

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chairman Kevin Yoder at 9:00 a.m. on January 22, 2009, in Room 143-N of the Capitol.

All members were present except:
Barbara Ballard - excused

Committee staff present:
Christina Butler, Kansas Legislative Research Department
Audrey Dunkel, Kansas Legislative Research Department
J.G. Scott, Kansas Legislative Research Department
Nobuko Folmsbee, Office of the Revisor of Statutes
Jim Wilson, Office of the Revisor of Statutes
Kelly Cure, Chief of Staff
Kathy Holscher, Committee Assistant

Conferees appearing before the committee:
Doug Wareham, Kansas Bankers Association, Opponent
Tom Thull, Office of State Banking Department, Opponent
Mark Tallman, Kansas Association of School Boards, Proponent

Others attending:
See attached list.

- Attachment 1 Kansas Health Policy Authority (KHPA) FY 2009 Governor's Budget Recommendations
- Attachment 2 KHPA Governor's Budget Recommendations Fact Sheet
- Attachment 3 KHPA Medicaid Transformation Fact Sheet
- Attachment 4 Kansas Bankers Association, **HB 2022**
- Attachment 5 Office of the State Bank Commissioner, **HB 2022**
- Attachment 6 Kansas Association of School Boards, **HB 2022**

Representative Gatewood moved to introduce legislation concerning retirement and pensions; relating to the Kansas public employees retirement system and certain systems thereunder; federal nontaxable distributions to certain retirants. The motion was seconded by Representative Feuerborn. Motion carried.

Representative Henry moved to introduce legislation concerning funding plan for waivers. The motion was seconded by Representative Mast. Motion carried.

Representative Watkins moved to introduce legislation concerning supplemental appropriations bill for 2009. The motion was seconded by Representative Whitham. Motion carried.

Marci Nielson, Executive Director of the Kansas Health Policy Authority (KHPA), presented an overview of the agency and the FY 2009 Governor's Budget Recommendations (Attachment 1). The Governor's recommendation represents a 6.6 percent reduction or \$1.8 billion and an additional \$11.2 million in recommended reductions to the SGF for FY 2009. The FY 2010 budget recommendation represents a 12.3 percent reduction for program administration. Reductions in administration costs and contractual services have been targeted and will continue in to FY 2010. The Governor's budget will reduce the Medicaid caseload by \$32.6 million from all funds including 17.1 million for SGF. The reduced resource packages includes the expansion of the preferred drug list; time limited Medikan and the Medicaid transformation process. Marci Nielson discussed the impact of the Governor's Budget Recommendations and referred to the fact sheet provided (Attachment 2), which requires a reduction in salary and wage expenditures of \$1.2 million which equates to a 10 percent reduction in staff positions. Marci Nielson referred to the Medicaid Transformation Fact Sheet (Attachment 3). She reviewed transformation recommendations and selected medicaid cost efficiencies.

CONTINUATION SHEET

Minutes of the House Appropriations Committee at 9:00 a.m. on January 22, 2009, in Room 143-N of the Capitol.

Marcie Nielson responded to questions from Committee members as related to: preferred mental health drug issues and committee structure; citizenship documentation for Medicaid; contract review and return on investments; recovery staff; eligible children and adults presently uninsured or under-insured.

•Additional Information Requested

- Statistical information on children served under the age of five
- Copy of the Stair Step information distributed FY 2008
- Pay back dollars from Federal Match

Conferees Testimony

HB 2022: Supplemental appropriations for FY 2009 for various state agencies.

Doug Wareham, Senior Vice-President-Government Relations, Kansas Bankers Association, presented an overview of the Kansas Bankers Association and concerns for the impact of provisions contained in **HB 2022** (Attachment 4). Mr. Wareham referred to section 4 of the bill and stated the reductions would result in \$1,057,311 transfer of fee funds, \$500,000 from the Banking Department's Consumer Education Settlement Fund and the elimination of the Kansas Savings Incentive Program (KSIP) for an additional reduction of \$534,517. In addition to these budget cuts, the association would experience reductions in personnel.

Thomas Thull, Bank Commissioner, Office of the State Bank Commission, presented an overview of the fiscal implications if fee fund transfers are permitted (Attachment 5). He discussed the impact of fee fund transfers referring to scenario 1 at a 3 percent proposed reduction of \$257,311 for FY 2009 and 4.16 percent reduction in FY 2010 totaling \$530,787. Scenario 2 represents a 3% budget reduction and a sweep of KSIP authority, as well as an additional \$800,000 totaling \$1,591,828 and would result in a negative cash flow balance by May 2009.

Mr. Thull responded to questions from Committee members as related to the impact of proposed budget cuts as related to the operations of the banking and consumer mortgage lending division.

Mark Tallman, Assistant Executive Director/Advocacy, Kansas Association of School Boards (KASB), distributed background information for Committee members review (Attachment 6). Mr. Tallman reviewed state and federal mandates as they relate to public school education, and statistical data reflecting student achievement with higher funding, overall test scores and Kansas rankings both nationally and internationally. Mr. Tallman expressed concerns that budget cuts would result in job reductions and impose new fees. The summary of the Economic Stimulus package could provide \$41 billion to local school districts for K-12 programs over the next two fiscal years.

Mr. Tallman responded to questions from Committee members as related to income, spending and student outcomes, staffing and salary issues, vouchers and consolidation

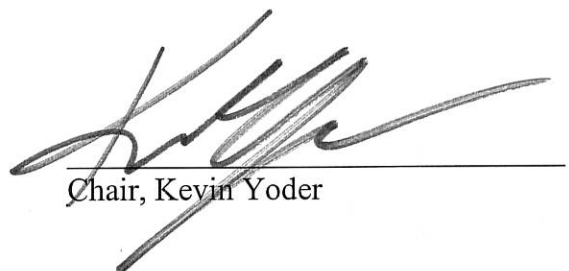
● Additional Information Requested

- List of all public schools with fees and membership costs to KASB

Chair Yoder invited Mr. Tallman to return to the Appropriation Committee meeting on Monday, January 26, for additional questions from members.

The next meeting is scheduled for January 26, 2009.

The meeting was adjourned at 11:00 a.m.



Chair, Kevin Yoder

APPROPRIATIONS COMMITTEE GUEST LIST

DATE: 1-22-09

NAME	REPRESENTING
Dodie Wellshear	USA/Kansas
Berend Koops	Hein Law Firm
Al Moore	SKIL
Mark Tallman	KASB
Kim Fowler	Judicial Branch
Dick Kuentz	KDWP
Chip Wheeler	HCSF Bd of Governors
TERRY FORSYTH	KWEB
Travis Lowe	Pinejari Smith & Assoc
Mary Jan Stankiewicz	KARA
Val Defaux	SQE
Betty Hutchins	former Rep
Kp Muef	Kans & Amer
Dustin Meyer	KHPA
Nancy Bryant	SOS
John Kiefhaber	Ks. Chiropractic Assn.

Coordinating health & health care
for a thriving Kansas



**House Appropriations Committee
Testimony on the Governor's Budget Recommendations
January 21, 2009
Marcia Nielsen, PhD, MPH, Executive Director**

Thank you for inviting me to share an initial look at the FY 2009 and FY 2010 Governor's budget recommendations for the Kansas Health Policy Authority (KHPA). The KHPA is a quasi-independent unclassified agency created by the legislature in 2005, and is led by a Board of Directors appointed by the Governor and legislative leadership. The KHPA Board has expressed a sincere commitment to work with policymakers to address the difficult financial situation facing our state. The Board and staff stand ready to work with the legislature and the Governor in a collaborative fashion.

Background: KHPA administers the medical portions of Medicaid, the State Children's Health Insurance Program (SCHIP), HealthWave, the State Employee Health Plan and the State Self-Insurance Fund (SSIF), which provides workers compensation coverage for state employees. The funds for our public insurance programs – Medicaid, SCHIP -- are matched by the federal government at 60% and 72%, respectively. Last month, we provided medical coverage to more than 300,000 people last month (December). That includes more than 125,000 infants and children and nearly 88,000 elderly and disabled Kansans. Certain Medicaid-funded long-term care services, including nursing facilities and Home and Community Based Services (HCBS) are managed on a day-to-day basis by the Kansas Department of Aging (KDOA) and the Kansas Department of Social Rehabilitation Services (SRS). These agencies also set policy for the Medicaid programs under their jurisdictions.

The agency is also charged in statute with gathering and compiling a wide array of Kansas health-related data that is used to guide policy development and inform the public. As an example, the legislature requested that we complete 20 studies on various health policy topics by the beginning of the 2009 legislative session. Those studies are complete and have been sent to the Legislative Coordinating Council.

FY 2009 Budget: The FY 2009 Governor's Recommendation for KHPA is \$1.8 billion (including \$503.2 million from the State General Fund). Excluding Medicaid, HealthWave, and other assistance programs, the Governor's recommendation for program administration totals \$88.0 million (including \$23.2 million from the State General Fund). The recommendation reflects a 6.6% reduction in administrative spending compared to the KHPA approved budget. We made some of those reductions through administrative belt-tightening and contract reductions in the fall in order to meet the budget restrictions imposed during the budget development process as requested by the Governor. However, the Governor's budget recommends \$11.2 million in additional reductions to FY 2009 State General Fund expenditures.

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www.khpa.ks.gov

Medicaid and HealthWave:
Phone: 785-296-3981
Fax: 785-296-4813

State Employee Health Plan:
Phone: 785-368-6361
Fax: 785-368-7180

Appropriations Committee.

Attachment 1-1

Date 1-22-09

Budget _____

FY 10 Budget: For FY 2010, the Governor recommends \$1.9 billion (including \$515.0 million from the State General Fund). For program administration, the budget recommends \$82.6 million (including \$22.3 million from the State General Fund). This is a 12.3% reduction compared to the approved FY 2009 administration budget.

These reductions are described in the table below:

Selected Budget Reduction Items in Governor's Budget

	FY 2009		FY 2010	
	SGF	All Funds	SGF	All Funds
Reduce Contractual Service Expenditures	\$1,111,749	\$5,734,123	\$1,321,175	\$5,525,000
Reduce Salary and Wage expenditures	\$383,595	\$1,153,866	\$440,430	\$1,246,706
Administrative reductions in travel, printing, supplies, communications, equipment replacement	\$67,249	\$399,000	\$53,642	\$359,100
Implement Employer Sponsored Insurance for SCHIP - Supplemental request	\$125,000	\$250,000		
Citizenship Paperwork Requirement for SCHIP - Supplemental request	\$280,000	\$560,000		
Switch Health Care Access Improvement Fee Fund for State General Fund	\$6,000,000			
Switch Medical Programs Fee Fund for State General Fund	\$2,500,000		\$5,700,000	
Correct SCHIP expenditures to match caseload estimate	\$689,687	\$2,518,481		
Return unspent Children's Initiative Fund for Immunizations		\$222,123		
Return unspent State General Fund from Regular Medicaid appropriation	\$997,907	\$997,907		
Move Children's Initiative Fund for immunization to KDHE				\$500,000
Medical Assistance program recommendations and Transformation savings.			\$9,500,000	\$23,900,000
18 month time limit for Medicaid Enrollment			\$6,700,000	\$6,700,000
Expand Preferred Drug List to include mental health drugs			\$800,000	\$2,000,000

Agency Impact: I would like to point out two items specifically that were included in the Governor's recommendation that will have substantial impacts on the ability of KHPA to continue meeting its statutory mission. The Governor's budget requires a \$1.2 million reduction in salary and wage expenditures in FY 2009 and FY 2010 compared to the KHPA submitted budget. We currently employ 262 full time employees although we are authorized for 284 positions. The reductions in the Governor's budget will require KHPA to hold 26 positions vacant during FY 2009 and an additional 9 positions vacant during FY 2010 – for a total of 35. This is a salary reduction of more than 10% of our workforce. Our submitted budget included an estimate of savings related to turn over of \$604,777 which is equivalent to 11 vacant positions. To meet the salary and wage budget recommended in the Governor's budget, KHPA will have to evaluate whether key programs can continue or if staff will need to be reassigned to cover critical shortages. We are continuing to analyze the impact of the salary recommendation and will consult with the KHPA Board of Directors on additional steps.

Reductions in contractual service expenditures total \$5.7 million in FY 2009 and \$5.5 million in FY 2010. KHPA began notifying contractors of the need to cancel or renegotiate contract terms in November 2009. This was done to meet the preliminary reductions asked for by the Governor. Given that only six months of the fiscal year remain, achieving \$5.7 million in contractual savings will mean harsher reductions this year across the agency to meet budget targets. We will continue the process of evaluating contracts and contractors to reduce planned expenditures for FY 2010.

In addition to the targeted reductions in salaries and contractual services, as I mentioned earlier, KHPA has already begun our administrative belt-tightening, including instituting a hiring freeze; banning out-of-state travel, limiting printing and communications, and restricting staff training. These measures will need to be continued throughout FY 2009 and FY 2010 to meet the Governor's recommended budget targets.

The Governor's budget does not recommend eliminating programs for beneficiaries or reducing provider reimbursement.

The Governor's budget did include many of the recommendations derived from the Medicaid Transformation process, and also includes two proposed program changes that the KHPA submitted to the Division of Budget in order to meet our reduced resource budget targets for FY 2010. In FY 2010, the Governor's budget reduces the Medicaid caseload estimate by \$32.6 million, including \$17.1 million from the State General Fund.

The reduced resource packages that were adopted by the Governor include:

- **Expansion of the preferred drug list.** State law currently prohibits management of mental health prescription drugs dispensed under Medicaid. Under this proposal, that prohibition would be rescinded and KHPA will use the newly created Mental Health Prescription Drug (PDL) Advisory Committee to recommend appropriate medically-indicated management of mental health drugs dispensed under the Medicaid program. Using a PDL together with an automated prior authorization process, we can directly manage the safety and effectiveness of mental health prescription drugs.

Over the past three fiscal years mental health drugs have been the highest drug expenditure by class of medications and the most-prescribed drugs by volume. This has led to cost growth in pharmacy services that exceeds growth in other services. Expenditures for mental health drugs increased from the previous fiscal year by more than \$4 million in FY 2007. In addition to the cost growth issue serious concerns about safety have arisen, especially in children. An analysis of KHPA claims data revealed that 6,179 Kansas children under age 18 on Medicaid received a prescription for an atypical antipsychotic. From April to June of 2008, 214 children under 18 were prescribed 5 or more different antipsychotics within a 90 day period. Many of these newer drugs have recently been associated with negative side effects. A large scale meta-analysis of 150 scientific trials found that the newer generation of anti-psychotics carried no clear advantage in effectiveness in the treatment of schizophrenia, were associated with significant new risks, and in comparison to the older drugs did not improve on the pattern of side effects observed in older drugs.

In order to use the expertise of mental health providers and consumers in Kansas to better manage these prescription drugs, the KHPA is currently recruiting members for the mental health prescription drug advisory committee and begin development of the Preferred Drug List (PDL). In fiscal year 2010 will continue to expand the PDL and develop criteria for prior authorization of selected drugs. The KHPA proposal would begin using the mental health PDL in January of 2010 with an expected savings of \$2,000,000, including \$800,000 from the State General Fund in FY 2010.

- **Time limited MediKan.** MediKan currently provides health care coverage to persons with significant impairments who do not meet the level of disability necessary to receive Medicaid and are unlikely to meet Social Security Disability criteria. However, people eligible for MediKan are required to pursue Social Security benefits as a condition of eligibility. The reduced resource proposal would place a firm "lifetime

it” on the receipt of MediKan benefits with no exceptions or hardship criteria. Also, using Working Healthy as a model, MediKan would be modernized by redirecting a portion of current expenditures to offer a package of services consisting of basic health care and employment services aimed at re-entry into the workforce and achieving self-sufficiency.

Although a lifetime limit of 24 months currently exists in the MediKan program, the limit can be waived if the individual is still attempting to receive Social Security benefits, creating a “hardship exception.” Almost 30% of the current MediKan caseload receives coverage under the hardship exception. The KHPA proposal estimated that applying the time limit and developing the modified services package would result in savings of \$1.5 million from the State General Fund during FY 2010. The Governor increased the savings estimate to \$6.7 million from the State General Fund. The Governor’s recommendation includes using \$5.0 million of the program savings to provide limited health care and workplace training services. This is roughly half of what the KHPA had proposed to offer the limited health benefits and workplace training.

Medicaid Transformation Process: In addition to these reductions submitted in the budget, KHPA was asked to suggest additional ways of reducing Medicaid expenditures. KHPA has engaged in the process of reorganizing and refocusing the agency to expand capacity for data analysis and management, and to adopt data-driven processes in the management of its programs. For the past two years the Medicaid program has undertaken a new and increasingly comprehensive effort to utilize available data and program management experience to review each major component of the program. In 2008 KHPA completed fourteen program reviews as the first step in the KHPA Medicaid Transformation Plan. The Medicaid Transformation and program reviews identified several administrative changes and efficiencies that could be implemented in the Medicaid program without reducing the number of people served or providers of Medicaid services. Recommendations from the Medicaid Transformation process, coupled with additional administrative savings and efficiencies in pharmacy requested by the Governor are included in the following table:

	FY 2010	
	SGF	All Funds
Pharmacy Changes	\$4,400,000	\$11,000,000
Cost reimbursement for physician office administered drugs		
Improve cost avoidance and third party liability in pharmacy claims		
Accelerate review of generic drug price limits		
Ensure Medicare pays its share of hospital charges for beneficiaries with dual eligibility	\$4,000,000	\$10,000,000
Home Health Reforms	\$200,000	\$500,000
Durable Medical Equipment pricing reforms	\$160,000	\$400,000
Transportation Brokerage	\$200,000	\$500,000
Tighten payment rules for Hospice Services	\$300,000	\$750,000
Automate and expand pharmacy prior authorization	\$300,000	\$750,000
Total	\$9,560,000	\$23,900,000

These changes to Medicaid total \$23.9 million in savings, including \$9.6 million from the State General Fund that are part of the Governor’s recommended budget for FY 2010.

We continue to analyze the Governor’s recommendation regarding a seven pay period moratorium on employer contributions to the State Employees Health Benefits Plan. We will be communicating our analysis of the programmatic impact of the Medicaid transformation and cost savings proposals to our Board, to stakeholders, and to legislators in the coming weeks. Thank you.

Kansas Health Policy Authority (KHPA) At-A-Glance:

- KHPA is a quasi-independent unclassified agency created by legislature in 2005, and led by a Board of Directors appointed by the Governor and legislative leadership.
- KHPA administers medical portions of Medicaid, State Children's Health Insurance Program (SCHIP), HealthWave, the State Employee Health Plan, and the State Self-Insurance Fund (SSIF), which provides workers compensation coverage for state employees.
- Funds for our public insurance programs – Medicaid, SCHIP – are matched by federal government at 60% and 72%, respectively. On a monthly basis, we provide medical coverage to over 300,000 people, including more than 125,000 infants and children, and nearly 88,000 elderly and disabled Kansans.
- Certain Medicaid-funded long-term care services, including nursing facilities and Home and Community Based Services (HCBS) are managed on a day-to-day basis by the Kansas Department of Aging (KDOA) and the Kansas Department of Social Rehabilitation Services (SRS). These agencies also set policy for the Medicaid programs under their jurisdictions.
- KHPA is charged in statute with gathering and compiling a wide array of Kansas health-related data that is used to guide policy development and inform the public. As an example, the legislature requested that we complete 20 studies on various health policy topics by the beginning of the 2009 legislative session. Those studies are complete and have been sent to the Legislative Coordinating Council.
- KHPA is also charged in statute with providing development of a statewide health policy agenda including health care and health promotion components (see next page).



**Governor's Budget Recommendations
Fact Sheet**

KHPA FY 2009 Budget:

- Governor's Recommendation for KHPA is \$1.8 billion All Funds; \$503.2 million SGF
- Governor's recommendation for administration is \$88.0 million All Funds; \$23.2 million SGF
- Budget reflects a 6.6% reduction in administrative spending; \$11.2 million cut in SGF

KHPA FY 2010 Budget:

- Governor's Recommendation for KHPA is \$1.9 billion All Funds; \$515.0 million SGF
- Governor's Recommendation for administration is \$82.6 million All Funds; \$22.3 million SGF
- Budget reflects a 12.3% reduction in administrative spending

Selected Budget Reduction Items in Governor's Budget

	FY 2009		FY 2010	
	SGF	All Funds	SGF	All Funds
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Switch Health Care Access Improvement Fee Fund for State General Fund	\$6,000,000			
Switch Medical Programs Fee Fund for State General Fund	\$2,500,000		\$5,700,000	
Move Children's Initiative Fund for immunization to KDHE				\$500,000
Medical Assistance program recommendations and Transformation savings.			\$9,500,000	\$23,900,000
18 month time limit for Medicaid Enrollment			\$6,700,000	\$6,700,000
Expand Preferred Drug List to include mental health drugs			\$800,000	\$2,000,000

Agency Impact:

- Governor's budget requires a \$1.2 million reduction in salary and wage expenditures in FY 2009 and FY 2010
- The Governor's budget requires KHPA to hold 26 positions vacant during FY 2009 and an additional 9 positions vacant during FY 2010 -- total of 35 -- or more than 10% of our workforce.
- To meet salary and wage budget recommendations, we will evaluate whether key programs can continue or if staff will need to be reassigned to cover critical shortages.
- Reductions in contractual service expenditures total \$5.7 million in FY 2009 and \$5.5 million in FY 2010; KHPA notifying contractors of need to cancel or renegotiate contract terms
- Given only 6 months of fiscal year remain, achieving \$5.7 million in contractual savings will mean harsher reductions this year across the agency to meet budget targets.
- KHPA has already begun our administrative belt-tightening, including instituting a hiring freeze; banning out-of-state travel, limiting printing and communications, and restricting staff training.
- Governor's budget does not recommend eliminating programs for beneficiaries or reducing provider reimbursement, however, it reduces Medicaid caseload estimate by \$32.6 million All Funds; 17.1 million SGF.
- Governor's budget recommendation includes a \$58 Health Plan (SEHP) by suspending agency contributions currently analyzing the impact on SEHP insurance pr

Appropriations Committee.

Attachment 2-1

Date 1/22/09

Budget _____

The Governor's budget did include many of the KHPA Medicaid Transformation recommendations as well as two proposed program changes aimed at meeting our reduced resource budget targets for FY 2010.

Expansion of the preferred drug list. State law prohibits management of mental health prescription drugs dispensed under Medicaid. Under this proposal, that prohibition would be rescinded. KHPA will use the newly created Medicaid Mental Health Prescription Drug (PDL) Advisory Committee to recommend appropriate medically-indicated management of mental health drugs. Using a PDL together with an automated prior authorization process, we can directly manage the safety and effectiveness of mental health prescription drugs.

■ **Expense:** Mental health drugs have been highest drug expenditure by class of medications and most-prescribed drugs by volume in Medicaid; cost growth in pharmacy exceeds growth in other services. Expenditures for mental health drugs increased from previous fiscal year by more than \$4 million in FY 2007.

■ **Safety:** Serious concerns about the safety of some mental health drugs have arisen, especially in children. KHPA claims data reveal 6,179 Kansas children under age 18 on Medicaid received a prescription for an atypical antipsychotic; 214 children under 18 were prescribed 5 or more different antipsychotics within a 90 day period

■ **Efficacy:** Many of these newer drugs have recently been associated with negative side effects. A large scale meta-analysis of 150 scientific trials found that the newer generation of anti-psychotics carried no clear advantage in effectiveness in the treatment of schizophrenia, were associated with significant new risks, and in comparison to the older drugs did not improve on the pattern of side effects observed in older drugs.

■ **Cost Savings:** KHPA proposal would begin using mental health PDL in January of 2010 with an expected savings of \$2,000,000 All Funds; \$800,000 SGF in FY 2010.

Time limited MediKan. MediKan currently provides health care to persons with significant impairments who do not meet the level of disability necessary to receive Medicaid and are unlikely to meet Social Security Disability criteria. However, people eligible for MediKan are required to pursue Social Security benefits as a condition of eligibility. The reduced resource proposal would place a firm "lifetime limit" on the receipt of MediKan benefits with no exceptions or hardship criteria. Also, using Working Healthy as a model, MediKan would be modernized by redirecting a portion of current expenditures to offer a package of services consisting of basic health care and employment services aimed at re-entry into the workforce and achieving self-sufficiency. The KHPA proposal estimated that applying the time limit and developing the modified services package would result in savings of \$1.5 million from the State General Fund during FY 2010. The Governor increased the savings estimate to \$6.7 million from the State General Fund. The Governor's recommendation includes using \$5.0 million of the program savings to provide limited health care and workplace training services. This is roughly half of what the KHPA had proposed to offer the limited health benefits and workplace training.

Medicaid Transformation Process: In addition to these reductions submitted in the budget, KHPA was asked to suggest additional ways of reducing Medicaid expenditures. KHPA has engaged in the process of reorganizing and refocusing the agency to expand capacity for data analysis and management, and to adopt data-driven processes in the management of our programs. The Medicaid Transformation and program reviews identified several administrative changes and efficiencies that could be implemented in the Medicaid program without reducing the number of people served. Recommendations from the Medicaid Transformation process, coupled with additional administrative savings and efficiencies in pharmacy requested by the Governor are included in the following table:

Medicaid Savings in FY 2010 (Governor's Recommendation); excludes Fee Fund proposals	FY 2010	
	SGF	All Funds
Manage Medicaid Mental Health Pharmaceuticals through an expanded Medicaid preferred drug list ; reduced resource item	800,000	2,000,000
Time Limit Medikan to 18 months with additional employment supports; reduced resource item	6,700,000	6,700,000
Pharmacy Changes: Cost reimbursement for physician office administered drugs; Improve cost avoidance and third party liability in pharmacy claims; Accelerate review of generic drug price limits ; other administrative savings	\$4,400,000	\$11,000,000
Ensure Medicare pays its share of hospital charges for beneficiaries with dual eligibility; other administrative savings	\$4,000,000	\$10,000,000
Home Health Reforms; Medicaid Transformation recommendation	\$200,000	\$500,000
Durable Medical Equipment pricing reforms; Medicaid Transformation recommendation	\$160,000	\$400,000
Transportation Brokerage; Medicaid Transformation recommendation	\$200,000	\$500,000
Tighten payment rules for Hospice Services; Medicaid Transformation recommendation	\$300,000	\$750,000
Automate and expand pharmacy prior authorization; Medicaid Transformation recommendation	\$300,000	\$750,000
Total	\$ 17,060,000	\$32,600,000

2009 KHPA Reform Recommendations

- Advancing a Statewide Clean Indoor Air Law:** An overwhelming number of studies confirm that smoking is the number-one preventable cause of death and illness in Kansas. Without such a ban, even those who choose not to smoke are made to suffer from exposure to secondhand smoke. According to KDHE, a statewide ban in Kansas would protect the public from these harmful effects, result in 2,160 fewer heart attacks, and save \$21 million in health care costs.
- Increasing Tobacco User Fees:** KHPA is proposing increase cigarette taxes by \$.75 per pack – from \$.79 to \$1.54. The purpose of the tax is twofold: to make smoking more expensive, thus encouraging smokers to quit and discouraging non-smokers from ever starting; and to generate revenue to fund expansion of health insurance coverage. The budget impact will add \$87.4 million in new revenue for FY 2010.
- Expanding Access to Affordable Health Care and Public Health:** Using the tobacco user fee as funding, the KHPA is proposing to expand Medicaid to cover all parents and caregivers with incomes below the federal poverty level and expanding access to cancer screening for low-income Kansans and providing tobacco cessation programs for Medicaid recipients.

■ **Medical Services:** In 2006, KHPA was designated as single state agency responsible for Medicaid and SCHIP. However, KHPA only directly administers public insurance programs that provide medical care services, or \$1.2 billion of the 2.2 billion spent on Medicaid - SCHIP in fiscal year 2007. HealthWave (managed care) and HealthConnect (fee-for-service with additional \$2 per beneficiary per month to provide managed care services) are KHPA's two primary public insurance programs. On a monthly basis, we provide medical coverage to over 300,000 people, including more than 125,000 infants and children, and nearly 88,000 elderly and disabled Kansans.

■ **Long Term Care & Mental Health:** The Kansas Department of Social and Rehabilitation Services (SRS) and the Kansas Department on Aging (KDOA) administer programs that provide long-term care and mental health services, accounting for the remaining \$1 billion in FY2007 Medicaid/SCHIP spending.

MEDICAID TRANSFORMATION KEY FINDINGS

- **Cost drivers:** While children and families account for most of Medicaid enrollment, much of the increase in expenditures is driven by aged and disabled beneficiaries.
- **Spending increases:** Reviews demonstrate increases in spending for hospital and hospice services, durable medical equipment, and prescription drugs.
- **Cost Containment:** Reviews indicate that KHPA efforts to reduce costs are meeting with some success. For example, recent changes resulted in a significant slowdown in the escalation of costs for transportation services. KHPA also had success in reducing the cost of home health services, saving over \$16 million.
- **Recommendations:** Program reviews demonstrate significant opportunities for Medicaid cost containment and health improvement.

and the Medicaid Preferred Drug List (PDL) and Prior Authorization (PA) lists, for selected mental health medications. To inform these decisions, use a newly established, specialized mental health advisory committee. Purchase an automated PA system to ease and expand use of PA, and to ensure timely dispensing of medications.

Transportation – Issue a request for proposal to outsource management and direct contracting for Medicaid transportation benefits to a private broker in order to increase scrutiny, right-size reimbursement, and generate modest net savings for the state.

Eligibility – Promote community-based outreach by placing state eligibility workers on-site at high-volume community health clinics around the state. Expand access to care for needy parents by increasing the income limit to 100 percent FPL (\$1,467 per month for a family of three). Increase eligibility limits for the medically needy (primarily elderly and disabled people who do not yet qualify for Medicare) so that it is tied to the federal poverty level. Increase the number of people who have access to full Medicare coverage.

Quality Improvement – Publish quality and performance information that is already collected and published for the HealthWave and HealthConnect programs in order to increase transparency. Obtain funding for the new collection of data from beneficiaries and providers in fee-for-service programs to evaluate performance, identify opportunities for improvements, and facilitate comparability across programs.



Medicaid Transformation Fact Sheet

KHPA has been engaged for the past two years in a comprehensive effort to review and improve each major component of Medicaid and SCHIP. The overall purpose of the Medicaid Transformation Process is to provide a regular and transparent program reviews to monitor, assess, diagnose, and address policy issues in each major program area within Medicaid. The preparation of these reviews is designed to serve as the basis for KHPA budget initiatives in the Medicaid program on an ongoing basis. The following recommendations are based on findings from 14 program reviews completed in 2008; they address issues related to decreasing expenditures, addressing reimbursement, expanding coverage, and enhancing program oversight. An additional 12 reviews will be completed for 2009.

MEDICAID TRANSFORMATION RECOMMENDATIONS:

HealthConnect – Review this program's model as a primary care gatekeeper and work with stakeholders to develop plans to implement a medical home in order to reduce the rising costs of chronic disease.

HealthWave – In order to increase transparency, make comparative health plan performance and health status quality data available for consumers, policymakers, and other stakeholders in 2009. Highlight wellness and prevention efforts for families.

Medical Services for the Aged and Disabled – Convene stakeholders to help evaluate and design a statewide care management program for the aged and disabled aimed at slowing the growth of health care costs through improved health status.

Emergency Health Care for Undocumented Persons – Monitor changes in border state policies regarding immigrants and assess the impact on Kansas.

Dental – Extend prevention and restorative coverage to adults enrolled in Medicaid.

Durable Medical Equipment – Require DME suppliers to show actual costs of all manually priced DME items, ensuring reimbursement is no greater than 135% of cost. Review potential overpayments and coverage usage issues, specifically for oxygen services.

Home Health – Limit home health aide visits. Develop separate acute and long-term home health care benefits with differential rates that reflect the intensity of services over time.

Hospital – Adopt severity adjustment payment system for inpatient services (MS-DRG), review outpatient reimbursement, and emergency room use. Follow Medicare rules on refusing to pay for "never-events" in order to improve patient safety.

Hospice – Enhance scrutiny of retroactive authorizations for hospice services. Review concurrent Home and Community Based Service (HCBS) stays. Increase scrutiny of pharmaceutical coverage and spending. Review extended patient stays.

Lab/Radiology – Review coverage of new procedures and explore adoption of the Medicare payment system as a starting point for reimbursement of all new procedures, and to ensure appropriate payment over time.

Pharmacy – Revise Kansas law to allow for the use of direct management techniques, such as safety edits

Appropriations Committee

Attachment 3-1

Date 1/22/09

SELECTED MEDICAID COST EFFICIENCIES UNDER KHPA TO DATE:

- **Increased Managed Care to Control Costs.** Agency has transitioned to new, more comprehensive program of managed care, adding 50,000 members and choice of health plans within HealthWave; adding competition to HealthWave is estimated to save between \$10 - \$15 million annually.
- **Resolved Federal Disputes and Improved Program Integrity.** KHPA spearheaded resolution of significant liabilities with the federal government, settling in 2007 a number of outstanding audits with potential financial deferrals and/or disallowances of federal Medicaid payments saving Kansas potentially hundreds of millions of dollars.
- **Better Targeted Payments for Hospitals who serve Low Income.** KHPA implemented reform of disproportionate share hospital (DSH) program to target these payments to hospitals in Kansas that have the greatest burden of uncompensated care. The former DSH payment method resulted in hospitals receiving \$22.2 million of federal funding in Fiscal Year 2007. With the reforms, the DSH program will provide at least an additional \$4.3 million in federal matching funds annually.
- **More Federal Funding for Physicians Who Train Medical Students.** KHPA obtained an additional \$8.8 million in federal Medicaid funding to pay for care provided by physicians who teach at the KU School of Medicine campuses in Kansas and Wichita who serve a high volume of Medicaid patients.
- **More Federal Funding for Safety Net Clinics.** KHPA obtained more federal funding for critical safety net providers that provide health care to low income Kansans to improve and expand coverage for Medicaid consumers as well as offer better reimbursement for qualified clinics that accept Medicaid. This will result in an additional \$575,000 in federal Medicaid funds in FY 2009 alone.
- **Increased Efficiencies by Using Standard Medical Identification Cards:** In September 2008, KHPA discontinued the production and mailing of monthly paper medical ID cards and implemented a permanent medical ID card using recently developed national standards. Kansas is first State to make card information conform with national advanced ID card technology standards, estimated savings of \$210,000 in the first year alone.
- **Increased Enrollment in the Working Healthy Program:** An increasing number of people with severe developmental and physical disabilities are now enrolled in *Working Healthy*, a program that offers people with disabilities who are working or interested in working the opportunity to keep their Medicaid coverage while on the job. *Working Healthy* was also awarded a \$910,000 Medicaid Infrastructure Grant to support the competitive employment of individuals with disabilities for 2009.
- **Proposal to Manage Medicaid Mental Health Pharmaceuticals.** As part of our reduced resource budget, KHPA proposes to use a preferred drug list (PDL) for Medicaid mental health drugs (under the guidance of a panel of mental health experts) in order to improve safety and control costs; expected savings of \$2 million including \$800,000 from the SGF in FY 2010.
- **Proposal to Time limit MediKan.** As part of our reduced resource budget, KHPA proposes to place a firm "lifetime limit" of 18 months on the receipt of MediKan benefits (from current of 24 months) and would redirect a portion of current expenditures to offer basic health care and employment services aimed at re-entry into the workforce. Under the Governor's budget recommendations, the expected savings are \$6.7 million in SGF in FY 2010.

Medicaid Savings for FY 2010 included in Governor's Budget Recommendations: In addition to the Medicaid Transformation recommendations and our reduced resource budget recommendations, KHPA was asked by the Governor to suggest more ways to reduce Medicaid expenditures without eliminating programs or reducing provider reimbursement. Recommendations from the Medicaid Transformation process, coupled with additional administrative savings and efficiencies in pharmacy are included in the following table:

Medicaid Savings in FY 2010 (Governor's Recommendation); excludes Fee Fund proposals	FY 2010	
	SGF	All Funds
Manage Medicaid Mental Health Pharmaceuticals through an expanded Medicaid preferred drug list ; reduced resource item	800,000	2,000,000
Time Limit Medikan to 18 months with additional employment supports; reduced resource item	6,700,000	6,700,000
Pharmacy Changes: Cost reimbursement for physician office administered drugs; Improve cost avoidance and third party liability in pharmacy claims; Accelerate review of generic drug price limits ; other administrative savings	\$4,400,000	\$11,000,000
Ensure Medicare pays its share of hospital charges for beneficiaries with dual eligibility; other administrative savings	\$4,000,000	\$10,000,000
Home Health Reforms; Medicaid Transformation recommendation	\$200,000	\$500,000
Durable Medical Equipment pricing reforms; Medicaid Transformation recommendation	\$160,000	\$400,000
Transportation Brokerage; Medicaid Transformation recommendation	\$200,000	\$500,000
Tighten payment rules for Hospice Services; Medicaid Transformation recommendation	\$300,000	\$750,000
Automate and expand pharmacy prior authorization; Medicaid Transformation recommendation	\$300,000	\$750,000
Total	\$ 17,060,000	\$32,600,000

How does Kansas Medicaid compare to other states?

- **Total spending.** Overall Medicaid spending per beneficiary is relatively high in Kansas: \$5,902 per beneficiary in FY 2005, compared to the national average of \$4,662. Per-person spending is higher than average for each major population group (aged, disabled, adults, and children), with the aged and disabled ranking highest among those three populations.
- **Spending on Aged and Disabled is above average.** Compared to other states, Medicaid spending in Kansas is somewhat concentrated among the aged and disabled populations. Kansas ranks above-average in spending per-person for both the aged (16th highest) and the disabled (also 16th highest), and ranks 14th highest in the percentage of the Medicaid population who are disabled.
- **Spending on poor adults in far below average.** While coverage of children is typical at 200% of the poverty level, coverage for non-disabled adults is very low. Kansas ranks 39th in the percentage of Medicaid eligibles who are low-income, non-disabled, working-age adults, and is ranked between the 41st and 46th in income threshold for adults in this category. Partly as a result, Kansas ranks near the bottom (43rd) in the percentage of its population covered by Medicaid (13%).



Date: January 22, 2009
To: House Appropriations Committee
From: Doug Wareham, Senior Vice President-Government Relations
Re: Opposition to Banking Provisions Contained in H.B. 2022

Chairman Yoder and members of the House Appropriations Committee, I am Doug Wareham appearing on behalf of the Kansas Bankers Association (KBA). KBA's membership includes 347 Kansas banks, which operate more than 1,300 banking facilities in 440 towns and cities across the state. Thank you for the opportunity to share our concerns with the provisions of House Bill 2022 that impact the Office of the State Bank Commissioner.

We are specifically concerned with and object to the fund transfers (sweeps) found on Page 2 & 3 (Section 4) of House Bill 2022 under the heading State Bank Commissioner. This section calls for the transfer of \$1,057, 311 from State Bank Commissioner's Fee Fund and a transfer of \$500,000 from the Banking Department's Consumer Education Settlement Fund. While not addressed in the bill, we are also aware that the Governor's budget rescission package also calls for elimination of the Kansas Savings Incentive Program, which would cause an additional \$534,517 transfer from the State Bank Commissioner's Fee Fund.

After reviewing H.B. 2022 and its companion in the Senate (Senate Bill 23), we requested information from State Bank Commissioner Tom Thull regarding the impact of these proposed fee fund sweeps. We have since learned that if approved these fund transfers will lead to negative cash balances, as early as May, 2009, that will threaten the ability of the Office of the State Bank Commissioner to maintain operations of its present management and examination team. In light of the current economic downturn, which has created challenges for Kansas financial institutions, we simply cannot sit idly by when the vital safety and soundness role of the OSBC is being compromised by fee fund transfers (sweeps).

The operation of the Office of the State Bank Commissioner is funded entirely by bank industry fees that bankers have willingly provided since the agencies' inception in 1891. Today, 247 Kansas banks utilize the state-bank charter and in doing so recognize the Office of the State Bank Commissioner as their primary regulator. OSBC's staff includes 99 personnel, 76 of which are examination staff entrusted with enforcing the laws, rules and regulations that govern the banking industry. The banking department sweeps proposed in H.B. 2022 will compromise OSBC's examination staff and place an undue burden on the Department when their role in ensuring safety and soundness is increasingly important to Kansas banks and to individual Kansans.

I respectfully ask this committee to strongly consider striking the proposed transfers found in Section 4 and I hope you will also consider information that is now available from the Office of the State Bank Commissioner that clearly outlines the untenable situation this would create for the Department.

Once again, thank you for the opportunity to share our concerns and I am happy to respond to any questions you might have.



KATHLEEN SEBELIUS, Governor

OFFICE OF THE STATE BANK COMMISSIONER

J. THOMAS THULL, Bank Commissioner

TO: Members of the House Appropriations Committee
FROM: J Thomas Thull, Bank Commissioner *JK*
DATE: January 22, 2009
RE: House Bill 2022

Attached are two sets of spreadsheets detailing the fiscal implications to the Office of the State Bank Commissioner (OSBC) should sweeps of our funds be permitted.

The two scenarios are as follows:

- Scenario one contains a 3% proposed budget reduction for the balance of FY 2009 totaling \$257,311; and approximately 4.16% in budget reductions for FY 2010 totaling \$530,787.
- Scenario two contains a 3% budget reduction plus a sweep of the OSBC's KSIP authority, as well as an additional \$800,000 sweep, for a total of \$1,591,828.
- Scenario one results in negative ending balances during FY 2010 beginning in November of 2009, continuing through mid-January of 2010.
- Scenario two results in a 2009 negative ending balance of (\$876,594) and a 2010 negative ending balance of (\$1,664,714).
- Scenario two would result in negative cash flow beginning in May of 2009, which would cause the OSBC to cease operations for the balance of FY 2009 and the majority of FY 2010.

As you can see, these budget proposals would have a profound detrimental impact on our agency's ability to carry out our regulatory mission of effective oversight.

If you have any questions, please don't hesitate to contact me at 785.296.2266 Ex. 205 or 785.213.6628.

Appropriations Committee
Attachment 5-1
Date 1/22/09
Budget _____

Scenario 1

Proforma through June 30, 2009

FISCAL 2009	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Projected FY09 Totals
CONSOLIDATED													
Opening	1,674,349	3,814,997	3,161,497	2,543,531	1,728,085	1,433,476	928,128	2,725,276	2,125,802	1,526,329	2,151,856	1,246,396	
Revenues	2,808,150	50,200	58,953	24,795	219,436	362,162	2,666,432	12,500	12,500	1,237,500	12,500	88,500	7,553,628
Expenses	667,502	626,611	676,919	840,241	514,045	667,510	611,973	611,973	611,973	611,973	917,960	611,973	7,970,654
State General Fund Transfers	-	(77,089)	-	-	-	(200,000)	(257,311)	-	-	-	-	-	(534,400)
		note b				note b	note c						
Ending	3,814,997	3,161,497	2,543,531	1,728,085	1,433,476	928,128	2,725,276	2,125,802	1,526,329	2,151,856	1,246,396	722,923	
Firm Encumbrances	251,674	202,819	417,008	143,263	133,083	112,278	95,000	80,000	65,000	50,000	30,000	265,000	
Unencumbered Cash on Hand	3,563,323	2,958,678	2,126,523	1,584,822	1,300,393	815,850	2,630,276	2,045,802	1,461,329	2,101,856	1,216,396	457,923	

a = 27th payperiod provision
 b = annual contribution to SGF
 c = 3% by Governor's request

This worksheet assumes that we are able to remove the \$800,000 & KSIP \$534,971 sweeps of the 2811 fund for FY09

Scenario 1

<i>Proforma through June 30, 2010</i> FISCAL 2010	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Projected FY10 Results
CONSOLIDATED													
Opening	722,923	2,310,546	1,219,882	1,361,179	498,999	(60,878)	(122,756)	1,664,867	1,104,990	545,113	907,932	348,055	-
Revenues	2,392,229	44,729	745,904	44,729	44,729	542,729	2,392,229	44,729	44,729	1,269,729	44,729	191,354	7,802,548
Expenses	604,606	604,606	604,606	906,909	604,606	604,606	604,606	604,606	604,606	906,909	604,606	604,606	7,859,881
State General Fund Transfers	(200,000) note a	(530,787) note b	-	-	-	-	-	-	-	-	-	-	(730,787)
Ending	2,310,546	1,219,882	1,361,179	498,999	(60,878)	(122,756)	1,664,867	1,104,990	545,113	907,932	348,055	(65,197)	-
Firm Encumbrances	230,000	205,000	180,000	155,000	135,000	110,000	95,000	80,000	65,000	50,000	30,000	265,000	
Unencumbered Cash on Hand	2,080,546	1,014,882	1,181,179	343,999	(195,878)	(232,756)	1,569,867	1,024,990	480,113	857,932	318,055	(330,197)	

a = annual contribution to SGF

b = Governor's request - reduce expenditures to transfer to SGF

This worksheet assumes that we are able to remove the \$800,000 & KSIP \$534,971 sweeps of the 2811 fund for FY09

Scenario 2

<i>Proforma through June 30, 2009</i>													Projected
FISCAL 2009	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	FY09 Totals
CONSOLIDATED													
Opening	1,674,349	3,814,997	3,161,497	2,543,531	1,728,085	1,433,476	928,128	2,725,276	1,591,285	191,812	817,339	(88,121)	
Revenues	2,808,150	50,200	58,953	24,795	219,436	362,162	2,666,432	12,500	12,500	1,237,500	12,500	88,500	7,553,628
Expenses	667,502	626,611	676,919	840,241	514,045	667,510	611,973	611,973	611,973	611,973	917,960	611,973	7,970,654
State General Fund Transfers	-	(77,089)	-	-	-	(200,000)	(257,311)	(534,517)	(800,000)	-	-	-	(1,868,917)
		note b				note b	note c	note d	note e				
Ending	3,814,997	3,161,497	2,543,531	1,728,085	1,433,476	928,128	2,725,276	1,591,285	191,812	817,339	(88,121)	(611,594)	
Firm Encumbrances	251,674	202,819	417,008	143,263	133,083	112,278	95,000	80,000	65,000	50,000	30,000	265,000	
Unencumbered Cash on Hand	3,563,323	2,958,678	2,126,523	1,584,822	1,300,393	815,850	2,630,276	1,511,285	126,812	767,339	(118,121)	(876,594)	

a = 27th payperiod provision
 b = annual contribution to SGF
 c = 3% by Governor's request
 d = KSIP Authority
 e = \$800,000 Sweep to SGF (61% Banking, 39% CML)

Scenario 2

<i>Proforma through June 30, 2010</i>													Projected
FISCAL 2010	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	FY10 Totals
CONSOLIDATED													
Opening	(611,594)	976,029	(114,635)	26,662	(835,518)	(1,395,395)	(1,457,273)	330,350	(229,527)	(789,404)	(426,585)	(986,462)	-
Revenues	2,392,229	44,729	745,904	44,729	44,729	542,729	2,392,229	44,729	44,729	1,269,729	44,729	191,354	7,802,548
Expenses	604,606	604,606	604,606	906,909	604,606	604,606	604,606	604,606	604,606	906,909	604,606	604,606	7,859,881
State General Fund Transfers	(200,000) note a	(530,787) note b	-	-	-	-	-	-	-	-	-	-	(730,787)
Ending	976,029	(114,635)	26,662	(835,518)	(1,395,395)	(1,457,273)	330,350	(229,527)	(789,404)	(426,585)	(986,462)	(1,399,714)	-
Firm Encumbrances	230,000	205,000	180,000	155,000	135,000	110,000	95,000	80,000	65,000	50,000	30,000	265,000	
Unencumbered Cash on Hand	746,029	(319,635)	(153,338)	(990,518)	(1,530,395)	(1,567,273)	235,350	(309,527)	(854,404)	(476,585)	(1,016,462)	(1,664,714)	

a = annual contribution to SGF

b = Governor's request - reduce expenditures to transfer to SGF

KANSAS
ASSOCIATION



OF
SCHOOL
BOARDS

1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

Testimony before the
House Appropriations Committee
by

Mark Tallman, Assistant Executive Director/Advocacy
Kansas Association of School Boards

January 21, 2009

Mr. Chairman, Members of the Committee:

As representatives of Kansas public schools, we understand the magnitude of the budget crisis facing the Governor and Legislature. In making the painful choices necessary to resolve this crisis, we believe that minimizing funding reductions for public education will help minimize both the short-term and long-term damage to the Kansas economy.

Therefore, we appreciate the Governor's efforts to make K-12 education funding a priority, and would urge the Legislature to limit any further reductions. As you weight your choices, please consider the following facts.

Public schools differ from most public agencies and local governments in a number of important ways:

- Under the Kansas Constitution and statutes, school districts must provide every student residing in that district a free public school education, including a minimum curriculum and minimum days or hours of a school term, regardless of funding.
- Under the constitution, public schools are managed by locally elected boards, but the responsibility for funding lies with the state, and each child is equally entitled to a quality education as defined by the state, regardless of where the child lives.
- Public schools must provide special education services to eligible students, regardless of cost.
- State law requires a school accreditation system based on measurable improvement in student academic progress; and under No Child Left Behind schools must be increasing student proficiency targets each year.

Appropriations Committee

Attachment 6-1

Date 1/22/09

Budget _____

- By state policy, a high percentage of school district employees are professionally licensed and have collective bargaining and continuing contract rights. For example, schools cannot legally pay employees who do not meet state qualifications.
- In addition to state and federal mandates on what they must do, school districts are limited on what revenues they can raise and spend locally and differences in local funding options have constitutional implications.

Increased school funding has led to dramatic increases in student achievement, which will be at risk if funding is reduced.

- As shown in attachment pages 1 through 3, student performance on state tests has increased equal to or greater than increases in funding. The achievement gap for previously low-achieving groups has narrowed dramatically. Performance has also increased on national tests and Kansas' national ranking has improved to among the best in the nation. In other words, additional school funding has had exactly the impact it was supposed to have.
- As attachment pages 4 through 6 indicate, student performance has improved because schools have effectively targeted new resources on new programs and personnel, which will be most at-risk if funding is cut.
- Every part of a school district budget – not just “classroom instruction” – has an impact on student achievement. Programs and spending “outside the classroom” make programs “inside the classroom” more effective.
- Educational attainment is the single important factor in personal and social economic prosperity.

Major cuts in school funding will have significant immediate economic consequences.

- Significant cuts to public education will eliminate high-paying jobs, benefits and purchases in communities across the state. (School jobs have the same impact in their communities as the National Bio- and Agro-Defense Laboratory will have on Kansas.)
- School budget cuts resulting in higher fees for meals, transportation, books, activities, drivers' education, kindergarten and pre-school programs and summer school or enrichment programs will fall hardest on economically struggling families.

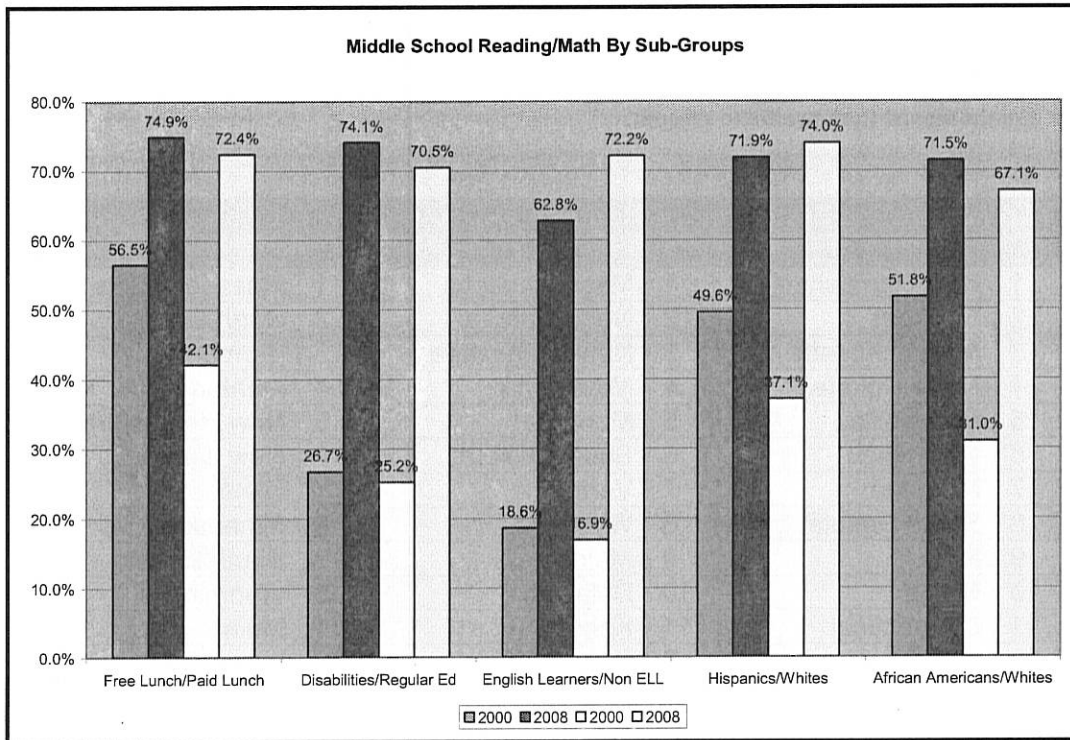
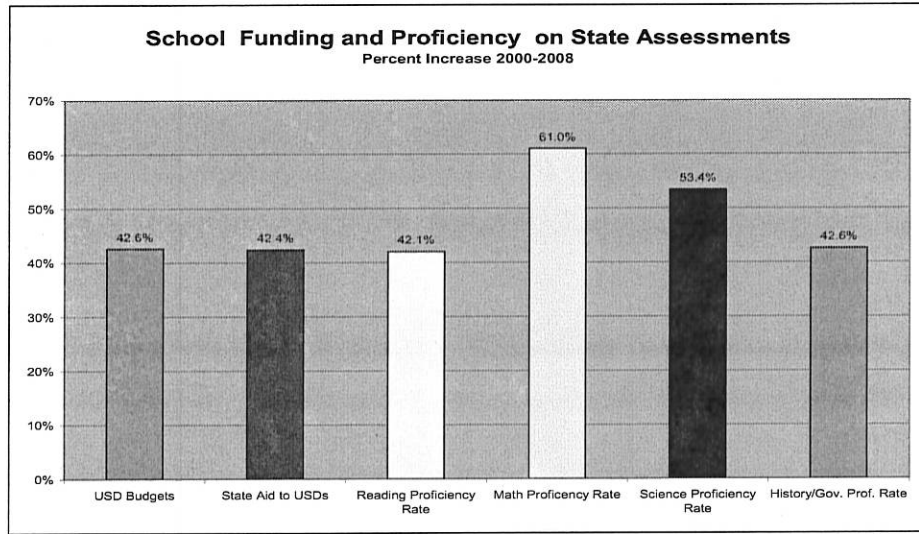
We recommend that the Legislature wait on further cuts in education.

- It is not yet clear if state revenues will continue to decline.
- The federal stimulus package may provide budget relief and avoid damaging educational cuts.
- Most school districts can handle cuts for next year better with more time to plan than in the current year, when most of the budget is already committed.
- Revenues options for the state should also be on the table, along with budget cuts.

Student Achievement Increased with Higher Funding

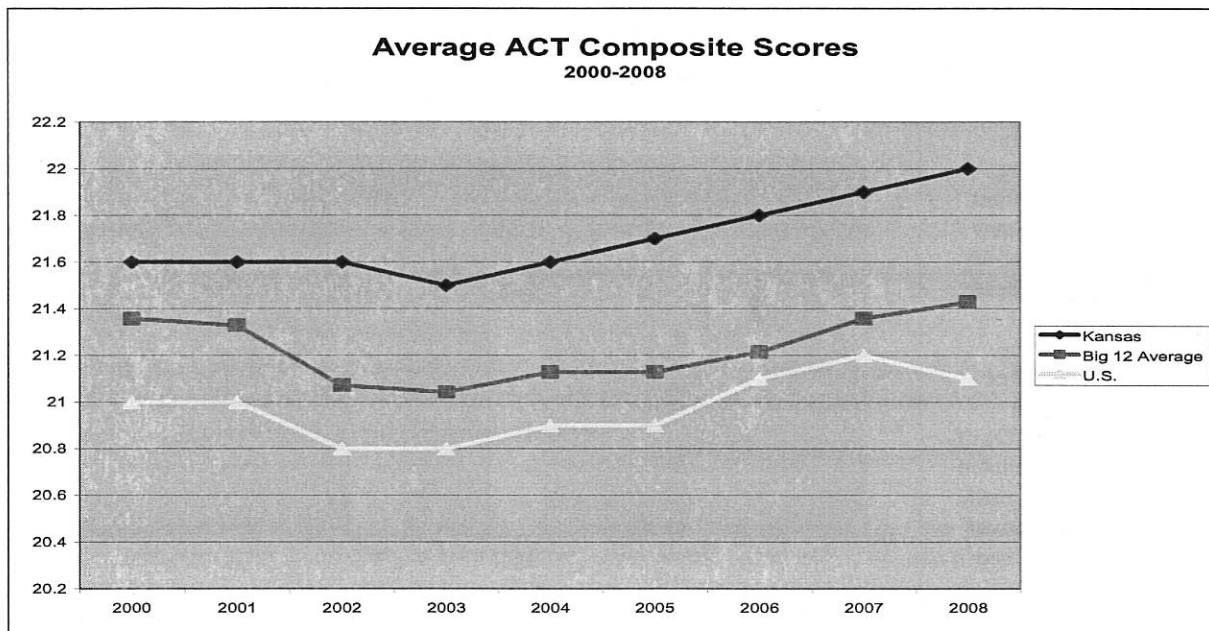
Has increased funding led to better educational outcomes? The 2006 Kansas Legislative Post Audit Outcomes-based cost study found: "A 1.0% increase in district performance was associated with a 0.83% increase in spending – almost a one-to-one relationship. *This means that all other things being equal, districts that spend more had better student performance....we can be more than 99% confident there is a relationship between spending and outcomes.*" (*Emphasis added*) The 2008 Kansas Education Report Card demonstrates similar results. Between 2000 and 2008, the percent of students scoring proficient or above on state assessments increased at least as much as school district funding.

A key focus of the lawsuit was the deep disparity in achievement between certain low achieving student groups and their peers. Much of the new funding was successfully targeted to narrow these achievement gaps. For example, in 2000, the proficiency rate of free lunch middle school students was only 57% of the paid lunch students in reading and 42% in math. By 2008, they were over 70%. Other groups had even larger gains.



Kansas and National Education Achievement

How does improving student achievement compare with other states? One common measure of student achievement is the ACT test for high school seniors. Kansas scores have improved annually since 2003, with Kansas ranking well above the national average. Kansas also scores well above the average of states with "Big 12" universities (Colorado, Iowa, Kansas, Missouri, Nebraska, Oklahoma and Texas). Kansas also tests over 75% of high school seniors, one of the highest rates in the nation.



Another measure of achievement is the National Assessment of Education Progress (NAEP). Since 2003, all states have participated in the NAEP reading and math tests, which are given every other year to a sampling of students at fourth and eighth grade. By combining those scores, an overall national ranking can be determined. Over the past four years, Kansas moved from twelfth to seventh.

Top Performing States on the National Assessment of Education Progress						
	2003		2005		2007	
1	New Hampshire	1	Massachusetts	1	Massachusetts	
2	Vermont	2	North Dakota	2	North Dakota	
3	Massachusetts	3	New Hampshire	3	Vermont	
4	North Dakota	4	Minnesota	4	Montana	
5	Minnesota	5	Montana	5	New Hampshire	
6	Wyoming	6	South Dakota	6	New Jersey	
7	Montana	7	Vermont	7	Kansas	
8	South Dakota	8	Wyoming	8	Minnesota	
9	Iowa	9	Maine	9	South Dakota	
10	Maine	10	Delaware	10	Wyoming	
11	Connecticut	11	Kansas	11	Maine	
12	Kansas	12	New Jersey	12	Iowa	

How does Kansas compare to states in the region? Kansas combined scores and national ranking now leads all our neighboring and "Big 12" states.

Kansas and Regional Ranking by combined NAEP Scores					
2003		2005		2007	
State, National Rank	Score	State, National Rank	Score	State, National Rank	Score
Iowa (9)	308%	Kansas (11)	309%	Kansas (7)	323%
Kansas (12)	304%	Iowa (14)	306%	Iowa (12)	318%
Colorado (18)	298%	Nebraska (19)	303%	Colorado (21)	306%
Missouri (20)	297%	Colorado (23)	295%	Nebraska (23)	304%
Nebraska (21)	297%	Texas (26)	292%	Texas (24)	304%
Texas (30)	281%	Missouri (27)	292%	Missouri (28)	296%
Oklahoma (36)	273%	Oklahoma (38)	274%	Oklahoma (35)	285%

How does Kansas compare on international measures? Two states (Massachusetts and Minnesota) participated in the 2007 Trends in International Mathematics and Science Study. Those two states scored well above the results for the United States as a whole. Although Kansas did not participate in the TIMSS, on the 2007 National Assessment of Education Progress math test, Kansas compared favorably with the two states that did. Along with Kansas, both states were in the top five states on the 2007 NAEP. The results suggest that Kansas students are more competitive than most other states.

Kansas Compared To High Ranking States on International Math Test

Table shows average scale scores for countries above the international average on the 2007 Trends in International Mathematics and Science Study (TIMSS). Two U.S. states, Massachusetts and Minnesota, were also "benchmarking" participants. The scores and national ranking of these two states on the 2007 National Assessment of Education Progress (NAEP) mathematics test, are listed along with Kansas math scores and national ranking.

Fourth Grade Math

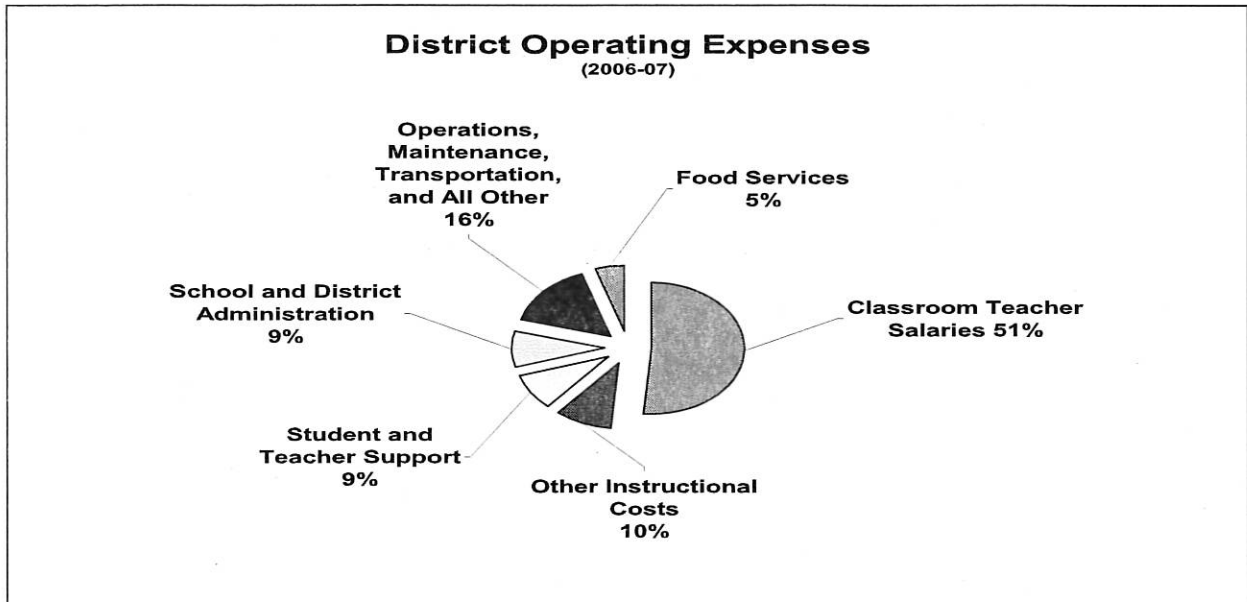
TIMSS	Score	NAEP (National Rank)	Score
Hong Kong	607		
Singapore	599		
Chinese Taipei	576		
Massachusetts	572	Massachusetts (1)	252
Japan	568	Kansas (3)	248
Minnesota	554	Minnesota (5)	247
Kazakhstan	549		
Russian Fed.	544		
England	541		
Latvia	537		
Netherlands	535		
Lithuania	530		
United States (8 other countries)	529	U.S. Average	239
International Ave.	500		

Eighth Grade Math

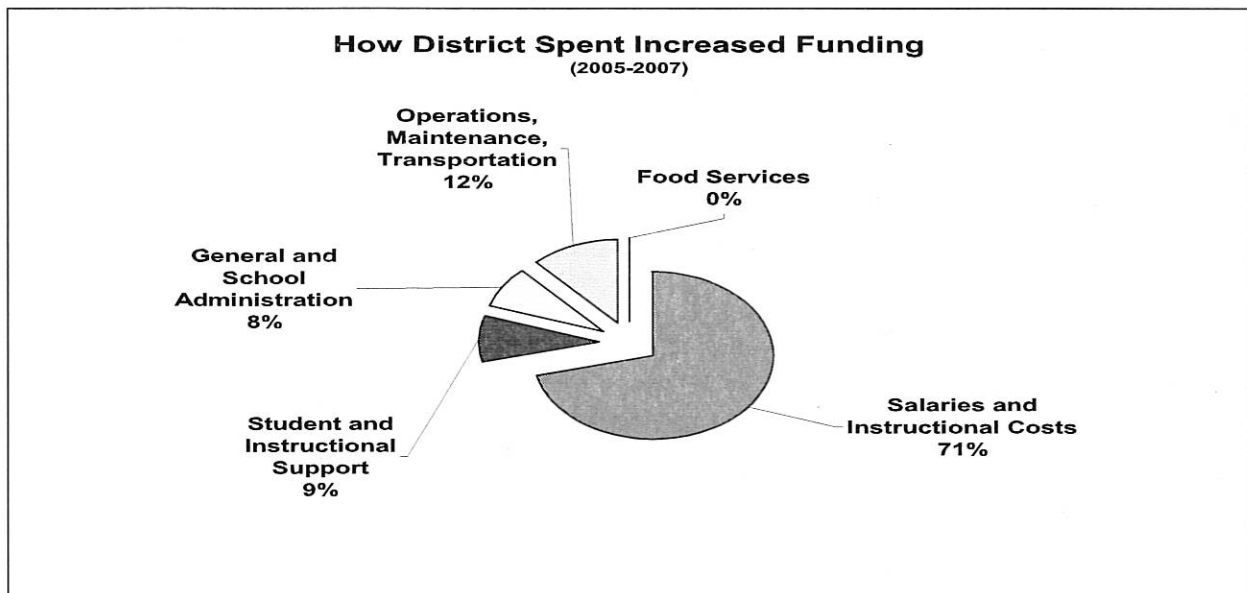
TIMSS	Score	NAEP (National Rank)	Score
Chinese Taipei	598		
Korea	597		
Singapore	593		
Hong Kong	572		
Japan	570		
Massachusetts	547	Massachusetts (1)	298
Minnesota	532	Minnesota (2)	292
Hungary	517	Kansas (5)	290
England	513		
Russian Fed.	512		
United States	508	U.S. Average	280
Lithuania	506		
Czech Republic	504		
Slovenia	501		
International Ave.	500		

School District Spending Supports Achievement

How do Kansas school districts spend their resources to get high and improving student outcomes? Over half of school district operating budgets (including local option budgets but excluding equipment, land, capital outlay and bond and interest payments) statewide goes to classroom teacher salaries and benefits, with another 10% percent for other instructional costs, such as books and teacher aides. Eighteen percent is spent on district and school leadership and programs to support students and teachers. School meals account for 5%. The balance goes to all other expenses, including utilities, building maintenance, safety and security, and student transportation.



How have districts spent “new” funding? A recent Kansas Legislative Post Audit review of how districts spent new funding received from the state since 2005 found that 71% went to instruction.



Impact of Potential School District Budget Reductions

The following are potential areas for school district budget reductions if state funding is reduced. While each proposal will reduce current expenditures, each must also be evaluated in terms of legal requirements, impact on student achievement and other issues. It should also be noted that any reductions in school staff, salaries and purchases will have that same negative economic impact as job and spending cuts in the private business sector.

Instruction (62% of current operating budgets)	
<i>Increase pupil-teacher ratios as a result of reduced teaching staff.</i>	<ul style="list-style-type: none"> • <i>Legal:</i> Boards must notify teachers of non-renewal by May 1. Tenured teachers have right to due process hearing before independent hearing officer, with cost paid by district. Subject to certain exceptions, teachers must be paid through that process (which often takes months and significant legal expenses). • <i>Achievement:</i> Additional staff improves learning through smaller classes and additional time for at-risk students.
<i>Reduce non-essential travel such as student field trips.</i>	<ul style="list-style-type: none"> • <i>Achievement:</i> Limits supplemental educational opportunities for students. • <i>Other:</i> Produces minimal savings.
<i>Reduce instructional supplies.</i>	<ul style="list-style-type: none"> • <i>Achievement:</i> Limits teacher resources (paper, copies, workbooks, activities). • <i>Other:</i> Produces minimal savings.
<i>Reduce or eliminate before and after school and summer programs.</i>	<ul style="list-style-type: none"> • <i>Achievement:</i> These programs provide needed additional time and specialized attention for struggling students or enrichment, without diverting teacher time from other students.
<i>Delay textbook and computer purchases.</i>	<ul style="list-style-type: none"> • <i>Achievement:</i> Over time, can result in students learning from out-of-date textbooks and obsolete technology.
<i>Reduce number of teaching days to minimum required by law.</i>	<ul style="list-style-type: none"> • <i>Legal:</i> Districts must offer a school term of at least 186 days or 1,116 hours. Many districts currently provide for a longer year. • <i>Achievement:</i> Reducing days or hours limits instructional time; lengthens summer vacation periods and may require more “re-teaching” after break; more difficult to cover curriculum.
<i>Reduce or eliminate early childhood education programs.</i>	<ul style="list-style-type: none"> • <i>Legal:</i> Districts are required to provide half-day kindergarten and special education for 3-5 year-olds. • <i>Achievement:</i> Growing evidence supports the long-term effectiveness of early education.
Student Support Services (5% of current operating budgets)	
<i>Reduce positions such as nurses, counselors, social workers.</i>	<ul style="list-style-type: none"> • <i>Legal:</i> Schools must provide certain services to qualifying special education students. • <i>Achievement:</i> Students with physical or mental health issues are less likely to meet academic standards. Districts also use support staff to reach students and their families to promote attendance and parental involvement.
Instructional Support Services (4% of current operating budgets)	
<i>Reduce professional development for teachers.</i>	<ul style="list-style-type: none"> • <i>Legal:</i> Districts are required to provide professional development programs for licensed staff, regardless of state aid for this purpose. • <i>Achievement:</i> Gains in student achievement have resulted from helping teachers improve teaching strategies and collaboration. 2010 Commission placed high priority on staff development.
<i>Reduce instructional support such as reading coaches, paraprofessionals, etc.</i>	<ul style="list-style-type: none"> • <i>Achievement:</i> New positions in many districts have helped teachers be more effective in designing and delivering classroom instruction.
<i>Delay library and media/technology purchases.</i>	<ul style="list-style-type: none"> • <i>Achievement:</i> Over time, affects quality of educational programs. • <i>Other:</i> Produces minimal savings.

General Administration Support Services (3% of current operating budgets)	
<i>Reduce central office personnel.</i>	<ul style="list-style-type: none"> • <i>Legal:</i> Cutting these positions can reduce the effectiveness of required activities such as financial oversight, planning and evaluation, state and community reporting and other compliance functions and public outreach. • <i>Achievement:</i> 2010 Commission placed high priority on leadership.
<i>Reduce professional and board travel and development.</i>	<ul style="list-style-type: none"> • <i>Achievement:</i> Loss of continuing education on student achievement and effective management.
School Administration Support Services (6% of current operating budgets)	
<i>Reduce principal and assistant principal positions.</i>	<ul style="list-style-type: none"> • <i>Achievement:</i> Affects instructional leadership, teacher evaluation and support for school safety, student discipline and activities, and parent involvement. 2010 Commission placed high priority on leadership.
Operations and Maintenance (10% of current operating expenses)	
<i>Reduce custodians and maintenance personnel.</i>	<ul style="list-style-type: none"> • <i>Other:</i> Can result in long-term deterioration of school facilities.
<i>Close buildings if possible.</i>	<ul style="list-style-type: none"> • <i>Other:</i> May have negative impact on communities and neighborhoods.
<i>Reduce security/resource officers.</i>	<ul style="list-style-type: none"> • <i>Other:</i> Positions may seem expendable – until the next school tragedy.
Transportation (4% of current operating expenses)	
<i>Delay bus purchases.</i>	<ul style="list-style-type: none"> • <i>Other:</i> May provide short-term savings, but must be made up eventually; possibly at greater cost.
<i>Discontinue transporting students not required by law or charge fees.</i>	<ul style="list-style-type: none"> • <i>Legal:</i> Districts must provide transportation only for students living more than 2.5 miles from schools. Other students are often bussed for student safety. • <i>Achievement:</i> Cutting bus service may increase tardiness and truancy, especially for students whose parents or guardians lack transportation. • <i>Other:</i> Imposing transportation fees can be a hardship for parents.
Food Service (5% of current operating expenses)	
<i>Reduce food service workers.</i>	<ul style="list-style-type: none"> • <i>Legal:</i> State law requires most schools to provide breakfast programs. • <i>Other:</i> Cutting food service staff could result in less student participation and reduce revenues, offsetting savings.
<i>Increase lunch fees.</i>	<ul style="list-style-type: none"> • <i>Other:</i> Hardest impact on struggling families.
All Areas	
<i>Fund programs from contingency reserve.</i>	<ul style="list-style-type: none"> • <i>Other:</i> One-time revenue source; many districts have little or no contingency reserve. (Others are criticized for having too much money in contingency reserves or other balances.)
<i>Reduce health insurance benefits.</i>	<ul style="list-style-type: none"> • <i>Legal:</i> May require agreement by teachers. • <i>Achievement:</i> Over time, makes school employment less competitive in recruiting high quality personnel.
<i>Provide minimum salary increases.</i>	<ul style="list-style-type: none"> • <i>Legal:</i> May require agreement by teachers. • <i>Achievement:</i> Over time, makes school employment less competitive in recruiting high quality personnel.
<i>Consolidation of school districts.</i>	<ul style="list-style-type: none"> • <i>Legal:</i> Consolidation of two or more districts requires public vote. • <i>Other:</i> Most savings only occur with closing of buildings; may be offset by other costs such as guaranteed state aid incentives.

State Student Achievement with Spending per Pupil and Budget Allocation

2007	NAEP Score	Per Pupil Spending	Instruction	Student Support	Instruct Support	General Admin	School Admi	Oper & Mainten	Student Transp	Other Sup	Food Serv
National Public	290%	\$9,154	61.0%	5.2%	4.9%	2.0%	5.6%	9.9%	4.2%	3.2%	3.8%
Massachusetts	343%	\$12,564	65.2%	5.5%	4.7%	1.7%	4.1%	8.9%	4.1%	2.8%	3.1%
North Dakota	336%	\$8,728	60.8%	4.0%	2.9%	4.5%	4.7%	8.6%	4.2%	2.2%	5.0%
Vermont	328%	\$12,805	63.7%	7.4%	3.7%	2.4%	6.6%	8.0%	3.3%	2.2%	2.7%
Montana	327%	\$8,626	60.4%	5.4%	4.0%	3.0%	5.5%	10.5%	4.6%	2.5%	4.0%
New Hampshire	327%	\$10,396	64.5%	6.9%	3.1%	3.4%	5.4%	8.7%	4.2%	0.9%	2.9%
New Jersey	325%	\$14,954	59.1%	9.0%	3.3%	2.5%	6.7%	10.3%	5.4%	0.6%	2.2%
Kansas	323%	\$8,644	59.9%	5.6%	4.6%	3.3%	5.9%	9.7%	4.0%	2.5%	4.6%
Minnesota	321%	\$9,159	64.4%	2.7%	4.6%	3.1%	4.3%	7.8%	5.5%	3.1%	4.2%
South Dakota	321%	\$7,775	58.0%	5.5%	4.3%	3.6%	5.0%	10.9%	3.5%	3.7%	5.2%
Wyoming	321%	\$11,437	59.2%	5.9%	5.4%	2.2%	5.6%	10.6%	4.4%	3.5%	3.1%
		\$10,509	61.5%	5.8%	4.1%	3.0%	5.4%	9.4%	4.3%	2.4%	3.7%
Maine	319%	\$10,841	65.7%	3.7%	3.5%	2.1%	5.3%	10.1%	4.5%	1.7%	3.4%
Iowa	318%	\$8,355	59.8%	5.9%	4.7%	2.8%	5.9%	9.3%	3.7%	3.2%	4.5%
Virginia	317%	\$9,445	61.3%	4.8%	6.4%	1.5%	5.8%	9.7%	4.9%	1.5%	4.1%
Ohio	315%	\$9,692	57.3%	6.0%	6.5%	2.9%	5.8%	9.3%	4.6%	4.3%	3.3%
Pennsylvania	314%	\$10,723	61.4%	4.9%	3.8%	3.1%	4.4%	10.4%	4.8%	3.5%	3.4%
Delaware	311%	\$11,621	60.4%	4.8%	1.3%	1.2%	5.6%	9.8%	5.9%	6.4%	4.7%
Indiana	309%	\$8,929	60.1%	4.4%	3.2%	1.9%	5.7%	10.9%	5.7%	4.1%	4.1%
Idaho	308%	\$6,469	61.6%	5.6%	4.3%	2.2%	5.7%	9.2%	4.7%	1.9%	4.7%
Connecticut	307%	\$13,072	63.4%	6.0%	3.2%	2.0%	5.6%	9.3%	4.7%	2.2%	2.7%
Wisconsin	307%	\$9,993	61.2%	4.6%	4.9%	2.6%	5.1%	9.5%	3.8%	4.9%	3.3%
		\$9,914	61.2%	5.1%	4.2%	2.2%	5.5%	9.8%	4.7%	3.4%	3.8%
Colorado	306%	\$8,166	56.2%	4.4%	5.2%	1.5%	6.5%	10.3%	2.9%	9.7%	3.1%
Washington	306%	\$7,984	59.2%	6.4%	4.7%	2.1%	5.9%	9.3%	4.1%	3.5%	3.4%
Nebraska	304%	\$9,324	63.5%	4.2%	3.2%	3.6%	5.0%	8.7%	2.8%	2.2%	3.9%
Texas	304%	\$7,480	59.5%	4.9%	5.5%	1.6%	5.6%	11.5%	2.8%	3.5%	5.3%
Maryland	299%	\$10,909	61.3%	4.2%	5.3%	1.0%	6.8%	9.1%	5.1%	2.7%	2.8%
New York	299%	\$14,615	69.2%	3.2%	2.8%	1.9%	4.1%	8.9%	5.3%	2.4%	2.2%
Utah	299%	\$5,464	63.2%	3.7%	4.7%	1.2%	6.1%	9.8%	3.3%	2.1%	5.4%
Missouri	296%	\$8,273	60.7%	4.7%	4.5%	3.0%	5.6%	10.1%	5.1%	1.9%	4.5%
Florida	295%	\$7,812	59.1%	4.7%	6.8%	1.0%	5.7%	11.3%	4.2%	2.6%	4.6%
North Carolina	293%	\$7,396	61.9%	5.4%	4.0%	2.0%	6.5%	8.1%	3.9%	2.7%	5.6%
		\$8,742	61.4%	4.6%	4.7%	1.9%	5.8%	9.7%	4.0%	3.3%	4.1%
Oregon	291%	\$8,645	58.7%	7.1%	4.0%	1.4%	6.3%	8.4%	4.5%	6.1%	3.5%
Illinois	289%	\$9,113	58.9%	6.3%	4.6%	3.4%	5.1%	10.0%	5.0%	3.4%	3.3%
Kentucky	289%	\$7,668	59.5%	4.1%	5.6%	2.2%	5.4%	9.3%	5.7%	2.3%	5.6%
Alaska	285%	\$11,476	57.2%	6.3%	5.4%	1.5%	5.9%	13.2%	3.5%	3.7%	2.9%
Oklahoma	285%	\$6,941	56.7%	6.5%	4.0%	2.9%	5.4%	11.7%	3.3%	3.0%	5.6%
Michigan	284%	\$9,577	56.6%	7.3%	5.0%	2.0%	6.0%	10.9%	4.4%	4.7%	3.1%
Arkansas	280%	\$8,030	60.2%	4.6%	6.4%	2.9%	5.3%	9.3%	3.6%	2.5%	5.1%
Georgia	279%	\$8,595	62.6%	4.8%	5.5%	1.3%	6.2%	7.4%	4.1%	3.1%	4.8%
Rhode Island	279%	\$12,609	60.2%	11.9%	4.8%	1.2%	5.1%	8.3%	3.8%	2.1%	2.6%
South Carolina	279%	\$8,120	58.2%	6.9%	6.7%	1.2%	5.7%	9.3%	3.6%	3.0%	5.0%
		\$9,077	58.9%	6.6%	5.2%	2.0%	5.6%	9.8%	4.2%	3.4%	4.2%
West Virginia	273%	\$9,440	59.9%	3.6%	3.8%	2.5%	5.4%	10.3%	7.2%	1.6%	5.6%
Tennessee	272%	\$7,004	64.3%	3.4%	5.6%	2.1%	5.5%	9.1%	3.6%	1.5%	4.8%
Arizona	261%	\$6,515	62.0%	5.6%	2.4%	1.6%	4.8%	11.0%	3.8%	4.1%	4.7%
Hawaii	257%	\$9,876	59.7%	12.0%	3.6%	0.8%	6.7%	7.8%	1.9%	2.8%	4.7%
Nevada	254%	\$7,177	61.1%	3.8%	2.7%	1.8%	6.9%	10.0%	3.7%	6.4%	3.4%
Louisiana	253%	\$8,486	58.3%	4.1%	5.0%	2.4%	5.2%	11.3%	5.4%	2.6%	5.7%
Alabama	249%	\$7,683	58.5%	5.1%	4.9%	2.7%	6.2%	9.3%	4.6%	2.0%	6.6%
New Mexico	247%	\$8,354	56.2%	9.6%	4.7%	3.0%	6.2%	9.9%	4.1%	1.8%	4.4%
California	244%	\$8,301	60.3%	4.6%	6.7%	0.9%	6.8%	10.1%	2.4%	4.3%	3.6%
Mississippi	235%	\$7,173	59.1%	4.5%	4.8%	2.9%	5.5%	11.0%	4.4%	2.0%	5.8%
		\$8,001	59.9%	5.6%	4.4%	2.1%	5.9%	10.0%	4.1%	2.9%	4.9%

House Appropriations Committee Chairman, David Obey (D-WI) just released his summary of the Economic Stimulus package. His version of the American Recovery and Reinvestment plan would provide the following for K-12 programs over the next two fiscal years:

1. \$41 billion to local school districts through Title I grants (\$13 billion), IDEA (\$13 billion), a new School Modernization and Repair program (\$14 billion) and the Education and Technology program (\$1 billion);
2. \$79 billion in fiscal relief to states to help cover cutbacks in key services with an emphasis on both k-12 and higher education, including \$39 billion for K-12 and higher-ed through existing state and federal formulas, \$15 billion in bonuses for meeting key performance measures, and \$25 billion for other high priority purposes—which can include education; and
3. An extension of the current moratorium on Medicaid regulations, allowing school-based Medicaid reimbursement through October 1, 2009.

This afternoon, Chairman Obey also released the draft bill language, which includes certain priorities within programs, as well as some substantive provisions that require further analysis. While it is not identified as President-elect Obama's plan, it is consistent with the broad elements that the new administration is considering for education. We will advise you as to key action steps that will be forthcoming. Senate leaders have been discussing a plan envisioning similar bottom-line dollars. Last night Anne Bryant speaking for NSBA and Mike Resnick were on a conference call for major education group leaders conducted by Secretary-designate Arne Duncan and White House Domestic Policy Council director-designate Melody Barnes where the basic themes of the plan were discussed, but without dollars or details. In addition to school construction grants, Anne reinforced NSBA's recommendations for debt-service relief on school bonds—with those recommendations now in the hands of the President-elect Obama's economic team.

Given the timing, this year's FRN meeting will provide an important opportunity for school boards to weigh in. Given the magnitude of the sums discussed, the priorities, timelines, funding distribution mechanisms, criteria for obtaining funds etc. will be crucial issues—along with the funding levels (which for the whole stimulus package will be an issue for some members of Congress). NSBA's draft press release is attached—along with a link to Chairman Obey's summary that outlines funding levels for education programs, but does not address the 40 pages of specific bill language regarding program implementation.

<http://appropriations.house.gov/pdf/PressSummary01-15-09.pdf>