

MEMORANDUM

TO: House Committee on Appropriations
FROM: Landon Fulmer, Director of Policy
DATE: January 24, 2011
SUBJECT: House Bill 2014

Thank you for the opportunity to comment on the Governor's freeze bill. House Bill 2014 enacts important revisions Governor Brownback proposes for the FY 2011 budget. He has requested quick action on this bill so school districts and Medicaid agencies can plan their current year budgets, so we appreciate the timing of this hearing today.

On a cash basis, the State General Fund began FY 2011 with \$876. This starting balance would have been even less without steps taken at the end of FY 2010 to delay \$132 million in aid to schools until after the start of the new fiscal year. These steps had to be taken to manage the loss of \$100 million in tax revenues that were in the spring revenue estimate, but did not materialize. It is the Governor's plan that the steps taken with this bill will allow us to avoid delaying additional payments across fiscal years. I will highlight the most significant changes in the bill for you.

Education Jobs—K-12 State Aid and Medicaid

In August 2010, Congress enacted legislation authorizing the Education Jobs Fund. \$92 million was awarded to Kansas for the 2010-2011 school year. In the same legislation, Congress extended a higher level of federal Medicaid assistance. This federal legislation is crucial to balancing the current year budget without further program reductions.

As is allowed by the federal law and was suggested by Governor Parkinson last fall, Governor Brownback now proposes using \$86 million of the federal Education Jobs funding to free State General Fund resources needed to finance higher health and human service caseload entitlement programs that will cost us \$98 million more than we had originally budgeted for FY 2011. Without the use of the Education Jobs funding, the FY 2011 State General Fund budget would have to be cut further. Exchanging the federal funding for SGF support will have no net effect to the schools, while we meet our commitment to those receiving Medicaid and other health care services.

Other Current Year Revisions

Also contained in the bill are numerous adjustments to the current year budget. For example, we discovered that both the Economic Development Initiatives Fund and the Children's Initiatives Fund were overspent in FY 2011. This budget bill will make the necessary reductions to bring these state funds into balance.

The Affordable Airfare program in the Department of Commerce needs an expenditure limitation increase to permit expenditure of funds authorized for FY 2010 but which were not committed in time. New funds need to be appropriated for the Department on Aging and KHPA to implement the new nursing facility provider tax and for KDHE to administer the child care facility legislation, both enacted by the 2010 Legislature.

A change in how the state seeks reimbursement for special education students eligible for Medicaid resulted in a catastrophic reduction in reimbursements to the Lake Mary Center in the

Paola School District disproportionate to all the other districts. Language in this bill will address this issue on a one-time basis to restore \$175,000 of the \$475,000 cut. The district has committed to overcome this change over the long-term.

Funding appropriated but not needed for undermarket adjustments is lapsed in the bill, as is funding already appropriated for FY 2012 and FY 2013. While Governor Brownback wants to see the size of the workforce trimmed, and those who are employed by the state properly compensated, the budget must first be brought into structural balance. As was announced last Thursday, the Governor, Speaker of the House and Senate President are committed to tackling the three largest cost drivers in the budget and the effect of this work will translate to better services and ultimately a lower tax burden for the citizens of our state. Much work will have to be done before we reach that goal, but the appropriation bill before you is one of the first steps on that path to structural balance.

Ultimately, the adjustments made by this bill will leave us with a projected ending balance of \$35.7 million, necessary for us to meet our obligations in the FY 2012 budget and to hedge against the further loss of SGF revenues over the rest of this fiscal year. We in the Brownback Administration look forward to working with you on our state's budget issues over the coming weeks.

State General Fund Outlook <i>(Dollars in Millions)</i>				
	FY 2009 <u>Actual</u>	FY 2010 <u>Actual</u>	FY 2011 <u>Gov. Revised</u>	FY 2011 <u>Gov. Rec.</u>
Beginning Balance	\$ 526.6	\$ 49.6	\$ (27.1)	\$ 35.7
Revenues	<u>5,587.4</u>	<u>5,191.3</u>	<u>5,789.9</u>	<u>6,044.8</u>
Total Available	\$ 6,113.9	\$ 5,240.9	\$ 5,762.8	\$ 6,080.5
Expenditures				
Expenditures	6,064.4	5,238.2	5,727.1	6,072.9
Contingent Encumbrances	<u>--</u>	<u>29.8</u>	<u>--</u>	<u>--</u>
Total Expenditures	\$ 6,064.4	\$ 5,268.0	\$ 5,727.1	\$ 6,072.9
Ending Balance	\$ 49.6	\$ (27.1)	\$ 35.7	\$ 7.5
<i>As Percent of Expenditures</i>	<i>0.8 %</i>	<i>(0.5 %)</i>	<i>0.6 %</i>	<i>0.1 %</i>