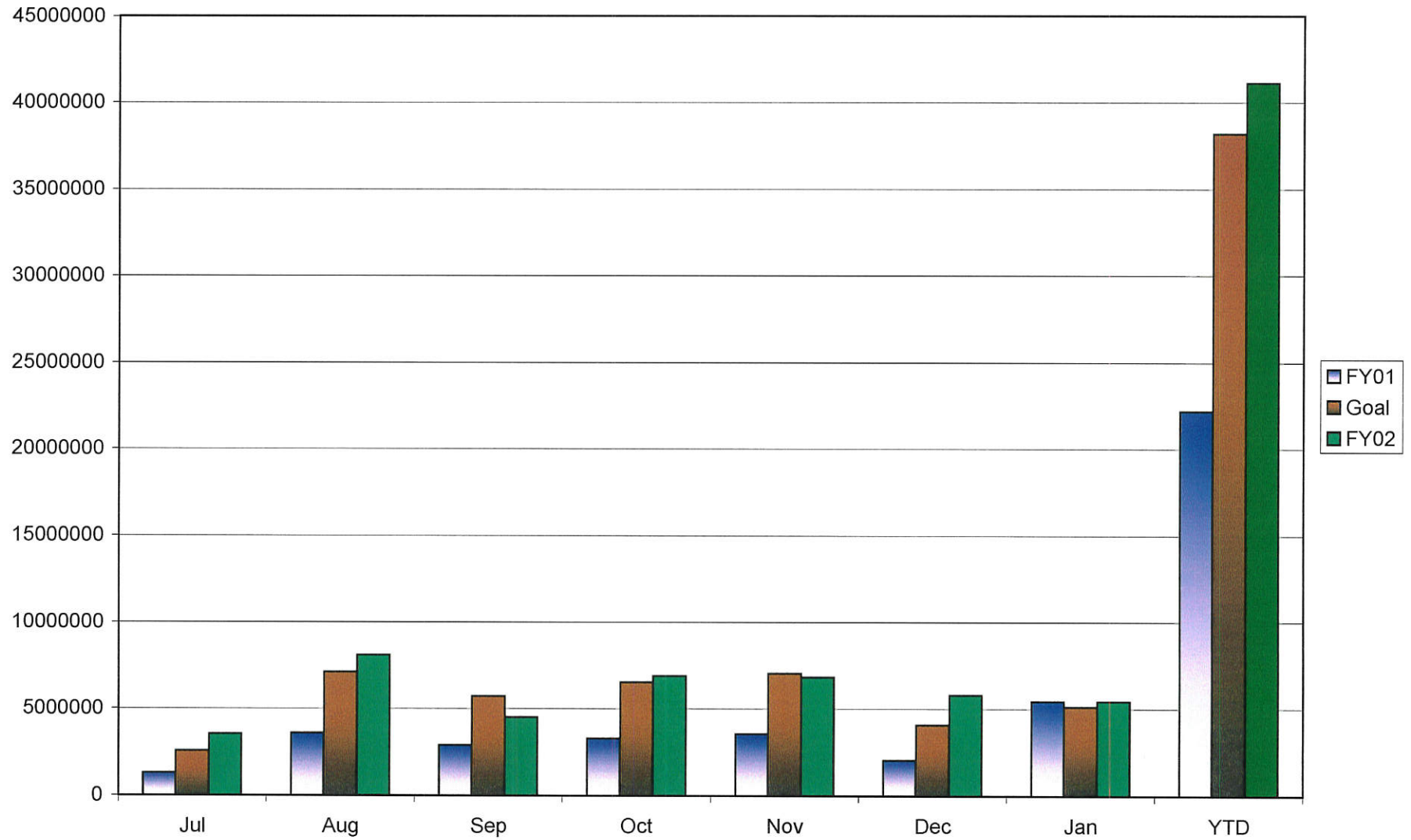
1-4



Department of Revenue Worklisted Returns



Accounts Receivable



January totals -- as of January 15, 2002



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House Appropriations Committee
January 24, 2002

Report on Senior Pharmacy Assistance Programs

For information contact:

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ATTACHMENT 2

**PRESENTATION TO THE HOUSE APPROPRIATIONS COMMITTEE
BY
SECRETARY CONNIE HUBBELL
KANSAS DEPARTMENT ON AGING
January 24, 2002**

Good morning, Mr. Chairman and members of the committee, thank you for inviting me to speak to you regarding the various programs being offered to assist seniors with the cost of prescription medications. In 2000, the department provided seniors an opportunity to express their greatest concerns in a statewide survey. The cost of prescription drugs rated number one with 6,495 of the 8,778 (76.8%) respondents identifying this as their primary concern.

Today, I will address several programs available to elder Kansans. They are:

- ◆ Kansas Senior Pharmacy Assistance Program,
- ◆ Senior Health Insurance Counseling for Kansas (SHICK) Program,
- ◆ Veteran's Administration Drug Benefit Program,
- ◆ Private Pharmaceutical Company Programs, and
- ◆ Medicaid State Plan Waiver.

Kansas Senior Pharmacy Assistance Program. In December, the Kansas Senior Pharmacy Assistance Program was able to reimburse 1,096 low-income seniors for 70% of their prescription drug cost for the first nine months of calendar year 2001. On average, a check in the amount of \$374 was mailed in December. Payments ranged from \$3.68 to \$1,200 for a total expense of \$409,491. Due to the anticipated need and the limited resources, the Department chose to target the lowest income seniors who did not qualify for Medicaid. In an attempt to easily identify this population, KDOA worked closely with the Department of Social and Rehabilitation Services. Applications were mailed during the first week of September to individuals, who were recipients of the Medicare Savings Program (Qualified Medicare Beneficiary-QMB and Low-Income Medicare Beneficiary – LMB) with a monthly income equal to or less than 135% of the federal poverty guideline (\$968 for a single individual and \$1,307 for a couple). Individuals must also meet the following eligibility criteria:

- ✓ Be at least 67 years of age;
- ✓ Not qualified for funding from any other local, state, or federal prescription drug program;
- ✓ Not covered under any private prescription reimbursement drug plan; and
- ✓ Have not canceled coverage for prescription drugs within the last six months.

Information derived from the applicants show that the lower the individual's income, the smaller the amount spent on prescriptions drugs. The applicants were divided into six income tiers and as the income rose so did the average expenditures for prescriptions. Based on this snapshot in time, a couple of suppositions can be made. First, the poorest tier, with monthly income up to \$537 for a single individual and \$726 for a couple, did not have the means to purchase the

necessary prescriptions. It does not seem realistic to assume that they are healthier. And secondly, as the income increases, the individual is able to purchase more of the medications prescribed by their physician. Given this information, the department is confident that the correct population was targeted.

The Department will conduct a second round during the latter part of March 2002. Applications will be sent to individuals identified as receiving benefits from the Medicare Savings Program as of March 15. The income limit will be increased to the 150% of poverty as allowed by statute. Individuals must be 67 years of age on or before December 31, 2001. The reimbursement period will be from January 1, 2001 to March 31, 2002. Individuals who received reimbursement on the first round may receive funds for the period of October 1, 2001 through March 31, 2002. The annual benefit of \$1,200 is based on a calendar year.

Senior Health Insurance Counseling for Kansans (SHICK). Kansas is fortunate to have dedicated SHICK staff and volunteers who were able to assist low-income seniors in accessing some free medications through their physicians.

SHICK is a federal grant program, funded by the Kansas Department on Aging (KDOA) and administered by the Kansas Insurance Department (KID) through an interagency agreement between KDOA and KID. The SHICK program received funding of \$181,915 for federal fiscal year 2001. The SHICK program is part of a national network of senior health insurance programs that educates the public and assists consumers with Medicare and health insurance questions. This program utilizes a statewide network of 492 volunteers and coordinators.

The Kansas Insurance Department reported that during 2001, SHICK counselors and partners across Kansas assisted 14,235 seniors by providing 7,113 hours of counseling thereby saving Kansas seniors \$2,177,048. Of the total served, the Prescription Drug Program reported 5,849 contacts with prescription drugs savings of \$1,711,778.

The SHICK Prescription Drug Program (PDP) assists low-income Medicare recipients in obtaining prescription drugs directly through pharmaceutical companies, either free of charge or at a reduced cost. The SHICK counselor serves as a valuable resource in helping seniors navigate each pharmaceutical company's unique eligibility criteria. The most common criteria are income restrictions, physician cooperation, and the lack of prescription drug coverage. Pharmaceutical manufacturers reserve the right to change their application and its process as well as the drugs available through the program. A key role of the counselor is to act as an advocate and liaison for the senior with the physician's office. Many physicians do not have adequate staff and resources to track the changes involved with the PDP and its associated paperwork. Without the dedication of the SHICK volunteer, many seniors would not be able to successfully utilize this program.

Veteran's Administration Drug Benefit Program. In October 1996, Congress passed Public Law 104-262, the Veterans' Health Care Eligibility Reform Act of 1996. This legislation paved

the way for the creation of a Uniform Benefits Package - a standard enhanced health benefits plan available to all enrolled veterans. The Law was enacted to simplify the rules for providing health care to veterans and to introduce improvements in the quality and timeliness of the care they receive. Like other standard health care plans, the Uniform Benefits Package emphasizes preventive and primary care, offering a full range of outpatient and inpatient services.

Once eligibility is verified, the veteran is assigned a priority group based on their specific eligibility status. The priority groups range from one through seven. Under the Uniform Benefits Package, the same services are generally available to all enrolled veterans. The prescription drug coverage has a co-payment charge of \$2 for each 30 day or less supply of medications provided on an outpatient basis for nonservice-connected conditions.

VA Pharmacy Program Eligibility and Co-Payment Schedule	
Priority 1	Veterans with service-connected disabilities rated 50% or more disabling.
Priority 2	Veterans with service-connected disabilities rated 30% or 40% disabling.
Priority 3	Veterans who are former POWs. Veterans with discharge for disability incurred/aggravated in the line of duty. Veterans with service-connected disabilities rated 10% or 20% disabling. Veterans awarded special eligibility classification under Title 38, U.S.C., Section 1151, "benefits for individuals disabled by treatment or vocational rehabilitation."
Priority 4	Veterans who are receiving aid and attendance or housebound benefits. Veterans who have been determined by VA to be catastrophically disabled.
Priority 5	Nonservice-connected veterans and service-connected veterans rated 0% disabled whose annual income and net worth are below the established dollar threshold.
Priority 6	All other eligible veterans who are not required to make co-payments for their care, including: World War I and Mexican Border War veterans, Veterans receiving care solely for disabilities resulting from exposure to toxic substances, radiation or for disorders associated with service in the Gulf War; or for any illness associated with service in combat in a war after the Gulf War or during a period of hostility after November 11, 1998. Compensable 0% service-connected veterans.
Priority 7	Nonservice-connected veterans and noncompensable 0% service-connected veterans whose needed care cannot be provided by enrolling in any of the groups above and who agree to pay specified co-payment.

Private Pharmaceutical Company Programs. In an attempt to help low-income individuals with the cost of medication, recent action has been taken by the following pharmaceutical companies; GlaxoSmithKline (GSK) launched the "Orange CardTM" on October 3, 2001, Novartis unveiled the "CareCardTM" on November 7, 2001 and Pfizer introduced the "Share CardTM" on January 15, 2002. The GlaxoSmithKline and Novartis programs are discount cards, which claim a discount of 25% off the wholesale list price equating to savings of 30% – 40% for the senior.

There is no charge to the senior for the cards and only those pharmaceuticals manufactured by the company are covered. Incomes must be equal to or less than 300% of the federal poverty limits. Neither program considers assets in determining financial eligibility. A list of participating pharmacies was not available from either company though Novartis stated that Walgreens, K-Mart and Osco have agreed to honor their card. A senior will need to make inquiries to find participating pharmacies.

The most innovative of the private pharmacy programs comes from Pfizer. Starting March 1, 2002, Medicare beneficiaries will be able to apply for the Pfizer's Share Card™. The Share Card™ will offer:

- ◆ To charge only \$15 for each Pfizer prescription and two co-promoted drugs. The \$15 payment is for "up to a 30-day supply" of medicine.
- ◆ Information for healthy living including individualized health topics.
- ◆ Use at a local pharmacy that accepts the card. To date CVS drugstore chain and Wal-Mart have agreed to honor the card.
- ◆ Benefits with no membership fee.

Individuals must meet the following eligibility criteria for the Share Card:

- ◆ Must be 65 years of age or older or otherwise a Medicare enrollee (this covers the disabled population on Medicare).
- ◆ Must have an individual gross income below \$18,000 or joint reported gross income below \$24,000.
- ◆ Must have no other prescription coverage.

Pfizer medicines most often used by Medicare recipients include Lipitor for cholesterol lowering, Norvasc for high blood pressure and angina, and Zoloft for depression. The program will also include two medicines that Pfizer co-promotes with other companies; UCB Pharma's Zyrtec, a second-generation antihistamine and Eisai Co.'s Aricept, a symptomatic treatment for the dementia of mild to moderate Alzheimer's disease.

As Pfizer implements this program, their current old low-income program of free medications to those who can not afford the drugs is uncertain. According to Pfizer, last year over 1.4 million low income individuals received Pfizer medicines with a wholesale value of \$320 million.

Medicaid State Plan Demonstration Waiver. Section 1115 of the Social Security Act provides the Secretary of the U.S. Department of Health and Human Services with broad authority to authorize experimental, pilot, or demonstration projects that, in the judgement of the Secretary, are likely to assist in promoting the objectives of the Medicaid Statute. An 1115 Waiver would allow KDOA to partner with SRS to maximize state general fund dollars to assist seniors to purchase their much needed prescriptions. We will keep the committee apprised of the outcome of that waiver request.

*Kansas Department on Aging * Connie L. Hubbell, Secretary*

In conclusion, KDOA is committed to assisting seniors in obtaining the medications necessary to maintain healthy aging and to maximize their abilities to meet their own needs.

Mr. Chairman and members of the committee, thank you for the opportunity to discuss pharmacy assistance programs for seniors. I will now stand for questions.