

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Stephen Morris at 10:35 a.m. on January 28, 2003, in Room 123-S of the Capitol.

All members were present except: All present

Committee staff present:

Alan Conroy, Director, Kansas Legislative Research  
J. G. Scott, Chief Fiscal Analyst, Kansas Legislative Research Department  
Martha Dorsey, Kansas Legislative Research Department  
Melissa Calderwood, Kansas Legislative Research Department  
Audrey Nogle, Kansas Legislative Research Department  
Michael Corrigan, Assistant Revisor of Statutes  
Judy Bromich, Administrative Analyst  
Mary Shaw, Committee Secretary

Conferees appearing before the committee:

Dr. Donald N. Muse, Muse and Associates, Washington, D. C.

Others attending: See attached list

Chairman Morris welcomed Dr. Donald Muse, Muse and Associates, Washington, D. C., who gave a presentation to the committee regarding options or solutions regarding Medicaid that might be considered for the current fiscal crisis in Kansas (Attachment 1).

Dr. Muse mentioned that Medicaid is approximately 20 percent of an average state's budget, revenues are falling 3 to 5 percent and the Medicaid program is projected to grow 13 percent in the coming year (up from 5 percent through most of the 1990's).

In his presentation, Dr. Muse indicated that the solution is not clear and explained that he is trying to find solutions for the Medicaid program problems. Regarding Kansas, he mentioned that his group has received tapes submitted from the Kansas Department of Social and Rehabilitation Services to the federal government, Centers for Medicare and Medicaid Services (CMS), and within about two weeks results are produced. He noted that where available, Kansas Fiscal Year 2000 data was shown in his presentation. Dr. Muse explained that the solutions he presents are solutions that are good for people and save money at the same time which he felt were the kinds of solutions that one would want to look at first.

Dr. Muse detailed information that Kansas and the United States have about the same number of elderly people on Medicaid that they did in 1990 and the increased income of the elderly at retirement time has kept some of them off of the Medicaid rolls. He indicated that those that do come on the Medicaid rolls are sicker than they have ever been and most need nursing home care. Dr. Muse noted since about 1995 the disabled group has really shown the largest growth on the Medicaid rolls, and since 1995, most states are being driven by increases in expenditures for the disabled.

Dr. Muse discussed disease management and explained that diseases such as asthma, diabetes and congestive heart failure are amenable to disease management and the heart of disease management is keeping people out of hospitals and emergency rooms. He explained that there are 57 kinds of disease management and one type of disease management that they have evidence on is where a health care professional talks to a recipient. Dr. Muse explained that as he understands it, the State of Kansas has a clarification pending with CMS to put approximately 11,000 people on disease management and he strongly encouraged doing it because money can be saved.

According to Dr. Muse, many of the slides presented beginning on page 10 of his testimony are options that he developed after he visited Kansas. Dr. Muse emphasized using the data and using the records to save money and help people and he feels that there are opportunities out there.

## CONTINUATION SHEET

Dr. Muse ran data regarding expenditures for persons in some states with nine or more prescriptions in 180 days and expenditures for persons with 20 or more prescriptions in 180 days (option developed after the Kansas data was run). He noted that regarding those with 20 or more prescriptions, they found that approximately 10 percent need the many prescriptions for HIV, AIDS, organ transplants, etc., and at the other end, they found that approximately 10 percent are candidates for drug abuse. Dr. Muse explained that the 80 percent in the middle there were a large portion of doctor shoppers, for example, an elderly citizen on Medicaid that went to five separate cardiologists and carefully cashed prescriptions at five separate drug stores so as not to get "caught". Also, Dr. Muse noted that 34 providers accounted for 4,000 people getting 20 or more prescriptions. Dr. Muse presented suggestions for the doctor shopper to send letters to the providers asking them politely to examine their prescription drug dispensing. He noted that if they persist in doing it, under the Medicaid statute, you have the ability to "lock them in" where you can only go to one cardiologist and only cash your prescriptions at one pharmacy. Where there are physicians and providers who write a lot of prescriptions, generally the medical director of the program or contract employee visits the physician or the provider. Dr. Muse described a program in the state of Florida where an intensified benefit management program was initiated and it was able to produce cost savings for each intervention, including a 44 percent reduction in the per user per month for therapeutic duplication-targeted recipients.

Dr. Muse mentioned that in Kansas the disabled purchase 54 percent of all the drugs that the Kansas program buys. In Kansas between 60 and 70 percent of the people on Medicaid program go on Medicaid for mental health reasons. Dr. Muse noted that in 1995 about 300 out of every 1,000 people in the Kansas program took drugs for mental illness and today, about 700 out of every 1,000 people in Kansas are taking drugs. The increase in the Kansas program in the past five or six years is the number of the disabled and the increasing expenditures in a couple of areas. Dr. Muse cautioned that people in this category are not going to the hospital so he noted to be careful in what is done here or they will wind up back in the hospital.

Dr. Muse also discussed indicators of Nursing Homes with potential problems:

- high percentage of residents taking 20 or more prescriptions at the same time
- high percentage of residents taking one or more of 19 modified Beer's list medications (always, rarely)

Dr. Muse discussed key findings regarding potential ineffective dosage, potential discontinued usage, potential overlapping medication. He also discussed examples of compound code violations (unbundling). He noted that there are additional options for data available through requests by states. Chairman Morris expressed his appreciation to Dr. Muse for the presentation.

The Chairman called the committee's attention to discussion of:

**Senate Substitute for SB 30--Appropriations for FY 2003 -supplemental appropriations for various state agencies**

Alan Conroy, Director, Kansas Legislative Research Department, explained new additions to **Senate Substitute for SB 30** (Attachment 2).

Senator Buntin moved, with a second by Senator Salmans, to delete Section 24 regarding the Department of Education from the bill. Motion failed on a voice vote.

Senator Barone moved, with a second by Senator Jackson, to hold action on **Senate Substitute for SB 30** until the January State General Fund Receipts are available. Motion failed on a voice vote.

Committee discussion followed. Chairman Morris recognized Sabrina Wells, Kansas Insurance Department, who spoke in opposition to the additional sweep regarding the Workers Compensation Fund (Attachment 3).

Senator Adkins moved, with a second by Senator Schodorf, to move **Senate Substitute for SB 30** favorable for passage as amended. Motion carried on a roll call vote.

The meeting adjourned at 12:10 p.m. The next meeting is scheduled for January 29, 2003.

**SENATE WAYS AND MEANS COMMITTEE  
GUEST LIST**

DATE January 28, 2003

NAME	REPRESENTING
Kim Strunk	DD Council
Julie Thomas	IOB
James Campbell	KMHC
Barbara Ann Rower	KJAHF
Kara Louk	Intern - Sen. Downey
Maissa Pozman	Intern - Sen. Teichman
TK Shively	Ks Legal Services
Carolyn Muddendorf	Ks St Ns Assn
Genny Nicholas	Children's mercy hosp
Wendy Williams	KAPA
Teresa Schwab	KCSL
Paul Johnson	PACK
Mary Ellen Orlee	Sisters of Charity
Steve Solomon	The Farm, Inc.
Guil Jordan	Workforce Alliance
Chip Wheeler	Assn of Osteopathic Med.
Brian Leugs	PUOMA
Tom Bilono	EDS

# Medicaid Data for State XYZ and the State of Kansas

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January 2003

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[www.muse-associates.com](http://www.muse-associates.com)

## The 20 - minus 3 - 13 Problem

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- Medicaid is 20 percent of an average state's budget
- State revenues are projected to grow minus 3 percent this coming year
- The Medicaid program is projected to grow 13 percent this coming year (up from 5 percent through most of the 1990's)

## Recent Unemployment Statistics

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• January 1, 2001	4.2%
• June 30, 2001	4.6%
• January 31, 2002	5.6%
• June 30, 2002	5.9%
• September 30, 2002	5.6%
• December 31, 2002	6.0%

## Increased Unemployment Leads to Increased Medicaid Enrollment

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- According to analysis by the Urban Institute, an increase of **1%** in unemployment rate leads to an increase of **\$1.2 billion** in state spending
- An increase of **2%** in unemployment rate leads to an increase of **\$2.3 billion** in state spending

## **Medicaid's Problem Periods in the Past**

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- Early 80's - Bottom falls out of economy, unemployed swell roles
  - Solution: Throw people off roles and cut provider rates
- Early 90's - Waxman mandatory groups kick in
  - Solution: Put children and mothers in managed care
- Early 00's - Managed care cost increases, some states adding people, in general roles up, etc.
  - Solution: ??

## **Finding Solutions to the Medicaid Program Problems**

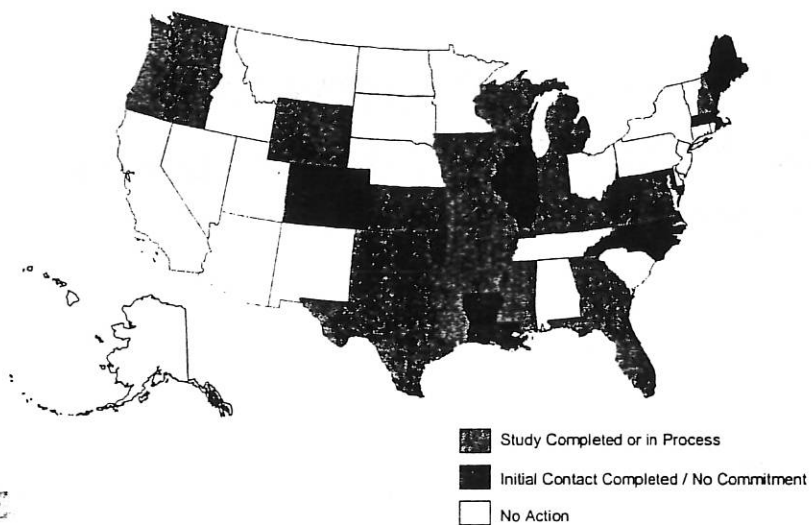
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## What We Do

- Receive tapes submitted to the Centers for Medicare and Medicaid Services (CMS), deliver results and detailed backup in person in two weeks
- Goal is to identify what is driving the cost of the Medicaid program, and therefore, where are the greatest potential savings
- Outline the potential use of disease management and other policy options to improve patients' health outcomes and save money

## State Medicaid Studies

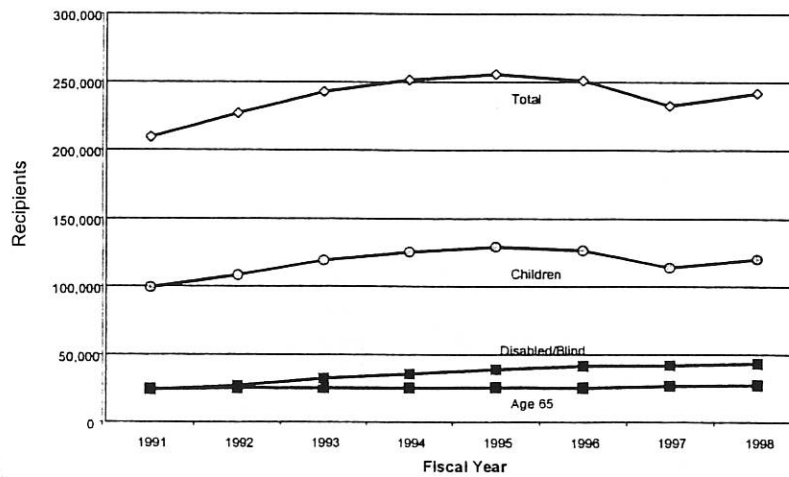
November 1, 2000 through January 1, 2003



# Where available, Kansas Fiscal Year 2000 Data is Shown

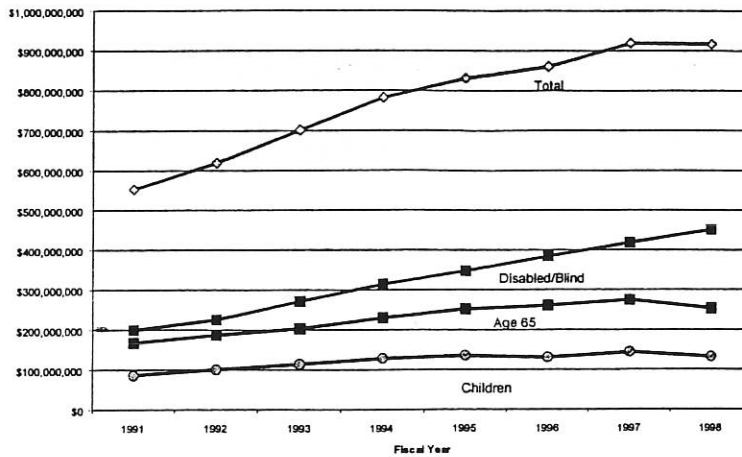


## Kansas Medicaid Recipients by Eligibility Status by Year

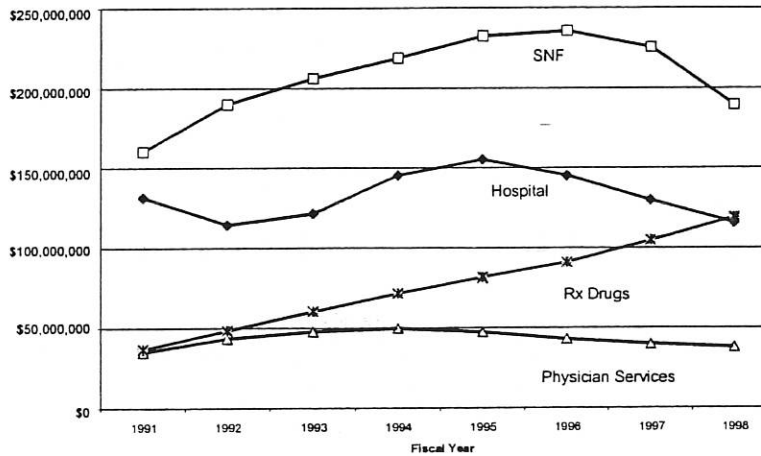




## Kansas Medicaid Medical Vendor Payment by Eligibility Status by Year



## Kansas Medicaid Medical Vendor Payments by Type of Service by Year



## Kansas Payments for Capitated Versus Fee for Service Plans

(in millions of dollars)

	<u>Payments</u>	<u>Kansas</u>	<u>National Average</u>
Capitated (PCCMs) \$	42	3%	23%
Fee for Service	\$1,185	97%	77%
Total	\$1,227	100%	100%

## Kansas - Number of Patients in Capitated Versus Fee for Service Plans

	<u>Patients</u>	<u>Kansas</u>	<u>National Average</u>
Capitated	62,274	23%	61%
Fee for Service	203,858	77%	39%
Total	266,132	100%	100%

## Kansas - Total Expenditures by 3 Digit Primary Diagnosis for All Datasets by Amount Paid

DIAG CODE	Description	Patients	Paid	Paid per Patient
318	MENTAL RETARDATION	2,115	\$79,010,110	\$37,357
295	SCHIZOPHRENIC DISORDERS	5,325	\$29,392,533	\$5,520
250	DIABETES MELLITUS	10,134	\$24,252,468	\$2,393
290	SENILE AND PRESENILE ORGANIC PSYCHOTIC CONDITIONS	2,445	\$21,363,804	\$8,738
428	HEART FAILURE	6,348	\$20,781,177	\$3,274
V30	SINGLE LIVEBORN	13,038	\$20,664,747	\$1,585
317	MILD MENTAL RETARDATION	1,702	\$19,768,997	\$11,615
296	AFFECTIVE PSYCHOSES	9,890	\$17,761,535	\$1,796
331	OTHER CEREBRAL DEGENERATIONS	2,247	\$16,798,978	\$7,476
783	SYMPTOMS CONCERNING NUTRITION	15,110	\$15,657,175	\$1,036
401	ESSENTIAL HYPERTENSION	11,608	\$15,583,861	\$1,343
436	ACUTE, BUT ILL-DEFINED CEREBROVASCULAR DISEASE	2,774	\$15,573,018	\$5,614
780	GENERAL SYMPTOMS	25,171	\$14,630,642	\$581
496	CHRONIC AIRWAY OBSTRUCTION	5,168	\$10,424,088	\$2,017
309	ADJUSTMENT REACTION	7,036	\$9,768,275	\$1,388

## Big Three

## Kansas Medicaid Fee for Service 2000 Summary of Primary Diagnosis Data for Selected Conditions

	Patient Count	% Patient	Medicaid Paid	% Paid	Average Paid
Asthma	11,892	4.5%	\$73,185,087	6.0%	\$6,154.14
Diabetes	11,740	4.4%	\$163,489,532	13.3%	\$13,925.85
CHF/Heart Failure	7,906	3.0%	\$136,723,742	11.1%	\$17,293.67
Total 3 Diseases*	27,926	10.5%	\$304,597,513	24.8%	\$10,907.31
Total State	266,132		\$1,226,642,415		\$4,609.15

\* Unduplicated

## Distribution of Kansas Costs for Those with Asthma, Diabetes, Heart Failure

- Top 10% of recipients (2,792) cost \$131 million (12% of all dollars) and averaged \$49,999 per recipient
- Long term care patients were 33% of the top 10% expenditures
- Other 67% of patients had heavy use of hospital inpatient/outpatient services

## Kansas - Examples of Controllable Expenditures for Asthma: 2000

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- \$16.1 million in Inpatient Hospital expenditures
- \$2.6 million in Outpatient Hospital (ER, MRI centers, etc.) expenditures



## Relative Costs of Medicaid Recipients with Mental Illness and Selected Chronic Illnesses: Total Annual Expenditures Per Person

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	<b>Mental Illness <u>Diagnosis</u></b>	<b>No Mental Illness <u>Diagnosis</u></b>
Asthma	\$23,669	\$14,252
Diabetes	\$18,051	\$10,421
Heart Failure	\$27,667	\$18,354

## Kansas - More on Distribution of Costs for Top 200 Medicaid Recipients

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- Top 200 recipients cost \$35.8 million and averaged \$167,095 per recipient (*other states ranged from Kansas at \$167,095 to \$344,843*)
- Hospital complications and septicemia, diseases of the lung, and intestinal problems dominate these 200 patients
- Hospital expenditures are 51% of this group's cost

## Neonate Case Management

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- 200 Neonates
- 98 hospitalized in first year
- 7 had two or more hospitalizations
- Hospitalizations can be prevented



## Kansas - Top 10 of the Larger Hospitals with the Highest Proportion of Septicemia or Complications - 2000

Provider	Patient Count	Sept/Comp Patient Count	% Septicemia/Comp	Medicaid Paid	Average Paid Sept/Comp
A	2,475	230	9.29%	\$6,679,913	\$29,043
B	1,034	94	9.09%	\$691,222	\$7,353
C	4,895	430	8.78%	\$3,694,313	\$8,591
D	1,107	84	7.59%	\$699,892	\$8,332
E	966	69	7.14%	\$415,436	\$6,021
F	1,384	98	7.08%	\$727,926	\$7,428
G	1,849	106	5.73%	\$1,265,473	\$11,938
H	1,129	58	5.14%	\$401,935	\$6,930
I	950	44	4.63%	\$449,276	\$10,211
J	5,390	233	4.32%	\$4,187,527	\$17,972
Total All Hospitals	44,059	2,561	5.81%	\$27,280,292	\$10,652

## Expenditures for Persons with 9 or More Prescriptions in 180 Days\*

- 171,755 total persons with \$1.8 billion in total expenditures
  - \$378 million in prescription drug expenditures
- 147,050 non-institutionalized persons used \$1.2 billion of total expenditures
  - Represent **22%** of Fee for Service recipients (other states range from **5% to 24%**)

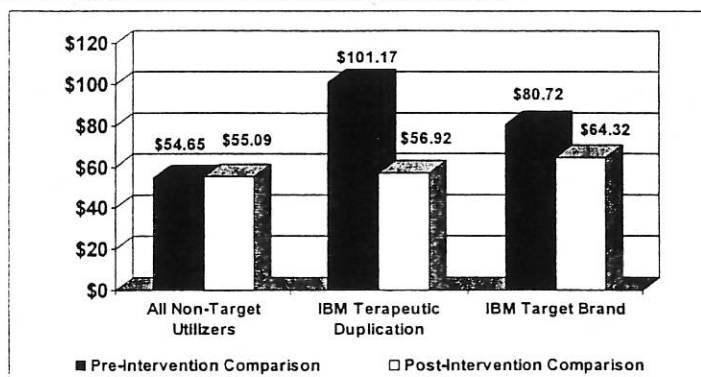
\* Since analysis confined to one year, these are underestimates

## Expenditures for Persons with 20 or More Prescriptions in 180 Days\*

- 41,986 total persons with \$784 million in total expenditures
  - \$175 million in prescription drug expenditures
- 28,983 non-institutionalized persons used \$455 million or 16% of total State XYZ Medicaid expenditures
  - These patients represent 5% of total Fee for Service recipients (other states range from 0.3% to 5.2%)

\* Since analysis confined to one year, these are underestimates

## Florida Intensified Benefit Management (IBM) Program for Persons with 20 or more Prescriptions in 180 days



“The IBM program was able to produce cost savings for each intervention, including a 44% reduction in the PUPM (per user per month) for therapeutic duplication targeted recipients.” *Medicaid Prescription Drug Spending Control Program Annual Report*, State of Florida Agency for Health Care Administration, Jan. 2002, p. 23.

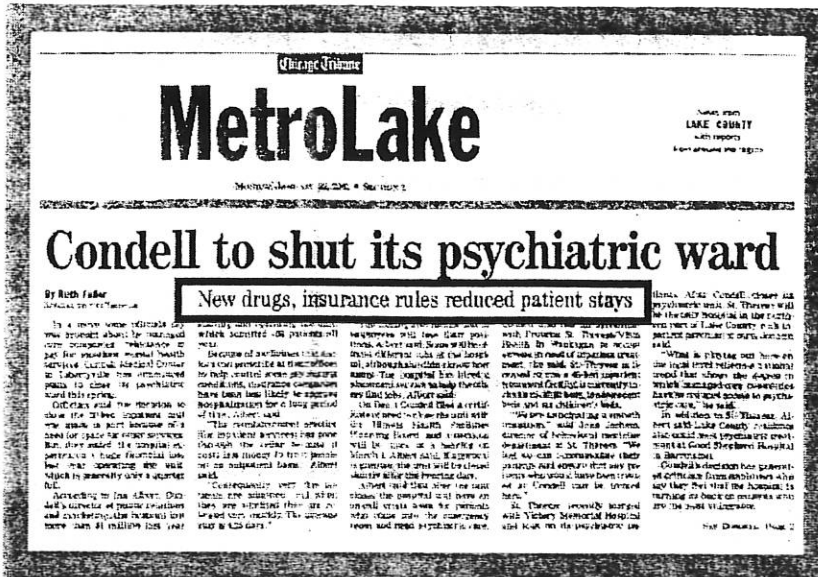


**Kansas - 2000 Prescription Drug  
Expenditures by American Hospital  
Formulary Service (AHFS) Classes by  
Amount Paid**

AHFS Description	Patients	PAID	Average Per Patient
Total Drug Expenditures	171,167	\$173,144,452	\$1,011.55
CENTRAL NERVOUS SYSTEM DRUGS	92,143	\$72,438,864	\$786.16
CARDIOVASCULAR DRUGS	35,538	\$17,058,652	\$480.01
GASTROINTESTINAL DRUGS	32,114	\$16,816,119	\$523.64
HORMONES AND SYNTHETIC SUBSTITUTES	50,512	\$13,777,862	\$272.76
ANTI-INFECTIVE AGENTS	118,478	\$13,354,072	\$112.71
AUTONOMIC DRUGS	45,915	\$7,824,840	\$170.42
UNCLASSIFIED THERAPEUTIC AGENTS	11,538	\$6,838,990	\$592.74
ELECTROLYTIC, CALORIC AND WATER BALANCE	27,139	\$3,940,076	\$145.18
ANTIHISTAMINE DRUGS	35,358	\$3,934,357	\$111.27
EYE, EAR, NOSE AND THROAT (EENT) PREPARATIONS	37,378	\$3,048,740	\$81.57

**Kansas - 2000 Prescription Drug  
Expenditures  
(Fee for Service in millions of dollars)**

<u>Group</u>	<u>Dollars</u>	<u>Percent</u>
Aged	\$ 53	31.6%
Blind/Disabled	\$ 91	54.2%
Children	\$ 16	9.5%
Other Adults	\$ 6	3.5%
Unknown	<u>\$ 2</u>	<u>1.2%</u>
Total	\$ 168	100.0%



See also: "Use of Conventional Antipsychotics and the Cost of Treating Schizophrenia," by Ramon R. Lyu, Jeffrey S. McCombs, Bryan M. Johnstone, and Donald N. Muse. *Health Care Financing Review*, Winter 2001

## Kansas - 2000 Expenditures for Long Term Care Recipients (in millions of dollars)

**19,834 Residents (75% aged) Cost:**

<i>Type of Provider</i>	<i>State</i>	<i>Percent</i>
Nursing Homes	\$362.7	82.3%
Prescription Drugs	\$ 45.5*	10.3%
Inpatient Hospital	\$ 10.1	2.3%
Physicians	\$ 11.8	2.7%
Hospital Outpatient	\$ 0.9	0.2%
Clinic	\$ 2.7	0.6%
Capitated Payments	\$ 0.0	0.0%
Other	\$ 7.0	1.6%
<b>Total</b>	<b>\$441.0</b>	<b>100%</b>

\* 27% of all prescription drug expenditures

## Research on Long Term Care (LTC) Facilities

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- 35,975 Medicaid patients in LTC
- Approximately 425 facilities



## 180 Days

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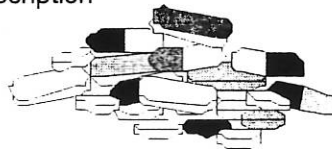
- **Persons with 9 or more unique prescriptions in 180 days**
  - 24,289 (68%) of LTC patients had 9 or more prescriptions
  - These persons had \$83 million in prescription drug expenditures
  - 91 facilities had more than 85% of their patients with 9 or more prescriptions (excluding facilities with < 20 patients)
- **Persons with 20 or more unique prescriptions in 180 days**
  - 11,589 (32%) of LTC patients had 20 or more prescriptions (other states range from 11% to 28%)
  - These persons had \$55 million in prescription drug expenditures



## 30 Days

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- **Persons with 9 or more unique prescriptions in 30 days**
  - 20,862 (58%) of LTC patients had 9 or more prescriptions
  - These persons had \$78 million in prescription drug expenditures
  - 77 facilities had more than 78% of their patients with 9 or more prescriptions (excluding facilities with < 20 patients)
- **Persons with 20 or more unique prescriptions in 30 days**
  - 4,590 (13%) of LTC patients had 20 or more prescriptions (other states range from 1.3% to 11%)
  - These persons had \$27 million in prescription drug expenditures



## Indicators of Nursing Homes with Potential Problems

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- Indicators developed in technical consultation with:
  - American Medical Directors Association
  - American Health Care Association
  - Long Term Care Pharmacy Alliances

## **Indicators of Nursing Homes with Potential Problems**

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- High percentage of residents taking 20 or more prescriptions at the same time
- High percentage of residents taking one or more of 19 modified Beer's list medications (always,rarely)\*

\*Zhan, C, et.al., JAMA 286, Dec. 12, 2001, p. 2823-9.

## **Indicators of Nursing Homes with Potential Problems**

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- 424 total homes of which 257 had 50 or more Medicaid patients:
- For the homes with 50 or more Medicaid patients:
  - 96 homes had more than 5 percent of residents taking 20 or more drugs at the same time
  - 26 homes had more than 25 percent of residents taking Beer's list medications (always,rarely)
  - 24 homes had both indicators

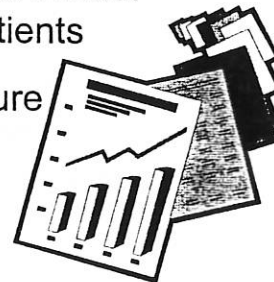
# Potential Over / Under Utilization of Mental Health Medication

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## Overview of Analysis

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- Mental health related protocols from Comprehensive NeuroScience, Inc. were applied to State XYZ's data
- Focus on medications used to treat mental health to identify mental health patients
- Based on published clinical literature



## Key Finding 1

### Potential Ineffective Dosage

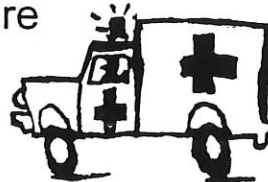
- There were 4,664 (3.6 percent of those receiving mental health medication) patients that were prescribed an atypical at an ineffective strength. This represents 21.5 percent of patients who received an atypical medication. Industry experts indicate that this wastes money and is not helpful to treating recipients.



## Key Finding 2

### Potential Discontinued Usage

- There were 13,473 patients (10.4 percent) with severe mental illness that did not refill their prescription for their atypical anti-psychotic. This represents 62.0 percent of patients who received an atypical medication. Significant concern with respect to future hospitalizations, ER visits, etc. for these patients.



### **Key Finding 3**

## **Potential Overlapping Medication**

- There were 5,717 patients on 3 or more overlapping behavioral medications during 2000. This represents approximately 4.4 percent of recipients who received a prescription drug with a mental health indication.

### **Key Finding 3**

## **Potential Overlapping Medication**

(cont'd)

- 1,384 patients (1.1 percent of those receiving mental health medication) were concurrently on more than one SSRI during the year. Patients should not generally be on more than 1 SSRI at a time
- About 1.9 percent of patients taking atypicals received two or more of this type of drug at the same time during the year. Patients should not generally be on more than 1 atypical at the same time



## **Third Generation Abuse Investigative Tools**

- Applied Correct Coding Initiative(CCI) developed by CMS to database
- Two Areas
  - Compound Code Violations
  - Incompatible Code Violations

## **Examples of Compound Code Violations Upper GI Endoscopy, Biopsy**

- CPT 43239, Upper GI Endoscopy, Biopsy and CPT 00740, Anesthesia, Upper GI Visualize should not be billed separately and should be bundled as part of the endoscopy procedure. Approximately \$4,609 was paid for these codes in 2000.
- Hundreds of pairs of codes
- Approximately 2.8% of total expenditures for physician services in average state.

## **Incompatible Code Violations**

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- The CCI identifies CPT codes that should not be billed together on the same day.
- For example, CPT 73630, X-ray exam of foot and CPT 73610, X-ray exam of ankle should not be billed together on the same day. However, \$59,597 was paid for this type of violation during 2000.
- In an average state 0.5% of total expenditures for physician services

## **Total Potential Savings from These Initiatives**

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- In an average state, approximately 5% of total professional services billed that could be impacted by these types of third generation fraud and abuse activities.
- A portion of these expenditures could be realized as savings if these types of billing practices were prevented.
- In most states, average potential savings ranges between 5% to 10% of total expenditures for professional services.

## **Analysis of Federal Medicare Prescription Drug Benefit**

- Medicare is the primary payer to Medicaid
- Modeled our analysis of an Rx benefit on the Thomas/House bill
- Total State XYZ prescription drug expenditures: \$390.0 million
- Approximately 43.5% of State XYZ prescription drug expenditures are for dual eligibles (\$169.6 million)

## **Messages from the Data**

- Significant savings are possible from targeted disease management. State XYZ should persist in its efforts to implement such programs. Disease management not only saves money, but is good for recipients.
- Savings are possible from targeted case management of high cost recipients. The quality of life of high cost recipients would also be increased.
- Programs that focus on utilization of recipients with very high prescription drug utilization have potential for savings. We also believe that savings from prescription drugs coming off patent will significantly benefit State XYZ.

## Messages from the Data

- State XYZ should consider expanded use of its database for identification of hospitals and long term care providers with quality and/or utilization problems.
- Significant savings from targeted case management of mental health recipients
- Significant savings from Correct Coding Initiative (CCI) approach
- State XYZ should examine drug utilization in a few nursing homes.



## Other Options

- 23 other options available through requests by the state

Don's  
Black Box



January 28, 2003

## **SUBSTITUTE FOR SB 30 Explanation of New Additions**

Senate Ways and Means Committee

### **Department of Corrections**

- Appropriates a total of \$3,997,854 in two amounts as follows:
  - \$733,963 to fund an unanticipated increase of approximately 300 inmates for the per capita-based food service contract and medical contract.
  - \$3.3 million to restore funding and operation of the Stockton, Osawatomie, Toronto, and El Dorado North units, the Labette conservation camps, and the adult residential centers in Johnson and Sedgwick counties.
    - The reductions came as part of Governor Graves' second-round allotments. The Kansas Department of Corrections (KDOC) was required to absorb a total of \$12.6 million in allotments, \$8.3 million of which came in the second round.
    - KDOC decided to make \$3.3 million of these reductions through closing the above-mentioned facilities.
    - Governor Sebelius' intention has been to keep the facilities open; therefore, the \$3.3 million reduction had to be taken elsewhere within the KDOC budget.
    - The \$3.3 million reduction was taken out of the food service and medical contracts in order to keep all correctional facilities open.
    - Unless the money is restored to the food service and medical contracts soon, KDOC will be forced to make other significant reductions in other areas of the KDOC and facilities' budgets.

### **State Department of Education**

- **General State Aid.** The FY 2003 appropriation for general state aid was made by the 2002 Legislature based on estimates made by the Legislative Research Department, the State Department of Education, and the Division of the Budget in March 2002. In November 2002, the same group met to reconsider the estimate and to make an estimate of expenditures for FY 2004. With the benefit of actual enrollment information

Senate Ways and Means  
1-28-03  
Attachment 2

for the current school year and better recent information about local resources (primarily the school district property tax levy), the FY 2003 estimate was revised. Although actual FTE enrollment is not increasing, the composition of the student body is changing which, in turn, affects the weightings in the school finance formula.

- Specifically, there are more children who qualify for free lunches, probably because of layoffs and economic downturns. Consequently, these children generated more money through the at-risk weighting. There also were more children requiring bilingual education, likely as the consequence of families who don't speak English coming to Kansas to work. Finally, economic downturns generally result in higher enrollment in vocational courses which, in the case of high school students seeking a job skill, results in more funding through the vocational weighting.
- These factors resulted in a higher *weighted* FTE and the need for a supplemental appropriation of \$6,637,027 in order to fully fund the school finance formula at the allotment rate of \$3,863 for BSAPP, which is \$27 less than the statutory rate. If the supplemental appropriation is not approved, available funding would be prorated, resulting in a further reduction in BSAPP of about \$11 or \$3,852.
- The reason the amount in SB 30 is \$4,663,027 and not \$6,663,027 is that the Governor recommends that \$2,000,000 in general state aid savings from FY 2002 not be transferred to inservice education, but reappropriated for general state aid. (In the past several years, there has been a proviso to the effect that if there are savings in general state aid from a prior year, up to \$2,000,000 shall be transferred to inservice education.)
- **Supplemental General State Aid.** More school districts are using their LOB authority, including more poor districts, whose state aid is proportionately greater. Another variable is the special education "laundering", which allows districts to count special education state aid as part of their general funds for purposes of calculating the LOB. Although it has not been possible to measure the impact of the special education policy enacted in FY 2001, it has had an impact on the amount of supplemental state aid needed. For these reasons, a supplemental appropriation of \$21,999,043 is needed to fully fund the supplemental general state aid program. If that money is not available, the State Department of Education estimates that school districts that receive supplemental general state aid in the current year would receive about 85 percent of full funding.

## Department on Aging

- Subsections (b) and (c) transfer \$3.8 million to the state Medicaid match fund to cover shortfalls in approved FY 2003 budget.
  - Failure to make these transfers could result in cash flow problems for the agency, given the current under funding in the budget.

## Department of Social and Rehabilitation Services

- Subsection (a) adjusts for caseloads.
  - Medical—\$18.1 million SGF, \$56.2 million all funds
  - Nursing Facilities for Mental Health—(\$545,231) SGF, \$968,860 all funds
  - Adoption Caseload—\$385,240 SGF, \$505,635 all funds
  - General Assistance Caseload—(\$100,000) SGF
  
- Subsection (a) also adjusts for pending medical claims to FY 2004—\$6.2 million SGF, \$15.5 million all funds; and miscellaneous other small adjustments.
  - Delaying caseload funding may lead to cash flow problems caused by increased usage of the services.
  - Delaying the other adjustments may cause cash flow problems for the state by limiting the amount of State General Funds available for FY 2003 expenditures.
  
- Subsections (o) and (p) transfer \$1.7 million from the SRS-IGT fund and the Long-Term Loan and Grant fund to the SRS state Medicaid match fund to cover shortfalls in the approved FY 2003 budget.
  - Delay in making the transfers will lead to cash flow problems caused by inadequate funding in the approved budget.
  
- Subsection (s) increases the expenditure authority on the SRS-IGT fund by \$4.0 million other funds.
  - Delaying the increased expenditure authority may leave persons on the waivers without services, or with limited services for a longer period of time.

# Memorandum

**To:** Committees on Senate Ways and Means and House Appropriations  
**From:** Sabrina Wells, Kansas Insurance Department  
**Date:** 1/10/2003  
**Re:** Cash flow Status Workers Compensation Fund

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Senate Bill 517 (Chapter 204, Section 74(d) of the *2002 Session Laws of Kansas*), allowed the transfer of \$7.0 million from the Insurance Department's Workers Compensation Fund to the State General Fund. The bill also required the Insurance Department to submit in January, to the Committees on Senate Ways and Means and House Appropriations, a cash-flow analysis of the Workers Compensation Fund.

The attached spreadsheet is respectfully submitted to the chairpersons and members of the aforementioned committees. Please note that the spreadsheet makes the following assumptions: (1) There will be no additional transfers to the State General Fund; (2) there will be no company assessments for the Workers Compensation Fund in FY 2004 or FY 2005; and (3) expenditures for each of fiscal years 2004 and 2005 will total approximately \$4.6 million.

## Conclusion of Attached Cash-Flow Analysis:

- The Insurance Department's Workers Compensation Fund balance will be in a negative status by FY 2005, assuming that there will be no additional transfers-out and no assessments to companies through FY 2005.

Please do not hesitate to contact the Department should you require additional information or wish us to formally testify before one or both committees.



WC Second Injury Fund  
Cash Flow Analysis

3-2

FY 2001	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01
Beginning Balance	\$ 25,881,339.91	\$ 25,547,172.98	\$ 25,135,182.10	\$ 24,736,950.80	\$ 23,919,714.31	\$ 23,667,727.05	\$ 23,526,467.59	\$ 22,443,691.04	\$ 22,126,432.73	\$ 21,902,332.69	\$ 21,520,873.94	\$ 21,125,883.89
Receipts	\$ 266,774.94	\$ 18,050.61	\$ 41,789.81	\$ 5,039.33	\$ 18,888.90	\$ 20,411.73	\$ 4,510.61	\$ 12,185.45	\$ 18,058.00	\$ 33,084.27	\$ 9,218.89	\$ 2,854,700.24
Expenditures	\$ (600,941.87)	\$ (430,041.49)	\$ (440,021.11)	\$ (822,275.82)	\$ (270,876.16)	\$ (161,671.19)	\$ (1,087,287.16)	\$ (329,443.76)	\$ (242,158.04)	\$ (414,543.02)	\$ (404,208.94)	\$ (277,142.39)
Ending Balance	\$ 25,547,172.98	\$ 25,135,182.10	\$ 24,736,950.80	\$ 23,919,714.31	\$ 23,667,727.05	\$ 23,526,467.59	\$ 22,443,691.04	\$ 22,126,432.73	\$ 21,902,332.69	\$ 21,520,873.94	\$ 21,125,883.89	\$ 23,703,441.74
FY 2002	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02
Beginning Balance	\$ 23,703,441.74	\$ 23,720,678.65	\$ 23,210,771.44	\$ 23,120,953.13	\$ 22,639,087.83	\$ 22,465,783.79	\$ 22,098,074.17	\$ 21,587,369.04	\$ 21,300,343.03	\$ 21,016,230.56	\$ 20,518,846.84	\$ 19,940,886.79
Receipts	\$ 372,940.57	\$ 12,120.86	\$ 41,035.79	\$ 73,413.39	\$ 11,379.28	\$ (2,854.30)	\$ 7,078.81	\$ 44,103.66	\$ 17,574.54	\$ 14,120.72	\$ 26,945.95	\$ 28,035.48
Expenditures	\$ (355,703.66)	\$ (522,028.07)	\$ (130,854.10)	\$ (555,278.69)	\$ (184,683.32)	\$ (364,855.32)	\$ (517,783.94)	\$ (331,129.67)	\$ (301,687.01)	\$ (511,504.44)	\$ (604,906.00)	\$ (176,861.75)
Ending Balance	\$ 23,720,678.65	\$ 23,210,771.44	\$ 23,120,953.13	\$ 22,639,087.83	\$ 22,465,783.79	\$ 22,098,074.17	\$ 21,587,369.04	\$ 21,300,343.03	\$ 21,016,230.56	\$ 20,518,846.84	\$ 19,940,886.79	\$ 19,792,060.52
												Senate Bill 363, Sec. 32(b) Ending Balance
												\$ (7,000,000.00) \$ 12,792,060.52
FY 2003	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03
Beginning Balance	\$ 12,792,060.52	\$ 12,324,089.11	\$ 11,729,782.35	\$ 11,661,942.21	\$ 11,363,153.42	\$ 11,118,860.32	\$ 10,838,020.48	\$ 10,422,680.48	\$ 10,007,340.48	\$ 9,592,000.48	\$ 9,176,660.48	\$ 8,761,320.48
Receipts	\$ 6,134.88	\$ 5,905.60	\$ 19,251.81	\$ 52,975.38	\$ 13,642.67	\$ 23,279.81	\$ 17,860.00	\$ 17,860.00	\$ 17,860.00	\$ 17,860.00	\$ 17,860.00	\$ 17,860.00
Expenditures	\$ (474,106.29)	\$ (600,212.36)	\$ (87,091.95)	\$ (351,764.17)	\$ (257,935.77)	\$ (304,119.65)	\$ (433,200.00)	\$ (433,200.00)	\$ (433,200.00)	\$ (433,200.00)	\$ (433,200.00)	\$ (433,200.00)
Ending Balance	\$ 12,324,089.11	\$ 11,729,782.35	\$ 11,661,942.21	\$ 11,363,153.42	\$ 11,118,860.32	\$ 10,838,020.48	\$ 10,422,680.48	\$ 10,007,340.48	\$ 9,592,000.48	\$ 9,176,660.48	\$ 8,761,320.48	\$ 8,345,980.48
FY 2004	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04
Beginning Balance	\$ 8,345,980.48	\$ 7,978,077.23	\$ 7,610,173.98	\$ 7,242,270.73	\$ 6,874,367.48	\$ 6,506,464.23	\$ 6,138,560.98	\$ 5,770,657.73	\$ 5,402,754.48	\$ 5,034,851.23	\$ 4,666,947.98	\$ 4,299,044.73
Receipts	\$ 22,000.00	\$ 22,000.00	\$ 22,000.00	\$ 22,000.00	\$ 22,000.00	\$ 22,000.00	\$ 22,000.00	\$ 22,000.00	\$ 22,000.00	\$ 22,000.00	\$ 22,000.00	\$ 22,000.00
Expenditures	\$ (389,903.25)	\$ (389,903.25)	\$ (389,903.25)	\$ (389,903.25)	\$ (389,903.25)	\$ (389,903.25)	\$ (389,903.25)	\$ (389,903.25)	\$ (389,903.25)	\$ (389,903.25)	\$ (389,903.25)	\$ (389,903.25)
Ending Balance	\$ 7,978,077.23	\$ 7,610,173.98	\$ 7,242,270.73	\$ 6,874,367.48	\$ 6,506,464.23	\$ 6,138,560.98	\$ 5,770,657.73	\$ 5,402,754.48	\$ 5,034,851.23	\$ 4,666,947.98	\$ 4,299,044.73	\$ 3,931,141.48
FY 2005	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05
Beginning Balance	\$ 3,931,141.48	\$ 3,601,141.48	\$ 3,271,141.48	\$ 2,941,141.48	\$ 2,611,141.48	\$ 2,281,141.48	\$ 1,951,141.48	\$ 1,621,141.48	\$ 1,291,141.48	\$ 961,141.48	\$ 631,141.48	\$ 301,141.48
Receipts	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00
Expenditures	\$ (355,000.00)	\$ (355,000.00)	\$ (355,000.00)	\$ (355,000.00)	\$ (355,000.00)	\$ (355,000.00)	\$ (355,000.00)	\$ (355,000.00)	\$ (355,000.00)	\$ (355,000.00)	\$ (355,000.00)	\$ (355,000.00)
Ending Balance	\$ 3,601,141.48	\$ 3,271,141.48	\$ 2,941,141.48	\$ 2,611,141.48	\$ 2,281,141.48	\$ 1,951,141.48	\$ 1,621,141.48	\$ 1,291,141.48	\$ 961,141.48	\$ 631,141.48	\$ 301,141.48	\$ (28,858.52)