

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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March 3, 2009

Re: American Recovery and Reinvestment Act

From: Alan D. Conroy, Director

President Obama on February 17, 2009, signed into law the American Recovery and Reinvestment Act of 2009 (ARRA) which provides \$787 billion in economic stimulus funding through spending cuts, tax cuts, and other provisions.

Included in the stimulus package is funding for several grant-in-aid programs. Virtually all of these programs already exist and the rules governing them should be known (in general) by state governments, including Kansas. Attached to this document is a detailed listing of the federal funds by major program that Kansas will receive.

Kansas' Portion of Federal Stimulus Funds

Kansas' share is estimated to be in excess of \$1.7 billion. The funds will flow through more than 37 different federal grant programs. There are five major programs that will receive over \$1.4 billion of the \$1.7 billion that Kansas will receive. Those five major programs include:

- \$449,172,000 – State Fiscal Stabilization Fund (82 percent for education and 18 percent for general purpose);
- \$402,184,000 – Federal Medicaid Assistance Percentage (FMAP);
- \$347,817,000 – Highways and Bridges;
- \$115,241,000 – Special Education
- \$ 93,032,000 – Title I (education)

This memorandum will focus on the requirements of these five major programs.

State Fiscal Stabilization Fund

Kansas will receive \$449.2 million in grants from the State Fiscal Stabilization Fund to provide state fiscal relief and assistance for local schools and higher education institutions. Of the \$449 million Kansas will receive, 81.8 percent, or \$367.4 million, is for the support of elementary, secondary, postsecondary, and early childhood education programs and services. Elementary and secondary education is defined by each state. The Governor is required to first use these funds for K-12 education to restore in FY 2009, FY 2010, and FY 2011 the level of state support through the state funding formulae to the **greater** of FY 2008 or FY 2009 levels.

The Governor is also to provide public higher education institutions the amount of funds needed in FY 2009, FY 2010, and FY 2011 to restore state support (excluding tuition and fees paid by students) to the greater of FY 2008 or FY 2009 levels. Public higher education institutions must use the funds to mitigate the need to raise tuition and fees for in-state students, or for modernization, renovation, or repair of higher education facilities that are primarily used for instruction, research, or student housing, including recognized green building rating systems.

Flexible Portion

Of its allocation under the State Fiscal Stabilization Fund, a Governor must use the remaining 18.2 percent, or \$81.7 million, for public safety and other government services which may include K-12 and higher education modernization, renovation or repair, including recognized green building rating systems. Funds may be used for any institution of higher education. K-12 school repair, modernization, or renovation must be consistent with state law.

Medicaid FMAP Increase

The Federal Medicaid Assistance Percentage (FMAP) is the federal cost share of Medicaid. It changes every year based on a three-year average of state per capita personal income relative to the national average, except that no state receives less than 50 percent. The federal stimulus legislation increases state FMAPs in three ways:

- A “hold harmless” provision that eliminates any scheduled FY 2009 FMAP decrease;
- A 6.2 percentage-point, across-the-board increase beginning October 1, 2008 through December 31, 2010.
- State programs also will receive a bonus based on a state’s quarterly unemployment rate relative to its base rate.

To receive the increased FMAP funds, Kansas may not reduce eligibility standards below those that were in effect on July 1, 2008. For Kansas, the FMAP increase should total over \$402 million spread over FY 2009, FY 2010, and FY 2011.

Highways and Bridges

The federal stimulus package is estimated to provide a total of \$347.8 million for highways and bridges. The Governor must certify within 30 days of the federal enactment that Kansas will maintain its effort with regard to state funding for the types of projects funded in the federal stimulus legislation. Federal-aid highways formula funds are allocated half on the basis of state shares of the FY 2009 continuing resolution and half on the basis of the surface transportation program apportionment formula. As shown in the attached chart, 30 percent of the total state apportionment must be made available automatically to substate jurisdictions based on populations. In addition, states must set aside 3.0 percent of the total apportionment for “transportation enhancement” projects. The federal apportionment to states must be made within 21 days of enactment and priority given to projects that can be completed within three years and are located within economically

distressed areas. The first 50 percent of funds remaining after the sub-allocation are subject to reapportionment to faster-obligating states and the remaining 50 percent is subject to reapportionment after one year.

Special Education

Kansas is estimated to receive \$115.4 million for special education programs. Most of the funds (\$106.9 million) are for the federal Individuals with Disabilities Education Act (IDEA). The funding includes \$4.5 million for preschool special education services. In addition, the funding includes \$3.9 million for infant and toddler programs.

Title I

Kansas is expected to receive \$93 million in increased Title I education funding. Approximately \$70.5 million will flow to local school districts to assist programs targeted for low-income children. States are required to use some of the Title I funds for early-education programs and activities, as well as school improvement grants which would include grants for middle and high schools.

Reporting Requirements

The federal stimulus legislation has numerous reporting requirements for a state that receives federal funds through the legislation. Information as to how the funds were expended, the number of jobs saved or created, tax increases averted, and other information must be regularly reported to the federal government over the next three years.

Governor's Budget Amendment No. 1

On February 27, 2009, Governor Sebelius issued Governor's Budget Amendment No. 1. The Governor's Budget Amendment recognizes almost \$800 million in additional federal funds in four areas that will lessen the demand on the State General Fund:

- Medicaid – \$404.5 million over three years;
- Fiscal Stabilization Flexible Funds – \$81.0 million over two years;
- Fiscal Stabilization Education Funds – \$207.4 million over two years; and
- Special Education – \$107 million over two years.

Attached is a copy of the Governor's Budget Amendment No. 1.

Council of State Governments Presentation

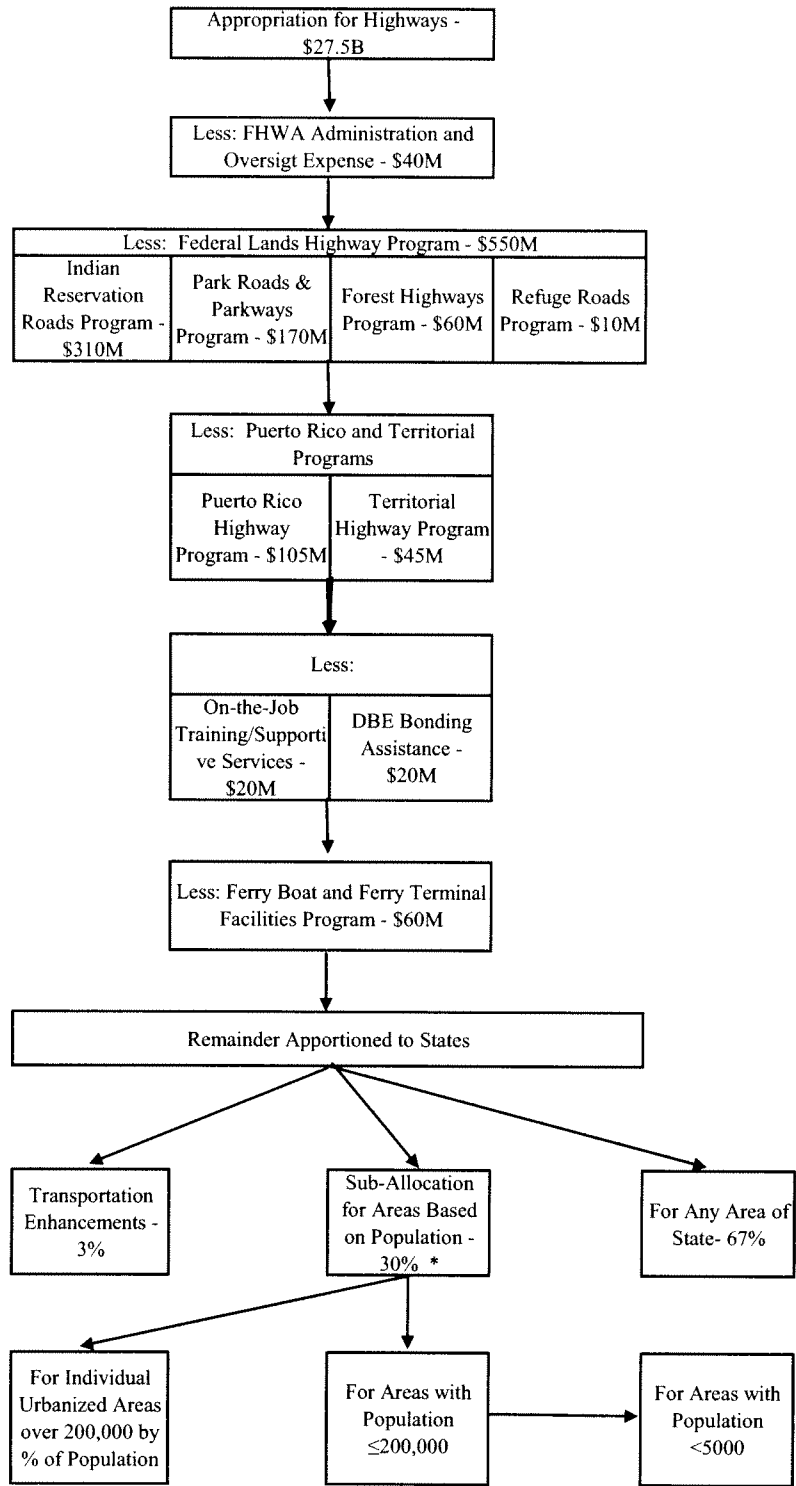
This Wednesday, March 4, 2009, a representative of the Council of State Governments will be making two identical presentations on the federal economic stimulus legislation to the House Appropriations Committee at 9:00 a.m. in Room 143-N and the Senate Ways and Means Committee at 10:30 a.m. in Room 545-N.

American Recovery and Reinvestment Act
Kansas Estimated Amounts
(Dollars in thousands)

Program	Amount
State Fiscal Stabilization	
Education	\$ 367,423
General Purpose	81,749
Subtotal	<u>\$ 449,172</u>
Medicaid Assistance Percentage (FMAP)	
2009	154,382
2010/11	247,802
Medicaid Disproportionate Share-Hospitals	2,046
Highways and Bridges	347,817
Transit Capital Grants	
Urban	16,671
Rural	14,057
Subtotal	<u>\$ 30,727</u>
Rail Modernization (Fixed Guideway)	0
Drinking Water/SRF	19,651
Clean Water/SRF	35,924
Weatherization	55,988
State Energy Program	39,555
Emergency Food and Shelter	789
TEFAP	904
Immunization	4,020
Foster Care/Adoption	5,186
Elderly Nutrition	399
Child Care	18,415
Head Start	5,995
Community Services Block Grant	8,162
Title I	
Grants to Local Education Agencies	70,544
School Improvement	22,488
Special Education	
Part B	106,872
Part B-Preschool	4,497
Part C	3,872
Vocational. Rehabilitation	\$ 5,109
Independent Living	243
Education Technology.	4,532

<u>Program</u>	<u>Amount</u>
McKinney-Vento (Education for Homeless)	364
School Lunch Equipment	972
Work Study	1,669
Public Housing Capital Fund	16,612
HOME (low income housing development)	17,106
Homelessness Prevention	11,407
Crime Victims Assistance	909
Internet Crimes Against Children	848
Violence Against Women	2,262
Byrne/JAG	20,232
Unemployment Insurance State Administration	5,824
Employment Service	3,572
Service for Older Americans	1,202
Workforce Investment Act	
Adult	2,729
Youth	7,194
Dislocated Workers	7,079
Total	<u>\$ 1,745,070</u>

**Distribution of Highway Funds under
American Recovery and Reinvestment Act of 2009**



* Suballocation is required for all states. The exception for Alaska and Hawaii under 23 USC 133(d)(3)(C) does not apply.

MEMORANDUM

TO: Representative Kevin Yoder, Chair, House Appropriations
Representative Bill Feuerborn, Ranking Minority Member, House Appropriations
Senator Jay Emler, Chair, Senate Ways and Means
Senator Laura Kelly, Ranking Minority Member, Ways and Means

FROM: Governor Kathleen Sebelius

DATE: February 27, 2009

SUBJECT: Governor's Budget Amendment #1

On February 17th, I signed into law a revised Fiscal Year 2009 budget, making \$300 million in cuts to state spending, and President Obama signed into law the American Recovery and Reinvestment Act, making one-time fiscal stabilization funds available to all states. These two laws give Kansas a path forward as we work on the FY 2010 budget.

My recommendations for the FY 2010 budget already include over \$600 million in additional cuts – eliminating programs, closing facilities, freezing new hires, and reducing spending – and I urge the Legislature to adopt these recommendations. These efforts, combined with the state stabilization funds included in the Federal Recovery Act, allow us to pass my FY 2010 budget recommendations without making deeper cuts to those programs which ensure the long term health of our great state. The Federal Recovery Act changes our projections of available funds, but does not change the need to curb state spending, protect our investments in schools and protect our most vulnerable citizens.

These stabilization funds also provide us the resources to follow through on our shared commitment, made last session, to open the doors of affordable health care to 8,000 more Kansas children and provided needed assistance to thousands of unemployed Kansans struggling in these difficult economic times.

Therefore, I am amending my FY 2010 budget recommendations to prevent harm to our schools, avoid job losses and protect vulnerable Kansans. Budget cuts deeper than what I have already recommended are not necessary, and would in fact do great harm to our state's economy and employment levels.

Four categories of recovery funds will directly stabilize the Kansas State General Fund:

1. **Medicaid.** Over nine quarters, October 1, 2008 to December 31, 2010, the federal share of Medicaid will increase by 6.2 percent. As a result Kansas is estimated to receive an additional \$103 million in FY 2009, \$200 million in FY 2010, and \$102 million in FY 2011. Kansas must maintain current eligibility standards to receive the funding, but the new federal funding directly offsets planned State General Fund appropriations.
2. **Fiscal Stabilization—Education.** An estimated \$367 million is available to Kansas to maintain minimum levels of state support for local schools and higher education. To access this money, Kansas must maintain, at a minimum, higher education and K-12 school finance at the FY 2008 or FY 2009 level, whichever is greater.
3. **Fiscal Stabilization—Flexible.** An estimated \$81 million is available to Kansas to prevent deeper cuts in public safety or other government services.
4. **Special Education.** An estimated \$107 million is available to Kansas in federal aid for special education.

To draw down the federal recovery funds, we must fund higher education and K-12 schools at the minimum levels mandated by ARRA. Anything short of that will bar us from receiving the nearly \$985 million in recovery funds needed to stabilize the State General Fund. Therefore, I am proposing the following budget recommendations:

- Reaffirm the revised FY 2009 budget I signed last week and the remaining portion of my proposed FY 2010 budget, with the exception of the following items needed to secure federal recovery funds. Reductions and other actions already proposed should not be undone. However, deeper reductions are unwarranted at this time. The Federal Recovery Act funding makes it possible to avoid further job reductions and program cuts.
- Restore overall support for higher education at \$829 million—the level provided in FY 2008—in FY 2009 and maintain this funding level in FY 2010 and 2011. Because higher education institutions have already planned for the reductions proposed in my budget, the one-time ARRA funding should not be used to restore already proposed reductions, but rather be used for deferred maintenance projects or moderating student tuition.
- In order to qualify for federal recovery funds for education stabilization, we must maintain funding for schools at the revised FY 2009 level of \$4,400 per student in FY 2010 and FY 2011. Districts must commence teacher contracts this spring and maintaining funding levels will lend stability to their budgeting process if they knew their future level of state support.
- Special education provides important services to thousands of Kansas students. ARRA funding should be used to prevent further cuts in special education, maintaining funding at \$427.7 million in FY 2010 and FY 2011.

- Following the 2008 legislative recommendation, Kansas should take advantage of the recent federal reauthorization of SCHIP and move eligibility for Kansas children to 250 percent of the federal poverty level, providing health insurance to 8,000 additional children.
- Kansas is estimated to receive \$68 million in new funding to provide needed assistance to thousands of unemployed Kansans struggling in this recession. To access this funding, the legislature must adopt an alternative wage period to determine eligibility for UI benefits and make it clear in the law that a person would not be disqualified from benefits for leaving work due to a compelling family reason involving the care of an immediate family member with an illness or disability. To provide needed assistance to thousands of unemployed Kansans struggling in this recession, the necessary statutory changes to expand eligibility for unemployment benefits should be made.

With these budget amendments and statutory changes, the 2010 budget is balanced, ends with money in the bank and does not raise taxes. I look forward to working with you to overcome our current economy challenges and continue to make Kansas a great place to live, work and raise a family.

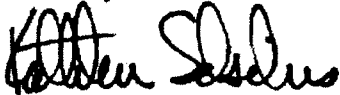
The tables below further outline these proposed changes to the budget recommendations I made in January.

American Recovery and Reinvestment Act			
Estimated Amounts for Kansas (Not All Inclusive)			
<i>(Dollars in Millions)</i>			
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Medicaid	102.8	199.7	102.0
Fiscal Stabilization--Flexible	--	40.5	40.5
Fiscal Stabilization--Higher Education	9.6	40.0	40.0
Fiscal Stabilization--K-12 Education	-	138.7	138.7
Special Education	-	53.5	53.5
Total	\$ 112.4	\$ 472.4	\$ 374.7

American Recovery and Reinvestment Act
Corresponding State General Fund Impact to Governor's Budget
(Dollars in Millions)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Medicaid	(102.8)	(199.7)	(102.0)
SCHIP	-	1.2	2.4
Fiscal Stabilization--Flexible	-	(40.5)	(40.5)
Fiscal Stabilization--Higher Education	-	-	-
Fiscal Stabilization--K-12 Education	-	(103.7)	(103.7)
Special Education	-	(53.5)	(53.5)
Total	\$ (102.8)	\$ (396.2)	\$ (297.3)

Sincerely,



Kathleen Sebelius
Governor of the State of Kansas