

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 17<sup>th</sup>, 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.

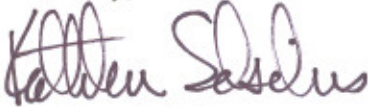
**American Recovery and Reinvestment Act**  
**Estimated Amounts for Kansas (Not All Inclusive)**  
*(Dollars in Millions)*

	FY 2009	FY 2010	FY 2011
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