

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chair Sharon Schwartz at 9:00 A.M. on February 7, 2007, in Room 514-S of the Capitol.

All members were present except:

Representative Richard Kelsey - excused

Committee staff present:

J. G. Scott, Legislative Research Department
Susan Kannarr, Legislative Research Department
Aaron Klaassen, Legislative Research Department
Jim Wilson, Revisor of Statutes
Shirley Jepson, Committee Assistant

Conferees appearing before the committee:

John Waltner, Mayor Hesston and Vice-Chairman of REAP
Joe Yager, Regional Economic Area Partnership
Christie Herrera, Director, Health and Human Services Task Force, American Legislative Exchange Council (ALEC)

Others attending:

See attached list.

- Attachment 1 Testimony on Affordable Airfares by John Waltner
- Attachment 2 Testimony on Affordable Airfares by Les Depperschmidt
- Attachment 3 Presentation on Medicaid Reform by Christie Herrera

HB 2388 was re-referred from Social Services Budget Committee to the General Government Budget Committee.

Representative Powell moved to introduce legislation with regard to increasing the balance in the motor carriers license fee fund. The motion was seconded by Representative Williams. Motion carried.

Representative Powell moved to introduce legislation concerning library board chairmen. The motion was seconded by Representative Lane. Motion carried.

Representative Lane moved to introduce legislation to require the state treasurer to charge a fee for returning property to claimants. The motion was seconded by Representative Feuerborn. Motion carried.

Representative Feuerborn moved to introduce legislation concerning the Department of Wildlife and Parks relating to Miami County. The motion was seconded by Representative Lane. Motion carried.

Representative Burroughs moved to introduce legislation concerning post-conviction DNA in capital murder trials. The motion was seconded by Representative Sawyer. Motion carried.

Chair Schwartz recognized John Waltner, Mayor of Hesston and Vice-Chairman of the Regional Economic Area Partnership (REAP), who presented an update on the Kansas Affordable Airfares Program (Attachment 1). Mr. Waltner reported that the program to provide affordable airfares for Kansas citizens and businesses has been very successful. Low-fare air service to eastern United States destinations from the Wichita airport is now available. It is hoped that air service can be expanded and include United States western cities in the near future.

Because of the time element in submitting plans for the program during the past year, several western Kansas communities were unable to meet the deadline. Mr. Waltner indicated that the time frame for the next application process will be expanded in order to give more time for submission. A website is in the design process at this time and should be available by April 1st. Information will be available on the website concerning the application process. In order to maintain affordable air

CONTINUATION SHEET

MINUTES OF THE House Appropriations Committee at 9:00 A.M. on February 7, 2007, in Room 514-S of the Capitol.

service in Kansas, Mr. Waltner felt it will be necessary for the State to continue to subsidize the program.

The Committee noted the importance and success of the program as it relates to businesses and individuals in Sedgwick County and throughout the State. The Committee also noted the importance of making the program available to cities and airports in Western Kansas.

Joe Yager, member of REAP, explained that a website is being designed that will provide information on the program and the application process. It is anticipated that the website will be available by April 1, 2007.

Andy Schlapp, Director of Governmental Relations for Sedgwick County, explained the importance of maintaining affordable air service to assist and retain businesses in Kansas. It is their first priority to maintain air service to eastern cities of the United States with a goal of extending service to cities in the West. Responding to a question from the Committee, Mr. Schlapp indicated that he will provide statistics on usage and benefits to Western Kansas.

The Chair recognized Les Depperschmidt, Chairman of the Wichita Metro Chamber of Commerce, presented testimony in support of the Affordable Air Fares Fund (Attachment 2). Mr. Depperschmidt noted that it is a long-term goal to provide air service from small airports in Western Kansas to Wichita.

Jim Gregory, James Gregory Consultancy, lobbyist for the Salina airport, had no written testimony; however, indicated that it is the intention of the management of the Salina airport to participate in the next application process.

The Chair recognized Christie Herrera, Director of the Health and Human Services Task Force, American Legislative Exchange Council (ALEC), who presented an overview of Medicaid Reform (Attachment 3). Ms. Herrera stated that a large part of the cost of health care is spent on Medicaid. A new option for controlling the rising costs of Medicaid is consumer-directed Medicaid reform. New federal rules allow States the flexibility of experimenting with the Medicaid program, allowing for better services and saving taxpayer money. Ms. Herrera noted that the Medicaid program in Kansas consumes approximately 12.7 percent of the State's budget. At the present time, Medicaid cost in Kansas is growing at a rate of 10 percent per year with an increased participation growth rate of 5 percent. Ms. Herrera stated that ALEC believes the growth in the cost of Medicaid is being increased because of (1) expansion of services and (2) patient over-utilization.

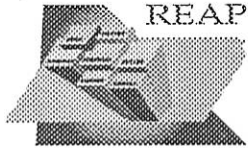
Several states have adopted plans for consumer-directed Medicaid. Major components of these plans include:

- Defined contributions (rather than defined benefits);
- Full funding for doctors and hospitals for the cost of care;
- No expansion of Medicaid eligibility;
- Specialized benefit packages;
- Medicaid opt-out for employer-sponsored insurance;
- "Get Healthy" incentives to wellness;
- Bridge from public coverage to private insurance.

Ms. Herrera indicated that cost savings and improved citizen's health should be reasons for overhauling the state's Medicaid program. Any new plan proposed by the State would need the approval of the federal government.

The meeting was adjourned at 10:15 a.m. The next meeting of the Committee will be held at 9:00 a.m. on February 8, 2007.


Sharon Schwartz, Chair



ANDOVER, ARKANSAS CITY, AUGUSTA, BEL AIRE, BENTLEY, BENTON, BUTLER COUNTY, CHENEY, CLEARWATER, COLWICH, CONWAY SPRINGS, COWLEY COUNTY, DERBY, EL DORADO, HALSTEAD, HARVEY COUNTY, HAYSVILLE, HESSTON, HUTCHINSON, MAIZE, MCPHERSON COUNTY, MULVANE, NEWTON, PARK CITY, RENO COUNTY, ROSE HILL, SEDGWICK, SEDGWICK COUNTY, SUMNER COUNTY, VALLEY CENTER, WELLINGTON, WICHITA, WINFIELD

Kansas Affordable Airfares Program Report

Under the authority of House Substitute for Senate Bill 475 and the omnibus appropriation bill, Senate Bill 2968, both enacted in the 2006 session of the Kansas Legislature, and signed by Governor Sebelius on May 24, REAP was assigned statutory authority for administering the Kansas Affordable Airfares Program. The stated statutory purpose of the program is to provide “more air flight options, more competition for air travel and affordable air fares for Kansas.”

REAP has taken the following actions in administration of the Kansas Affordable Airfares Program:

- REAP has developed guidelines for administering the program and awarding funds. At its regular monthly meeting of June 12, REAP established the Kansas Affordable Airfares Program and adopted selection procedures and criteria for awarding of funds (see attached).
- On June 15, REAP representatives met with the Kansas Department of Commerce for consultation in administering the Kansas Affordable Airfares Program.
- On June 30, 2006, a proposal for the Kansas Affordable Airfares Program was received from Sedgwick County. The proposal had the support of 25 cities and counties in the region. The Sedgwick County proposal guaranteed a local match of 25 percent for a total match of \$1,670,000. Twenty-two cities and counties in the region contributed to meeting the matching requirements.
- At its regular monthly meeting of July 10, REAP awarded a \$5 million grant to Sedgwick County.
 - The program maintains low-fare air service to eastern U.S. destinations and initiates plans for developing low-fare air service to western U.S. destinations.
 - This grant continues and enhances a program that saves Kansans on average \$73 million dollars a year, serves over two-thirds of the State, and reduces the need for Kansans to drive out of state for access to air travel. This program assists business and leisure travelers from many communities in Kansas, including those from Colby, Hays, Salina, Junction City, Emporia, McPherson, Hutchinson, Great Bend, Garden City, Dodge City, Newton, El Dorado, Independence, Parsons, Winfield, and Wichita—communities which are heavy users of Mid-Continent Airport.

HOUSE APPROPRIATIONS

Strengthening the economy of South Central Kansas through joint action

DATE 2-07-2007
ATTACHMENT 1

REAP – Kansas Affordable Airfares Program Report

- On August 15, REAP submitted a letter to Ms. Patty Clark, Deputy Secretary for Operations, Kansas Department of Commerce, requesting release of the \$5 million state funding. The letter indicated that the local match of 25 percent or \$1,670,000 had been pledged with the support of cities and counties in the south central Kansas region.
- Ms. Clark responded via email on August 17, indicating that she was in receipt of the letter and asking for more information pertaining to the funding of a western Kansas airport and proof of the wire transfer of funds for the local match. In response, on August 29, REAP provided the requested information, and on September 5, provided wire confirmation for the local matching funds to the Kansas Department of Commerce.
- On October 6, REAP received payment in the form of a check for \$5,000,000.
- On December 11, REAP reported to the Interim Joint Legislative Budget Committee.
- As of February 7, 2007, REAP has made three payments totaling \$5,010,000 to Sedgwick County through the Kansas Affordable Air Fares Program.
- REAP has scheduled a meeting for February 9 to establish a process and timeline for receiving proposals for FY 2008. REAP will also initiate the creation of a website to enhance communication statewide.

The Regional Economic Area Partnership (REAP) is a council of local governments comprised of thirty-two cities and counties in South Central Kansas. These local governments have voluntarily joined together to guide state and national actions that affect economic development in the region and to adopt joint actions among member governments that enhance the regional economy.

REAP – Kansas Affordable Airfares Program Report

Kansas Affordable Airfares Program

The following table indicates the funding transactions to this program:

	Actual Deposits to Date
Member Assessments	\$21,800.00
Program Operator Match	\$1,670,000.00
State Funding	\$5,000,000.00
Total Program \$ Available	\$6,691,800.00.00

	Program Payments to Date
FY2007 Payment 1 – September 5, 2006	\$1,670,000.00
FY2007 Payment 2 – October 10, 2006	\$1,670,000.00
FY2007 Payment 3 – January 2, 2006*	\$1,670,000.00
FY2007 Payment 4 – April 2, 2006*	
TOTAL	\$5,010,000.00

* Scheduled payments for program year in accord with contractual obligations.

The following table indicates those jurisdictions that have pledged monies to this program:

Jurisdiction	Approved
Andover	\$250
Arkansas City	\$750
Butler County	\$2,500
Derby	\$750
El Dorado	\$250
Halstead	\$150
Harvey County	\$2,500
Haysville	\$250
Hesston	\$1,000
Hutchinson	\$2,500
Mulvane	\$250
Newton	\$750
Park City	\$250
Reno County	\$2,500
Rose Hill	\$250
Sedgwick	\$150
Sedgwick County	\$1,000,000
Sumner County	\$750
Valley Center	\$250
Wellington	\$250
Wichita	\$1,000,000
Winfield	\$750
REAP Operating Fund	\$5,000
Total	\$2,022,050

**REGIONAL ECONOMIC AREA PARTNERSHIP (REAP)
KANSAS AFFORDABLE AIRFARES PROGRAM
Adopted: 06/12/06**

Under the authority of House Substitute for Senate Bill 475 and the omnibus appropriation bill, Senate Bill 2968, both enacted in the 2006 session of the Kansas Legislature, the Regional Economic Area Partnership (REAP) has established the Kansas Affordable Airfares Program. The program is designed to provide more air flight options, more competition for air travel, and affordable air fares for Kansas.

SELECTION PROCESS

REAP will accept proposals for fiscal year 2007 (July 1, 2006 through June 30, 2007) from local governments to accomplish the purposes of the Kansas Affordable Airfares Program in accord with the following guidelines:

- proposals should specify how the program will provide more flight options, more competition for air travel, and affordable air fares for Kansas. In this regard, an applicant should demonstrate that due diligence has been conducted with respect to a proposal for funding. Due diligence might be documented with analysis of feasibility from a professional air service consultant, a letter of intent from a commercial air carrier, or as approved by REAP.
- proposals for funding during fiscal year 2007 should be submitted in writing to the Executive Officer of REAP at Box 155, 1845 Fairmount, Wichita, Kansas 67260, no later than June 30, 2006.
- proposals should specify the amount of funding requested through the Kansas Affordable Airfares Program and indicate the source of the required local match of 25 percent.
- proposals should specify how the program applicant will document the effectiveness of funding received under the Kansas Affordable Airfares Program.
- proposals should also specify how expenditures and results from the Kansas Affordable Airfares Program and local matching monies will be reported.
- on the basis of the proposals received, the Executive Committee of REAP will make a recommendation to REAP on awarding of funds.

SELECTION CRITERIA

Grants under the Kansas Affordable Airfares Program will be considered and may be awarded on an annual basis in accord with purposes of the program, which are more flight options, more competition for air travel, and affordable air fares for Kansas. Selection criteria are derived from these program purposes as follows:

REAP – Kansas Affordable Airfares Program Report

More air flight options:

- number of scheduled, daily nonstop flights by commercial passenger air carriers to U.S. destinations;
- number of scheduled, daily one-stop flights by commercial passenger air carriers to U.S. destinations;
- number of scheduled, daily one-stop flights by commercial passenger air carriers to international destinations;

More competition for air travel:

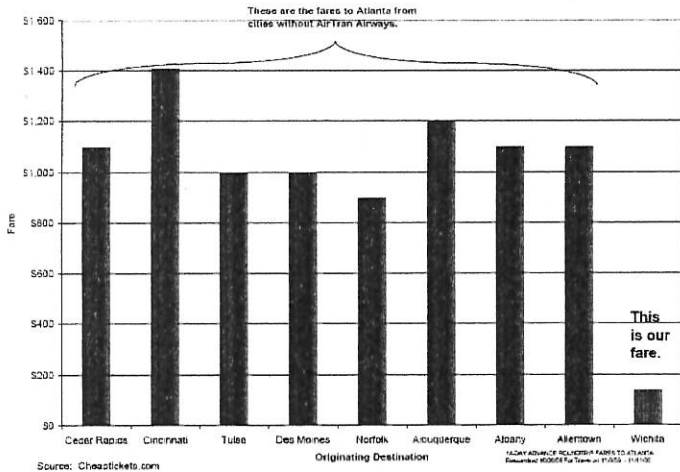
- number of scheduled, daily nonstop flights by commercial passenger air carriers to U.S. destinations served by two or more airlines
- number of scheduled, daily one-stop flights by commercial passenger air carriers to U.S. destinations served by two or more airlines
- number of scheduled, daily one-stop flights by commercial passenger air carriers to international destinations served by two or more airlines

Affordable air fares for Kansas:

- average airfare for scheduled, round-trip, nonstop flights by commercial passenger air carriers to U.S. destinations
- average airfare for scheduled, round-trip, one-stop flights by commercial passenger air carriers to U.S. destinations
- average airfare for scheduled, round-trip, one-stop flights by commercial passenger air carriers to international destinations

In making awards, REAP will give highest priority to maintaining affordable airfares to eastern U.S. destinations. Next highest priority will be given to developing affordable airfares to western U.S. destinations. Selection criteria for making awards will be reviewed annually by REAP.

Fares in communities without a low-cost carrier:



If we lose our Low-fare carrier...

- **Operations** – our carrier (Air Tran) has a business presence in our community and state. There are approximately 20 employees, contributing about \$416,000 in wages. And, the multiplier effect is close to 48 jobs and \$1.773 million in annual labor income lost.
- **Fare Savings to Kansans** – At the same time Kansans would lose their low air fares, the multiplier effect of loss would be tremendous: Kansas can expect to lose 459 jobs, \$16.4 million in labor income and a decrease in taxes of over \$2 million a year.
- **Overnight Stays** – Air Tran employees spend approximately \$260,000 a year for hotel and hospitality in our state. This travel supports 7 local area jobs, with an additional \$156,000 in income that would be lost.

Protecting our relationship with a low-cost carrier already in the market keeps us competitive.

Attracting a new discount carrier – according to experts – is almost impossible.

Mid-Continent Airport – Growing and Serving Kansas

Success

In 2006, the State approved \$5 million for five years to support affordable air fares.

- Keeping businesses and jobs in Kansas
- Protecting more than \$11 million in state and local tax revenues
- Encouraging travel and tourism, saving Kansans more than \$306.5 million since 2002.

Travel at Mid-Continent

- Between 2000 and 2006, the number of travelers increased 19%, from 1,227,083 passengers to 1,460,331.
- During the same period, travel to destinations with low air fares jumped 61%.
- Yearly savings to travelers by having lower fares is estimated to be \$51 million

Top 10 Counties Using Mid-Continent (per capita)

- | | |
|--------------|------------|
| 1. McPherson | 6. Pawnee |
| 2. Sedgwick | 7. Kingman |
| 3. Harvey | 8. Pratt |
| 4. Edwards | 9. Lincoln |
| 5. Butler | 10. Reno |

Top 10 Counties Using Mid-Continent (tag study)

- | | |
|-------------|--------------|
| 1. Sedgwick | 6. McPherson |
| 2. Butler | 7. Cowley |
| 3. Reno | 8. Sumner |
| 4. Saline | 9. Ford |
| 5. Harvey | 10. Barton |

If we lose Affordable Air Fares

- Businesses, jobs and travelers leave Kansas
- Missouri and Oklahoma reap the financial benefits, as businesses and travelers take millions of dollars in travel and tax revenue with them to neighboring states
- Air fares skyrocket. Air carriers raise their fares as the low-fare competition is gone.



WICHITA METRO CHAMBER OF COMMERCE



CITY OF WICHITA



Sedgwick County... working for you





Les Depperschmidt
Director
External Affairs

AT&T Kansas
154 North Broadway
Room 608
Wichita, KS 67202-2182

T: 316.268.2365
F: 316.268.2018
Toll Free: 1.800.622.5108
les.depperschmidt@att.com

Testimony in Support of Affordable Air Fares Fund
House Appropriations Committee
February 7, 2007

From: Les Depperschmidt, Director of External Affairs for SBC and Chairman, Wichita Metro Chamber of Commerce

Chairperson Schwartz and members of the Committee, my name is Les Depperschmidt and I am Director of External Affairs for AT&T Kansas and Chairman of the Wichita Metro Chamber of Commerce. Thank you for allowing me the opportunity to present testimony in support of the Affordable Air Fares Fund.

As the Chairman of the Chamber, I have the privilege of representing more than 2,200 Wichita Metro Chamber of Commerce members. Last year, we created a public-private partnership with businesses, the City of Wichita, Sedgwick County, REAP (Regional Economic Area Partnership) and other government and education entities with one singular goal: to keep airfares affordable for Kansans.

We heard from businesses in Wichita and around the state that affordable airfares are important. From a start-up business in Salina to a high-tech company in Hutchinson to an agriculture newspaper in western Kansas – they all told us that affordable airfares are critical to keeping Kansas' businesses competitive. Convenient and affordable airfares, they said, are the only way businesses can compete on a global level.

So, as you can imagine, there was a great sigh of relief last year when we were able to secure the commitment for the affordable airfares fund. And we remain indebted to the legislators who were able to make sure this happened – many who are here on this Committee today.

This year, we strongly recommend continued funding for the affordable airfares program. We know this keeps businesses and jobs in Kansas, protects millions of dollars in state and local tax revenues, and encourages travel and tourism – saving Kansans more than \$306.5 million in air fares since 2002.

We are on an economic upswing in south-central Kansas – home to a majority of the manufacturing jobs – and a significant portion of the taxes – in our state. At Mid-Continent Airport, our state's largest, the number of travelers has increased almost 20 percent since 2000. Even more impressive, during that same period travel to destinations with low airfares jumped 61 percent.

We know low airfares make a difference for our citizens and our businesses. We also know if we don't keep air fares affordable, we will lose businesses, jobs and travelers, with many of them migrating across state lines to Missouri and Oklahoma. When they leave, they take their millions of dollars in travel and tax revenue with them.


HOUSE APPROPRIATIONS

DATE 2-07-2007
ATTACHMENT 2

In communities like Cedar Rapids, Tulsa and Des Moines – places where they don't have low-cost air carriers – the average fare is more than four times what we have at Mid-Continent. We don't want that to happen to Kansas. We want to protect the low-cost airfares we already have and investigate ways we can expand this success as we move forward.


As a business community, we know it is critically important to continue the Affordable Air Fares Fund. For us, affordable air service is a transportation infrastructure issue. In the same way that our highway system, turnpikes and bridges benefit the state, affordable air fares keep access open to the rest of the world for businesses and travelers. In short, this investment in affordable airfares is an investment in the future growth of our businesses, our communities and our state.

Thank you for allowing me time to tell you about the importance of the Affordable Air Fares Fund and the positive impact it is having on the businesses – and the citizens – of Kansas.


 AMERICAN LEGISLATIVE EXCHANGE COUNCIL
Consumer-Directed Medicaid Reform:
Good for Beneficiaries and Taxpayers
 Christie Raniszewski Herrera
 Director, Health and Human Services Task Force
 American Legislative Exchange Council
 Testimony before the Kansas House Appropriations Committee and the
 Kansas Senate Ways & Means Committee
 Wednesday, February 7, 2007


About ALEC

- ALEC is the nation's largest, nonpartisan membership association of state legislators.
- ALEC's membership boasts 2,400 legislators across the country, which is about 1/3 of all legislators nationwide. ALEC also has over 80 "alumni" members in Congress.
- ALEC's mission is to promote Jeffersonian principles in the states: free markets, individual liberty, limited government, and federalism.
- ALEC has been "on the ground" in many state Medicaid reform efforts, including: Florida, South Carolina, Oklahoma, Kentucky, Michigan, and Wisconsin.


 AMERICAN LEGISLATIVE EXCHANGE COUNCIL


An Overview

- Review Kansas Medicaid spending and enrollment.
- Compare Kansas Medicaid spending and enrollment with other states.
- Discuss Medicaid's perverse incentives that increase costs and decrease quality of care.
- Highlight consumer-directed Medicaid reform components from Florida, Oklahoma, South Carolina, Kentucky, West Virginia, and Idaho.
- Advocate that Kansas should incorporate consumer-directed components in its Medicaid program.


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Medicaid Reaches the Breaking Point

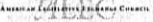
Percentage of State Budget Spending on Medicaid, FY 2004

Source: Henry J. Kaiser Family Foundation, "Distribution of State General Fund Expenditures (in millions), FY 2004," www.stateohiofunds.org

 AMERICAN LEGISLATIVE EXCHANGE COUNCIL

Medicaid Reaches the Breaking Point

Kansas Medicaid Spending: State Comparisons


Category	Figure	State Rank
Total Medicaid Spending	\$1.9 billion	36 th
Medicaid Spending As % of State Budget	12.7%	32 nd
Medicaid Spending Per Enrollee	\$4,856 (on average)	16 th
Average Annual Growth in Medicaid Spending	10% per year	10 th

Source: Henry J. Kaiser Family Foundation, "Kansas Medicaid Spending: Total Medicaid Spending, FY 2006," "Distribution of State General Fund Expenditures (in millions), FY 2004," "Kansas Medicaid Spending: Medicaid Payments Per Family, FY 2004," "Kansas Medicaid Spending: Average Annual Growth in Medicaid Spending," www.stateohiofunds.org

 AMERICAN LEGISLATIVE EXCHANGE COUNCIL

Medicaid Reaches the Breaking Point

Kansas Medicaid Enrollment: State Comparisons

Category	Figure	State Rank
Total Medicaid Enrollment	325,100	36 th
Medicaid Enrollment As % of Population	12%	43 rd
Average Annual Growth in Medicaid Enrollment	4.7% per year	9 th

Source: Henry J. Kaiser Family Foundation, "Kansas Medicaid Enrollment: Total Medicaid Enrollment, FY 2006," "Kansas Medicaid Enrollment: Medicaid Enrollment as a Percentage of Total Population, 2003," "Kansas Medicaid Enrollment: Percent Change in Medicaid Enrollment, June 2004-2005," www.stateohiofunds.org

 AMERICAN LEGISLATIVE EXCHANGE COUNCIL

HOUSE APPROPRIATIONS
 DATE 2-07-2007
 ATTACHMENT 3

Perverse Incentives: Eligibility

- Coverage for optional populations and services is the rule, not the exception.
- Only 39% of Medicaid spending is spent on mandatory coverage.
- 21% of adults and 27% of children who qualified for Medicaid were eligible for private insurance.
- Expanding the Medicaid safety net "up the income ladder" puts the program at risk for future generations of the truly needy.

Reinman, Graham, John R. "How Many Governors Does It Take to Reform Medicaid?" Pacific Research Institute Health Policy Perspectives Vol. 3, No. 1, August 2003. Danahoff, Amy J., Cheryl, Brown, and Elizabeth Vernon. "Medicaid Eligible Adults Who Are Not Enrolled: Who Are They and Do They Get the Care They Need?" Urban Institute Policy Brief, Series A, No. A-46, October 1, 2003. Danahoff, Amy J., Cheryl, Brown, and Matthew Finkler. "Children Eligible for Medicaid but Not Enrolled: How Does a Policy Change?" Urban Institute Policy Brief, Series A, No. A-41, September 1, 2003.

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Perverse Incentives: Patients

- Medicaid's beneficiaries have little or no cost-sharing requirements, making Medicaid virtually "free." There's no reason for them to be prudent health care consumers.
- Removing price sensitivity induces patients to consume more medical care by as much as 43%.
- Overconsumption affects the private market as well as Medicaid. Increased demand for medical services means higher prices for everyone.

Reinman, Graham, Elizabeth B. "Effects of Cost Sharing on Use of Medical Services and Health." The Journal of Medical Practice Management Summer 1992.

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Perverse Incentives: Providers

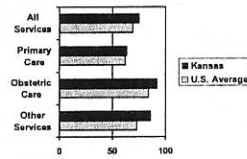
- Medicaid's "command-and-control" reimbursement system tells providers what they're paid for services, regardless of market value.
- Overall, the percentage of doctors not accepting new Medicaid patients has risen from 19.5% in the mid-1990s to 21% this year.
- Doctor treating Medicaid patient = about 69% of what Medicare pays. Medicare reimbursement = 80% of what private markets pay.

Reinman, Graham, Peter J., and Jessica H. May. "Medicaid Patients Increasingly Concentrated Among Physicians." Center for Studying Health System Change Tracking Report No. 16, August 2006. Henry J. Kaiser Family Foundation. "Kansas Medicaid Physician Fees Medicaid-to-Medicare Fee Index, 2003." www.kaisersfamily.org

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Perverse Incentives: Providers

**Kansas Medicaid Reimbursements
As a Percentage of Medicare Rates, FY 2003**

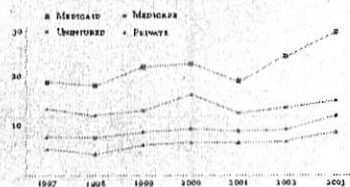


Source: Henry J. Kaiser Family Foundation. "Kansas Medicaid Physician Fees Medicaid-to-Medicare Fee Index, 2003." www.kaisersfamily.org

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Perverse Incentives: ER Use

**Percentage of ER Visits for Non-Urgent/Semi-Urgent Reasons
(Per 100 Visits, By Insurance Type, U.S. Average)**



Source: O'Malley, A.S., Corbett, A.M., Pilon, H.H., and R. Berenson. Center for Studying Health System Change Issue Brief No. 181, November 2005.

AMERICAN LEGISLATIVE EXCHANGE COUNCIL

Consumer-Directed Medicaid

- "Consumer-directed" approach to Medicaid reform eliminates perverse incentives, limits Medicaid's unsustainable growth, and leads beneficiaries to self-sufficiency and better health.

MAJOR COMPONENTS

- Defined contributions (rather than defined benefits)
- Full funding for doctors and hospitals for the cost of care
- No expansion of Medicaid eligibility
- Specialized benefit packages
- Medicaid opt-out for employer-sponsored insurance
- "Get Healthy" incentives to wellness
- Bridge from public coverage to private insurance

AMERICAN LEGISLATIVE EXCHANGE COUNCIL

3-2²

Consumer-Directed Medicaid: Florida

- "Empowered Care" Section 1115 waiver approved in 2005.
- Pilot Program Roll-Out: Broward/Duval Counties (urban) starting in July 2006; Baker/Clay/Nassau Counties (rural) in July 2007.
- Creates "Medicaid marketplace" in which insurers offer varying benefit packages that specialize in certain health needs.
- Beneficiaries can opt-out of Medicaid for private coverage; "Enhanced Benefit Accounts" provide incentives for healthy lifestyles.
- **Projected Savings: Unspecified, but Florida expects to better-predict future spending with risk-adjusted premium amount.**

AMERICAN LEGISLATIVE EXCHANGE COUNCIL

Consumer-Directed Medicaid: Oklahoma

- HB 2842 (2006): Authorizes a Section 1115 waiver that allows beneficiaries to own a risk-adjusted "personal health account" to purchase a competing benefits package or opt-out of Medicaid.
- Waiver would include an e-prescribing system and a provider database to track utilization.
- Appropriates \$93 million to fully reimburse doctors and hospitals; removes costly mandated benefits from Medicaid.
- **Projected Savings: Unknown, as plan is not yet implemented. However, Oklahoma expects to better-predict future spending through managed care and consumer-directed enhanced benefits.**

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Consumer-Directed Medicaid: South Carolina

- "Healthy Connections" Section 1115 waiver allows Medicaid beneficiaries to own a risk-adjusted "personal health account" to directly pay for medical expenses, join a managed care plan, or buy employer-sponsored insurance.
- "Healthy Connections" Section 1115 waiver was submitted last fall. In the meantime, South Carolina will apply for the HOA demonstration in early 2007.
- **Projected Savings: Unknown, as plan has not yet been approved by the South Carolina legislature. However, South Carolina expects cost savings by controlling future growth of Medicaid spending, and through increased use of managed care and consumer-directed, HSA-like options.**

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Consumer-Directed Medicaid: Kentucky

- First state to implement DRA reforms through "KyHealthChoices": May 2006.
- Most of 700,000 Medicaid beneficiaries will be transitioned into one of four specialized benefit packages.
- Enrollees can "opt-out" and purchase employer-sponsored insurance.
- "Get Healthy" incentives include smoking cessation programs; nutritional counseling.
- Beneficiaries will have copayments for certain Rx/medical services.
- **Projected Savings: \$1 billion over seven years.**

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Consumer-Directed Medicaid: West Virginia

- Second state to implement DRA reforms: May 2006.
- Affects 160,000 non-disabled, non-elderly beneficiaries. Two packages: basic Medicaid package and enhanced package with "Healthy Rewards Account."
- To qualify for the enhanced package, beneficiaries must sign a "personal responsibility contract" that they will comply with all recommended medical treatment and wellness behaviors. Those who do not sign the contract, or do not comply, will receive the basic package.
- **Projected Savings: Unspecified, but West Virginia expects long-term savings through preventive care.**

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Consumer-Directed Medicaid: Idaho

- Third state to implement DRA reforms: May 2006.
- Package #1: "Benchmark Basic" will cover children's EPSDT and most traditional Medicaid benefits.
- Package #2: "Enhanced Benchmark" will cover elderly/disabled, and include all traditional LTC services.
- Package #3: "Coordinated Benchmark" will cover dual-eligibles.
- All three packages will have "preventive health assistance" to encourage wellness.
- **Projected Savings: Unspecified, as Idaho is focused on "long-term savings."**

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Healthy People 2010
 To quality is essential to...
 who have...
 Projected Savings: Unprecedented...
 long-term savings through preventive care

The Power of Consumer-Directed Medicaid	
Current Medicaid Model	Consumer-Directed Medicaid
One-size-fits-all plan for patients.	Patients have a choice of several plans tailored to meet their needs.
Medicaid is the only choice for Medicaid-eligible workers.	Medicaid-eligible workers can opt out and purchase ESI.
Reactive, uncoordinated care results in Medicaid patients using the ER 66% more than other patients.	Proactive, coordinated care keeps Medicaid patients healthy and out of the ER.
State health agencies are understaffed and input-focused.	State health agencies are results-oriented, patient-centered managers of health plans.
Providers are rewarded for filing more claims and providing increased, more expensive services.	Providers are rewarded for quality care and share in the savings.
Patients are often seen as part of the problem, as utilization and health costs escalate.	Patients become part of the solution, as their consumer choices improve quality and stabilize growth in cost.
Medicaid is unsustainable, raising the possibility of tax increases, service cuts, or eligibility reductions.	Medicaid is placed on a more sustainable financial footing, making future benefits more secure for the truly needy.

Contact Us!

Christie Raniszewski Herrera
 Director, Health and Human Services Task Force
 American Legislative Exchange Council
 1129 20th Street, N.W. #500
 Washington, D.C. 20036
 (202) 466-3800
christie@alec.org
<http://www.alec.org>