

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chair Sharon Schwartz at 9:00 A.M. on February 1, 2008, in Room 514-S of the Capitol.

All members were present except:
Representative Tom Sawyer - excused

Committee staff present:
J. G. Scott, Legislative Research Department
Reed Holwegner, Legislative Research Department
Cody Gorges, Legislative Research Department
Julian Efird, Legislative Research Department
Jim Wilson, Revisor of Statutes
Nobuko Folmsbee, Revisor of Statutes
Nikki Feuerborn, Chief of Staff
Shirley Jepson, Committee Assistant

Conferees appearing before the committee:
Steve Weatherford, President, Kansas Housing Resources Corporation (KHRC)
Representative Kenny Wilk
Senator Nick Jordan
Dr. Ed Hammond, President, Fort Hays State University
Dr. Debbie Mercer, Dean of College of Education, Fort Hays State University

Others attending:
See attached list.

- Attachment 1 Housing Disaster Recovery Funding by Steve Weatherford
- Attachment 2 Federal Poverty Guidelines for 2008
- Attachment 3 Annual Report of the Kansas Health Policy Authority (KHPA) Office of Inspector General (OIG)
- Attachment 4 Response from KHPA to Committee questions with regard to State Employee Health Plan

Introduction of Legislation

Representative Bethell moved to introduce legislation regarding geriatric mental health. The motion was seconded by Representative Ballard. Motion carried.

Housing Disaster Recovery Funding by Kansas Housing Resources Corporation

Steve Weatherford, President, Kansas Housing Resources Corporation (KHRC), presented testimony with regard to housing disaster recovery funding (Attachment 1). Mr. Weatherford reported that funding authorized by the State, in addition to federal resources and private investment, has provided a total of \$39.8 million in affordable rental housing development for the State. The Committee expressed concern that a considerable amount of the funding was being spent in the southeast area of the State and felt that there is a need for affordable housing across the entire State. Mr. Weatherford stated that affordable housing is a vital component to increase growth and economical development. In order to be successful, the program needs the support of city and county government, as well as the state and federal government, in order to provide infrastructure for housing development.

Kansas Academy of Mathematics and Science by Fort Hays State University

Representative Kenny Wilk and Senator Nick Jordan addressed the Committee on the positive approach of the State with the passage of **SB 139** during the 2006 Legislative Session that encouraged the development of the Kansas Academy of Mathematics and Science (KAMS) which will provide for an exceptional academic experience for talented high school students. Both legislators noted that this unique approach to education will provide specialized instruction to

CONTINUATION SHEET

MINUTES OF THE House Appropriations Committee at 9:00 A.M. on February 1, 2008, in Room 514-S of the Capitol.

address the shortage of engineers and teachers as well as other professionals across the State. (A booklet titled "The Talent Imperative, Building Kansas' Capacity in Mathematics, Engineering, Technology, and Science, January 2008" was distributed to the Committee and is available from Fort Hays State University, Hays, Kansas).

Dr. Edward Hammond, President, Fort Hays State University (FHSU), provided testimony on FHSU successful procurement of KAMS on the campus of FHSU after an application process through the Board of Regents. A copy of the FHSU application to the Board of Regents was distributed to the Committee (Copy available from Fort Hays State University, Hays, Kansas). KAMS will provide for junior and senior high school students who are interested in pursuing a career in mathematics and science to be able to spend the last two years of their high school education at KAMS for specialized instruction. Dr. Hammond noted that there is a critical need for quality employees across the state in order to maintain the state's economy and felt that KAMS is an innovative approach to address the problem of supplying those employees.

Dr. Debbie Mercer, Dean of College of Education, FHSU, provided testimony on the basic requirements for the mathematics and science curriculum directed at small class size with an emphasis on mathematics and science (brochure describing the curriculum is available from Fort Hays State University).

Responding to questions from the Committee, Dr. Hammond indicated that the tuition for out-of-state students attending a similar program in Missouri is approximately \$10,000 per year. Dr. Hammond stated that FHSU will do aggressive fund raising to secure private funding to support the facility and limit the amount of State funding required for the program. It is felt that a number of large businesses will support the concept of providing talented future employees. It is also anticipated that State funding from the K-12 educational system will follow the student who is accepted into KAMS during their junior and senior year of high school education. Tuition and costs will be charged to out-of-state students who are accepted into the program. The Committee expressed concern with the maturity of these students. Dr. Hammond stated that this concern has been addressed by providing psychologists, counselors and dormitory supervisors to support the program.

The Committee applauded the commitment of FHSU to move forward with the concept of the Kansas Academy of Mathematics and Science.

Kansas Expanded Lottery Act (KELA)

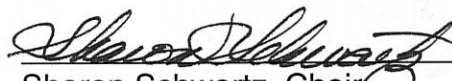
Chair Schwartz informed the Committee that a court decision in Case No. 07-C-1312 handed down today in Kansas District Court by Judge Andrews ruled that the Kansas Expanded Lottery Act (KELA) as enacted by the 2007 Legislature is constitutional.

Other Topics

The following information was distributed to the Committee:

- Federal Poverty Guidelines for 2008 (Attachment 2).
- Annual Report of the Kansas Health Policy Authority (KHPA) Office of Inspector General (OIG) (Attachment 3).
- Response from KHPA to Committee questions with regard to State Employee Health Plan (Attachment 4).

The meeting was adjourned at 10:40 a.m. The next meeting of the Committee will be held on Monday, February 4, 2008.


Sharon Schwartz, Chair

House Appropriations Committee

February 1, 2008

9:00 A.M.

NAME	REPRESENTING
Catherine Cook	Kansas Housing
Nate Michel	Hein Law Firm
Debra Bidbaum	FHSSU
Debbie Mercer	FHSSU
Todd Powell	FHSSU
Gary Allsup	KS Housing
Vickilyn Helsel	Budget
Justin Moyer	Pinejar Smith
Gayle Shaw	KHSCT
Steve Wenzel	KHRC / KDFA
Michael Hooper	Kearney
Bill Brady	KANSAS

TESTIMONY BEFORE HOUSE APPROPRIATIONS COMMITTEE
REGARDING HOUSING DISASTER RECOVERY FUNDING

STEPHEN R. WEATHERFORD
PRESIDENT, KANSAS FINANCE DEVELOPMENT AUTHORITY
PRESIDENT, KANSAS HOUSING RESOURCES CORPORATION

February 1, 2008

State Disaster Funds Status Report – data as of January 31, 2008

I serve as President of Kansas Housing Resources Corporation (KHRC), an instrumentality of the State of Kansas whose mission is to provide housing opportunities across the state. KHRC relies primarily upon federal funding to help fund safe, decent, and affordable housing. KHRC has been active in rebuilding Greensburg and Southeast Kansas as part of our mission.

As you know 2007 brought two of the largest natural disasters in the State's history. On May 4th a massive tornado struck the City of Greensburg and Kiowa County, damaging or destroying nearly 1,000 homes. Later in June, flooding devastated communities in Southeast Kansas, leaving more than 2,300 homes damaged or destroyed.

The State Finance Council this past October took an important step in helping Greensburg and Southeast Kansas communities begin the long and daunting task of rebuilding. The Council designated \$5 million to help spur redevelopment efforts in disaster declared counties around the state. \$3 million was allocated to help build affordable rental housing units, and the other \$2 million was provided to help homeowners repair storm-damaged homes, build new or purchase existing homes.

As of today, we have tremendous progress to report. Of the \$3 million allocated for rental housing, KHRC has committed over \$2.9 million. With our federal resources and private investment, a total of \$39.8 million in affordable rental housing development is committed and underway. We have approved nine rental developments, representing 302 rental units. Greensburg has four of these developments with a total of 98 units. Coffeville

HOUSE APPROPRIATIONS

DATE 2-01-2008
ATTACHMENT 1

has two developments with 108 units. Chanute, Iola, and Osawatomie each have one development with 42, 30 and 24 units respectively. The state funding, in the form of soft and hard loans, serves as critical gap financing which helps developers lower construction costs.

State funding is also helping homeowners in disaster areas get their lives back on track. Funding is providing resources for disaster area residents who plan to purchase an existing home, repair an existing home, or build a new home. Loans are limited to 20% of the home's value, up to a maximum of \$25,000. To date, 24 homeowner loans totaling over \$551,000 have been committed to help residents repair, build new or purchase a home. Six of the loans were for the purchase of existing homes, one for repair of a damaged home, and 17 for the construction of new homes. In all, 17 of the loans have been in Greensburg and seven in the Southeast Kansas communities.

KHRC has conducted various housing events and outreach efforts in Greensburg to get the word out and now is co-hosting five housing fairs in Southeast Kansas. These fairs will start later this month and will be held in Iola, Erie, Coffeyville, Independence and Osawatomie. KHRC staff is also meeting with numerous employers and organizations in these communities to provide one-on-one education about the housing resources available.

In the three months since the State Finance Council appropriated the funds to KHRC, we have committed nearly 95% of the funds planned for rental housing and nearly 25% of the funds for homeownership. With the upcoming spring home buying and new construction season soon upon us, KHRC feels certain that the homeownership funds will soon be exhausted as well. Some residents who have expressed an interest in staying the full 18 months in the FEMA trailers may also be ready to look into homeownership options.

The Future:

As we work with communities in the disaster areas we hear a consistent message, "housing in rural Kansas was a problem long before the storms hit; the storms have just turned that problem into a crisis." KHRC is concerned that a growing need remains unaddressed. We continue to see a number of Kansans who earn too much to live in our tax

credit developments but, for a variety of reasons, do not want to purchase a home. A common example is a senior who lost a family home to either the tornado or flooding. The senior could afford to rebuild a home, but would prefer the security and low maintenance of a rental property. KHRC does not have a funding tool to help with this need. Further, the federal tax credit program we routinely use to provide the bulk of funding for rental housing will not be applicable in this effort. Without the federal funds to rely upon, the State cost will increase rather dramatically. Funding for this need would be a potential use of dedicated funding to the Housing Trust Fund.

In addition to this testimony regarding the housing recovery, I have been asked to comment briefly on other general housing issues, including a brief summary of KHRC and our role.

As I mentioned earlier, KHRC is an independent instrumentality of the State. Relying primarily upon federal funding, our mission is to provide housing opportunities across the state. KHRC provides housing resources through homeownership, rental housing, and homeless and supportive services.

You may have heard of several bills being discussed in this session that would provide a stable funding stream for housing across the state. Many of those bills have an introductory period that focuses on the crisis the storms left behind. Later the bills transition to statewide funding which will begin to address the underlying housing problems. Senate Bill No. 417 and the companion House Bill No. 2712 would create a housing development grant initiative administered by KHRC. Cities and counties would apply for funds for constructing or rehabilitating badly needed infrastructure.

House Bill No. 2630 would create a capital loan program to provide a guarantee against risk of default for eligible cities and private developers. The guarantee would reduce the cost of development by reducing the cost of borrowing or induce a loan for a hard to develop project. The maximum guarantee is 20% of the loan for development cost and requires 10% equity from the borrower.

Language has been introduced and incorporated into other housing bills that would create a dedicated funding stream for the Housing Trust Fund. The funds are to be used for senior housing, workforce housing, and up to 20% for other housing related services. The funds are limited to the disaster areas until July 2010 and available statewide thereafter. Funding is generated based on an additional \$1 document recording fee on housing related documents. This program will be a great tool to begin addressing the needs of Kansans earning too much to live in tax credit housing but who prefer to rent over buying a home.

Senate Bill No. 488 provides statutory authority to issue single family mortgage revenue bonds ("MRBs"). Single family MRBs are tax-exempt and are used to finance the acquisition of mortgages originated by private lenders. The savings are passed on to homeowners in the form of lower borrowing costs, thereby promoting affordable homeownership for persons of low or moderate income. Long term, such programs generate substantial funds that most states funnel back into statewide housing programs. Kansas is the only state without a State sponsored program.

I have been asked if the lack of affordable housing is a deterrent to businesses locating in a community. One of the first questions many businesses ask when considering a new community is the availability of a stable workforce. Available and affordable housing is necessary to provide that stable workforce. Representatives from Cessna in Independence report that they had an opportunity to move a new business unit to their facility there, but chose not to because of the lack of workforce and housing.

I have also been asked whether affordable housing is the responsibility of government or private enterprise. The reality is that housing is a shared responsibility. Certainly government has a responsibility to assist those with limited ability to help themselves, such as the disabled and senior citizens. However, the private sector has not filled the housing void in much of rural Kansas. The best mix is one that provides just enough incentive to enable the private sector to respond with the needed housing.

A related question is whether housing is a state question or one best left to cities and counties of the state. Again, reality is that the responsibility is a shared one. Cities and counties do not have the ability to establish statutes to promote housing. Further, many of the more rural communities lack the resources and expertise to provide such incentives. In the disaster areas, cities are faced with rebuilding infrastructure that was already in place before the storms. Greensburg is faced with rebuilding city buildings and services, water treatment, and utility services. Coffeyville is faced with moving a third of their building lots to the other side of town.

Some have also questioned why public subsidy is necessary to replace private homes since homeowners had a personal responsibility to maintain insurance. One of the hurdles to rebuilding has been the tremendous difference between the home values before the storms and the cost to rebuild those homes. Many of the homes in Greensburg were valued at \$40,000 to \$50,000. The cost for rebuilding a 1400-1600 square foot home approaches \$150,000 or more. Even with the additional funding provided by replacement value insurance, homeowners are seeing replacement costs of two and three times the pre-storm values. The problem is even greater in the flooding as most homeowners could not purchase flood insurance.

A final question is whether more affordable housing will guarantee stimulation to the area's economy. I am afraid that offering a 100% guarantee is not possible. However, housing is more tied to economic development than the state has previously acknowledged. A stable workforce is an essential element for a vibrant economy. Without that adequate workforce, employers such as Amazon.com and Cessna are forced to bus employees in from surrounding states or to decline expansion of product lines. I can only offer that the private sector has been free to address the housing needs in rural Kansas for years. Are we satisfied with the results so far?

We appreciate the opportunity to report on the use of the disaster recovery effort and look forward to any questions the Committee may wish to ask.

1-5

Kansas Housing Resources Corporation
Disaster Funds Status Report
As of Monday, January 28, 2008

\$5 MILLION DISASTER FUNDS

Rental Housing Loans/Grants Total Allocation (\$ 3 Million)

<u>NAME/LOCATION</u>	<u># UNITS</u>	<u>COMMITMENTS</u>	<u>DEVELOPMENT COST</u>	<u>LEVERAGING RATIO</u>
Cornerstone Apts - Chanute	42	\$ 375,000	\$ 4,757,664	12.6
Greensburg Homes - Greensburg	30	500,000	4,761,325	9.5
Prairie Pointe Townhomes-Greensburg	16	250,000	2,250,200	9.0
Oakview Townhomes - Greensburg	16	250,000	1,855,200	7.4
Rolling Hills Apts - Coffeyville	72	367,000	7,209,309	19.6
River Valley - Iola	30	650,000	4,726,448	7.3
Terminal Supply - Coffeyville	36	-	6,684,239	-
Greensburg Housing - Greensburg	36	-	4,132,295	-
Woodland Hills Estates - Owawatomie - PENDING	24	450,000	3,436,848	7.6
Total	302	\$ 2,842,000	\$ 39,813,528	

Homeowner Loans Total Allocation (\$2 Million)

<u>NAME/LOCATION</u>	<u># UNITS</u>	<u>COMMITMENTS</u>	<u>DEVELOPMENT COST</u>	<u>LEVERAGING RATIO</u>
Greensburg	16	\$ 412,793	\$ 2,603,992	5.9
SE KS	4	71,800	359,000	5.0
Total	20	\$ 484,593	\$ 2,962,992	

1-6

Narrative

Terminal Supply Apartments – This is a historic rehab of two buildings in downtown Coffeyville with great access to a lot of services and stores. Although it is targeted to families it would be ideal for the elderly as the units will be mostly be one and two bedrooms. Garrison Development is the developer. It has great affordability and wouldn't require any state money if they get a decent pricing for the credits. It has high credit per unit because of the historic nature of the development. We could add state money and lower the credit or seek a greater deferred fee. The development cost per unit is very high. The city expressed a preference for this one. It is located in a NRA.

Rolling Hills Apartments – The City of Coffeyville had the highest priority for this proposal because it will ultimately result in a larger, more comprehensive development. Dalmark in KCMO is the developer and will use the USDA 538 program. There will be 72 units of family apartments in the middle of a growing residential neighborhood. The 6 one bedroom units have a rent of \$340/month, 48 two bedroom units will rent for \$395/month and 18 three bedroom units will rent for \$445/month.

Cornerstone Apartments – This is a proposal for Chanute consisting of 42 units with two and three bedroom units for families. The rent will be \$345, \$450 and \$515 a month for 24 two bedroom units and \$420, \$520 and \$590 a month for 18 three bedroom units. The site is adjacent to the hospital and medical complex and a new school that is being built. An old rest home will need to be demolished on the site. Farnam Group in Omaha is the developer.

River Valley Homes – Located in Iola this is a single family development consisting of 30 homes that will be sold to the tenants after the 15 year tax credit period. Carlson Gardner in Springfield, MO is the developer. Rent for the homes will be \$375 a month. The developer is deferring most of their fee.

Greensburg Homes – Commercial Group, Inc. in Topeka is the developer of 30 single family homes in Greensburg. There will be 10 two bedroom homes and 20 three bedroom homes with monthly rent at \$350 and \$470. The homes will be sold to the tenants after the 15 year tax credit period. A green design will be used in the construction.

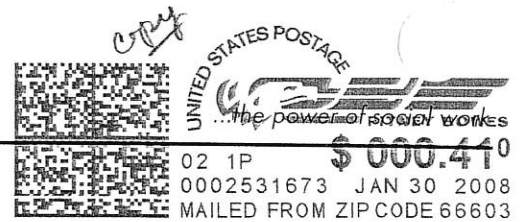
Greensburg Housing – Commercial Group, Inc. is also developing a 36 unit apartment complex consisting of 4 one bedroom units with a rent of \$375/month, 20 two bedroom units with a rent of \$475/month and 12 three bedroom units with a rent of \$550/month. It is expected that USDA will provide rental assistance for the tenants.

Prairie Pointe Townhomes – This is 16 two bedroom units with an attached garage in Greensburg that is currently under construction. The rents are \$375 and \$400 a month. Manske & Associates in Wichita are the developers. The site was the location of the high

school and was donated by the school district to the developer. The construction is using green design and will be LEED certified.

Oakview Townhomes – This is 16 two and three bedroom units for families with an attached garage on the same site as Prairie Pointe Townhomes. Rents will be \$375/month for 4 two bedroom units, \$400/month for 4 two bedroom units and \$450/month for 8 three bedroom units. Manske & Associates are the developers. It is currently under construction using green design and it will be LEED certified.

Woodland Hills Estates – Located on the west side of Osawatomie in a new development area, this will be 24 units of elderly housing consisting of two bedroom units that will rent for \$525 a month. Dean & Associates in Overland Park are the developers.



Thursday Paper
January 31, 2008

Greetings Kansas Legislators--

This one page paper is provided by the **Kansas Chapter, National Association of Social Workers (KNASW)**. Its purpose is twofold:

- To give you information that you might find useful in thinking about and deciding on social welfare or other legislation.
- The paper may also express the position of KNASW on specific bills.

It will be delivered via the statehouse mail on Thursdays. If you have any questions or need clarification, please contact KNASW at 354.4804 or email at sky@knasw.com.

Social workers in Kansas are licensed at three levels of expertise, the baccalaureate, master, and clinical practice. The 5500 social workers work and/or live in 100 of the 105 counties in Kansas. We perform a wide range of services, such as adoption homestudies, mental health casework, counseling, psychotherapy, crisis intervention, problem-solving, support interventions, resource acquisition, family therapy, in home services and many other professional helping services. Social workers are on the front lines of helping people in need through our work in most social services settings such as public welfare, child welfare, services for the aged, schools, detention, community prevention programs, addictions, community based programs, local, state, and federal programs, and more.

On behalf of the profession of social work, KNASW acknowledges and appreciates the difficulty in the work that you do which we see as deciding issues of public well-being and the economic, educational, and social support systems for the citizens of Kansas.

The Federal Poverty Guideline for 2008

The federal poverty threshold is the original version of measuring poverty. This is updated each year by the US Census Bureau and it is used for *statistical* purposes such as estimating the number of families and children living in poverty in our country.

The **federal poverty guideline** is the other version determining poverty. These figures are issued by the US Health and Human Services. They are used *administratively* to determine the financial eligibility for state and/or federal programs, such as Medicaid, food stamps, TANF (welfare) and others.

<u>Household Size</u>	<u>Yearly Income</u>
One	\$10,400
Two	\$14,000
Three	\$17,600
Four	\$21,200
Five	\$24,800
Six	\$28,400
Seven	\$32,000
Eight	\$35,600

For each additional person, add \$3600.

Source: Federal Register, Volume 73, No. 15, January 23, 2008 pp 3971-3972



OFFICE OF
INSPECTOR GENERAL

January 23, 2008

Representative Sharon Schwartz
Capitol Building, Room 517-S
300 SW 10th Avenue
Topeka, KS 66612

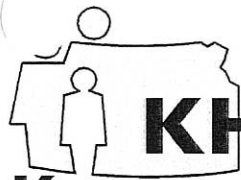
Dear Representative Schwartz:

Enclosed please find the first annual report of the Kansas Health Policy Authority (KHPA) Office of Inspector General (OIG). The report is submitted to you in accordance with the requirements of K.S.A. 75-7427, and it details the recent activities of this office and summarizes plans for the upcoming year.

If you have any questions about the content of this report or the KHPA OIG, please feel free to contact me at (785) 296-1076 or at Robin.Kempf@khpa.ks.gov.

Sincerely,

Robin J. Kempf
Inspector General



KHPA
Kansas Health Policy Authority
Coordinating health & health care for a thriving Kansas

OFFICE OF
INSPECTOR GENERAL

Kansas Health Policy Authority

Office of the Inspector General

2008 Annual Report

Presented by:
Robin J. Kempf
Inspector General

**Kansas Health Policy Authority
Office of Inspector General**

Mission Statement

The mission of the Office of Inspector General is to provide increased accountability and integrity in the Kansas Health Policy Authority's programs and operations, to help improve those programs and operations, and to identify and deter fraud, waste, abuse and illegal acts in the state Medicaid Program, the State MediKan Program and the State Children's Health Insurance Program. The Office will do so through performance reviews, audits, and investigations.

January 2008

Dear Reader:

This annual report has been prepared by the Kansas Health Policy Authority (KHPA) Office of Inspector General (OIG) pursuant to the requirements of K.S.A. 75-7427 and is respectfully submitted to:

- Honorable members of the Kansas Health Policy Authority Board
- Dr. Marcia J. Nielsen, PhD, MPH, Executive Director of the Kansas Health Policy Authority
- The Honorable Kathleen Sebelius, Governor of the State of Kansas
- Honorable members of the Kansas Senate's Committee on Ways and Means
- Honorable members of the Kansas House of Representative's Committee on Appropriations
- Honorable members of the Kansas Legislature's Joint Committee on Health Policy Oversight
- Ms. Barbara J. Hinton, Legislative Post Auditor
- The general public of the State of Kansas

The report provides an introduction to the new KHPA OIG, describes the OIG's recent activities and plans for the upcoming year, provides some general statistics about some of the programs at the KHPA, and finally, recommends to the Legislature a change in the OIG's enabling legislation.

As the first Inspector General of the KHPA OIG, I am pleased to make myself available to discuss the contents of this report upon request.

Sincerely,

Robin J. Kempf
Inspector General

Table of Contents

Introduction to the Kansas Health Policy Authority Office of Inspector General.....	1
Activities of the KHPA Office of Inspector General	2
Statistics	4
Recommendations for Changes in Law	5
Proposed Legislative Amendment	5

Introduction to the Kansas Health Policy Authority Office of Inspector General

The Kansas Health Policy Authority (KHPA) Office of Inspector General (OIG) was created by the 2007 Kansas Legislature as a part of a much larger health reform bill, commonly referred to Senate Bill 11. In fact, the creation of an independent oversight body with the authority to review and investigate the performance of the KHPA's delivery of health services represents a significant step in reforming public health care in the state of Kansas.

The KHPA OIG, whose creation is found in K.S.A. 75-7427, is the first statutorily created Office of Inspector General in Kansas. Its mission is:

- to provide increased accountability and integrity in the Kansas Health Policy Authority's programs and operations;
- to help improve those programs and operations; and
- to identify and deter fraud, waste, abuse and illegal acts in the Kansas Medicaid Program, the MediKan Program and the State Children's Health Insurance Program.

The Office will do so through performance reviews, audits, and investigations. Any evidence of potential fraud or other illegal acts that might be uncovered will be forwarded to appropriate law enforcement agencies in the state.

Robin J. Kempf was appointed as the first Inspector General by the KHPA Board in September 2007. She was subsequently approved for confirmation by the Senate Confirmation Oversight Committee in October 2007. Robin is an attorney with over 10 years experience in state government including legal representation of the Kansas Board of Regents and auditing work with the Kansas Legislative Division of Post Audit. She is enthusiastic to have a hand in the creation of a professional government evaluation office that is a source of relevant, credible, useful information to decision makers.

Activities of the KHPA OIG

Given that the KHPA OIG has been in existence for only a quarter of a year, this year's activities have been limited to those relating directly to building the infrastructure of the office and planning for future audits and investigations. In future years, this report will address the number of audits of such programs and the dollar savings, if any, as well as a detailed summary of the investigations undertaken in the previous fiscal year.

Infrastructure-building activities have included:

- developing policies for audits and investigations to provide guidelines for the work of the OIG
- drafting communications protocols which outline how the OIG will communicate with the KHPA Board, the KHPA staff, the Kansas Department on Aging and the Kansas Department of Social and Rehabilitation Services
- building a working relationship with law enforcement agencies such as the Kansas Attorney General's Office and the U.S. Attorney's Office
- recruiting staff with professional qualifications that will assure the OIG can produce accurate and to-the-point audit and investigative reports
- networking with other Offices of Inspector General throughout the country, as well as other auditing organizations such as the Kansas Legislative Division of Post Audit, the Johnson County Auditor and the U.S. Government Accountability Office (GAO)

Other immediate goals relating to the infrastructure of the office include:

- developing appropriate metrics to determine whether and to what extent the OIG is truly adding value to KHPA programs and operations
- developing outreach strategies to inform potential fraud victims, state employees or other whistle blowers of their option to contact the KHPA OIG
- ensuring that OIG staff are properly trained as auditors and investigators
- creating regular instruction for staff regarding the criminal laws relevant to KHPA programs, how staff should collect the appropriate amount of creditable evidence of wrong doing, and how to properly preserve that evidence and hand it off to appropriate law enforcement agencies

Audit-planning activities include:

- the launch of an agency-wide risk assessment
- building a one-year audit plan that anticipates the work the OIG will complete over the course of 12 months, yet allowing time for the OIG to be responsive to investigative and other unanticipated auditing needs
- developing a three- to five-year strategic plan to target areas that should be audited within that timeframe

The agency-wide risk assessment serves as the cornerstone of these planning activities. The process is modeled after the assessments regularly done by the GAO to identify federal government programs and functions that have a greater vulnerability to waste, fraud, abuse, and mismanagement. By performing this risk assessment and identifying high risk areas at the KHPA, the OIG can focus attention and resources in areas that will likely have the most positive impact. Thus, the results of the risk assessment will flow directly into a one-year audit plan and a longer term strategic plan, both of which will serve to guide the activities of the OIG.

The timeframe for completion of the risk assessment and presentation of the one-year audit plan is April 2008.

Statistics

K.S.A. 75-7427 requires that this report include certain statistics from the previous state fiscal year for your information. Those data, which are unaudited, are provided below. The OIG will be reviewing these numbers over the next year and will be in a position to provide greater context in the next annual report.

Health Care Provider Sanctions in the Aggregate

Three broad types of health care providers who provide services to the Medicaid program and the State Children's Health Insurance Plan (SCHIP or HealthWave) may be sanctioned for improper behavior: (1) nursing facilities; (2) providers contracting with the managed care organizations (MCOs) providing coverage; and (3) fee-for-service providers, including those providers who provide services for Medicaid waiver participants. The reported statistics for each type of provider are found below.

Sanctions of *nursing facilities* are handled by the Kansas Department on Aging (KDOA). KDOA staff report that in state fiscal year (FY) 2007, no Medicaid-only nursing facility's enrollment was terminated; however, four civil monetary penalties were assessed.

Sanctions of *providers who are credentialed by the MCOs* are imposed by the MCO with whom a provider has a direct relationship. Statistics for these sanctions are not available.

Sanctions of *providers in the fee-for-service and waiver programs* are handled by staff at the KHPA. Staff responsible for sanctions reported:

- At the end of FY 2007, five providers were on "pre-pay review" status, which means that before receiving payment, these providers are required to send in treatment records that support the service provided. The pre-pay status for two of the five providers began during FY 2007, whereas others' status began earlier.
- During FY 2007, KHPA acted to terminate six providers' enrollment. Five terminations were completed, but one provider was placed on a corrective action plan, which means the provider must comply with a plan that addresses both quality of care and quality and sufficiency of treatment records.
- During FY 2007, 33 providers were referred to the Kansas Attorney General's Medicaid Fraud and Abuse Division for further investigation.

Aggregate Provider Billing and Payment Information.

The fiscal agent, Electronic Data Systems Corporation (EDS), which processes claims for the KHPA, reported that there were 13.98 million claims processed in the fee-for-service and waiver Medicaid programs during FY 2007, which resulted in payments of \$2.12 billion. Services provided by the MCOs are not billed separately per service, and therefore, are not included here.

Recommendations for Changes in Law

Pursuant to K.S.A. 75-7427(j), the OIG has authority to make recommendations to the Kansas Legislature relating to changes in law that the Inspector General deems appropriate. The Inspector General has identified one technical, but necessary amendment to the legislation that created the OIG and strongly recommends that the Legislature consider passing such amendment in the 2008 Legislative Session.

The proposed amendment relates to the lines of reporting for the OIG, which under existing statutory language requires the Inspector General to report directly to the Executive Director of the KHPA for both administrative and substantive purposes. The problem with this reporting structure is that it prevents the OIG from being organizationally independent from the agency it oversees.

According to Generally Accepted Government Auditing Standards, audit organizations must be free from organizational impairments to independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial. Audit organizations can be presumed to be free from organizations impairments to independence if the unit is appointed by, accountable to, reports to and can only be removed by a statutorily created governing body, the majority of whose members are independently elected or appointed and come from outside the organization being audited. Therefore, the KHPA OIG would be organizationally independent if the Inspector General reported to the KHPA Board for substantive purposes as opposed to the Executive Director.

Therefore, the OIG recommends that the language in K.S.A. 75-7427(b) be amended to clarify the OIG's organizational independence as follows (amendments are shown with struck and underlined text):

Proposed Amendment:

K.S.A. 75-7427(b) (1): There is hereby established within the Kansas health policy authority the office of inspector general. All budgeting, purchasing and related management functions of the office of inspector general shall be administered under the direction and supervision of the executive director of the Kansas health policy authority.

...
(D) . . . The inspector general shall exercise independent judgment in carrying out the duties of the office of inspector general under subsection (b). . . . The inspector general shall report to ~~the executive director of the Kansas health policy authority~~ board.

To: Chairperson Sharon Schwartz

From: Reagan Cussimano, Legislative Analyst

Date: January 25, 2008

Subject: State Employee Health Plan Questions

Chairperson Schwartz,

The following are responses to the questions posed during House Appropriations with regard to the State Employee Health Plan. Should you or members of the Committee have further questions or concerns, please do not hesitate to contact myself or Andrew Allison.

The QHDHP plan was bid and purchased as a package that included the Coventry medical plan, Coventry's pharmacy coverage administered by Caremark and the health saving account with UMB. As a result, Caremark pharmacy benefits provided through the QHDHP are offered under a different contract and terms than are offered to state employees participating in Plan A or Plan B.

Why is a QHDHP member limited to purchasing one 90 day supply of medication at a time?

Ninety day supply limits are standard in most prescription drug plans. The traditional drug benefit available on Plan A and B limits pharmacy benefits to a 60 day supply. The State's actuaries did review this during our last request for proposal (rfp) review and did not recommend changing the quantity limits. The actuaries indicated that they have seen a trend among their groups to move away from providing extended supplies of longer than 60 days.

Limiting member supply of medication helps eliminate waste. While some members may use the same medication at the same strength for years with no changes, this is not true for others. If the member's prescription changes for any reason or their health changes, the health care provider may change or discontinue the use of the medication. Any excess quantities of medication paid for by the plan and the member are wasted. Limiting the supply to 90 days, limits this waste.

In addition, our plan experiences a significant amount of membership change each month. Plan participants come and go from the plan (job changes of the employee, spouse and dependents, divorces, etc.). The cost of the medication provided once the participant's coverage ends is born by those who remain in the plan. Limiting the amount of medication dispensed reduces this liability for the plan and the members.

Who determines what a local pharmacy receives for a drug? The State or the pharmacy agreement with Caremark?

When a pharmacy contracts with Caremark, they agree to a set reimbursement rate. Caremark bundles those agreements together to formulate a bid for the state employee contract. The most recent contract with Caremark is saving the state about \$8 million annually due to lower negotiated drug prices. Caremark offers more than one pharmacy network so a pharmacy may be included in all, some or only one network depending on their contract. The contracted rate is generally based on

HOUSE APPROPRIATIONS

DATE 2-01-2008
ATTACHMENT 4

all groups using that Caremark network. The decision on what pharmacy network will be used is something negotiated between the group (in this case Coventry) and Caremark.

Can a member negotiate his or her own price with a pharmacy?

A member is free to negotiate a lower price with the pharmacist within the limits of the plan. Plan limitations would include supply limits, a ceiling on allowed charges and formulary requirements. Coventry and Caremark have used their group buying power and expertise to negotiate the best pharmacy prices for all members regardless of what pharmacy they use or medication they may be purchasing.

4. What can we do to help young families get started in the QHDHP/HSA plan?

KHPA is limited on changing some aspects of plan design for the QHDHP/HSA program because of the need to maintain the qualified status of the plan under I.R.S. and Treasury Department rules. That being said, KHPA is working on re-designing the QHDHP/HSA for Plan Year (PY) 2009. As part of that process, a survey has been sent out to a sampling of enrolled and non enrolled employees in the plan to find out their opinions and recommendations on the plan. Once the survey results are in, staff will be making plan design recommendations to the State Employee Health Care Commission for consideration for PY 2009.

5. Why does the HSA use UMB bank?

The QHDHP was bid as a package that included the medical and pharmacy coverage and a Health Savings Account (HSA). Coventry Health Care of Kansas was the winning bidder and had proposed using Wells Fargo Bank or UMB for the HSA provider. As the State has an established relationship with UMB, it was decided to accept UMB for the HSA accounts. As a part of KHPA's review of the QHDHP, we are looking for ways to open up HSA to additional Kansas banks.

Does the State require the \$3.50 service fee per account? Can the fee be waived at any time, more specifically if there is certain balance in the account?

According to Coventry, the \$3.50 per month account fee is a requirement of UMB, and that KHPA is also researching its contact with Coventry to confirm Coventry is (and thus, UMB's) flexibility in setting this rate. UMB is reviewing possibilities surrounding the fee structure.

7. Why must a pharmacist sell at the Caremark price, even if the pharmacist could/wanted to sell at a lower price?

The pharmacy is able to sell medication at a lower price, and does not require pharmacies to charge more than, for example, the mail order price. The pharmacist submits their selling price as part of the claim submission process. The system uses the lower of the pharmacy submitted selling cost or the Coventry Negotiated price. The member always gets the advantage of the lowest cost - the pharmacy selling price, the copayment or the contracted price with the pharmacy.

8. Are members required to use the labcard program through Quest?

The labcard program through Quest Diagnostics is only available on the Plan B health insurance plan. Labcard provides coverage for non emergency outpatient lab services at 100% with no copay or deductible. Over 70,893 services were completed in 2007 with an estimated savings to employees and the state of \$881,056. Due to the limited enrollment in Plan B for 2008, the savings will be

substantially less than 2007.

Members and their health care providers have the option of using the labcard program for their outpatient lab services. The program can be accessed one of two ways. The health care provider can send the member to a Quest collection site or the provider may draw the sample and contact Quest for pick up and processing.

Lab services not provided by Quest are covered under the plan and are subject to the standard plan benefits. The benefit would depend on the network status of the provider of service. For a network lab provider the member would be responsible for the plan coinsurance of 35% on Plan B.

How is the amount determined for the HSA?

The employer contribution is determined for all plan offerings based upon the low cost carrier for each type of plan offered. The employer contribution to the Health Savings Account (HSA) was set by comparing the employer contribution for the next lowest cost plan option to the premium for the QHDHP program. The difference in contribution level for the premium is contributed to the QHDHP member's HSA account.