Kentucky's Standing in the Race for Federal Dollars: How We Can Maximize Our Efforts

April 2005- PERFORMANCE AUDIT

The Auditor Of Public Accounts Ensures That Public Resources Are Protected, Accurately Valued, Properly Accounted For, And Effectively Employed To Raise The Quality Of Life Of Kentuckians.

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

April 12, 2005

The Honorable Ernie Fletcher, Governor
The Capitol
700 Capitol Avenue
Frankfort, KY 40601

RE: Performance Audit Providing Information and Benchmark Data on Kentucky's Federal Funds Efforts

The Honorable Ernie Fletcher:

The enclosed report, Kentucky's Standing in the Race for Federal Dollars: How We Can Maximize Our Efforts, offers specific recommendations to strengthen Kentucky's efforts to maximize federal funding. Your experience in federal funding is sure to provide a unique perspective for your administration to build on the benchmark data provided in this report.

The recent release of the proposed FY2006 federal budget underscores the timeliness of this topic. Because federal funds represent nearly one-third of the state's budget, it is more critical than ever to have a coordinated effort to maximize the state's ability to obtain federal funds. The federal budget proposal has the potential to significantly impact Kentucky's federal funding status.

Our Division of Performance Audit evaluates the effectiveness and efficiency of government programs as well as completing risk assessments and benchmarking of state operations. We will be happy to discuss this audit or the services offered by our office at any time.

KRS 43.090(1), requires us to remind you that the Office of State Budget Director must notify the Legislative Research Commission and the Auditor of the audit recommendations it has implemented and of the recommendations it has not implemented, and any reasons therefore, within sixty (60) days of the completion of the final audit. The audit report will be distributed pursuant to KRS 43.090. If you or your staff have any questions, please call Marcia Morgan, Director of the Division of Performance Audit, or myself.

We greatly appreciate the courtesies and cooperation extended to our staff by the executive branch agencies during the audit.

Respectfully submitted,

Crit Luallen,
Auditor of Public Accounts

Enclosure

cc: Brad Cowgill, State Budget Director

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Kentucky's Standing in the Race for Federal Dollars: How We Can Maximize Our Efforts

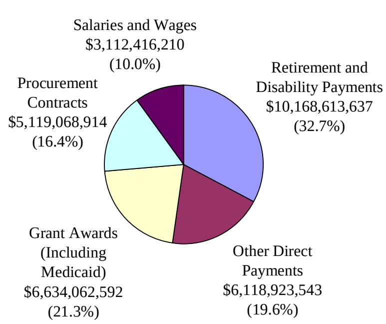
Background

Federal funds represented nearly 30% of Kentucky's total budget in FY 2003 with Kentucky state agencies receiving $4.8 billion through federal grants/programs. These federal grant monies help fund state programs and provide services. Some grants are provided as the federal share of ongoing joint state-federal programs such as Medicaid, highway construction, and special education. Other federal funds are received as one-time grants to accomplish special objectives.

Despite the marked significance of federal funds to Kentucky's budget, an in-depth review, of this type, of the Commonwealth's federal funding sources has never been completed. The objective of this report is to provide a benchmark document to support future study and debate of this issue. It presents an analysis of Kentucky's historical and current standing in federal fund receipts, an evaluation of Kentucky's administrative practices related to management of federal funds, and comparisons with other regional states in these areas.

The pie chart below illustrates the majority of federal money coming into Kentucky is in the form of benefits and direct assistance payments paid to individuals and not to state government.

Illustration 2. 3 Types of Federal Funds Received in Kentucky For Fiscal Year 2003



Source: Auditor of Public Accounts based on information provided from the U.S. Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2003*.

Kentucky's grant funding has ranked within the range of 19th to 15th awarded nationally over the last ten years and has experienced a steady growth in total dollars. Kentucky's federal grant award funding compares favorably with regional states. In 1994, Kentucky's national ranking (19th) was the second highest and, in 2003, it remained the second highest (16th). Mississippi had the highest ranking in 1994 and 2003 among the regional states APA reviewed.

When measuring the level of all federal funding, examining the amount of federal taxes being paid out is an essential part of the analysis. Kentucky's ratio of all federal funds received compared to federal taxes paid out was 1.52 in FY 2003. This means that Kentucky is a net beneficiary state that received $1.52 for every federal tax dollar it paid in FY 2003.

Among regional states, Georgia is the only state that was a net donor in FY 2003 (meaning it received less back from the federal government than the federal taxes it paid). Florida has a 1.00 ratio, which means that it received the same amount as it paid in federal taxes. North Carolina has moved from net donor status to a net beneficiary state in just the past ten years.

Seven (7) federal agencies provided over 96% of the federal grant awards to Kentucky's state agencies, according to the Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) for the Fiscal Year Ended June 30, 2003. Almost all of Kentucky's federal grant awards are managed and administered by eighteen (18) Kentucky state agencies.

The top ten federal grants/programs in Kentucky accounted for over 78% of all federal cash awards in FY 2003. Medicaid and unemployment insurance funding constituted over half of the federal cash awards received by Kentucky.

Kentucky's Top Ten Federal Grant/Programs
Fiscal Year 2003

Federal Grant/Program	Federal Cash Award	Percent
CFDA #93.778: Medical Assistance Program (Medicaid)	$2,735,768,588	47.0%
CFDA #17.225: Unemployment Insurance	640,076,477	11.0%
CFDA #20.205: Highway Planning and Construction	485,248,638	8.3%
CFDA #84.010: Title I Grants to Local Educational Agencies	129,061,216	2.2%
CFDA #93.558: Temporary Assistance for Needy Families	116,806,920	2.0%
CFDA #84.027: Special Education - Grants to States	97,583,762	1.7%
CFDA #10.555: National School Lunch Program	96,325,008	1.7%
CFDA #93.575: Child Care and Development Block Grant	95,160,956	1.6%
CFDA #14.182: Lower Income Housing Assistance Program-Section 8 New Construction/Substantial Rehabilitation	84,569,085	1.5%
CFDA #10.557: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	80,187,442	1.4%
Sub-total of Kentucky's Top Ten Federal Programs	**$4,560,788,092**	**78.4%**
Kentucky's Total Federal Cash Awards	**$5,815,538,953**	**100%**

Source: Statewide Single Audit of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2003

Kentucky had the lowest increase in state agency funding within the past five years among regional states. Kentucky's increase in federal funding within five significant areas was 41.7% pursuant to the SSWAK. Kentucky's increase in Education (24.2%) over the last five years is the lowest among the regional states. Health and Human Service's federal funding increase was the second lowest, (38.5%), after North Carolina. This does not include federal funds received by universities, local government, and other entities.

This report offers specific recommendations to strengthen Kentucky's efforts to maximize funds.

Findings and Recommendations

Attracting Federal Funds Requires Coordinated Efforts

Finding: Kentucky May Benefit From a Centralized Approach to Tracking Federal Fund Opportunities. Agency resources are not usually available to employ a federal fund specialist that can consistently monitor current grants/programs and also search for new federal funding opportunities. Instead, duties are often shared among employees. Among the top five federal programs, Agriculture, Education, Health and Human Services, Labor, and Transportation only one state agency, the Kentucky Department of Agriculture, employed a central contact for federal funds information.

No state agency has been charged with the responsibility of coordinating and tracking federal funds. Kentucky's Office of State Budget Director (OSBD) provides assistance to the Commonwealth on budget and fund management, but the office has never been given a mandate to coordinate federal funds. The Kentucky State Clearinghouse within the Governor's Office of Local Development (GOLD) focuses on federal community development grant programs for local governments, and it does not track potential federal funding information for state agencies.

The recently enacted state budget included an appropriation of $388,200 to fund a Washington D.C. office to promote Kentucky's interests. A person has recently been hired to staff this office on a part-time basis.

Recommendation: A more centralized grant oversight function is necessary in order to provide better coordination of Kentucky's existing and potential federal grant opportunities. Discussion needs to take place between OSBD and other stakeholders concerning the best course of action. Positive results in Illinois and findings in other states collectively point to benefits in the form of reduced costs and drains on existing agency resources and increased potential for identifying additional federal grant moneys.

Kentucky has a tenured and strong Congressional delegation with many recent successes in obtaining federal funding to its credit. However, a strategic and coordinated approach to federal funding among all stakeholders that fully utilizes the delegation's expertise could further improve the Commonwealth's access to federal funds and new grant opportunities.

Potential Federal Funding Opportunities Exist

Finding: Regional States Participated in 126 Federal Grants/Programs in Which Kentucky Did Not.
In FY 2002, there were 126 federal grants/programs in which Kentucky did not participate but at least one of the regional states did. The reasons for Kentucky's lack of participation could not be adequately determined due to the lack of documentation maintained by state agencies. There is no statewide method or requirement for documenting efforts to apply for federal assistance. Therefore, it could not be determined whether Kentucky had applied for assistance and was not awarded, had not applied for program-based reasons, or had simply failed to apply.

Based on our interviews with state agency personnel within Kentucky's significant federal funding areas, several legitimate reasons for declining to apply for federal grant awards were provided. These reasons included:

- Concerns about putting program recipients through conditions that may ultimately change if the grant is to develop a pilot program
- Expanding eligibility in order to receive federal match money may lead to increased costs and incur obligations for recurring state dollars
- The goals or objectives of a grant/program may conflict with a current grant or program
- New or expanded grants/programs may require hiring additional staff that may not be needed if the federal funding ends

Recommendation: Tracking and monitoring federal funds should be a state objective regardless of whether the state has adopted a centralized or decentralized approach to federal funding. This responsibility should be vested either with one office or individual within each agency. Clearly documenting why Kentucky did or did not participate in a federal grants/programs will enhance Kentucky's federal coordination and tracking efforts.

Kentucky's Management of Federal Funds Bonuses

Finding: **TANF and Food Stamp Bonus Payments Could be Enhanced by Better Performance.** Kentucky is performing reasonably well among regional states in obtaining TANF bonuses, and it is doing very well when compared to the nation. From 1999 through 2004, there may have been millions in additional bonus payments available to Kentucky, but unachieved for those same five years; however, this must be tempered by the realities of competition.

Some federal programs offer performance-based incentives and bonuses that allow states further access to set allocations of federal funds. Two important programs, TANF and Food Stamps, collectively represented nearly a half billion dollars in federal expenditures to Kentucky in FY 2003. Associated program bonus payments offer millions in additional funding to states that achieve certain federal performance measures.

Kentucky received over $6.6 million in Food Stamp bonus funding from 1996 through 2003. Kentucky ranked 4th in overall Food Stamp bonus funding for this period, ranking behind Mississippi, South Carolina, and North Carolina. Tennessee, Alabama, Florida, and Georgia were ranked lower than Kentucky. At no time during the 1996 through 2003 time period did more than thirteen (13) states receive additional funding. Thus, although Kentucky's performance is only average among the regional states, it is significantly better than average when all the states are considered. As with TANF, despite these payments, additional performance bonuses remained available but not achieved.

Recommendation: The Kentucky Cabinet for Health and Family Services should continue to aggressively pursue TANF and Food Stamp bonus payments by striving to meet federal performance measures. Additionally, all state agencies should identify and participate in any applicable federal bonus programs that could benefit the Commonwealth.

Federal Block Grants and Block Grant Proposals

Finding: Block Grant Proposals Could Greatly Impact Kentucky's Future Federal Funding Status. Of all the block grant proposals, Medicaid is the one with the most significant potential impact for Kentucky. States with large Medicaid populations, such as Kentucky, would be profoundly affected by block funding or reducing the current open-ended formula allocation. Limits on Medicaid funding would be established under this scenario, and Kentuckians would have to pay more for services or make do with less.

Block grants have a history of debate. Opponents of block grants tend to favor access to program benefits

based on need rather than funding availability. They argue that block grant funding would limit resources to states and leave persons with limited income and resources without support. Proponents of block grants contend that putting the funds under the control of states and local communities would promote flexibility and decentralization.
Block granting Medicaid would increase Kentucky's block grant funding from 13.8% to 56% of its total federal awards, based on FY03 statistics. This percentage clearly illustrates a significant increase in block grant funding of federal aid.

While states are concentrating on solving funding difficulties under the current formula distribution system, the federal government contemplates capping amounts to state, allowing more flexibility in eligibility and benefits, and in general, making states more responsible for Medicaid budgets. Fixed amounts of federal funding would place additional responsibility on the states for any needs above those provided in the block grant.

Recommendation: State agencies should closely follow federal proposals to block grant federal programs, providing resources for planning and administration as needed to adequately assess potential impact on Medicaid and other existing federal programs under consideration. Although opinions on the ultimate impact of block grant proposals differ, the significant economic and functional differences between current Medicaid funding and future proposals for block grant Medicaid funding have severe implications and raise manifold concerns for states and recipients.

Medicaid's Impact on States' Funding

Finding: Medicaid's formula match has significant impact on all funding decisions. With Medicaid now eclipsing states' total spending for elementary and secondary education combined, the FMAP's significance has grown due to the increasing strain on state's budgets. In addition, the Kaiser Foundation has concluded that Medicaid spending has a positive impact on states' economies.

FMAP measures the average income per person in each state, squared, and compares it to the nation, thereby providing higher FMAP to states with lower per capita income. The national FMAP average of 57% is well below Kentucky and its regional states.

Although Kentucky must pay around 30 cents for each dollar it expends on Medicaid through its FMAP formula match, this may not fully capture the additional benefits Medicaid funding has on a state's economy. Business is increased by Medicaid dollars, persons are employed, and tax dollars enter state coffers. A January 2003 report by Families USA, Medicaid: *Good Medicine for State Economies* estimates that Kentucky's Medicaid spending in 2001 resulted in over $4.8 billion in new business activity and the creation 54,451 new jobs.

Recommendation: Kentucky Medicaid authorities should closely scrutinize changes to the FMAP formula to ensure Kentucky's interests are protected. Changes in formula allocations through the FMAP, census estimates, proposals to change states' allocations, and economic multiplier effects are closely interwoven and demand careful scrutiny and thorough understanding.

Kentucky's Management of Federal Funds Interest Payments

Finding: Kentucky's management of federal interest payments is strong and extremely effective. The Commonwealth's net interest payments to the federal government under the Cash Management Improvement Act remained under $1000 for each year from 2001 through 2003. In fact, Kentucky's net interest liability of $69 in 2003 was the lowest among regional states submitting data

Recommendation: The Office of the Controller should continue to monitor its strategy of interest-neutral federal funding and ensure that future Treasury-State Agreements and financial systems are constructed with deference to potential increases in federal interest liabilities.

Grants Returned to Federal Sources

Finding: The Commonwealth returned a very small amount of federal award money in the fiscal years ended June 30, 2002 and June 30, 2003. Kentucky's Schedules of Expenditures of Federal Awards (SEFAs) for FYE June 30, 2002 and FYE June 30, 2003 indicate that $179,408 and $287,594, respectively were returned to federal funding sources. Funds were returned for only nine (9) of the more than 300 federal programs Kentucky participated in over the two-year period.

Recommendation: State agencies should remain vigilant in monitoring their federal funds to ensure that all available federal resources are applied to program goals.

In addition to the analyses and recommendations in this report, we have compiled profiles of 50 important federal programs and associated expenditure data. We also provide Federal Fund Information for States' recent *Budget Brief*, commenting on the President's FY2006 budget. This information provides a useful reference tool for legislators and other stakeholders seeking understanding of federal assistance on a program-by-program basis. Kentucky currently lacks an annual report or accounting of federal programs to the General Assembly.

Table Contents

Chapter 1

Introduction

Background

Every year the federal government allocates its revenue among a wide variety of priorities ranging from aid to foreign nations to paying interest on the national debt. A very sizable portion of national revenue is transferred to the individual states each year in order to assist them with state and local government operations and to further national policy objectives. The importance of this federal funding stream to the states and their respective populations cannot be understated. In Kentucky alone, federal grant funding accounted for nearly 30% of the state's entire budget for fiscal year 2003.

Despite the obvious significance to Kentucky's budget this percentage represents, an in-depth review of the Commonwealth's federal funding sources has never been completed. This APA report attempts to address that omission. It not only gauges whether Kentucky can improve upon its effectiveness in obtaining and administering federal funding, it also supplies a benchmark document to facilitate future study and debate of the issue.

The U.S. Census Bureau classifies federal expenditures for the individual states and their localities into the five (5) general categories detailed below:

1) **Retirement and disability payments:** Consist of all Social Security payments, retirement and disability benefits that are owed to federal retirees, and some Veterans Administration programs.
2) **Salaries and wages:** Compensation paid to federal employees for their services. This category includes both military and civilian payrolls.
3) **Other direct payments:** This category covers both payments to individuals and payments made to non-individual entities like government agencies and nonprofit organizations. Examples include Medicare, Section 8 subsidized housing payments, and agricultural subsidies.
4) **Procurement contracts:** Procurement contracts include an accounting for both payments and pending obligations of the government's contractual obligations.
5) **Grants:** A sum of money given for a particular purpose (such as research) that does not have to be paid back in the future.

Since Kentucky derives nearly a third of its budget from federal grants and programs, this report pays particular attention to the grant form of federal funding. Grants, in turn, are classified according to their major characteristics. There is some overlap between the definitions of grant types, and some terms are used interchangeably, which can lead to confusion. Additionally, a single grant can easily fall within more than one classification. For example, the federal government distributes Community Development Block Grants according to a formula (formula grant). The state recipients of these block grants then distribute the monies to their localities in the form of project grants. For these reasons, it is difficult to place federal grant programs within rigid definitions. However, the following descriptions should sufficiently clarify the various grant types for purposes of this report.

The Catalog of Federal Domestic Assistance (CFDA) labels all federal funding programs as either formula or project grants.
However, there are four (4) additional types of grants (block grants, categorical grants, matching grants, and entitlement grants) that merit brief explanation as well.

The following descriptions of these programs are derived primarily from the CFDA.

- **Formula grants** dispense money to states or their subdivisions in accordance with a predetermined distribution formula contained in a federal statute or regulation. The money is dispensed for activities of a continuing nature and funds are not confined to a specific project. The formulas that are used to determine a state's funding level are usually based on statistical factors such as population, per-capita income, and the number of citizens who fall below economic poverty guidelines. Medicaid would be an example of a major formula grant, because it is an ongoing program that meets ongoing needs by providing general medical assistance to the poor.

- **Block grants** are allocated on a formula basis, but they encompass a broader range of eligible activities, and they usually address general rather than specific concerns. To illustrate, CFDA #93.667 is the Social Services Block Grant or SSBG. A state receives a certain amount of SSBG funds based on a statistical formula. The money is disbursed to the state, and the federal government dictates very broad parameters for its use. Specifically, SSBG funds are to be used to: (1) prevent, reduce, or eliminate dependency; (2) achieve or maintain self-sufficiency; (3) prevent neglect, abuse, or exploitation of children and adults; (4) prevent or reduce inappropriate institutional care; and (5) secure admissions or referrals for institutional care when other forms of care are not appropriate. The recipient state determines how to best allocate the SSBG grant money to attain these goals.

- **Project grants** are funds used for specific projects for fixed or known time periods. Project grant funds can be used for a wide variety of purposes such as pilot or demonstration projects, academic research, construction projects, infrastructure repair work, etc. Project grants are typically awarded on a competitive basis. A grant announcement in the Federal Register describes the grant and the guidelines for how the funds are to be used. Eligible entities then send in an application package that is evaluated either by the awarding agency or, in some cases, a peer review body. Grant proposals are scored based on how closely they match the designated program requirements, and funds are then awarded to the applicants with the highest scores.

- **Categorical grants** target funds for specific, narrowly defined uses. Eligible activities are strictly defined and administrative reporting requirements are generally high, in order to guarantee program accountability. For this reason, categorical grants are the preferred format for brand new grant programs. Once a categorical grant has been established, monitored, and determined to be effectively administered, it can be legislatively rolled into a block grant at a later date.

- **Matching grants** require the recipient state or locality to contribute something in return to match a specified percentage of the grant money they are receiving. Common examples of matches are cash, in-kind services, or use of local facilities. A matching requirement is intended to encourage more efficient management of federal funds, since state or local resources are also at stake.

- **Entitlement Grants** require benefit payments to any person or government entity that meets legal eligibility requirements. Payments are mandatory, not discretionary. Most entitlement grants are designed to aid low-income individuals or economically depressed communities.

Grants have been part of the government landscape for almost as long as this country has existed. By necessity, the very first federal grants were land grants. In 1785 the young United States was cash poor and land rich, so land grants were used to reward the soldiers who had served in the Revolutionary War. As national finances improved, federal money was primarily used to fund infrastructure. Federal dollars and lands enabled the roads, rails, and schools that were needed to power the country's growth to be built, but they were rarely used to address social issues or needs until extreme economic circumstances forced the federal government to redefine its mission and relationship with the states.

The Great Depression resulted in widespread unemployment and nationwide economic suffering. Part of the federal government's response to the crisis involved monetary awards to states for use in direct citizen relief. Federal programs and dollars began to address health and human service issues that had previously seen little federal involvement. Legal challenges (brought for the most part by employers who balked at having to pay the taxes that funded the aid) were largely unsuccessful. By the end of the 1930s, the federal government had redefined its role with respect to the individual states. Along with this new federal-state relationship arrived opportunities for Congress to influence policymaking by controlling the types of programs that were funded as well as the amounts distributed to them and the geographical areas that benefited. The federal government's influence was now firmly established in policy areas that were previously state-only territory.

Federal programming continued to grow, with some of the most rapid increases occurring during the 1960s. The "Great Society" legislative initiatives of that decade rolled out many programs that were designed to help the poor with federal dollars, most notably Medicaid which came into being in 1965. Most of the new programs involved direct relationships between the federal government and nonprofit service providers and completely bypassed state input or oversight. This, along with the staggering growth in federal funding during the decade (grant program expenditures grew from $7 billion in 1960 to $24 billion in 1969), led to a public perception, for some, that federal programs were getting out of hand. When Richard Nixon ran for president in 1968, his platform included frequent criticisms of categorical grants interfering in areas arguably better left to state management and promises of increased state involvement in funding decisions.

Once Nixon took office, his administration attempted to consolidate many of the separate categorical grants into block grants. The block grant concept had actually been pilot tested in 1966, and it was promoted now for several reasons. Block grants afforded more local discretion over funding priorities, and federal reporting standards were minimal compared to specific categorical grants. More importantly, the statutory formulas used to calculate distributions minimized federal judgment calls on funding. Rather than relying on potentially biased political decisions about where to concentrate funding, specific statistical factors (for example, population size) would be inserted into the prescribed formulas to derive allotment amounts.

The trend towards consolidating numerous and diverse federal programs has continued to the present. However, it is important to note that the ***amount*** of federal money earmarked for the states has never decreased. By the end of fiscal year 2003, the federal government had distributed an all-time high amount of $2.1 trillion to the states. Despite this ever-increasing funding stream, however, economic conditions and political trends have forced all the states to assume growing administrative and financial responsibility for programs. This trend was clearly illustrated in 1996 when Congress enacted the Personal Responsibility and Work Opportunity Reconciliation Act. Although most media coverage of the Act focused on the fact that it changed the underlying nature of the nation's welfare system from open-ended entitlement payments to temporary aid with mandatory work requirements, this legislation had another far-reaching effect. It transferred all responsibility for such public assistance from the federal government to the individual states.

Federal funding is an extremely complex topic. Consequently, any attempt to gauge state performance in obtaining and administering grant funding must take into account a multitude of variables. Extensive and accurate numerical data, awareness and research of current events, and cooperation from other state agencies were all required to create this report. The report is subdivided into the following ten (10) chapters to make the large amount of data presented more readily accessible to the reader. The brief chapter summaries below serve as a "roadmap" to direct readers to particular areas of interest. Taken as a whole, the report presents a thorough picture of Kentucky's place within the region and the nation on issues of federal funding.

- **Chapter 2** explores the significance of federal funding to Kentucky's budget. Close to 30% of the state budget is comprised of federal funding. This chapter explains the calculations that led to this percentage and attempts to put this figure into economic context. It also touches on possible outcomes of the FY 2006 budget recently proposed by President Bush.

- **Chapter 3** presents a detailed overview of all the federal funds that are received by Kentucky agencies. The funds are analyzed by a wide variety of factors such as federal grantor, state agency grantee, yearly percentage increases, and other categories.

- **Chapter 4** catalogs other states' efforts to maximize federal funding and discusses the role that a coordinated approach can play in realizing funding potential.

- **Chapter 5** details the grants awarded to the other regional states that Kentucky did not receive.

- **Chapter 6** notes that some federal programs award performance-based incentives and bonuses that allow qualifying states additional access to federal funds. This chapter judges Kentucky's track record in obtaining performance-based bonuses and incentives.

- **Chapter 7** discusses the implications of current proposals being discussed in Washington that would convert a significant number of formula funded programs ranging from Medicaid to Food Stamps to block grant funding.

- **Chapter 8** discusses the impact of Medicaid on state funding as the medical aid program stands poised to surpass education as the single largest expenditure for states.

- **Chapter 9** assesses Kentucky's efforts to minimize interest payments to the federal government on grant funds. The Cash Management Improvement Act offers the states some options on how to handle transfers of federal monies. This chapter determines whether Kentucky has chosen the best available option to deal with its transfers.

- **Chapter 10** quantifies the amount of money Kentucky has had to return to the federal government. Some programs have time limits that require grantee agencies to return funds that are not fully utilized by a certain date. This chapter examines how often this occurs in Kentucky.

- **Chapter 11** provides individualized profiles of Kentucky's major federal cash grant programs. The profiles are grouped by program area and include the following information: a brief description of each program; the state agency that administers the program; a description of any existing allocation formula that is used to award the grant; expenditure data for fiscal years 2002, 2003, and 2004; and any topical budget issues that were identified by the state agencies in survey responses returned to APA.

Chapter 2

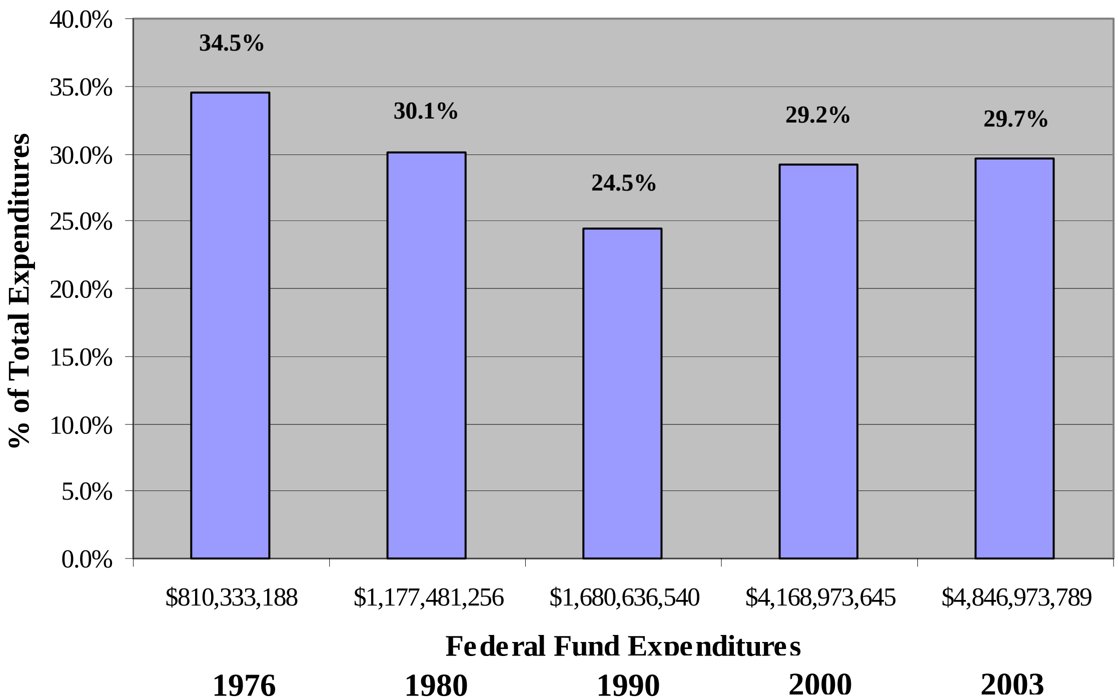
Significance of Federal Funds to Kentucky

Nearly 1/3 of Kentucky's Total Budget Is Federally Funded

Federal funds represented nearly 30% of Kentucky's total budgeted expenditures in FY 2003. Kentucky state agencies received over $4.8 billion during FY 2003 to help fund state programs and provide services. All of these federal funds were received via federal grants to state government. While some grants represented the federal share of ongoing joint state/federal programs such as Medicaid, highway construction, and special education, other federal funds were disbursed as one-time grants to accomplish specific objectives.

The following graph depicts the percentages of Kentucky's total revenue that have been derived from federal sources since 1976. (Fiscal year 1976 was the first year that the Kentucky Comprehensive Annual Financial Report included a separate accounting of federal funds.) Note that while the percentages have fluctuated somewhere between the range of 34.5% and 24.5% over the years, the total amount of federal dollars has increased dramatically since FY 1976, rising from $810 million in that year to $4.8 billion in 2003.

Illustration 2.1: Percentage of Kentucky's Total Receipts From Federal Grant Sources



Sources: For fiscal years 1976 and 1980, the Commonwealth of Kentucky's *Financial Report*. For fiscal years 1990, 2000, and 2003, the *Kentucky Comprehensive Annual Financial Report*.

In order to measure Kentucky's historical standing in the quest for federal dollars, APA sought information from credible independent sources. After a thorough review of the available data, we selected the U.S. Census Bureau's *Consolidated Federal Funds Report* as our primary resource. This report contained data on all 50 states based on information supplied directly by the federal agencies, and the report was readily available starting with the FY 1993 issue.

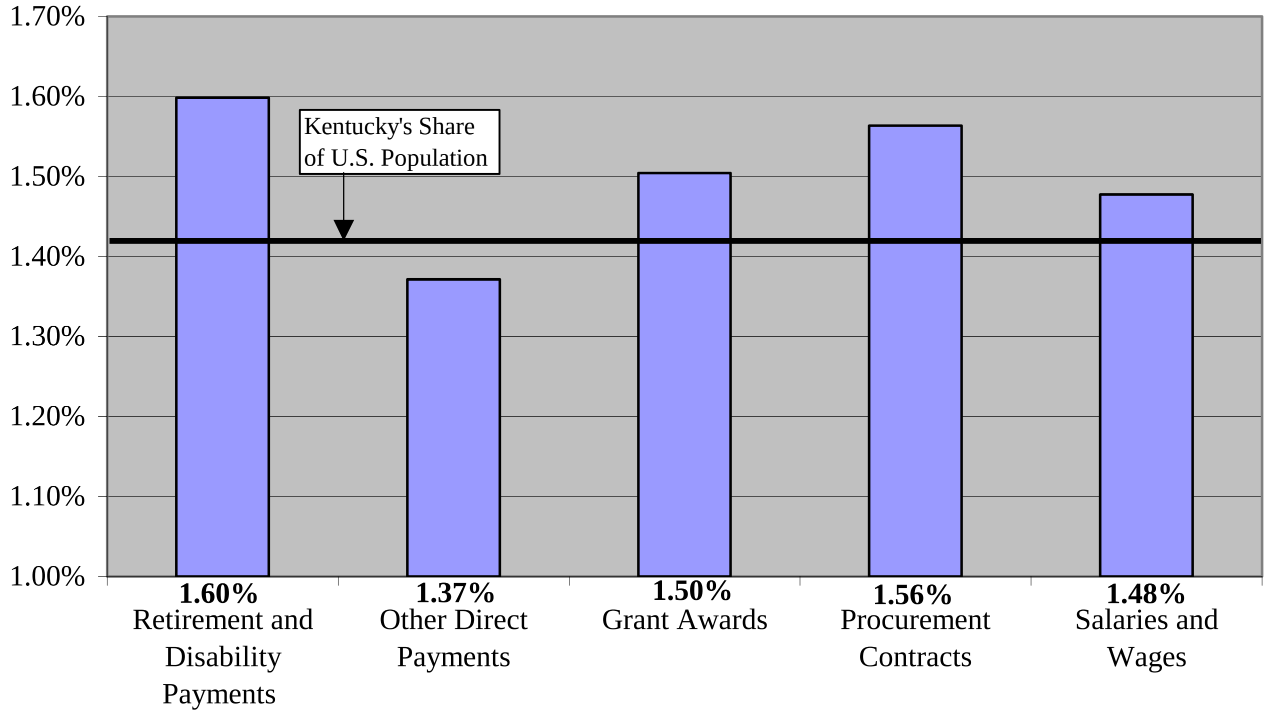
Chapter 2
Significance of Federal Funds to Kentucky

Kentucky Receives 1.5% of the Total Federal Dollars Distributed to All States

According to the data maintained by the U.S. Census Bureau, Kentucky's percentage of federal funding is slightly larger than its percentage of the U.S. population. For example, in FY 2003, Kentucky received $31.2 billion, or 1.5%, of the $2.1 trillion that the federal government distributed to the states. However, Kentucky's percentage of the U.S. population was only 1.4% at the time.

The only category of funding tracked by the U.S. Census Bureau that was below Kentucky's population percentage was "Other Direct Payments," which constituted 1.37% of the federal funds distributed in this category. This category consists of payments for food stamps, education loans, Medicare, and unemployment insurance.

Illustration 2.2: Kentucky's Share of Federal Funding by Type, Fiscal Year 2003

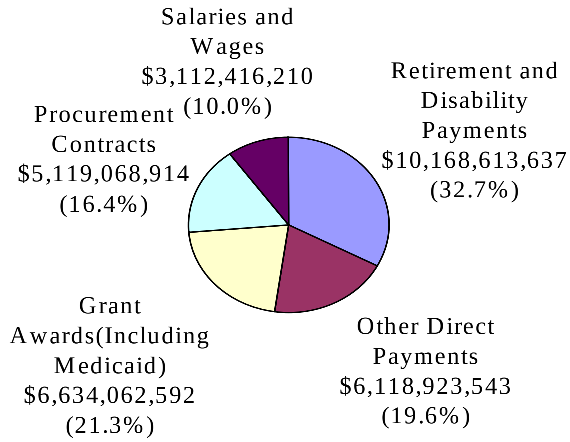


Source: Auditor of Public Accounts based on information provided by the U.S. Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2003*.

The Majority of Kentucky's Federal Funding Is Paid Directly to Individual Citizens

The majority of Kentucky's federal funding is comprised of benefits and direct assistance payments that are paid to individuals within the state ***not*** state government. Retirement/Disability (mostly Social Security), Other Direct Payments (mostly Medicare), and Salaries and Wages (paid to federal employees) are funding categories that are not under the direct control of state government. Illustration 2.3 below shows the breakdown of the categories and amounts of the federal funding Kentucky received in FY 2003.

Illustration 2.3: Types of Federal Funds Received in Kentucky for Fiscal Year 2003



Source: Auditor of Public Accounts based on information provided by the U.S. Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2003*.

State Agencies Receive Federal Funds Through Grant Awards

Federal grants and procurement contracts resulted in 37.7% of Kentucky's total federal funding. Grant awards and procurement contracts are obviously the two categories that give states the greatest ability to influence the amount of federal funding they receive, since states can proactively apply for grants and solicit contracts.

This report focuses solely on grant awards, the arena where state agencies use federal money to fund programs and services. The category of Grant Awards includes both competitive grants as well as joint state/federal programs that are state-administered.

Kentucky Ranks 16th Nationally in Both Per-Capita Total Federal Funding and Federal Grant Funding

Kentucky's national per-capita ranking of federal grant funding has generally been higher than its total federal funds ranking. The national ranking for grant funding was 19th in FY 1994 and 16th in FY 2003. Meanwhile, Kentucky's national ranking for total federal funding was 34th in FY 1994 and rose to 16th in FY 2003. The total federal funds ranking has been affected by Kentucky's relatively low rankings for Other Direct Payments and Procurement Contracts components. FY 2000 marked the first year that Kentucky's national ranking for total federal funding equaled its grant funding. Table 2.1 displays the national rankings of Kentucky in total federal funding and within the five separate funding components for the past decade.

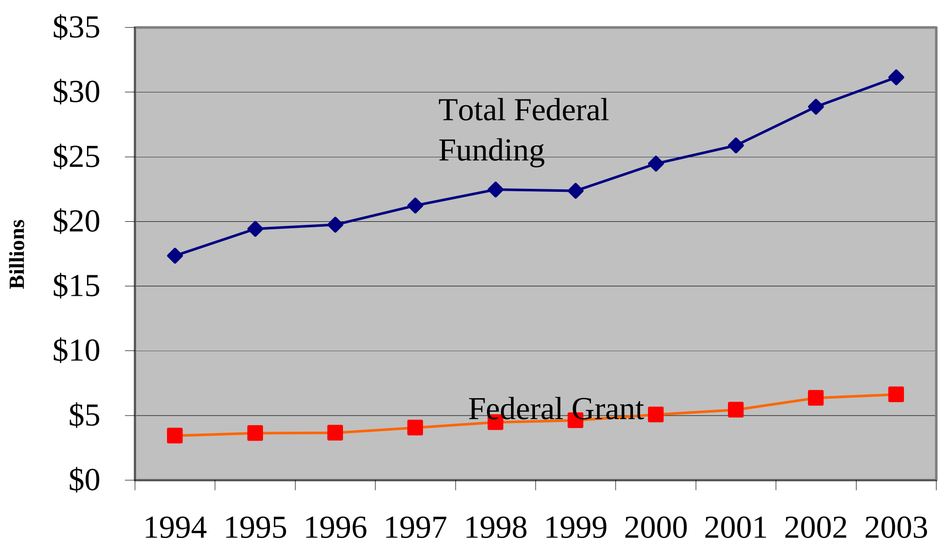
Table 2.1: Kentucky's National Ranking in Total Federal Funding and Components

Fiscal Year	Per-Capita Total Federal Funding	Per-Capita Federal Grant Funding	Per-Capita Federal Retirement/ Disability Payments	Per-Capita Other Direct Payments	Per-Capita Federal Salaries and Wages	Per-Capita Federal Procurement Contracts
1994	34	19	23	38	19	34
1995	22	17	15	33	21	19
1996	26	18	16	32	19	25
1997	22	17	15	33	21	19
1998	14	16	13	25	19	8
1999	23	18	11	26	17	25
2000	17	17	9	19	18	22
2001	21	18	8	27	16	21
2002	17	15	10	24	18	15
2003	16	16	10	25	18	13

Source: Auditor of Public Accounts based on information provided by the U.S. Census Bureau's annual *Consolidated Federal Funds Report.*

Kentucky's grant funding has been ranked within the range of 19th to 15th over the last ten years and has experienced steady upward growth in total dollars. Illustration 2.4 below displays the growth in total federal fund dollars versus grant funding.

Illustration 2.4: Kentucky's Growth in Total Federal Funding and Federal Grant Funding for Fiscal Years 1994 through 2003



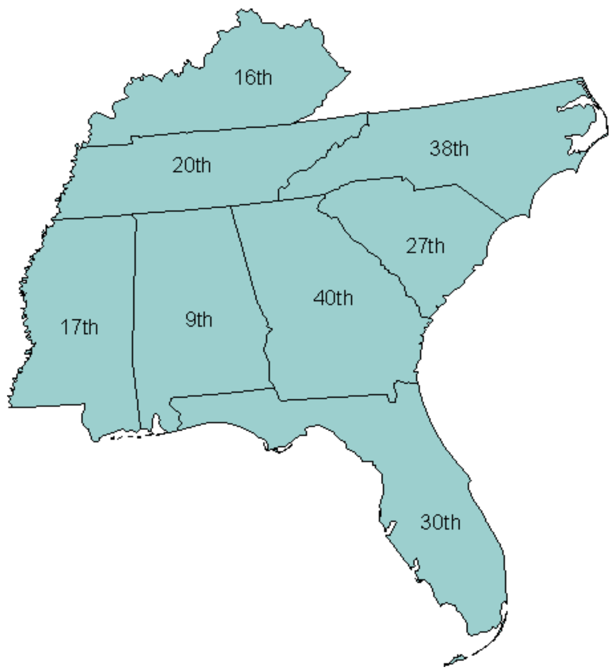
Source: Auditor of Public Accounts based on information provided by the U.S. Census Bureau's annual *Consolidated Federal Funds Report.*

Significance of Federal Funds to Kentucky

Regional State Comparison of Total Federal Funding

Kentucky compares favorably with other regional states in terms of total federal funding. In total federal money distributed, Kentucky has the second highest rank (16th) of per-capita federal funding among the regional states. Only Alabama had a higher national ranking (9th). The map below illustrates the national rankings for each of the regional states selected for our comparison in fiscal year 2003.

Illustration 2.5: National Rankings of Per Capita Total Federal Funds Received Fiscal Year 2003



Source: Auditor of Public Accounts based on information provided by the U.S. Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2003*.

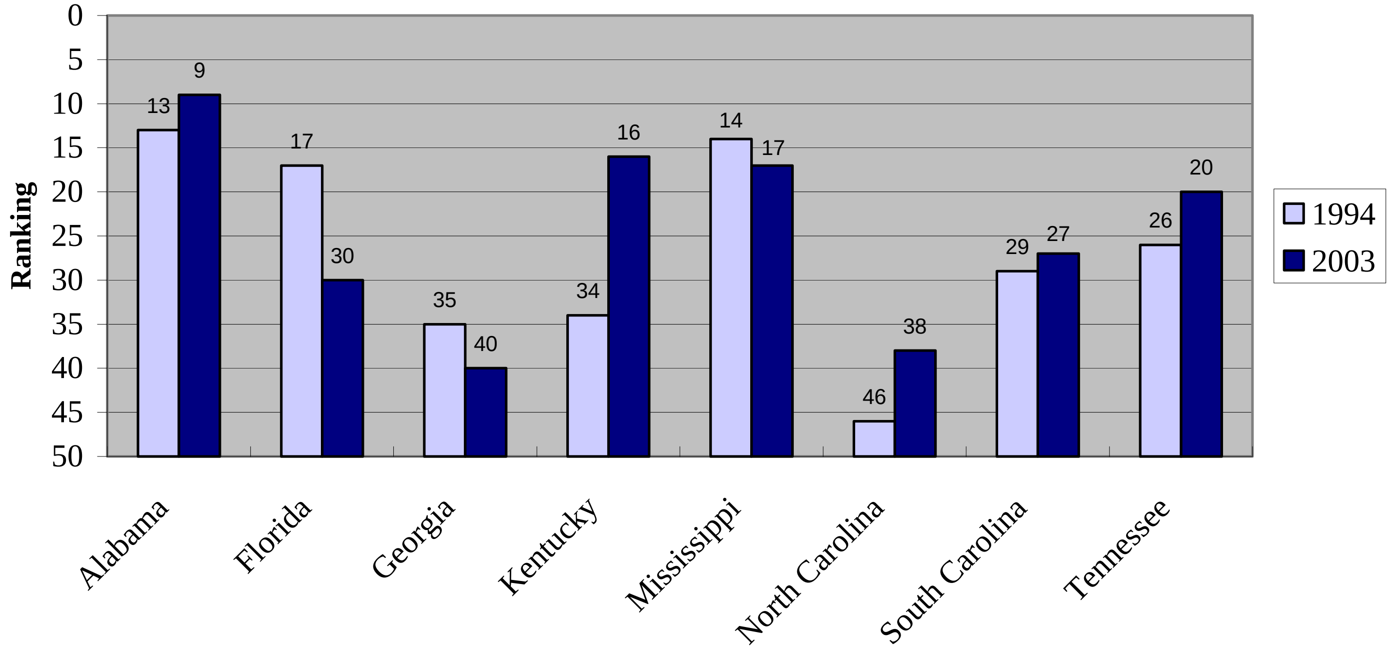
Kentucky Had the 2nd Highest Ranking in Total Federal Funding and Federal Grant Funding Among Regional States

Over the last ten years, Kentucky's ranking increased more than any of the other regional states. However, Kentucky's increase appears to be attributable to increased federal funding in the areas of Procurement Contracts and Other Direct Payments (see Table 2.1 for Kentucky's detailed rankings).

Changes that increase overall state federal funding numbers may not necessarily be in the best long-term interests of a state. For example, a state would not want its average per capita income to plummet simply to generate more federal funds, because this would result in a weakened tax base.

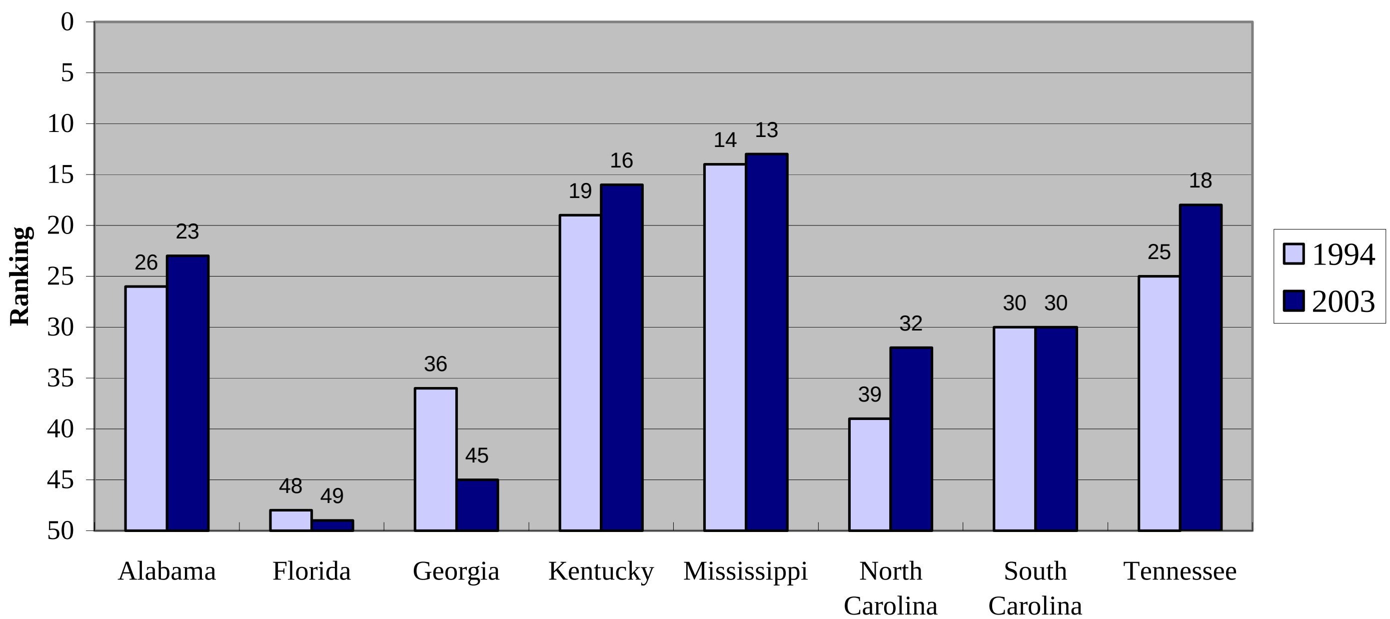
Kentucky's federal grant award funding also compares favorably with the regional states. In 1994, Kentucky's national ranking (19th) was the second highest and, in 2003, it was still the second highest (16th). Mississippi had the highest ranking in both 1994 and 2003. Illustrations 2.6 and 2.7 visually document the results of our analysis.

Illustration 2.6: Regional States' Total Federal Fund Ranking Comparison
Fiscal Years 1994 vs. 2003



Source: Auditor of Public Accounts based on information provided by the U.S. Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 1994* and the *Consolidated Federal Funds Report for Fiscal Year 2003*.

Illustration 2.7: Regional States' Federal Grant Awards Ranking Comparison
Fiscal Years 1994 vs.2003



Source: Auditor of Public Accounts based on information provided by the U.S. Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 1994* and the *Consolidated Federal Funds Report for Fiscal Year 2003*.

Chapter 2

Significance of Federal Funds to Kentucky

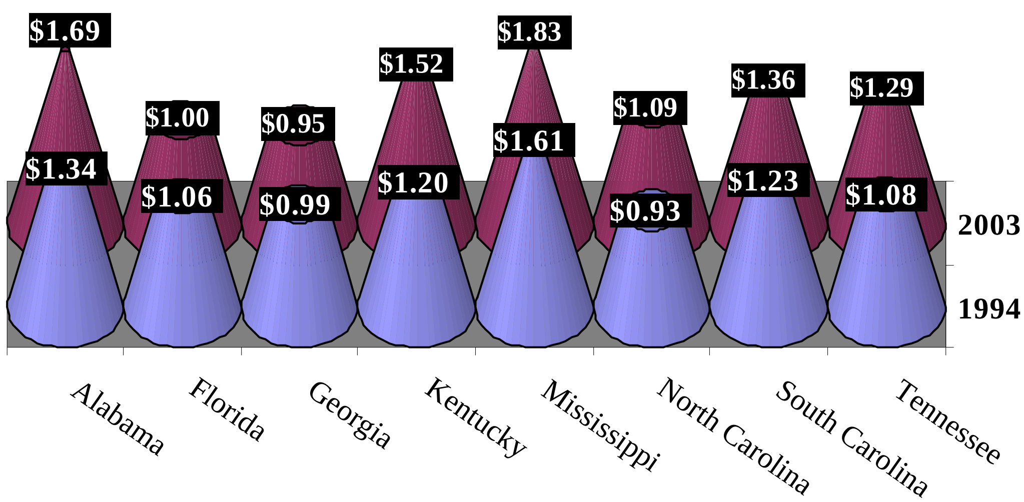
Kentucky Is a Net Beneficiary State

When assessing federal funding levels, examining the amount of federal tax being paid out by the state is an integral part of the analysis. This type of return-on-investment comparison usually reveals that states with high average income levels receive less in federal funds than they pay out in taxes. To determine whether a state is an overall net beneficiary of or net donor to federal revenue, a simple ratio is calculated by dividing total federal funds received by total federal taxes paid. A state that has a ratio greater than one (1) is considered a net beneficiary. A state with a ratio of less than one (1) is considered a net donor.

Kentucky's ratio of federal funds received to federal taxes paid was 1.52 in FY 2003. This means that Kentucky is a net beneficiary state, and it received $1.52 in for every $1 it paid out in federal taxes in fiscal year 2003.

Among the regional states, Georgia is the only state that was a net donor in FY 2003. Florida has a flat 1.00 ratio, which means that it received the same amount in as it paid out in federal taxes. North Carolina has moved from a net donor state to a net beneficiary state in just the past ten years. Meanwhile, the ratios for Alabama, Kentucky, Mississippi, South Carolina, and Tennessee have increased over the past ten years, solidifying these states' net beneficiary status. Illustration 2.8 below displays exactly how much each state received in federal funds for each federal tax dollar paid in FY 1994 and FY 2003. Note that Kentucky's return-on-investment has increased 32 cents since 1994.

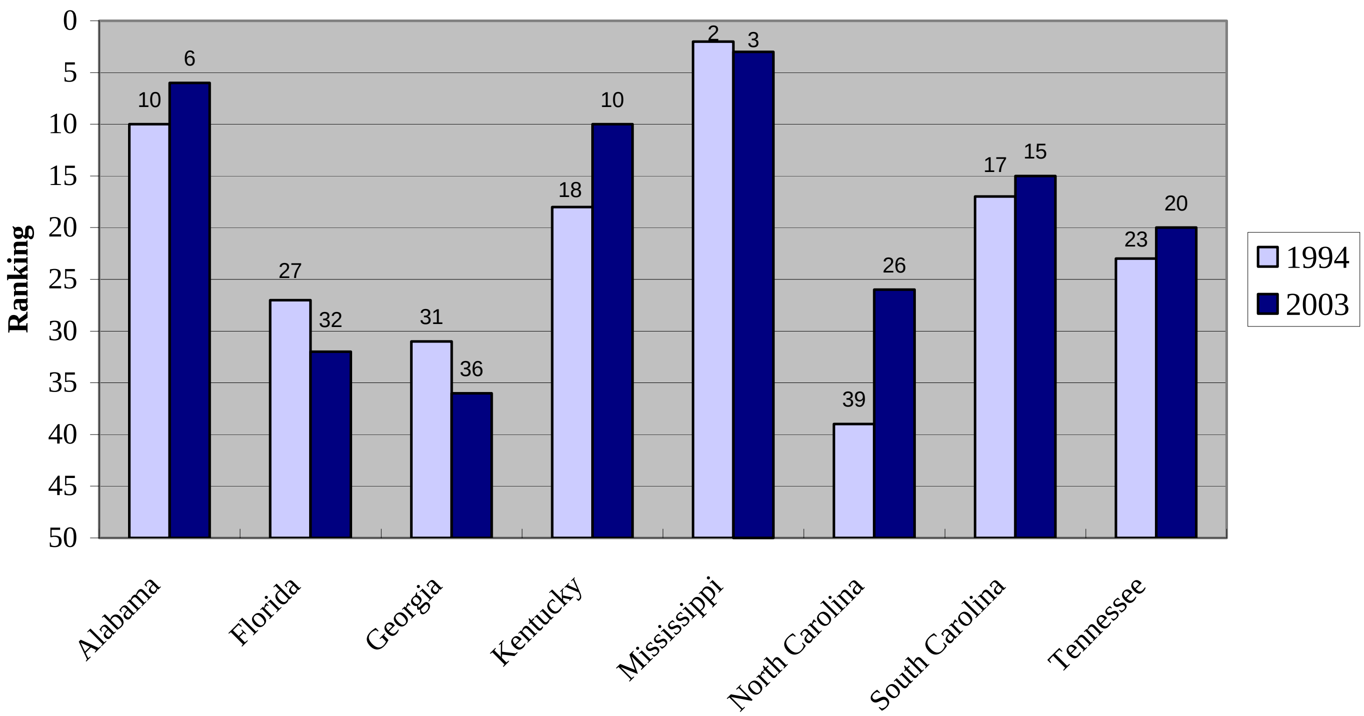
Illustration 2.8: Regional State Ratios of Federal Funds Received to Federal Taxes Paid Fiscal Year 1994 vs. Fiscal Year 2003



Source: Auditor of Public Accounts based on data obtained from the Tax Foundation.

Kentucky's ratio has increased from 18th to 10th in national rankings over the past ten years. In FY 2003, Kentucky had the third highest national ranking among the regional states. Mississippi had the highest national ranking of 3rd, which was down from 2nd in FY 1994. Alabama was second with a national ranking of 6th. Florida and Georgia were the only states that dropped significantly in the national rankings. Illustration 2.9 displays the comparison between each regional state's FY 1994 national ranking and its FY 2003 ranking.

Illustration 2.9: Regional States' Ranking of Federal Fund to Federal Taxes Ratio Fiscal Year 1994 vs. Fiscal Year 2003



Source: Auditor of Public Accounts based on data obtained from the Tax Foundation.

Federal Budget Proposals for Fiscal Year 2006 Could Significantly Impact Kentucky's Federal Funds Standing

President Bush released his proposed budget for fiscal year 2006 on February 7, 2005. Depending on the Congressional response, this budget document has the potential to significantly impact Kentucky's future status with regards to federal funding. Significant increases in defense and homeland security spending will be offset by cuts of at least 1% to all other federal programs. Proposals to cut Medicaid and grant spending in general are generating serious attention. Additionally, plans to eliminate 150 federal programs that are not related to defense or homeland security are being advanced as a means to achieve $120 billion in cost savings.

Overview of Federal Funds Received by Kentucky State Agencies

Over 96% of Grant Funding to Kentucky State Agencies Comes From Seven (7) Federal Agencies

As discussed in the Introduction, the term "grant funding" can be somewhat misleading, because, technically, ***all*** federal program funding is referred to as grants or grants-in-aid. In reality, however, this term encompasses a huge variety of programs with diverse characteristics and objectives. Federal grants can range from small, one-time only awards to large, on-going joint state and federal programs like Medicaid.

The primary source for information on Kentucky's federal grant funds is the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK). This annual audit documents the amount of federal grant money received and administered by Kentucky's state agencies but does ***not*** include grants received by universities or local governments. The total of federal funds per SSWAK is different than the federal funds per Kentucky's Comprehensive Annual Financial Report (see Illustration 2.1) due to different accounting/classification methods.

According to the SSWAK for the Fiscal Year Ended June 30, 2003, seven (7) federal agencies provided over 96% of the federal grant awards received by Kentucky's state agencies. Table 3.1 lists these seven federal agencies along with the amounts they awarded and the percentage of Kentucky's total federal funding that this amount represents. The federal agencies providing less than one percent (1%) of Kentucky's federal funds and their associated awards are grouped together as "Other."

Table 3.1: Amount of Federal Awards to Kentucky Fiscal Year 2003

Federal Agency	**Federal Cash Awarded to Kentucky**	**Percent of Total Federal Award Amounts**
Department of Health and Human Services	$3,369,047,225	57.93%
Department of Labor	729,958,118	12.55%
Department of Transportation	516,470,552	8.88%
Department of Education	475,783,251	8.18%
Department of Agriculture	272,723,907	4.69%
Department of Housing and Urban Development	160,480,048	2.76%
Department of Treasury	68,720,606	1.18%
Other	222,355,246	3.83%
Totals	$5,815,538,953	100.00%

Source: Statewide Single Audit of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2003

Chapter 3

Overview of Federal Funds Received by Kentucky State Agencies

Eighteen (18) State Agencies Administer 99% of Kentucky's Federal Funding

Almost all of the federal grant awards received by Kentucky state government are managed and administered by eighteen (18) agencies. Table 3.2 below lists these state agencies, the amount of federal cash awarded to each one, and the number of grants/programs the agency currently administers.

Table 3.2: Breakdown of Kentucky's Federal Funding by State Agency For Fiscal Year 2003

State Agency *	Cash Amount Awarded	Number of Grants Administered
Cabinet for Health Services	$2,989,531,194	67
Cabinet for Workforce Development	798,273,106	28
Cabinet for Families and Children	512,532,940	33
Transportation Cabinet	510,327,324	10
Department of Education	479,457,647	44
Kentucky Housing Corporation	130,249,980	15
Finance and Administration Cabinet	69,791,853	4
Kentucky Higher Education Assistance Authority	60,334,875	2
Natural Resources and Environmental Protection Cabinet	47,155,719	47
Department of Military Affairs	46,499,777	25
Department for Local Government	35,876,697	11
Kentucky Infrastructure Authority	28,016,899	2
Department of Juvenile Justice	15,743,771	12
Kentucky Higher Education Student Loan Corporation	13,322,775	1
Department of Justice	12,244,318	13
Kentucky State Police	12,089,802	19
Commission for Children with Special Health Care Needs	10,732,451	5
Department of Fish and Wildlife Services	9,269,635	21
Subtotal	**5,781,450,763**	**359**
Others	34,088,190	114
Grand Total	**$5,815,538,953**	**473**

Source: Statewide Single Audit of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2003
*These are the agency names that were in use during state fiscal year 2003.

Chapter 3

Overview of Federal Funds Received by Kentucky State Agencies

The Top Ten Individual Federal Grants/Programs Account for Over 78% of Kentucky's Federal Funding

The top ten (10) individual federal grants/programs in Kentucky accounted for over 78% of all the state's federal cash awards in FY 2003. Two (2) programs alone, Medicaid and unemployment insurance, constituted over half of the federal cash awards received by Kentucky. Table 3.3 below provides a listing of the top ten individual federal programs, the amount and percentage of the federal cash award, and the primary administering agency.

Table 3.3: Kentucky's Top Ten Federal Grant/Programs For Fiscal Year 2003

CFDA #	Federal Grant/Program	Federal Cash Award	Percent of Total Federal Awards	Administering State Agency
93.778	Medical Assistance Program (Medicaid)	$2,752,895,158	47.3%	Cabinet for Health Services
17.225	Unemployment Insurance	640,076,477	11.0%	Cabinet for Workforce Development
20.205	Highway Planning and Construction	485,248,928	8.3%	Transportation Cabinet
84.010	Title I Grants to Local Educational Agencies	129,061,216	2.2%	Department of Education
93.558	Temporary Assistance for Needy Families	120,897,506	2.1%	Cabinet for Families and Children
84.027	Special Education - Grants to States	97,583,762	1.7%	Department of Education
10.555	National School Lunch Program	96,865,656	1.7%	Department of Education
93.575	Child Care and Development Block Grant	95,160,956	1.6%	Cabinet for Families and Children
14.182	Lower Income Housing Assistance Program-Section 8 New Construction/Substantial Rehabilitation	84,569,085	1.5%	Kentucky Housing Corporation
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	80,187,442	1.4%	Cabinet for Health Services
Sub-total of Kentucky's Top Ten Federal Programs		**$4,582,546,186**	**78.8%**	
Kentucky's Total Federal Cash Awards		**$5,815,538,953**	**100%**	

Source: Statewide Single Audit of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2003

Readers desiring more detailed information about Kentucky's federal grant programs can consult Chapter 11 of this report for in-depth profiles of each individual program. Each program summary contains a brief description of the federal program, expenditure information, any federal matching requirements, and budget issues for future consideration.

Chapter 3

Overview of Federal Funds Received by Kentucky State Agencies

Significant Program Comparisons With Regional States

In Chapter 2, we compared Kentucky to seven (7) regional states in the areas of total federal funding and federal grant funding. The source used to generate this comparison was the U.S. Census Bureau's *Consolidated Federal Funds Report*. The grant funding dollars in this national report include federal grants that are awarded to both governmental and nongovernmental entities. In order to focus our comparison solely on federal funding awarded to Kentucky's state agencies, each regional states' Single Audit was obtained to determine the federal funding awarded to state government agencies only. Because each state makes its own determinations about which entities are included in its Single Audit, each state auditor's office was consulted to ensure consistency in our comparison of the other seven states' Single Audit information to Kentucky's SSWAK.

Florida, Georgia, North Carolina, and Tennessee's Single Audits had to be adjusted, because they included state universities and colleges. South Carolina's Single Audit information had to be excluded from the comparison due to data incompatibilities that could not be resolved. (Specifically, South Carolina's Single Audit omits approximately 37 important entities that include the Governor's Office, Department of Commerce, and Department of Transportation.) Finally, Georgia's FY 2003 Single Audit had not been released at the time of this analysis, so un-audited numbers had to be used for this year.

Due to these necessary adjustments, our comparison with the other states was limited to the top five (5) federally funded program areas for Kentucky (see Table 3.1). These five federal program areas selected for review represented 92% of the total federal cash awards reported in Kentucky's SSWAK for the fiscal year that ended on June 30, 2003.

Kentucky Had the Lowest Percentage Increase of State Agency Funding Within Five Significant Program Areas

After the adjustments noted above were made, Kentucky was shown to have had the lowest overall increase in state agency funding within the past five (5) years. Kentucky's increase in federal funding within the five significant areas was 41.3% per its Single Audit information. Kentucky's increase in Education (24.2%) over the last five years is by far the lowest among the regional states. Health and Human Service's federal funding increase was the second lowest (38.5%) after North Carolina. The results of our analysis are documented below in Table 3.4.

Table 3.4: Percentage Increases in Federal Funding Per Federal Program Area Fiscal Year 1999 vs. Fiscal Year 2003

Federal Agency Source	Alabama	Florida	Georgia **	Kentucky	Mississippi	North Carolina	Tennessee
Department of Agriculture	27.6%	17.7%	29.5%	33.1%	25.9%	35.8%	37.9%
Department of Labor	103.9%	96.9%	171.7%	101.1%	100.7%	225.4%	52.4%
Department of Transportation	39.5%	133.2%	13.1%	32.5%	82.5%	-0.2%	11.2%
Department of Education	**53.4%**	**79.8%**	**35.6%**	**24.2%**	**39.0%**	**56.2%**	**50.3%**
Department of Health and Human Services	50.9%	57.5%	61.2%	38.5%	66.9%	37.2%	54.0%
Total	**49.5%**	**63.4%**	**55.0%**	**41.3%**	**60.7%**	**51.2%**	**47.2%**

Source: Auditor of Public Accounts based on information retrieved from each states' Single Audit reports at the Federal Audit Clearinghouse website, http://harvester.census.gov/sac. ** Georgia's data for FY 2003 had not been audited yet.

Kentucky's state agency federal funding is clearly increasing at a slower rate than the other regional states. Preliminary research into different variables such as public school enrollment numbers, unemployment rates, Medicaid eligibility, and poverty levels was performed. This initial research did not provide any correlations with the Single Audit statistics. Due to our relatively stable federal grant funding over the last ten years (as displayed in Illustration 2.4 and Illustration 2.7), it is possible that Kentucky simply reached a high point in federal grant funding prior to the other states. However, this topic certainly merits additional independent study.

Kentucky Ranks 48th Nationally in Federal Research and Development

Universities are the main beneficiaries of research and development grants, but Kentucky's SSWAK does not include federal funds received by universities. However, the Corporation for Enterprise Development (CFED), a Washington-based nonpartisan, nonprofit organization that seeks to improve economic activity, gives Kentucky low marks in federal research and development. In its 18th annual *Development Report Card for the States*, issued on December 8, 2004, CFED ranked Kentucky 48th nationally and last in the region in research and development. Federal research and development is just one of 68 measures included in this comprehensive report. Table 3.5 below lists Kentucky's ranking as well as the rankings for the regional states. Overall performance, business vitality, and development capacity rankings are also provided for reference.

Table 3.5: Corporation for Enterprise Development's Report Card Results for Kentucky and Regional States, Issued December 8, 2004

State	Federal Research & Development	Overall Performance Ranking	Business Vitality	Development Capacity
Alabama	5	C	C	D
Georgia	7	C	C	C
North Carolina	25	D	C	C
Florida	26	D	C	D
Tennessee	31	D	A	C
Mississippi	33	F	F	F
South Carolina	43	C	B	D
Kentucky	**48**	**D**	**C**	**D**

Source: Corporation for Enterprise Development's 2004 *Development Report Card for the States*

More comprehensive information on state report cards is available at www.cfed.org. It is important to note that the sole focus of the CFED report is economic development, while the focus of this report is federal grant funding to Kentucky state agencies.

Chapter 4

Attracting Federal Funds Requires Coordinated Efforts

Kentucky May Benefit From a Centralized Approach to Tracking Federal Fund Opportunities

Kentucky's administration and tracking of federal funds opportunities has varied in recent years, and there has never been a consistent long-term strategy to keep state agencies apprised of new programs. APA found identification, coordination, and communication of funding opportunities between Kentucky agencies and the Office of the State Budget Director (OSBD) limited due to narrow communication paths and sparse dedicated resources in state agencies. Among the top five (5) federal program areas of Agriculture, Education, Health and Human Services, Labor, and Transportation, only one (1) state agency, the Kentucky Department of Agriculture, employs a central contact for federal funds information.

Kentucky's current method of identifying federal grant opportunities requires state agencies to independently utilize various outside information sources. As the Commonwealth's budget coordinator, OSBD provides federal funds management. Along with the Governor's Office, OSBD does offer some federal grant and program information to state agencies. Also, the Commonwealth often relies on contracted consultants to provide Washington D.C. access and resources to increase federal funds opportunities. However, the practice of utilizing consultants to locate new funding sources has been inconsistent over the years, and the performance data that would be necessary to evaluate the results has never been compiled.

The Kentucky State Clearinghouse, within the Governor's Office for Local Development (GOLD) serves as Kentucky's designated single point of contact (SPOC). However, GOLD focuses on community development grant programs for local governments, ***not*** new federal funds information and tracking for state agencies. And, like most other states' SPOCs, Kentucky's GOLD is charged with sharing information with regional planning authorities, not distributing federal funds information to the core of state government. In contrast, Illinois utilizes a Clearinghouse that was specifically created to improve the ability of state agencies, businesses, and other groups to secure appropriate federal grants, contracts, and other funds by communicating opportunities.

Kentucky has a tenured and strong Congressional delegation, a fact that makes the Commonwealth a formidable competitor for federal funds among the states. If the delegation actively partnered with the Governor's Office to strategically focus on federal funds procurement, the impact on Kentucky's standing could be significant. Many recent successes in obtaining funding for important federal programs and earmarked funds can be directly attributed to the efforts of Kentucky's Senators and Representatives. However, a strategic and closely coordinated approach to federal funding among all stakeholders could improve the Commonwealth's access to federal funds and new grants opportunities even further.

Coordination and Oversight of Federal Funds Information in Other States

Several states have undertaken examinations of their methods for coordination and oversight of federal funds, identified weaknesses, and made recommendations for improvements. While no single method is recognized as a best practice, there are strategies for improvement and innovations that are worthy of discussion and consideration. These states' recommendations offer encouragement for Kentucky to consider a more centralized approach.

Federal funds oversight in some other states shows a definite trend towards centralization as a way to improve communication of federal fund opportunities. Illinois has taken aggressive steps to institutionalize a central source for federal funds information by creating a state clearinghouse, and California, Kansas, and Virginia have all recommended steps to centralize federal funds information. However, among the regional states contacted by APA, only two (Florida and Alabama) responded to questions regarding their coordination and distribution of federal funds information, and these states described largely decentralized processes – much like Kentucky's current system.

Maryland, Missouri, and Texas were consistently identified in other states' audits as having had recent experience with centralized oversight of federal funds; none of the states in Kentucky's region were identified. A comparison of federal grant awards reported by the U.S. Census revealed no clear relationship between increased federal grant rankings and the more centralized management approaches employed by Maryland, Missouri, and Texas.

Table 4.1 captures federal expenditure growth within these three (3) states. According to a Virginia Joint Legislative Audit and Review Commission report, Texas realized a $40 million increase in federal funds after implementation of its centralized Texas State Grants Team. Still, it is difficult to ascertain any trends since implementation dates are not reported, and the data does not capture the number of grants received, but instead relies solely on total dollars as a measure of growth. For example, expenditures dollars in a few large programs could decrease while federal program grants increase in number and the Census data would show a downward trend in expenditures growth without noting the increase in grant awards.

Table 4.1: Trends in Federal Grants Growth Among States Implementing Centralized Approaches to Federal Funds Information For Fiscal Years 1998 –2005

State	Fiscal Year Ranking Based on Dollar Amount of Federal Grants					
	1998	1999	2000	2001	2002	2003
Maryland	22	17	13	14	44	17
Missouri	27	26	26	22	19	21
Texas	44	39	44	38	45	42

Source: U.S. Department of Commerce Economics and Statistics Administration Bureau of the Census *Consolidated Federal Funds Reports* for years 1998 through 2003

Other states have recognized that centralized communication and distribution of grant information between executive decision makers and agencies can pay dividends in more visible grant notices and, possibly, more successful applications. Illinois offers an interesting example of a centralized approach to federal grants information and tracking. The Illinois Clearinghouse model has drawn the attention of the National Governors Association Center for Best Practices and presents a progressive and innovative approach Kentucky may want to adopt.

Chapter 4

Attracting Federal Funds Requires Coordinated Efforts

Illinois Developed a Central Clearinghouse for Federal Funds

The Illinois Clearinghouse is a strategic component of a concerted effort to ensure that Illinois receives its fair share of federal funds. According to *Measuring and Increasing Federal Funds to Your State* (a July 2004 Illinois report to the National Governors Association (NGA) Center for Best Practices) just two (2) years after the launch of the Illinois Clearinghouse, the level of federal funding to state agencies rose significantly, increasing a full 18.7% over the 1999 level. The Illinois report to the NGA stated that improved communication and efficiency in information exchanges led to this expanded program funding.

Illinois reported the following key findings based on its Federal Clearinghouse experience:

- Data for measuring federal funding is relatively easy to assemble, and its collection is central to improving federal funds acquisition.
- Measuring federal funds can help state agencies and the public better understand how federal funds work and how to make improvements.
- Improved knowledge about federal funds measurement makes it easier to set priorities, link goals, and strategically plan.
- It is important to recognize that in some cases increasing funds and grants may run counter to policy goals (for example, increasing participation in new federal grants with heavy matching requirements during state budget downturns).

The Illinois Clearinghouse provides a web-based information source and periodic reports on federal programs that were developed specifically to improve information sharing. The centralized website approach taken by Illinois readily puts consolidated federal funds information directly into the hands of more stakeholders. *The Illinois Clearinghouse: What We Get and How We Can do Better*, a companion report to the earlier NGA piece, provides a catalog of current and future federal funding opportunities and is targeted toward the Illinois Congressional delegation.

Other States Recommend Centralization

A December 2003 report by the Virginia Joint Legislative Audit and Review Commission entitled *A Review of Virginia's Activity in Maximizing Federal Grant Reporting*, indicates that centralization of federal funds information is a good idea. The report notes that increases in grant funding might be achieved by centralizing grants management and offering assistance to state program staff throughout the grant identification and application process. Virginia concluded that centralized electronic notification of potential opportunities also shows potential benefits. In Virginia, dedicating staff time and effort are significant obstacles to federal fund research, a situation echoed by the Kentucky agencies APA interviewed.

An April 2003 Kansas Legislative Division of Post Audit performance audit report, *Federal Funds: Determining Whether Opportunities May Exist to Leverage State Spending to Draw Down More Federal Funds*, identifies obstacles that appear to hinder securing federal funds. The Kansas report points to a lack of central consulting authority oversight and strategic planning as the main factors preventing maximization of federal funds. The audit concludes that a more coordinated effort to identify and secure federal money could improve federal expenditures. (**Auditor's Note:** The Kansas audit mistakenly identifies Kentucky as a state currently using a centralized approach to identifying federal funds opportunities.)

California's August 2003 report, *Federal Funds: The State of California Takes Advantage of Available Federal Grants, but Budget Constraints and Other Issues Keep it From Maximizing This Resource*, concluded that California uses reasonable processes to identify new and expanded grant funding opportunities but adds that more centralized approaches do hold promise. Like Kentucky's GOLD, California's clearinghouse does not supply information on federal grants to state agencies, nor does it assist them with identification of funding sources or the application process.

Kentucky Has Used Washington D.C. Consultants to Advance Federal Funds Efforts

For many years, Kentucky has maintained a Washington D.C. presence that is responsible for representing the Commonwealth's federal funds interests. This arrangement has taken the form of contracted consultants and executive branch employees. Some of the contracts were undertaken with large, nationally recognized firms while other contracts relied on the expertise of individuals.

The Kentucky Legislative Research Commission's Government Contract Review Committee conducted a short-term study of Kentucky's usage of lobbyists to obtain or enhance federal funds acquisition. The report, which was released in November 2004, includes higher education research and development contracts and ultimately concludes that the Commonwealth has achieved positive financial results with outstanding returns from employing these lobbyists.

APA's research focused on contracts that could likely impact core state government agencies and did not include agency-specific contracts or those with negligible impact outside of higher education. Table 4.2 is a list of the contracted Washington D.C. firms responsible for federal funds procurement related activities on Kentucky's behalf from August 2001 to present.

Table 4.2: Kentucky's Washington D.C. Coordination Contracts with National Firms

Vendor	Dates	Amount
Barbour Griffith and Rogers	8/1/01 – 6/30/02	$229,168
Barbour Griffith and Rogers	7/1/02 – 6/30/03	$256,000
Barbour Griffith and Rogers	7/1/03 – 6/30/04	$256,000
The Livingston Group, LPPC	3/1/04 – 6/30/04	$66,000
	Total	$807,168

Source: Kentucky Legislative Research Commission MARS Contracts

The Commonwealth's 2004 contract with The Livingston Group, LPPC represents the last known central consultant used to promote Kentucky and influence federal policy and funding. Contracts for federal fund consulting at the state agency level may exist, but these would not be centralized in focus.

In addition to the firms listed in Table 4.2, Kentucky utilized two (2) individual consultants during the mid-2001 through mid-2004 time period. One was a state employee and one was a contractor. The individual consultants began work in July of 2001 when Governor Patton reopened Kentucky's Washington D.C office and developed Kentucky's Office of the New Economy. These moves were geared towards education and university funding. Partnering UK, U of L and other postsecondary education centers complemented the $230 million invested in the Bucks for Brains program and served to coordinate state efforts to attract federal research dollars. According to the OSBD, the goals of the Office of the New Economy were to:

- Expand federal support for state government programs
- Increase federal research and development funding opportunities for Kentucky's public universities
- Secure federal matching dollars for New Economy projects
- Obtain a federal research lab for Kentucky

Costs associated with the individual consultant retained under contract are presented in Table 4.3 below. Ancillary costs such as leaseholds on office space are unknown.

Table 4.3: Kentucky's Washington D.C. Coordination Contracts with Individual Consultants

Vendor	Dates	Amount
Individual Consultant	3/29/02 – 6/30/02	$17,100
Individual Consultant	7/1/02 – 12/31/02	$45,600
Individual Consultant	1/1/03 – 6/30/03	$48,800
Individual Consultant	7/1/03 – 6/30/04	$97,600
	Total	$209,100

Source: Kentucky Legislative Research Commission MARS Contracts

Although it was not within the scope of this audit to conduct a detailed cost-benefit analysis of the consulting contracts, anecdotal information provided through telephone interviews highlighted two (2) important achievements of Kentucky's Washington presence during their terms:

- Collective efforts between state and federal officials in conjunction with the Congressional delegation produced positive results such as funding for a Paducah environmental cleanup program, federal highway funding, and military base cleanup.

- Having a Washington presence promoted Kentucky's agenda with the National Governors' Association and federal policymakers and produced results.

Currently, there are no known contracts between the Commonwealth and individual consultants or national firms that provide coordination efforts with state government as a whole. However, the recently enacted state budget included an appropriation of $388,200 to fund a Washington D.C. office to promote Kentucky's interests. A person has recently been hired to staff this office for an annual salary of $60,000 in state funds for less than 100 hours of work each month. Additionally, some individual agencies may have similar arrangements in place, but their scope would be limited to target programs within the agency's individual mission.

Chapter 4

Attracting Federal Funds Requires Coordinated Efforts

Current Coordination Efforts Between Kentucky Agencies and Federal Grantors

In order to glean a better understanding of how Kentucky state agencies are apprised of federal funds opportunities, we conducted interviews with selected state agencies representing the key federal program areas of Agriculture, Education, Health and Human Services, Labor and Transportation. These federal programs represent Kentucky's five (5) largest federal expenditures. From these interviews we were able to compare federal funds administration and communication methods both within and outside of the agencies and highlight approaches for improved practices.

Federal funds information is sometimes fragmented even within a single state agency. Finding and utilizing it requires significant time and effort from staff members who are usually responsible for other job duties as well. According to the staffers APA interviewed, financial resources can severely limit the amount of time spent to identify opportunities and coordinate efforts with other Kentucky agencies. Agency resources are usually insufficient to employ federal funds specialists who could consistently monitor new federal funding opportunities. Instead, these duties are commonly shared among several employees who must routinely balance them with other important job tasks.

While the federal government has taken recent steps to improve centralized program reporting through user-friendly websites like www.grants.gov, identifying new opportunities through a single source is often impossible. Instead, grant seekers tend to rely on multiple reporters. Some information sources, like the *Federal Register*, are comprehensive and accurate but time consuming to scan. Other program-based reporters, such as professional organizations or journals and federal program agency websites, offer good alternatives to the *Federal Register* but are limited in scope to specific federal program areas.

We found that Kentucky agencies typically engage in multiple activities to track down new federal funds opportunities. Table 4.4 highlights the possible methods for identifying new federal funds.

Table 4.4: Methods Kentucky State Agencies Use to Identify Federal Funding Opportunities

Information Source	Advantages	Disadvantages
Federal Funds Information for States (FFIS) and Other Subscription Services	Tend to be detailed and up to date and can provide program-specific and state-specific data	High cost and potentially duplicative free information from federal reporters
Washington-based Consultants	Offer hands-on contact and a voice with federal decision makers	High cost and information; may not get into the hands of program staffs
Office of State Budget Director (OSBD)	Good communication of overall state budget policy, goals, and interests	Limited resources within OSBD
Federal Register	Official federal daily publication includes all notices of opportunities	Voluminous and difficult to navigate and search
Membership in Professional Organizations	Can provide important program information and collective promotional efforts for federal program resources	High cost and potential conflicts with state policy due to program bias
Program-based Letters of Notification	Direct notification of opportunities from federal authorities provides concise opportunity information	May not get circulated to all stakeholders and decision makers and is limited in scope
Review of Federal Agency Websites	New sources of funding and potential changes are often discussed	Quality of websites varies and can be time consuming and limited to program area
Personal Contacts at Federal Agencies	Advance notice and detailed information are available	Competitive nature of some programs among regional states and limited to program area

Sources: Following the example of the Virginia Legislative Audit and Review Commission of the Virginia General Assembly report, *Review of Virginia's Activity in Maximizing Federal Grant Funding* APA constructed this table based on Kentucky agency interviews with officials representing the federal program areas of: Agriculture, Education, Health and Human Services, Labor, and Transportation

Based on APA's interviews with state agencies, the various federal funds information sources identified in Table 4.4 are not fully distributed and accessed. Although the Kentucky OSBD subscribes to FFIS and is a conduit for related information distribution to state agencies, some state agencies were unaware of or simply did not use the FFIS reports. Similarly, some agency staff members were unaware of the Washington D.C. consultants' efforts, although information may have been shared with Cabinet Secretaries or other agency officials.

Kentucky already enjoys a built-in advantage if state policy makers choose to pilot a more centralized approach to federal fund tracking here. According to OSBD officials, Kentucky always includes federal funds in its state appropriations bill. This is not the practice nationwide. Many states never even acknowledge federal funds during their budget processes. The funds are simply received and disbursed and never accounted for in those states. However, since Kentucky already has an overall legislative awareness of federal funds built into its budget process, taking the additional steps necessary to centralize grant information distribution and procurement efforts would be easier as well as logical.

Recommendations

The Governor's Office should establish a more centralized grant oversight function in order to provide better access to additional federal grant opportunities. Positive results in Illinois, along with findings in other states, collectively point to benefits in the form of reduced costs and drains on existing agency resources and increased potential for identifying additional federal grant money.

Additionally, in order to ensure better awareness of federal funds opportunities within the current channels of communication, we recommend that Kentucky's OSBD work with the Governor's Office to:

- Implement a central clearinghouse similar to the Illinois model.
- Develop an electronic bulletin board to post federal funds notices for state agencies and other Commonwealth stakeholders.
- Determine a strategic plan and direction for Kentucky's Washington D.C. presence that incorporates the input and expertise of the Congressional delegation.
- Implement performance data collection to track consultants' efforts.
- Present an annual report to the General Assembly that assesses Kentucky's management of federal funds for the past fiscal year.

Chapter 5

Potential Federal Funding Opportunities Exist

Regional States Participated in 126 Federal Grants/ Programs in Which Kentucky Did Not

According to the SSWAK, Kentucky participated in a total of 326 federal grants/programs during fiscal year 2002. However, there were also 126 federal grants/programs that Kentucky did ***not*** participate, but at least one of the regional states did. (Conversely, it should be noted that Kentucky very likely participated in some federal programs that other regional states did not. However, an examination of these programs was not within the scope of this particular audit.)

Adequate tracking and monitoring of federal funds should always be a state objective, regardless of whether the state utilizes a centralized or decentralized approach to federal funding. Therefore, an information request was sent to the state agencies that administer grants related to Kentucky's five (5) significant federal funding areas to learn the reasons for their lack of participation in these 126 programs. However, the agency responses lacked sufficient detail to enable APA to determine exactly how many of the 126 grants/programs were and are viable potential federal funding opportunities for Kentucky.

All of the federal grants/programs that states were eligible to participate in were compiled from the CFDA and then reviewed for Kentucky participation using the FY 2002 SSWAK. (Fiscal year 2002 was used, because this was the most recent year for which we had completed Single Audits from each regional state.) A list of non-participating programs was assembled using this information. Grants/programs that Kentucky would obviously not qualify for, such as Alaska Salmon Enhancement or Chesapeake Bay Studies, were deleted from this initial list. Additionally, we deleted any grants/programs that Kentucky's public universities participated in, because this information would not be included in Kentucky's SSWAK.

The regional states' FY 2002 single audits were reviewed to determine if those states had participated in the remaining grants/programs. As long as one (1) of the seven (7) regional states participated, that program was included on the final list. The various amounts received by each of the regional states were also scheduled in a spreadsheet for analysis.

Table 5.1 displays the number of federal grants/programs that the regional states participated in but Kentucky did not. This table breaks down the number of grants/programs by administering federal agency and provides a grand total of grants/programs with the associated federal funding totals. The "Total Programs" column represents the number of federal grants/programs administered by an agency in which Kentucky did not participate. For example, there were 16 grants/programs administered by the Department of Agriculture (see the first row of Table 5.1) that were funded in the seven regional states but not in Kentucky.

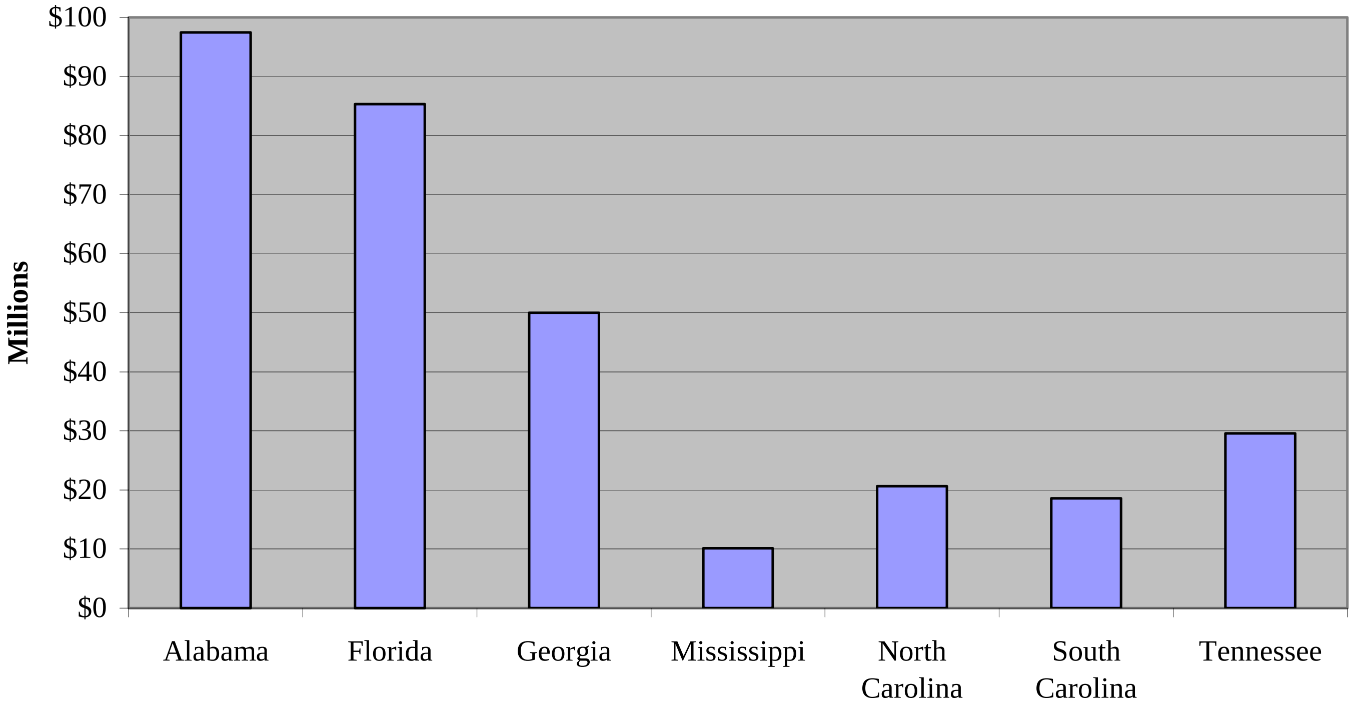
Table 5.1: Number of Federal Grants/Programs In Which Kentucky Did Not Participate Fiscal Year 2002

Federal Granting Agency	Alabama	Florida	Georgia	Mississippi	North Carolina	South Carolina	Tennessee	Total Programs
Department of Agriculture	5	6	4	4	6	0	10	16
Department of Commerce	1	4	1	1	8	2	2	12
Department of Defense	1	2	1	0	1	0	2	4
Department of Housing and Urban Development	0	0	1	0	0	0	3	4
Department of Interior	1	1	1	0	3	1	1	7
Department of Justice	1	4	3	1	3	0	1	10
Department of Labor	1	1	1	0	0	1	3	3
Department of Transportation	4	5	3	2	5	1	5	8
Appalachian Regional Commission	1	0	0	0	0	0	0	1
National Foundation on the Arts and the Humanities	0	4	3	0	2	2	1	5
Department of Veterans Affairs	1	2	2	0	0	0	3	4
Environmental Protection Agency	2	3	3	1	1	2	3	4
Department of Energy	0	1	1	0	0	1	0	1
Department of Education	1	5	4	3	6	0	4	12
Department of Health and Human Services	5	17	15	2	14	8	7	31
Corporation for National and Community Service	1	3	2	1	0	0	1	3
Social Security Administration	0	1	0	0	0	0	0	1
Grant/Program Totals	**25**	**59**	**45**	**15**	**49**	**18**	**46**	**126**
Federal Funds Totals	**$97,439,638**	**$85,305,810**	**$50,022,910**	**$10,108,278**	**$20,633,856**	**$18,575,471**	**$29,564,913**	**$311,650,876**

Source: Auditor of Public Accounts based on information retrieved from each states' Single Audit reports at the Federal Audit Clearinghouse website, http://harvester.census.gov/sac.

Of these 126 grants, the federal funding totals received by the regional states for these grants/programs ranged from Mississippi with $10 million to Alabama with over $97 million. Illustration 5.1 below displays the amounts each state received for the federal grants/programs that Kentucky did not participate in.

Illustration 5.1: Federal Dollars Received For Federal Grants/Programs That Kentucky Did Not Participate in During Fiscal Year 2002



Source: Auditor of Public Accounts based on information retrieved from each states' Single Audit reports at the Federal Audit Clearinghouse website, http://harvester.census.gov/sac.

Of the 126 federal grants/programs, there were 69 in which only one state participated and 57 that had at least two states participating. There was only one program in which all of the seven states received funding and that was CFDA # 93.566: Refugee and Entrant Assistance – State Administered Programs. Appendix II contains a comprehensive listing of the 126 grants/programs along with the dollar amounts awarded.

Agencies Could Not Explain Their Lack of Participation in These 126 Program Opportunities

The reasons for Kentucky's lack of participation in these 126 programs could not be accurately determined due to a lack of state agency documentation. There is no statewide requirement or method for documenting federal program application efforts. Therefore, it could not be ascertained whether Kentucky had unsuccessfully applied for assistance, had chosen not to apply for justifiable program reasons, or had simply just failed to apply.

During APA's interviews with agency personnel within Kentucky's significant federal funding areas, several legitimate reasons for not applying for federal grant awards in general were volunteered. These reasons included:

- If the grant is to develop a pilot program, there is concern about putting program recipients through conditions that may ultimately change.

- Expanding eligibility in order to receive federal match money may lead to increased costs and incur an obligation for recurring state dollars.
- The goals or objectives of a grant/program might conflict with an agency's mission or responsibilities.
- A grant/program could require hiring additional staff that may not be needed if the federal funding ends.

To address the concern expressed in the last bulleted entry above, KRS 18A.005 was amended during the 2004 General Assembly to create a position entitled "Federally funded time-limited employee." This is a position that is funded one hundred percent (100%) by a federal grant or grants. Employees appointed to these positions serve at the pleasure of the appointing authority for a period of time not to exceed the life of the federal grant that funds their position.

The state agencies that administer grant programs within Kentucky's five (5) significant federal funding areas were asked to document the reasons for their lack of participation in the grants among the 126 that fell within their program areas. The responses from the Transportation Cabinet and the Cabinet for Health and Family Services were not sufficient to determine the reasons for Kentucky's non-participation in the grants/programs under their jurisdiction. The other three (3) agencies, the Department of Agriculture, the Department of Education, and the Department of Employment Services did provide sufficient information.

APA requested the Kentucky Department of Agriculture (KDA) to provide information on why they did not participate in sixteen (16) federal grants/programs that are administered by the federal Department of Agriculture. The breakdown of KDA's response follows:

- Two (2) programs (10.435: State Mediation Grants and 10.475: Cooperative Agreements with States for Intrastate Meat and Poultry Inspection) were new to them. These funding opportunities will be investigated and the appropriate staff informed.
- Seven (7) programs in which KDA responded that it was not eligible to apply but other entities, such as universities or research organizations, were eligible.
- Two (2) programs were for non-funding assistance.
- Three (3) programs had objectives that were not part of KDA's responsibility.
- One (1) program was no longer active.
- One (1) program was participated in during both FY 2003 and 2004.

The Kentucky Department of Education (KDE) was asked to respond regarding twelve (12) federal grants/programs. KDE responded that there were seven (7) they were not eligible for, because the grant was directed toward institutions of higher education and one (1) for which KDE applied but did not receive funding. According to KDE, the remaining four (4) grants/programs' funding levels did not justify the staff time involved in the application process or the additional staff that would be needed to implement the program.

Kentucky's Department of Employment Services (DES) was asked to provide information on three (3) federal grants that Kentucky failed to acquire. In general, DES' response was that special grants such as these three could cost the Commonwealth more in the long run if additional staff were needed and employed. According to DES, the question "does the need warrant the cost?" must be asked before applying for such grants.

The Transportation Cabinet and the Cabinet for Health and Family Services (CHFS) did not fully complete APA's information request. The Transportation Cabinet was requested to respond to eight (8) federal grants/programs but sent an incomplete response. The CHFS was asked to respond to thirty-one (31) federal grants/programs. For one (1) of these programs, CHFS responded that it did apply and did receive funding. However, no explanations or information were ever provided for the other thirty (30) grants/programs. The information provided by these two agencies clearly did not contain the details necessary to reach a reliable estimate on missed potential federal funding.

Recommendation

Tracking and monitoring federal funds should be a state objective regardless of whether the state has a centralized or decentralized approach to federal funding in place. A statewide requirement and method for documenting efforts to apply or decisions not to apply for federal program assistance should be implemented. This responsibility should be vested with one office or one individual within each agency. Clearly documenting why Kentucky did or did not participate in a federal grant/program will enhance Kentucky's federal tracking and coordination efforts. This documentation will also provide taxpayer assurance that the state is making every effort to enhance federal funding where appropriate.

Chapter 6

Kentucky's Management of Federal Funds Bonuses

TANF and Food Stamp Bonus Payments Could be Enhanced by Better Performance

Some federal programs award performance-based incentives and bonuses that allow states further access to federal fund allocations. Two important programs that offer these rewards are TANF and Food Stamps. These two (2) programs collectively represented nearly a half billion dollars ($500,000,000) in federal expenditures to Kentucky in FY 2003. Associated program bonus payments offered millions in additional funding if certain federal performance measures were achieved.

TANF and Food Stamp bonuses are dollar significant examples of how states can proactively increase their share of federal funds by achieving measurable performance indicators. Kentucky has done well at maximizing additional funds within these programs when compared to the regional states, but there is still room for improvement. From 1996 through 2003 Kentucky received over $6.5 million in performance bonus funding for its Food Stamp program, and from 1999 through 2003 Kentucky received over $26.5 million in TANF performance bonuses. These were sizable awards, but there were still additional performance bonuses available that Kentucky did not earn.

The Path to TANF Bonuses Varies and Penalties Are Possible

TANF originated with the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. This legislation was designed to replace the traditional welfare entitlement system with a ‘‘welfare to work" model that would stress transitioning benefit recipients back into the workforce. TANF is set up as a block grant with periodically adjusted funding levels. States may increase their TANF funding through bonus payments that are capped at 5% of individual state appropriations. Historically, the aggregate bonus funding pool for all the states has been capped at $200,000,000. And, since all the states share in this funding pool, higher performance across the board naturally results in lower individual state gains.

Continuation of the bonus program is entirely contingent on reauthorization of TANF funding. The Omnibus appropriations budget passed by Congress on December 6, 2004 provides for current TANF funding at the FY 2004 levels. Future funding levels will of course depend on economic conditions and public policy trends.

Participation in the TANF bonus program is optional and participating states have some flexibility in choosing their performance measures. Table 6.1 provides the number of states receiving awards nationally from 1999 to 2004. Kentucky did not receive bonus awards in both 1999 and 2000.

Table 6.1: National Participation in TANF Bonus Program

Year	Number of States With Awards
2004	37
2003	40
2002	41
2001	26
2000	27
1999	27

Sources: U.S. Department of Health and Human Services, Administration for Children and Families Data, Office of Planning, Research and Evaluation, Collection and Analysis Division data: Awards for Performance Year 2001 and 2002 By Category Amount, *Annual Reports to Congress*, 1999 and 2000, and FFIS Issue Brief 04-47

In addition to TANF bonus payments, there are also TANF penalties. The Department of Health and Human Services (HHS) may reduce a state's block grant if it fails to do any of the following:

- Satisfy work requirements (TANF recipients are supposed to re-enter the workforce within five (5) years)
- Comply with the five-year limit on assistance
- Meet the state's Contingency fund Maintenance of Effort (MOE) requirement
- Reduce recipient grants for refusing to participate in work activities without good cause
- Maintain assistance when a single custodial parent with a child under six cannot obtain child care
- Submit required data reports
- Comply with paternity establishment and child support enforcement requirements
- Participate in the Income and Eligibility Verification System
- Repay a federal loan on time
- Use funds appropriately
- Replace federal penalty reductions with additional state funds.

Kentucky agency officials noted no TANF funding reductions due to penalties.

Additional TANF Bonus Payments May be Possible for Kentucky

TANF bonus payments are not determined by achievement alone. Improvements over past performance can also trigger bonus payments. Rewarding improvement provides additional incentive for lower-performing states to better their programs. There are also several optional inputs or performance measures that states may choose to be evaluated on. For performance year 2003, the available options are presented in Table 6.2 below.

Table 6.2: TANF Performance Bonus Categories for FY 2004

Performance Category	Improvement Criteria
Job entry rate	Increase in job entry rate
Success in the workforce	Increase in job success rate
Medicaid / SCHIP enrollment of former welfare recipients	Increase in Medicaid / SCHIP enrollment of former welfare recipients
Food Stamp participation among low-income working households with children	Increase in Food Stamp participation among low-income working households with children
Child care subsidy performance	Increase in proportion of children living with married couples

Source: U.S. Department of Health and Human Services, Administration for Children and Families Data, Office of Planning, Research and Evaluation, Collection and Analysis Division

Table 6.3: TANF Bonuses for Kentucky and Regional States Award Years 1999 through 2003

State	2004	2003	2002	2001	2000	1999	Total Awards
Florida	$10,208,852	$9,975,324	$28,117,006	$0	$20,853,991	$6,845,732	$76,009,905
Tennessee	$9,576,190	$1,599,716	$9,576,190	$0	$9,576,190	$6,436,504	$36,764,790
Kentucky	$3,083,832	$8,490,818	$5,979,825	$9,064,383	$0	$0	$26,618,858
North Carolina	$0	$3,517,651	$0	$0	$8,284,674	$0	$11,802,325
Alabama	$2,561,627	$505,051	$0	$0	$4,665,760	$0	$7,732,438
Georgia	$0	$4,398,207	$0	$0	-	$0	$4,398,207
Mississippi	$2,585,628	$429,982	$390,077	$0	$2,378,382	$0	$5,784,069
South Carolina	$3,791,245	$0	$1,554,819	$0	$0	$1,216,973	$6,563,037

Sources: Administration for Children and Families, Office of Family Assistance data: Awards for Performance Year 2001 and 2002 by Category Amount, Annual Reports to Congress, 1999 and 2000, and *High Performance Awards 1999-2003,* and FFIS Issue Brief 04-47 *HHS High-Performance Bonuses* October 18, 2004.

Comparing the regional states' realized bonuses to potential bonuses illustrates just how successful Kentucky has been at securing available funding based on the $200,000,000 national allotment. As detailed in Table 6.4, within the region, Kentucky is outpaced only by Tennessee and Florida throughout the six-year period at maximizing available TANF bonus dollars. Throughout the 6-year period Kentucky received nearly 50% of its total available bonus funding. Kentucky's recent downward dip to 34% in 2004 may be explained in part due to increased competition. However, despite this competition, neighboring Tennessee still received 100% of its available bonus awards in 2004.

Table 6.4: TANF Bonus Awards as a Percentage of Available Amounts for Kentucky and Regional States FY 1999 through FY 2003

State	Maximum Possible Award	2004	2003	2002	2001	2000	1999	6-Year Average
Tennessee	$9,576,190	100%	17%	100%	N/A	100%	67%	64%
Kentucky	$9,064,383	34%	94%	66%	100%	N/A	N/A	49%
Florida	$28,117,006	36%	35%	100%	N/A	74%	24%	45%
Alabama	$4,665,760	55%	11%	N/A	N/A	100%	N/A	28%
South Carolina	$4,998,391	76%	N/A	31%	N/A	N/A	24%	22%
Mississippi	$4,338,379	60%	10%	9%	N/A	55%	N/A	22%
North Carolina	$15,111,980	NA	23%	N/A	N/A	55%	N/A	13%
Georgia	$16,537,087	NA	27%	N/A	N/A	N/A	N/A	5%

Sources: Administration for Children and Families, Office of Family Assistance data: Awards for Performance Year 2001 and 2002 By Category Amount, Annual Reports to Congress, 1999 and 2000, and *High Performance Awards 1999-2003,* supplied by HHS and FFIS Issue Brief 04-47 *HHS High-Performance Bonuses* October 18, 2004. Note: Total bonus available is based on State's Family Assistance Grant; N/A – indicates State received no bonus.

Table 6.4 provides a weighted comparison, taking into account possible TANF bonus awards rather than absolute dollars as in Table 6.3. Table 6.5 computes potential missed opportunities for bonuses in Kentucky from 1999 through 2004.

Table 6.5: Additional Awards Possible in TANF Bonuses 1999 through 2004

2004	2003	2002	2001	2000	1999	Total
$5,980,551	$573,565	$3,084,558	$0	$9,064,383	$9,064,383	$27,767,440

Source: Same as Table 6.4 above, with opportunity costs calculated by APA.

Based on the TANF awards possible for 1999 through 2004 ***and*** the 5% cap imposed by federal law, Kentucky could have received additional TANF bonus payments had it achieved its maximum amount of $9,064,383 per year. (Note that the maximum amount was received for one of these years: 2001.)

It is important to recognize that achieving the maximum bonus dollars available occurred only 12.5% of the time for Kentucky and regional states throughout the six-year period. Concluding that Kentucky may have received a full $27,767,440 in additional funding is an optimistic presumption that must be tempered by the realities of competition. Obviously, bonus payments to individual states decrease as more states succeed and draw upon the available $200,000,000 pool of funds.

Food Stamp Bonuses Show Room for Further Federal Funds Maximization

Like the TANF bonus, the federal Food Stamp program also pays bonus dollars based on performance. The federal Food Stamp program provides support to needy households and for those making welfare to work transitions by offering food payments to individuals through EBT cards. Its roots go back to 1939 when the first Food Stamp program was put into place. The Food Stamp Act of 1977 (with significant modifications throughout the 1980s and 1990s) forms the basis of the current program.

The Food Stamp program offers performance-based bonus payments and enhancements for states. TANF has an optional Food Stamp performance component within its program bonus, discussed in Part 1 of this Chapter and this bonus is separate from the Food Stamp bonus discussed here.

Kentucky ranked 4th regionally in Food Stamp bonus funding from 1996 through 2003, and was among a handful of states receiving payments in 1996 through 1999. At no time during the 1996 through 2003 period did more than 12 states receive additional funding. Kentucky's performance is only average among regional states and there is definitely room for some improvement.

Enhanced Food Stamp Funding and Performance Prior to 2002

Prior to the 2002 Farm Bill, Food Stamp bonus awards, described as "enhanced funding" were based strictly on payment error rates. States were awarded additional funding for high performance or performance improvements based on payment accuracy and measurable error rates. Prior to the 2002 Farm Bill, the payment error rate could be no greater than 5.9% for a state to receive bonus funding and the negative error rate – the rate for paying out too much –could not exceed the national average. Potential penalties could also be applied for poor accuracy outcomes.

Appendix VI provides combined overpayment and underpayment error rates, potential liabilities, and enhanced funding for Kentucky and regional states from 1996 through 2002 and Kentucky's ranking among the regional states. Results from a new bonus payment system enacted for 2003 under the 2002 Farm Bill are also included in Appendix VI. Throughout the years 1996 through 2003, Kentucky received $6,600,288 in bonus funding, ranking behind Mississippi, South Carolina, and North Carolina, but ahead of Tennessee, Alabama, Florida, and Georgia.

Kentucky's Management of Federal Funds Bonuses

Changes in Farm Bill Set to Spread Payments Among States

The performance measures of the 2002 Farm Bill came about after states' criticisms that the bonus requirements were too narrowly focused on payment accuracy. FFIS *Issue Brief 04-38 States Receive Food Stamp Bonuses, September 21, 2004* provides an excellent synopsis of the current Food Stamp bonus program, along with the results for error rate awards. The Farm Bill changes impacted awards starting in 2003.

Currently, the total bounty of Food Stamp bonus awards for the states is $48 million, as authorized under the 2002 Farm Bill (P.L. 107-171). The USDA's Food and Nutritional Services division set the 2003 awards based on categorical performance. States are awarded the additional funding, or bonuses, based on performance measures in four areas:

- **Payment accuracy** ($24 million, 10 states eligible), measured by quality control data
- **Negative error rates** ($6 million, 6 states eligible), measured by quality control data
- **Participation rate** ($12 million, 8 states eligible), based on the rate at which eligible persons are participating in the program
- **Average monthly state participation divided by the number of persons below Census poverty line**
- **Application processing timeliness** ($6 million, 6 states eligible), measured by quality control data

For 2005 and beyond, the 2002 Farm Bill requires USDA's Food and Nutrition Service (FNS) to publish a regulation codifying performance measures in a final rule. As of the date of this report, a final rule has not been finalized.

The USDA Food and Nutrition Services Division highlights some additional important points on its website providing additional guidance on the 2003 bonus payments.

- States with large caseloads are "handicapped" based on proportional size of their caseloads.
- Performance bonuses based on improvements will be linked to absolute, rather than relative, improvements.
- States cannot win more than one bonus in the same category.
- For Fiscal Year 2003 no state agency will be assessed a liability.
- The Farm Bill provides that no state may receive a bonus that has been assessed a quality control liability.
- States that have been assessed a penalty cannot receive bonuses; however, no penalty was applied in 2003.

Thus, by expanding the Food Stamp bonus program along these parameters, states that were formerly not awarded bonuses may now have a better chance to receive additional payments. This is proven by the 2003 bonus awards, presented in Appendix VI. The Food Stamp Bonus Payment data provides a regional breakdown of states' bonus payments under the 2002 Farm Bill changes, along with categorical performance.

The rule changes under the 2002 Farm Bill have resulted in 3 regional states and Kentucky benefiting under the administration and customer service awards and 23 states and the District of Columbia receiving bonus awards nationwide. Although it is too early to predict future outcomes, it appears the field will be more competitive under the more flexible new rules.

The restructured bonus payments allowed additional states to receive funding as envisioned by the new system. The states receiving some form of bonus payments in 2003 represent a significant increase over participants in the enhanced funding tracked from 1996 through 2002. Kentucky received its 2003 bonus based on application processing timelines, a measure of customer service to be awarded to only the six highest performing states. Kentucky was ranked first.

Combined Payment Error Rates (CPER) are used to determine accuracy for the correct amount of benefits for recipients and the frequency of improper denials or termination of benefits. Kentucky's CPER for 2003 was 6.32% and was below the national average but did not meet the cutoff for a bonus based on payment errors.

Regional Rankings for All Payments 1996 - 2003

Table 6.6 provides a summary of Food Stamp bonuses, including the 2003 enhanced payments, for 1996 through 2002 and places Kentucky fourth among the beneficiaries and at just under the regional average in total payments.

Table 6.6: Total Food Stamp Bonus Payments 1996 through 2003

State	Total Enhanced Funding and Bonus
Mississippi	$21,265,784
South Carolina	$18,336,062
North Carolina	$10,122,355
Kentucky	$6,600,288
Tennessee	$4,340,461
Alabama	$1,070,183
Florida	$0
Georgia	$0
Average Bonus Payments = **$7,716,892**	
Kentucky's Percentage of Regional Average = **86%**	

Source: United States Department of Agriculture Food and Nutrition Service Branch

Recommendation

We recommend that the Kentucky Cabinet for Health and Family Services continue to aggressively pursue TANF and Food Stamp bonus payments by striving to increase federal performance measures.

We recommend that all eligible state agencies identify and participate in federal bonus programs that benefit the Commonwealth and report bonus level performance to OSBD in a timely manner.

Federal Block Grants and Block Grant Proposals

Block Grant Proposals Could Greatly Impact Kentucky's Future Federal Funding Status

This Chapter distinguishes block grants from other federal program types, assesses the relative significance of federal block grants to Kentucky's budget, and discusses how proposed policy changes could impact future federal funding availability. Finally, using historical trends and the current proposals, we compare how a change in allocation methods could impact states and note how some states, like Kentucky, could be seriously disadvantaged by these changes.

Block grants are preset allocations, or capped blocks of funding, that offer states broader discretion in spending blocks of federal dollars. Supporters claim that block grant funding arrangements enable states to custom fit funding to local needs, control federal spending, and generally improve programs by decentralizing federal control in favor of state administration. Opponents of block grants counter that close examination of historical trends suggests inefficiencies, bypassed program objectives, increased state spending cuts, and potential funding problems for rural and/or less economically advantaged states. Recently, alternatives have been proposed in Washington to shift most existing federal program funding to the block grant model.

In order to better understand the block grant concept, and the economic and service delivery implications of a wide scale conversion from open-ended federal programs to block grants, it is necessary take the following steps:

1. Identify the block grants and their respective funding levels within Kentucky's federal programs;
2. Quantify the current level of block grant funding in Kentucky and its overall significance to the state budget;
3. Discuss the current proposals for block granting federal programs and potential impact on Kentucky and other states; and
4. Examine the potential impact of block granting a very large federal program – Medicaid.

Identifying Block Grants

Although the idea of block granting funds by program area has been discussed since the late 1940s, a national pilot program was not actually launched until 1966. Since that time, block grants have increased in overall financial significance but have never risen above 20% of the available funding for states and cities. Identification of specific block grants is difficult, because the Catalog of Federal Domestic Assistance (CFDA) does not contain a special designation for block grants, and it is not always possible to ascertain whether a program is a block grant solely from its title. Additionally, since no clear definition of a block grant exists, even government experts and program administrators can disagree on matters of form and function. Therefore, APA looked to an established outside source with experience in block grant reporting to obtain a more complete picture.

The Urban Institute, a nonprofit research foundation based in Washington, D.C., provided an overview of block grants in two recent reports, *Block Grants: Historical Overview and Lessons Learned* and *Block Grants: Details of the Bush Proposals.* These two reports provide historical funding data and discussions of the potential impact of block grant proposals. These reports, along with supplemental data provided to APA directly from the Urban Institute, were determined to be the best objective reference materials available for identification of block grants.

APA internally identified a few other federal programs that fit the profile of block grants and added these to the list supplied by the Urban Institute in order to obtain a more complete picture of current funding levels. We concluded our work by listing the block grants Kentucky received in FY 2003.

Block Grants – A Timeline and History

The following timeline highlights noteworthy block grant developments over the past 50 years and is a useful tool to better understand how federal programs developed into block grants.

1949

- The history of block grant funding can be traced back to 1949 and the U.S. Commission on Organization of the Executive Branch's idea of creating broad categories of federal grants in areas such as highways, education, public assistance, and public health

1966

- Partnership for Health Program (a block grant pilot program) approved

1968

- Safe Streets Program – created under the Omnibus Crime and Safe Streets Act of 1968, enacted by Congress under the Johnson administration.
- By 1968, block grants represented just 1% of all federal aid to state and local governments.

1971

- President Nixon proposes consolidating 129 different programs into six block grants, representing nearly 1/3 of all categorical aid programs.

1974

- After President Nixon proposed consolidating 129 different block grant programs, the Ford administration saw only three come to fruition. Two still exist today:
  - Community Development Block Grant (CDBG, extant)
  - States Program; Social Services Block Grant (SSBG, extant)
  - Comprehensive Employment and Training Act (ended in 1982)

1981

- Under the Reagan administration The Omnibus Reconciliation Act of 1981 consolidated and created new block grants that ultimately made up 17% of all federal aid with 25% less funding than the programs they replaced
  - Community Services Block Grant (CSBG) 93.569
  - Preventive Health and Health Services Block Grant (PHHS) 93.991
  - Block Grants for Community Mental Health Services 93.958
  - Block Grants for Prevention and Treatment of Substance Abuse 93.959
  - Maternal and Child Health Services Block Grant to the States (MCH) 93.994
  - Social Services Block Grant (SSBG) 93.667
  - Low Income Home Energy Assistance (LIHEAP) 93.568
  - Community Development Block Grants/State's Program (State-administered small cities program) 14.228

- Block Grants were used to reduce overall federal funding, and the federal government used funding requirements to achieve the following:
  - Advance national objectives
  - Protect local providers
  - Maintain state contributions

1982

- Job Training Partnership Act – emphasized state and local responsibility for administering federally funded job training programs and partnerships with the private sector

1991

- Surface Transportation Programs – established by the Intermodal Surface Transportation Efficiency Act of 1991

1996

- Personal Responsibility and Work Opportunity Reconciliation Act of 1996 – replaced Aid to Families and Dependent Children (AFDC) and related programs with TANF and increased block grant funding for TANF
- Shifts in fiscal policy favor replacing entitlement programs with fixed block grants, eliminating individual entitlements and giving state and local governments more flexibility and discretion in disbursing these funds
- Block grants give lawmakers more discretion in future spending

2004

- Current block grant proposals include:
  - Food Stamps
  - Head Start
  - Housing
  - Job Access and Reverse Commute
  - Job Training
  - Justice Assistance Grant
  - Medicaid
  - New Freedom Program
  - Super waiver for Low-income Programs
  - Surface Transportation
  - Child Welfare

Block Grants Account for Nearly 14% of the Commonwealth's Budget

Table 7.1 is a compilation of block grant amounts (for both Major and Non Major Programs for FY03) grouped by federal program area and CFDA number. Appendix VI provides a complete list of Major Programs and identifies block grants among these and the Non Major Programs.

Generally, "Major Programs" in FY03 were those with federal expenditures over $18 million; however, some exceptions do apply. APA's *Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK) for the Fiscal Year Ended June 30, 2003* contains additional information on the Major Program designations in its Note 2.

Table 7.1: FY03 Kentucky SSWAK Federal Program Expenditure Amounts and Block Grant Designations by Federal Agency

CFDA #	Title	Amount
	Major Programs	
	Department of Housing and Urban Development (HUD)	
14.228	Community Development Block Grants / State's Program	31,661,755
14.239	HOME Investment Partnerships Program	17,182,667
	Department of Transportation	
20.205	Highway Planning and Construction	485,248,928
	Department of Health and Human Services	
93.558	Temporary Assistance for Needy Families (TANF)	120,897,506
93.568	Low-Income Home Energy Assistance	27,997,414
93.575	Child Care and Development Block Grant	95,160,956
93.667	Social Services Block Grant	24,956,262
93.959	Block Grants for Prevention and Treatment of Substance Abuse	22,415,776
	Non Major Programs	
	Department of Justice	
16.523	Juvenile Accountability Incentive Block Grants	2,634,315
16.579	Byrne Formula Grants	7,380,962
16.592	Local Law Enforcement Block Grants Program	910,894
	Department of Transportation	
20.507	Federal Transit-Formula Grants	10,791,834
	Department of Education	
84.318	Education Technology State Grants	1,231,722
84.365	English Language Acquisition Grants	366,403
84.367	Improving Teacher Quality State Grants	11,470,566
	Department of Health and Human Services	
93.150	Projects for Assistance in Transition From Homelessness	300,000
93.569	Community Services Block Grant	10,899,285
93.571	Community Services Block Grant Discretionary Awards – Community Food and Nutrition	73,235
93.958	Block Grants for Community Health Services	6,091,667
93.991	Preventive Health and Health Services Block Grant	1,795,984
93.994	Maternal and Child Health Services Block Grant to the States	12,462,437

Source: APA *Report of the Statewide Single Audit of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2003*

Block Grant Pros and Cons

Block grants have always been the subject of a great deal of political debate. Some of the more heated discussions in recent years occurred during the Clinton administration just prior to the passage of the Personal Responsibility and Work Opportunity Reconciliation Act in 1996. This Act effectively changed the nature of the nation's entitlement-based welfare system into a block grant discretionary spending program. Advocacy groups representing children and the poor argued that block grant funding would limit resources to States and leave persons of limited income with insufficient support networks. Proponents of block grants argued that putting the funds under the control of state and local communities would encourage partnerships with public and private service providers and foster a better, more efficient and responsive system.

In order to better understand the current federal administration's proposals for block granting federal programs, APA surveyed recent literature to obtain a variety of viewpoints on block grant funding. The results of this research are detailed below.

The General Accounting Office (GAO) reviewed block grants in its February 1995 report entitled: *Block Grant Characteristics and Lessons Learned.* This report provides a detailed, albeit somewhat dated, general history of successes and failures with block grants. The GAO found that greater flexibility in program development, increased administrative efficiency, and fiscal innovation offset the 12% overall budget reduction that accompanied the creation of several block grants in 1981. On the downside, it noted that fund distributions were inequitable and insensitive to needy populations or states' abilities to fund program costs if they were based on prior categorical program distributions.

Think tanks offer different opinions and highlight both the positive and negative aspects of block grants. In the most general terms, block grant proponents argue that they increase state control over local issues, encourage innovative solutions to problems, and decrease spending and administrative costs. Again in the most general of terms, block grant opponents usually caution that block grants are risky and that inevitable economic downturns lead to tough decisions between states contributing more money or reducing needed benefits to citizens.

The Cato Institute has advocated placing spending limits on Medicaid, rolling back federal match rates, and increasing state flexibility in spending – tenets that are in keeping with the path of promoting Medicaid block grants. Cato argues that all low-income programs should eventually be state financed.

Academic treatises on block grant funding are sparse. Shama Gamkhar's *Federal Intergovernmental Grants and the States* published in 2002 is one of the few that exist. The author provides a good overview and the argument that block grants have administrative functions and benefits that positively distinguish the programs from categorical grants-in-aid and general-purpose financial assistance. According to Gamkhar's research, block grants include the following properties:

- Consolidation of programs
- Grantee flexibility in decision-making
- Minimal grantor requirements
- Funding certainty
- A devolution toward state control resulting in closer control over spending by taxpayers
- A suggestion that overall government spending will be reduced under block grants

Gamkhar questions if conversion from categorical grants to block grants serves as a shield for federal aid cuts, recounting the Reagan administration block grants created in 1981 and subsequent reductions in budgetary appropriations. However, the author concludes that: " the empirical evidence suggests that the notion that block grants are a shield for budget cuts is not consistently borne out in all federal programs" and that much depends on the strength of political forces. A cited example is the 1991 Intermodal Surface Transportation and Efficiency Act (ISTEA) that consolidated four (4) federal highway programs into a huge block grant. However, the nature of ISTEA funding and the stakeholders it serves are markedly different than the entitlement-based programs that serve poor and potentially less politically empowered populations.

Resistance to shifting entitlement programs into capped funding blocks is particularly pronounced within social services and related disciplines. These groups are concerned with the loss of individual entitlement rights for programs like Food Stamps and Medicaid. Opponents of block grants tend to favor universal access to program benefits based on need rather than funding availability. Block grants are viewed as obstacles blocking access to individuals' participation in vital programs.

The Urban Institute's two reports highlight historical block grant issues and the potential impact of current proposals:

- Block granting Medicaid would bump the block grant share of health programs from 2% to 97%
- Congressional dissatisfaction with state administration and increased categorization (specialization) of block grant opportunities exists
- Small reductions in overall administrative costs from state management but potentially mixed results depending on states' existing service delivery mechanisms are possible
- Potential loss of control due to decentralization is envisioned
- Potential redirection of program objectives could occur
- Based on past experience, the economic value of block grant funding declines over time and ultimately erodes flexibility

Many recent proposals to consolidate and block grant federal funds would impact federal programs that provide services to the poor. Therefore, it is important for less economically advantaged states, like Kentucky, to be aware of this potential impact. The Urban Institute highlights the proposals and indicates possible block grants in the following areas, all of which are of particular concern to less affluent states:

- Child Welfare and Title IV-E Foster Care funding
- Food Stamp block grants for up to five (5) states
- Head Start block grants for up to nine (9) states
- Housing block grants for public agencies
- Job Access and Reverse Commute for low-income workers
- Job Training consolidation of Adult, Dislocated Worker, and Employment Services State grants into a single block grant
- Justice Assistance Grant combining Local Law Enforcement Block

Grants, Byrne Formula and Discretionary Grants, and Community Oriented Policing Services into a single block grant
- Medicaid and SCHIP funding into state acute care and long-term care consolidation options
- New Freedom Program to promote access to alternative transportation for individuals with disabilities
- Super waiver expanded authority for states to seek waivers of requirements attached to low-income programs
- Surface Transportation pilot program for up to five (5) states to manage highway program funds as a block grant

Although opinions on outcomes clearly differ, both proponents and opponents of block grants agree that, for better or worse, states will be given more responsibility under the block grant model.

Of all the block grant proposals, Medicaid is the one with the most significant repercussions for state governments. Poorer states that rely heavily on social welfare programs, such as Kentucky with its large Medicaid population, will be profoundly affected by eligibility ceilings based on blocks of funding or reductions to current open-ended formula allocations. There will be limits to federal funding and Kentuckians will either have to pay more to provide services or make do with fewer offerings.

Block Grants and Medicaid

Block granting Medicaid, according to the Urban Institute's calculations, would increase the share of block granted public health categories from 2 to 97 percent. APA calculations, using FY03 expenditure numbers, indicate that block granting Medicaid would increase Kentucky's income from block grant sources from 14% to 56% of the Commonwealth's budget. Clearly, this example illustrates the significant implications of block granting Medicaid for Kentucky, as well as all the other states.

Medicaid provides coverage and long-term care services to nearly 50 million persons nationwide. There are approximately 704,600 Medicaid and SCHIP recipients in Kentucky. Medicaid is the largest source of federal funds coming into all states, at 43% (January 2004). Medicaid Benefit expenditures grew 14.4% over the 2001–2003 period, and Medicaid drug expenditures grew 19.7% over the same time frame

Currently, Kentucky faces a Medicaid budget shortfall of approximately $242 million – subject to revisions based on cost trends, growth in the eligible population, and federal changes to the program. It will take effort and creativity to address the current problems in Medicaid funding. While states concentrate on efforts to solve funding problems under the current formula distribution system, the federal government, in recent years, considered capping amounts disbursed to the states, allowing more flexibility in eligibility and benefit guidelines, and, in general, making states more responsible for their Medicaid budgets.

Despite recent state limitations on eligibility and enrollment, Medicaid is designed to be able to expand within certain boundaries to meet public need. Abolishing the current formula match entitlement program and replacing it with a block grant would have a profound effect on states by eliminating the as-needed basis for providing services. Fixed federal funding would place financial responsibility squarely on the states for any needs above those provided for in the block grant.

Since Medicaid costs are volatile and constantly increasing, it will be hard for states to plan for future expenditure needs. An October 2003 Brookings Institution public forum, *Block Grants: Past, Present, and Prospects* highlighted this and other potential difficulties in block granting Medicaid including:

- Medicaid costs are highly variable
- Medicaid presents complex government interaction with private employer-based systems

The Kaiser Family Foundation's January 2004 report, *Medicaid and Block Grant Financing Compared*, offers an excellent overview and highlights important components of the current delivery system:

- Federal payments to states are currently guaranteed on an as-needed basis, and the federal government is obligated to pay its share of Medicaid costs without spending caps
- Eligibility is guaranteed to all that qualify
- Federal payments to states are based on actual state costs
- States must spend their own funds in order to receive federal funds, so the current matching system protects against runaway spending since states have a vested interest in program efficiency and integrity

The Kaiser report identifies the following key elements of block grant funding:

- States receive funding regardless of costs under block grant programs
- Block grants do not provide guaranteed coverage to beneficiaries
- Federal funding levels for capped programs can vary from year to year
- Capped funds employ formulas, subject to ceilings, to distribute funds and disparate and variable interests may impact funding
- State Maintenance of Effort (MOE) requirements can cause states to lower investments when revenues are down
- Even though block grants allow broad program flexibility, Congress can always add "strings" in the form of funding penalties
- When states are granted broad discretion under block grants, Congress may not have complete information on how federal funds are being spent

Although opinions on the ultimate impact of block grant proposals differ, the significant functional and economic differences between current Medicaid funding and the proposals for future block grant Medicaid funding have serious implications and raise a myriad of concerns for states and benefit recipients.

Recommendation

We recommend that state agencies closely follow any proposals to block grant federal programs, and provide the resources necessary to adequately assess the potential impact to Kentucky.

Medicaid's Impact on State Funding

Chapter Seven's block grant discussion cited Medicaid as an example to illustrate the potential impact of block granting federal funding sources. As evidenced by the large dollar amounts this analysis yielded, Medicaid funding is, by necessity, now a top priority issue at both the federal and state levels. This chapter describes how Medicaid is currently funded by a formula match rate known as the FMAP, and attempts to determine whether Kentucky benefits from this income-based formula match. Additionally, we also discuss past strategies to maximize the match, the impact of the latest census figures, multiplier effects on the Kentucky economy, and current proposals to change the Medicaid FMAP.

Distribution of federal Medicaid dollars is based on a statutory formula that calculates each state's funding level. This allocation, or match, is known as the Federal Medical Assistance Percentage (FMAP). Each state has its own individual FMAP, but all states use the same formula to determine the relative percentages of state and federal dollars that comprise their expenditures. To determine the FMAP formula allocation, Per Capita Income (PCI) for the individual state is compared to national per capita income, and this comparison sets the match rate.

States with lower per capita incomes, including Kentucky and many of its southeastern neighbors, receive a higher FMAP match rate than the national average. States with higher per capita incomes receive a lower rate. California, New York, and three of the New England states are among those receiving a relatively lower match rate. The FMAP has a statutorily set minimum of 50 percent.

The current FMAP formula is an outgrowth of variable-rate matching formulas. These can be traced back to the PCI-based matching rates established by the Social Security Amendments of 1958. When Medicaid was created in 1965, a PCI-based assistance percentage was incorporated into the legislation.

Medicaid expenditures currently represent more than 40% of federal grants to states. Per capita Medicaid spending for FY2003, including the U.S. average and regional states' data is provided in the October 2004 FFIS State Policy Report. The per capita Medicaid expenditure data presented in Table 8.1 below for Kentucky and regional states was taken directly from this FFIS report and includes only federal Medicaid expenditures.

Table 8.1: Per Capita Federal Spending on Medicaid FY 2003

State	National Rank	Amount
Mississippi	4	$848
Tennessee	9	$762
Kentucky	12	$694
South Carolina	14	$643
Alabama	17	$596
North Carolina	19	$574
Georgia	29	$507
Florida	42	$439
	National Average	$562
	Regional Average	$633

Source: FFIS State Policy Report, Volume 22 Issue 20 October 2004

States do have some leeway in deciding the level of services they provide as well as who is eligible to receive these services. Federal Medicaid guidelines allow for optional eligibility requirements and optional services that can cause marked differences in states' per capita spending. These variations should certainly be considered whenever making comparisons between state Medicaid systems. The FFIS per capita expenditure data above points out that Kentucky was third (3rd) highest among the regional states and twelfth (12th) highest nationally in its per capita expenditures for FY 2003. Some states, such as Tennessee, have aggressively targeted additional Medicaid and/or State Children's Health Insurance Program (SCHIP) participants. Other states may offer fewer benefits to covered populations and still successfully meet federal requirements. Ultimately, since eligibility and service delivery does vary from state to state, it is important to note that state and federal expenditures are the only direct function of the FMAP. The FMAP does not govern the services a state offers, nor does it govern who can access them.

Medicaid is a formula grant with an open-ended federal match provision, and the nation's Social Security Act specifies its annual formula allocation. It is closely aligned with the State Children's Health Insurance Program (SCHIP). SCHIP shares the core components of Medicaid's matching formula. Medicaid is Kentucky's largest federal program, with $2,752,895,158 in FY 2003 federal expenditures. This represents just over 47% of all federal cash expenditures to the Commonwealth.

Medicaid's formula match has a significant impact on all funding decisions

With Medicaid now eclipsing states' total spending for elementary and secondary education combined, the FMAP is inextricably linked to virtually all funding decisions. State dollars are limited, so Medicaid's increasing demands progressively strain the budgets of other federal programs.

The U.S. Department of Commerce's income data is used to calculate the FMAP formula. SCHIP assistance percentages are designated as "Enhanced" Federal Medical Assistance Percentages and are published in the *Federal Register* along with the FMAP for each state, for each fiscal year.

The Federal Medical Assistance Percentages (FMAP) is calculated for each fiscal year as explained in Sections 1905(b) and 1101(a)(8)(B) of the Social Security Act. The FMAP percentages apply to state expenditures for assistance payments, medical services, and medical insurance services, with the exception of family planning services.

The FMAP squares the average income per person in each state, and compares it to the national average, thereby providing higher FMAPs to states with lower per capita incomes. Squaring the PCI magnifies the difference between the state and national average PCI and allows for a higher match than would otherwise be available. However, if it can be argued that PCI is not representative of a state's population living in poverty, as some states do, then the distortion is further multiplied. This notion of inequity in the FMAP is addressed in the following sections. The Enhanced FMAP that is used for SCHIP, relies on the same inputs as FMAP but offers an additional bump in funding.

The FMAPs for Kentucky and regional states are presented below in Table 8.2 along with regional state rankings for the past five years. The national FMAP average is currently around 57%, well below Kentucky and its regional states. As the data points out, since Kentucky and its regional states tend to have lower per capita incomes, these states receive a match rate that is usually higher than the national average.

Table8.2: Five-Year Comparison of Kentucky and Regional State FMAPs

State	Kentucky	Georgia	Mississippi	Alabama	Florida	North Carolina	South Carolina	Tennessee
FY2005	69.60	60.44	77.08	70.83	58.90	63.63	69.89	64.81
Rank	4	7	1	2	8	6	3	5
FY2004	70.09	59.58	77.08	70.75	58.93	62.85	69.86	64.40
Rank	3	7	1	2	8	6	4	5
2003/2004*	72.89/73.04	62.55/62.55	79.57/80.03	73.55/73.70	61.78/61.88	65.51/65.80	72.76/72.81	67.54/67.54
Rank	3	7	1	2	8	6	4	5
FY2003	69.89	59.60	76.62	70.60	58.83	62.56	69.81	64.59
Rank	3	7	1	2	8	6	4	5
FY2002	69.94	59.00	76.09	70.45	56.43	61.46	69.34	63.64
Rank	3	7	1	2	8	6	4	5
FY2001	70.39	59.62	76.82	69.99	56.62	62.47	70.44	63.79
Rank	3	7	1	4	8	6	2	5

Source: Federal Registers at http://aspe.hhs.gov/search/health/fmap.htm

* Note that the 2003/2004 FMAP was a temporary increase for the last two calendar quarters of FY 2003 and the first three quarters of FY2003.

Appendix VIII provides a linear comparison of Kentucky's expenditure, population, and poverty data to the regional states. The 10-year analysis suggests that Kentucky's Medicaid expenditures basically follow the path of population when compared to respective federal shares, although the expenditure amounts are higher. Georgia and Florida stand out as having Medicaid expenditures below their respective shares of the national population. Looking at the poverty comparisons between Kentucky and regional states indicates that Georgia and Florida have somewhat lesser poverty levels than the other regional states. Table 8.3 below illustrates Kentucky's Medicaid expenditures, population, and poverty levels from 1994 to 2003 as excerpted from Appendix VIII. Although poverty levels have increased, Medicaid expenditures have also risen. The fact that Kentucky's poverty and Medicaid expenditures nearly matched in 2003 indicates that the FMAP input of per capita income, or PCI, captures the poverty population for Kentucky.

Table 8.3: 10-Year Comparison of Kentucky Medicaid, Population, and Poverty Data

Year	Number of Kentuckians in Poverty	Kentucky's Percentage of U.S. Poverty Population	Kentucky Population	Kentucky's % of US Population	Kentucky's Federal Medicaid Expenditure	Kentucky's % of Federal Medicaid Expenditures	Total Federal Medicaid Expenditures per Consolidated Federal Funds Reports
1994	710,000	1.9%	3,843,000	1.5%	$1,344,302,245	1.6%	$83,516,369,179
1995	572,000	1.6%	3,876,000	1.5%	$1,497,212,283	1.7%	$88,908,586,040
1996	658,000	1.8%	3,877,000	1.5%	$1,570,454,738	1.7%	$92,218,964,758
1997	623,000	1.8%	3,913,000	1.5%	$1,730,025,660	1.8%	$95,243,936,016
1998	521,000	1.5%	3,860,000	1.4%	$1,899,727,255	1.9%	$99,266,835,311
1999	467,000	1.4%	3,859,000	1.4%	$2,047,163,230	1.9%	$110,857,460,882
2000	502,000	1.6%	3,995,000	1.4%	$2,276,778,069	1.9%	$120,898,665,587
2001	503,000	1.5%	3,989,000	1.4%	$2,420,270,745	1.8%	$133,579,104,923
2002	571,000	1.7%	4,033,000	1.4%	$2,811,679,199	1.9%	$151,148,749,226
2003	589,000	1.6%	4,100,000	1.4%	$2,842,565,207	1.7%	$167,790,232,644

Sources: US Census and Kentucky State Data Center, CFFR Reports, OMB Clearinghouse Single Audit data

Census Report Underestimates Benefited Medicaid and SCHIP Funding in Some States – Kentucky Gained $13 million

Recent recounts of census data suggest that states may have received excess federal dollars due to errors in census estimates. FFIS and GAO reports conclude that errors in population estimates led to understatements of all states' population counts that have been subsequently corrected by the 2000 census. Since every state's population was understated, every state's per capita personal income was overstated, because it was calculated with a lower divisor.

FFIS and GAO note that the understatements have significant impact, because per capita personal income determines Medicaid's federal matching rate. The overstatements range from .27%, for West Virginia, to a full 7.47% for Nevada. Table 8.4 illustrates the difference between each state's federal matching rate and the FMAP based on the updated population counts obtained from the 2000 census.

Table 8.4: 2000 Census Understatements for Kentucky and Regional States and Impact on the FMAP

Census Adjustments – Regional Ranks and Understatements			
State	National Rank for Understated 2000 Census	Regional Rank for Understated 2000 Census	Percentage Understated
Kentucky	43	7	1.59
Georgia	11	3	3.65
Mississippi	26	6	2.24
Alabama	44	8	1.51
Florida	5	1	4.68
North Carolina	8	2	4.27
South Carolina	21	5	2.54
Tennessee	15	4	3.08
		National Average for Understatement	2.50
Census Adjustments – Impact on 2003 FMAP Using Census Updates			
State	National Rank	Regional Rank	Difference Between Actual FMAP and Post-1990 Estimates
Kentucky	43	8	-0.48
Georgia	7	3	0.76
Mississippi	31	6	-0.09
Alabama	41	7	-0.46
Florida	4	1	1.61
North Carolina	5	2	1.21
South Carolina	16	5	0.03
Tennessee	10	4	0.40
Census Adjustments – Impact on 2003 Medicaid Federal Expenditures			
State	Adjusted 2003 FMAP	2003 Federal Medicaid Expenditures Per Statewide Audits	Calculated Estimates in 2003 for Federal Medicaid Expenditures
Kentucky	69.89 –0.48 = 69.41	$2,752,895,158	($13,213,897)
Georgia	59.60 + 0.76 = 60.36	$3,837,095,143	$29,161,923
Mississippi	76.62 – 0.09 = 76.53	$2,254,480,613	($2,029,033)
Alabama	70.60 – 0.46 = 70.14	$2,649,340,231	($12,186,965)
Florida	58.83 + 1.61 = 60.44	$6,649,250,756	$107,052,937
North Carolina	62.56 + 1.21 = 63.77	$4,470,965,510	$54,098,683
South Carolina	69.81 + 0.03 = 69.84	$2,678,403,795	$803,521
Tennessee	64.59 +0.40 = 64.99	$4,273,765,510	$17,095,062

Sources: FFIS State Policy Report Volume 21 Issue 8, April 2003 and APA calculations based on Federal Register state FMAP percentages, and Statewide Single Audit data from the OMB Clearinghouse

The adjusted census data underscores the importance of census estimates to FMAP calculations. Kentucky alone gained over $13 million in Medicaid funds due to understated population estimates being incorporated in the 2003 FMAP. After adjusting for the 2000 census data, Kentucky and two (2) regional states would have lost funding, while five (5) states would have gained. Florida would have received over $100 million in additional funding based on the adjustments.

States toward the bottom of the rankings, like Kentucky, gained more funding than adjusted census data would have allowed, because these states' populations were understated to a less significant degree.

Since every single state's population was understated, per capita personal income was overstated. The degree of overstatement impacts Medicaid. Overall, eighteen (18) received fewer federal Medicaid funds than they were entitled to before the census adjustment, i.e. their FMAPs increased as a result of the new census data. Twenty-one (21) states, including Kentucky, saw FMAPS decline and eleven (12), including the District of Columbia, were unaffected.

Economic Multipliers of the Medicaid Match on States' Economies

The FMAP comparisons indicate that the Commonwealth is a beneficiary among regional states and within the nation. Considering multiplier effects, i.e. the turnover of federal dollars in the Kentucky economy, further bolsters Kentucky's beneficiary status.

Although its FMAP formula match requires Kentucky to pay out close to 30 cents for each dollar it expends on Medicaid, this figure may not fully capture the economic exchange due to the additional benefits that accrue to the state economy. In other words, it may be shortsighted to consider FMAP losses or donations without considering how state and federal Medicaid expenditures affect the economy. Medicaid dollars increase business, employ people, and contribute tax dollars to state coffers.

Medicaid, like many of the federal programs that pay dollars to states, relies on a complex collaborative effort between state agencies, private providers, and employers to deliver services. Some groups, notably the Center on Budget and Policy Priorities, the Kaiser Family Foundation, and Families USA, argue that state economies ultimately benefit from the additional jobs and increased business activities spawned by Medicaid.

A January 2003 report by Families USA entitled: *Medicaid: Good Medicine for State Economies* calculates returns on state dollars spent on Medicaid. Using the Families USA data, Table 8.5 illustrates one estimate of how Kentucky and regional states gained from economic multipliers in FY2001.

Table 8.5: Estimated Economic Impact from State Medicaid Spending

State	State Medicaid Spending FY2001	New Business Activity (Dollars)	New Jobs Created
Kentucky	$1,014,000,000	$4,777,000,000	54,451
Georgia	$2,147,000,000	$7,243,000,000	75,173
Mississippi	$595,000,000	$3,774,000,000	46,118
Alabama	$907,000,000	$4,373,000,000	51,558
Florida	$3,925,000,000	$11,084,000,000	132,215
North Carolina	$2,426,000,000	$8,842,000,000	100,353
South Carolina	$927,000,000	$4,608,000,000	52,258
Tennessee	$2,062,000,000	$7,986,000,000	81,675

Source: Families USA report, *Medicaid: Good Medicine for State Economies, January 2003*

The Kaiser Family Foundation also noted the multiplier effect Medicaid expenditures may have on state economies in its April 2004 report, *The Role of Medicaid in State Economies: A Look at the Research*. Kaiser samples available research from other states and concludes that the matching arrangement of the Medicaid formula allocation is intensified by the infusion of federal government dollars that would otherwise not be in the state. State medical expenditures without a federal match lack the added impact. Kaiser concludes the 16 state studies and the aforementioned Families USA report all provide evidence of Medicaid's positive impact on state economies.

State Medicaid Financing Strategies

The state-federal partnership in funding Medicaid and the program flexibility granted to states has provided both the opportunity and the incentive to leverage federal funds.

Maximization strategies include shifting previously state funded health care programs into Medicaid and making upper limit payments to selected healthcare providers. All of these strategies are fully allowable under Medicaid law. These strategies have been encouraged to expand services to populations in need and have been approved by Centers for Medicare & Medicaid Services (CMS).

Kentucky, like other states, has utilized maximization strategies to increase federal fund participation to help finance medical services. The maximization strategies have included intergovernmental transfers with publicly owned hospitals, nursing facilities, and other entities providing Medicaid covered services. In addition, Kentucky has expanded services and populations served within its Medicaid program to reduce the state costs for providing these services.

CMS is actively pursuing and considering a wide range of new initiatives to curb the growth of Medicaid spending. They have assigned at least one(1) state finance specialist to each state's Medicaid program to renew and investigate techniques used by states to shift financial liability to the federal government beyond the federal match rate. These efforts could result in a loss of federal funding to Kentucky.

Medicaid and the President's FY 2006 Budget

Medicaid's impact on state funding remains the most important budget issue for states and the federal government. The President's proposed fiscal year 2006 budget calls for various Medicaid-related changes. The proposal calls for $19.5 billion in changes that will save states and the federal government money, and $91 billion in theoretical baseline savings over 10 years. According to recent National Governor's Association (NGA) and FFIS reports, the Medicaid budget proposals include an overall reduction in funding, accounting changes requiring states to book federal obligations in the year when services are provided, and specific programmatic changes.

Block granting Medicaid would significantly impact states' abilities to expand programs or services. Block grant, or block grant-like, Medicaid funding proposals are particularly significant to less wealthy states like Kentucky with large percentages of eligible populations.

It is unclear whether the $91 billion represents savings through caps on state allotments or through budget assumptions and legislative proposals made by HHS. The savings proposals include eliminations of state funding mechanisms including Intergovernmental Transfers and other financing methods that have served to bolster states' FMAPS. Limits on Medicaid reimbursement for pharmaceuticals under Average Sales Price (ASP) replacement for the current Average Wholesale Price (AWP) system are also included.

Increases in funding under the proposal provide $16.5 billion for programs including SCHIP outreach, vaccinations, community placement of institutionalized individuals and other Medicaid changes.

This Chapter has illustrated that Medicaid's impact on federal funding is complex and profound and that proposals for change have challenged and will likely continue to challenge today's FMAP matches. Changes in formula allocations through the FMAP, census estimates, proposals to change states' allocations, and economic multiplier effects are closely interwoven and demand careful scrutiny and thorough understanding. Likewise, block grant, or block grant-like proposals offer interesting but controversial alternatives to the income-based FMAP. The challenge to the Commonwealth's stakeholders will be to carefully follow the funding proposals of the 109th Congress and consider impact on Kentucky's budget and those that rely on Medicaid services.

Recommendation

The various factors that impact Medicaid formula match expenditures are complex, and they deserve closer scrutiny. States that do not benefit from the current FMAP formula may lobby for equity adjustments similar to those advocated by the GAO in order to balance out fund distribution. Kentucky Medicaid authorities should closely scrutinize potential changes to the FMAP formula to ensure Kentucky's interests are protected.

Chapter 9

Kentucky's Management of Federal Funds Interest Payments

Kentucky's management of federal interest payments is strong and extremely effective

Kentucky's management of federal and state interest payments is strong and has improved in recent years. The Commonwealth's net interest payments to the federal government under the Cash Management Improvement Act remained under $1000 for each year from 2001 through 2003. These low interest payments represent a significantly higher rating for Kentucky compared to regional states. And, minimizing federal interest payments provides obvious cost savings to the Commonwealth.

In order to fund grants and programs, states make large and recurring withdrawals of federal dollars under the Cash Management Improvement Act (CMIA). Therefore, many of Kentucky's federal programs are subject to federal interest payments. The Commonwealth's Treasury-State Agreements (TSAs) with the federal government specify exactly how federal funds transfers will take place. Kentucky has been very successful in crafting TSAs that minimize interest opportunity losses under CMIA throughout the past three (3) reporting periods.

The Cash Management Improvement Act Governs Fund Transfers Between the Federal Government and the States

States are responsible for interest payments on federal funds used for grants and programs and are subject to strict federal guidelines that monitor fund transfers. In 1983 the Joint State/Federal Cash Management Reform Task force was formed to study ways to achieve equity in transfers between federal grantors and grantees, including states. Seven years later the CMIA was passed. In 1999 further streamlining through the Cash Management Improvement Act System (CMIAS) provided electronic integration of the reporting process, eliminated paper-intensive reporting, and established a formal electronic reporting process. The CMIAS is used by states to report their draw downs of federal funds.

The Cash Management Improvement Act of 1990 is codified under federal law at Section 6501 of Title 31, Part 205 of the U.S. Code, *Rules and Procedures for Efficient Federal-State Transfers; Final Rule*. According to the U.S. Treasury, the CMIA's specific objectives are to:

- Minimize the time lapse between the transfer of funds to states and payouts for program purposes
- Ensure that federal funds are available when requested
- Assess an interest liability to the federal government and/or the states to compensate for the lost value of funds

It is the third point above, along with the time value of money, that forms the underlying intent of the Act – that there should be no winners or losers during federal funds transfers for joint state/federal programs. Ideally, all such transfers should be interest neutral.

Kentucky's Treasury State Agreement Results in Low Federal Interest Costs

Specific reporting agreements, known as Treasury-State Agreements (TSAs), are executed between states and the federal government to spell out the rules for fund exchanges. States negotiate TSAs annually with the U.S. Department of the Treasury. TSAs specifically dictate how the federal fund transfers will take place and which federal programs (typically those with large cash expenditures) are included.

States do have some flexibility in selecting fund transfer reporting methods. However, some states' laws or regulations mandate reporting arrangements that are not always designed to minimize interest costs. For example, some states may require federal funds draw downs prior to disbursal, which results in accrued federal interest due to increased transfer times. Federal requirements imposed by the CMIA ensure that states do not reap an interest benefit from banking federal program dollars. However, it is up to the individual states to conversely ensure they do not accrue owed interest to the federal government.

Based on data APA analyzed, Kentucky's chosen funding methods do minimize interest costs and maintain relatively interest-neutral federal funds accounts. Regional states incurred higher annual interest payments due to TSAs requiring early withdrawals of federal funds and/or accounting methods that resulted in higher interest costs.

Regional State Comparison Puts Kentucky on Top

Kentucky's net interest liability during 2003 was the lowest among regional states submitting data. Table 9.1 provides a regional state comparison of available data obtained directly from these states.

Table 9.1: Kentucky and Regional State Interest Payments for 2003

State	2003 Reported Federal Interest Liability Under the Cash Management Improvement Act	Ranking
Kentucky	$69	1
Georgia	$1,500 (approx.)	2
Alabama	$86,044	3
Tennessee	$272,750	4
South Carolina	$567,000 (approx.)	5
Florida	$940,675	6
North Carolina	$1,981,102	7
Mississippi	Not Available	Not Applicable
Approximate Average for Regional States = $642,000		

Sources: Regional states' designated Cash Management Improvement Act authorities shared information with the APA. Due to information restrictions imposed by the U.S. Treasury, the APA was not able to obtain details directly from the federal government. Regional states were contacted directly for the information and responded in verbal and/or written form. Mississippi did not respond to the APA's request. Some states offered only approximate figures.

Although limited to a snapshot of 2003 data due to information availability, the regional states' interest liabilities indicate that Kentucky has recently minimized potential interest costs to a significantly higher degree than all the regional states that provided data to APA. Given the small amount of Kentucky's 2003 interest liability ($69), payments to the federal government indicate that Kentucky is doing an excellent job of managing disbursal of the federal funds it does receive.

Chapter 9

Kentucky's Management of Federal Funds Interest Payments

Why Are Regional States' Interest Obligations Higher than Kentucky's?

Interest opportunity losses may be caused by accounting errors and deficiencies, or inadequate documentation. One regional state attributed over $500,000 in opportunity losses over a three-year period due to these reasons. Other interest costs may be due to TSAs that do not fully optimize interest-neutral methods as well as Kentucky's TSA does.

According to the Finance and Administration Cabinet's Controller's Office, Kentucky's current TSA utilizes a composite clearance method and, as long as agencies draw money on correct time schedules, there should be no interest earned or lost by either the Commonwealth or the federal government. The pre-issuance method used by some regional states relies on early draws of federal funds and can result in significantly higher interest payments. It should be noted, however, that, depending on interest rates and investment strategies, it may be possible for pre-issuance states to earn dollars by beating the 13-month Treasury Bill rate, since the T-Bill rate is the basis of the interest states must pay to the federal government.

Kentucky has used a composite clearance method since Fiscal Year 1994. The Finance and Administration Cabinet (FAC) cautions that there is a strong possibility that proposed software changes to the Commonwealth's MARS system could result in the Commonwealth switching to other federal cash management methods under future TSAs. These methods could lead to higher interest costs. FAC is currently monitoring this issue and will be mindful of how changes impact Kentucky's management of cash draws.

Recommendations

We recommend that the Finance Cabinet Controller's Office continue its successful strategy of interest-neutral federal funding. We also recommend that the office clearly monitor the interest implications of any software changes and work to ensure that future Treasury-State Agreements and financial information systems are constructed with potential interest liability issues in mind.

Chapter 10
Grants Returned to Federal Sources

The Commonwealth returned a very small amount of federal award money in the fiscal years ended June 30, 2002 and June 30, 2003

Portions of federal awards may have to be returned to the federal government if a state does not fully expend them within set time frames. Kentucky's Schedule of Expenditures of Federal Awards (SEFA) for the FYE June 30, 2002 and the FYE June 30, 2003 indicate that $179,408 and $287,594, respectively, were paid to grantor (returned to the federal government) during these years. Additionally, funds were returned for only nine (9) of more than 300 federal programs over this two-year period.

Returned funds are designated as "paid to grantor" amounts on Kentucky's annual federal schedules. Kentucky's SSWAK includes the SEFA, which is organized by federal grantor and associated CFDA numbers and program names. However, associated notes to the SEFA that include more detailed information on amounts returned to federal grantors, are not published with the SSWAK. Specific requirements on this vary from program to program.

Although usually designated as returned funds, the SEFA "paid to grantor" category may be used to track amounts not fully expended and rolled over to subsequent periods. Other situational categorizations may also apply and may not indicate actual returned or forfeited funds. Table 10.1 provides the associated percentages of returned federal funds.

Table 10.1: Kentucky Annual Returned Federal Funds Summary

Fiscal Year Ending (FYE)	Total Federal Cash Expenditures	Returned Federal Funds	Percent of Federal Funds Returned
June 30, 2002	$5,567,277,900	$179,408	.003%
June 30, 2003	$5,815,538,953	$287,594	.005%

Source: Statewide Single Audit Reports (SSWAK) and associated Schedules of Expenditures of Federal Awards (SEFA) FY 2002 and FY 2003

Auditors examined the SEFA schedules and associated Kentucky agency notes explaining returned funds that totaled $467,002 for the July 1, 2001 through June 30, 2003 time period. Individual returned amounts, along with the responsible state agency's explanation for why it did not fully expend the federal funds, are listed in detail in Appendix IV.

Recommendation

Although our audit revealed that Kentucky repaid very small amounts to federal sources, there is room for improved tracking to ensure that all federal funding is completely expended. Therefore, we recommend state agencies sufficiently monitor their federal funds to ensure that all available federal resources are applied to program goals. Additionally, we recommend that future agency notes to the SEFA schedules fully explain any returned funds.

Chapter 11

Federal Program Profiles – A Summary of Programs, Funding, and Potential Future Issues

Profiles of Kentucky's Major Federal Programs

In order to obtain a better understanding of Kentucky's federal program funding, APA requested supplemental federal program information from state agencies and then compiled the responses as the program profiles, listed by CFDA number, in this Chapter. Our information request was accommodated with the assistance of the Kentucky Office of the State Budget Director (OSBD). These program profiles represent programs totaling over $18 million for FY 2003 that are designated as Non-Cash Major Programs on the 2003 Report of the Statewide Single Audit of the Commonwealth of Kentucky (SSWAK). In a few instances, due to insufficient or incomplete agency responses, we are unable to present information.

In addition, we also collected data from the state agencies responsible for new Homeland Security programs due to that program's policy and financial significance.

The federal funds profiled here represent direct receipts from the federal government to the Commonwealth. APA made concentrated efforts to avoid double counting, errors, and omissions by working with OSBD and responsible state agencies to ensure accuracy and completeness. OSBD reviewed all of the agency responses before forwarding them to the APA. Agency responses varied widely in content, and APA does not attest to the accuracy or thoroughness of the profile data submitted. It is also important to note that the federal funds profiled represent FYE 6/30/03 expenditures, because this was the last completed Statewide Single Audit that was available during our fieldwork phase. Therefore, the data state agencies provided was current when submitted.

APA supplemented the agency responses with explanations of federal issues obtained from the Catalog of Federal and Domestic Assistance (CFDA) and provided a brief narrative account of noteworthy issues based on funding trends and highlights of the Omnibus appropriations of the 108^{th} Congress. The following is an explanation of the different categories included in the program profiles along with the sources of the information:

- **Major Program Issues** – These include current fiscal events compiled from Federal Funds Information for States, The FY 2005 White House Budget, and highlights of the final FY 2005 spending bills taken from The U.S. House of Representatives Committee on Appropriations and other reporters. ***APA compiled this information.***
- **Program Description** – The Catalog for Federal and Domestic Assistance serves as a general reference guide for federal programs, and it was the main source used by the APA to compile the narrative descriptions. ***APA compiled this information.***
- **Administering Agency** – This is the Kentucky State Agency listed as the state organization receiving the federal funds in the FY 2003 SSWAK. The reorganization undertaken by Kentucky's current administration may result in different agency designations. ***APA compiled this information.***
- **Expenditure Data** –is broken down by General Fund, Agency Fund, and Federal Fund. APA requested expenditure amounts for fiscal years FY 02, FY 03, and FY 04. ***Agencies provided this information.***

Chapter 11

Federal Program Profiles – A Summary of Programs, Funding, and Potential Future Issues

- **Topical Issues** – Details of important issues, including future budget restrictions, were requested, and agency responses are included without additional comment by APA. ***Agencies provided this information.***

The profiles identify award recipients by state agency administering the program, and present historical expenditure data reported by the Kentucky agencies receiving the funds. We have grouped the profiles by federal program areas designated in the Catalog of Federal Domestic Assistance along with numbers and titles. The program profiles include 50 federal programs under the following federal agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Housing and Urban Development
- U.S. Department of Labor
- U.S. Department of Transportation
- U.S. Environmental Protection Agency
- U.S. Federal Emergency Management Agency
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Social Security Administration

A complete listing of federal expenditures is included in the annual Statewide Single Audit of the Commonwealth of Kentucky (SSWAK). The most recent SSWAK is FY 2004, and it can be accessed at:

http://www.kyauditor.net/Public/Audit_Reports/Archive/2004SSWAK.pdf

Federal Budget Implications Could be Significant

The federal programs listed all face varying impact from future federal budgets and policy decisions at the state and federal levels. The federal spending bill for FY 2005 offers nearly flat funding when compared to FY 2004. Overall funding levels, although close to FY 2004 levels, included a 0.8% across-the-board reduction to most discretionary spending programs. The bill represents zero-percent growth in non-defense discretionary spending. Some federal programs, such as those under the Environmental Protection Agency (EPA) and Housing and Urban Development (HUD) sustained significant reductions, while others like Homeland Security, received significant increases.

Although not a comprehensive listing, this compilation of federal programs and expenditures should provide a useful reference tool for legislators and other stakeholders seeking an understanding of federal assistance on a program-by-program basis. Readers interested in additional information should consult the following link: **http://12.46.245.173/cfda/cfda.html** . No state agency is vested with the responsibility of presenting this information to the General Assembly on a regular basis.

Chapter 11
Federal Program Profiles – A Summary of Programs, Funding, and Potential Future Issues

AGRICULTURE

Agriculture Program Issues: According to the USDA, its discretionary program outlays are approximately $20.8 billion in 2005, which represents a $720 million decrease from 2004 levels. Discretionary outlays among Major Programs include the Supplemental Nutrition Program for Women, Infants, and Children (WIC) with mandatory programs including the majority of the nutrition assistance programs in the Child Nutrition Cluster. According to FFIS, the enacted FY 2005 budget includes a 13.5% increase for WIC.

School Breakfast Program CFDA 10.553

Program Description: This program reimburses participating schools and daycares that serve a morning meal to eligible children. The breakfasts must meet the USDA's nutritional requirements and are provided to children either free or at a reduced price depending on family income level. Any child at a participating facility may receive a breakfast, regardless of family income level or household size. However, meals that are served to non-needy children are reimbursed at a lower rate.

Administering Agency: Department of Education (EDU)

Formula Description: Federal funds are made available for breakfast assistance in accordance with Section 4 of the Child Nutrition Act on a performance basis by: (1) multiplying the number of paid breakfasts served to eligible children during the fiscal year by a National Average Payment (NAP); (2) multiplying the number of breakfasts served free to eligible children by a NAP prescribed by the Secretary for free breakfasts; and, (3) multiplying the number of reduced price breakfasts served to eligible children by a NAP prescribed by the Secretary for reduced-priced breakfasts. The amount of Federal funds given the grantee is the sum of the products obtained from these three computations, plus an additional 6 cents for every breakfast served. Schools with a high percentage of needy children and high breakfast costs may receive additional payments. The statistical factors used in this formula are: (1) The NAP's; (2) the number of paid breakfasts served; and (3) the number of breakfasts served free or at reduced price to eligible children. The NAP's are prescribed by the Secretary and adjusted each July 1, in accordance with the Food Away From Home component of the Consumer Price Index for All Urban Consumers. The source of this adjustment factor is the Bureau of Labor Statistics. The source of the numbers of breakfasts served, including the number served free or at reduced price, is the monthly programmatic reports submitted to Food and Nutrition Service and described under "Post Assistance Requirements."

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$32,509,054	$31,105,721	$35,722,444
TOTAL	$32,509,054	$31,105,721	$35,722,444

***Topical Issues*:** NONE

School Breakfast Program CFDA 10.553

Program Description: This program reimburses participating schools and daycares that serve a morning meal to eligible children. The breakfasts must meet the USDA's nutritional requirements and are provided to children either free or at a reduced price depending on family income level. Any child at a participating facility

may receive a breakfast, regardless of family income level or household size. However, meals that are served to non-needy children are reimbursed at a lower rate.
Administering Agency: Juvenile Justice (JUV)

Formula Description: See Department of Education listing for this CFDA number.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$288,124	$336,379	$300,379
TOTAL	$288,124	$336,379	$300,379

***Topical Issues*:** NONE

National School Lunch Program CFDA 10.555

Program Description: This program reimburses participating schools and daycare centers that serve lunches to children who are eligible for free and reduced price lunches. Snacks served to children in after school care programs are also eligible for reimbursement. Reimbursement rates are based on the Food Away From Home portion of the Consumer Price Index and are adjusted annually. One of the ancillary objectives of the program is to encourage domestic consumption of nutritious agricultural commodities, therefore, the lunches must meet certain nutritional guidelines prescribed by the Secretary of Agriculture.

Administering Agency: Department of Education (EDU)

Formula Description: This program is governed by the National School Lunch Act and funded solely on a performance basis. The state receives a payment for every single lunch served during the fiscal year, but the reimbursement rate differs depending on whether a lunch was paid for by the student, provided at a reduced cost, or provided free of cost. The National School Lunch Act sets forth National Average Payment (NAP) factors. Reimbursement amounts are obtained by completing five steps. First, multiply the total number of eligible paid lunches and free and reduced price lunches by the NAP factor for lunches found in Section 4 of the Act. Second, multiply the number of free lunches served by the NAP factor for free lunches found in Section 11 of the Act. Third, multiply the number of reduced price lunches by the Section 11 NAP factor for reduced price lunches. Fourth, multiply the total number of the lunches served during the fiscal year in school food authorities which served 60% or more free or reduced price lunches in the preceding school year by $.02 (two cents). Fifth, add the four numbers obtained by steps one through four together to obtain the reimbursement rate.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$100,917,481	$96,325,008	$110,190,526
TOTAL	$100,917,481	$96,325,008	$110,190,526

Topical Issues: NONE

National School Lunch Program CFDA 10.555

Program Description: This program reimburses participating schools and daycare centers that serve lunches to children who are eligible for free and reduced price lunches. Snacks served to children in after school care programs are also eligible for reimbursement. Reimbursement rates are based on the Food Away From Home portion of the Consumer Price Index and are adjusted annually. One of the ancillary objectives of the program is to encourage domestic consumption of nutritious agricultural commodities, therefore, the lunches must meet certain nutritional guidelines prescribed by the Secretary of Agriculture.

Administering Agency: Juvenile Justice (JUV)

Formula Description: This program is governed by the National School Lunch Act and funded solely on a performance basis. The state receives a payment for every single lunch served during the fiscal year, but the reimbursement rate differs depending on whether a lunch was paid for by the student, provided at a reduced cost, or provided free of cost. The National School Lunch Act sets forth National Average Payment (NAP) factors. Reimbursement amounts are obtained by completing five steps. First, multiply the total number of eligible paid lunches and free and reduced price lunches by the NAP factor for lunches found in Section 4 of the Act. Second, multiply the number of free lunches served by the NAP factor for free lunches found in Section 11 of the Act. Third, multiply the number of reduced price lunches by the Section 11 NAP factor for reduced price lunches. Fourth, multiply the total number of the lunches served during the fiscal year in school food authorities which served 60% or more free or reduced price lunches in the preceding school year by $.02 (two cents). Fifth, add the four numbers obtained by steps one through four together to obtain the reimbursement rate.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$454,788	$540,648	$481,282
TOTAL	$454,788	$540,648	$481,282

Topical Issues: NONE

Women, Infants and Children (WIC) Supplemental Nutrition Program CFDA 10.557

Program Description: Provides free supplemental foods, nutrition education and referrals to healthcare providers for low-income pregnant, breastfeeding and postpartum women, infants and children to age five (5) years of age who are determined to be at nutritional risk. Grants are made to state health departments or comparable agencies (such as the Indian Health Service) and these agencies then distribute the funds to participating local public or nonprofit private health or welfare agencies.

Administering Agency: Cabinet for Health Services (CHS)

Formula Description: Grants are allocated on the basis of formulas determined by the Department of Agriculture that allocate funds for food benefits, nutrition services, and administration costs. No matching funds are required.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$82,607,353	$80,187,442	$87,996,198
Tobacco Fund	-0-	-0-	-0-
TOTAL	$82,607,353	$80,187,442	$87,996,198

***Topical Issues*:** NONE

Chapter 11

Federal Program Profiles – A Summary of Programs, Funding, and Potential Future Issues

Child and Adult Care Food Program 10.558

Program Description: The objective of this program is to reimburse eligible nonresidential daycare facilities for the costs they incur to provide meals and snacks to children, the elderly, and impaired adults. Emergency shelters can also be reimbursed for providing food to children only.

Administering Agency: Department of Education (EDU)

Formula Description: Program funds are provided to the States through letters of credit to reimburse institutions for costs of food service operations, including administrative expenses. Appropriate rates of reimbursement, multiplied by the number of meals served to enrolled participants, represent the basic program payment that an institution receives for each served meal. The assigned rates of reimbursement are adjusted annually on
July 1. For childcare centers, adult day care centers, and emergency shelters for homeless children, the annual adjustment reflects changes in the Food Away from Home series of Consumer Price Index for All Urban Consumers. For day care homes, the adjustment reflects changes in the Food at Home series of the Consumer Price Index for All Urban Consumers. Donated foods or cash in lieu of donated foods are also made available. Program payments to childcare or adult day care centers depend on the number and types of meals served to enrolled participants, multiplied by the appropriate rate of reimbursement. Rates for meals served to enrolled children and eligible adults in day care centers are determined by the participants' eligibility for free, reduced price, or paid meals using USDA Income Eligibility Guidelines. All children in emergency shelters are eligible to receive free meals without application. After school care programs, which must be located in low-income areas, are reimbursed at the free rate for all snacks--and suppers in the States of Missouri, Delaware, Michigan, Pennsylvania, New York, and Oregon--served to children through age 18. Sponsoring organizations of day care homes for children are reimbursed at a graduated administrative rate based on the number of homes they operate. The level of reimbursement for meals served to enrolled children in day care homes is determined by economic need based on either the location of the day care home; or the income of the day care provider; or the income of an individual child's household. Meals served in day care homes to the provider's own children are reimbursable only if those children are determined eligible for free and reduced price meals, and at least one other nonresidential child is participating in the meal service.
The reimbursement for food service is passed on by sponsoring organizations to the day care home providers under their auspices.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	-0-	-0-	-0-
TOTAL	-0-	$25,044,722	-0-

Topical Issues: NONE

Summer Food Service Program for Children CFDA 10.559

Program Description: Disburses funds to sponsors who provide free meals to children during the summer and other extended periods when school is not in session (for example, spring break). Children may receive a meal, however, sponsors can only provide meals in areas where at least 50% of the children are eligible for free or reduced price lunches during the school year. Reimbursement may be paid for one meal and one snack or two meals per child per day. Sponsors who predominantly serve children of migrant workers may be reimbursed for serving three full meals a day.

Administering Agency: Department of Education (EDU)

Formula Description: Program funds are earned by the States and institutions on a per meal reimbursement basis with rates adjusted annually on January 1, to reflect changes in the "Food Away from Home" series of the Consumer Price Index for All Urban Consumers. This program has no maintenance of effort (MOE) requirements.

	FY 02	**FY 03**	**FY 04**
Expenditure Data			
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$4,113,896	$4,532,272	$6,154,494
TOTAL	$4,113,896	$4,532,272	$6,154,494

***Topical Issues*:** NONE

State Administrative Matching Grants for Food Stamps CFDA 10.561

Program Description: This program supplies federal money to underwrite the administrative costs state and local agencies incur when they operate the Food Stamp Program.

Administering Agency: Office of the Attorney General (OAG)

Formula Description: Basically, the federal government subsidizes 50% of a state's administrative costs, including (but not limited to): the cost of investigating food stamp fraud, the costs of developing the computer system required to comply with federal mandates, and the costs of verifying applicants' naturalization status. States are eligible to receive an extra 10% in enhanced funding (for a total 60% federal subsidy) if they administer their food stamp program efficiently as gauged by federal performance measures.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	$91,953	$110,000	$160,000
Agency Fund	$240,354	$258,697	$216,856
Federal Fund	$332,307	$369,769	$325,784
TOTAL	$664,614	$738,466	$702,640

***Topical Issues*:** NONE

State Administrative Matching Grants for Food Stamps CFDA 10.561

Program Description: This program supplies federal money to underwrite the administrative costs state and local agencies incur when they operate the Food Stamp Program.

Administering Agency: Cabinet for Health Services (CHS)

Expenditure Data	FY 02	FY 03	FY 04
General Fund	$30,444,176	$30,072,714	$30,128,962
Agency Fund	-0-	-0-	$1,900,000
Federal Fund	$25,553,836	$25,736,896	$27,495,821
Tobacco Fund	-0-	-0-	-0-
TOTAL	$55,998,012	$55,809,610	$59,524,783

***Topical Issues*:** For the first five years of Welfare Reform, the federal Food Stamp funding for administrative costs was reduced by $2.9M to make up for the contention that TANF was "over funded". However, this provision was extended another five years in the Farm Bill that was recently passed. This was evidently buried deep within the bill and escaped legislative detection until after it became law. CHFS Food Stamp budget was built assuming this reduction would be expiring as planned. Now, in order to maintain current services, $2.9M each year in state funds will be required.

Two other factors that could affect Food Stamp funding include (1) federal push for increased utilization which would require more administrative time and (2) the Random Moment Time Study could change the amount of time coded to the Food Stamp Program.

CHFS is using carry forward Restricted Funds to cover these costs.

COMMERCE

Commerce Program Issues: The President's proposed fiscal year 2006 budget proposes to focus Human Services activities expended under the Community Services Block Grant as well as a number of other community services programs under a targeted and unified program to be administered under the Department of Commerce. Similar administration regroupings are planned for other economic development and community development programs including the Community Development Block Grants (CDBG) and Economic Development Assistance Programs into a single program administered by the Department of Commerce.

Public Telecommunications Facilities Planning and Construction CFDA 11.550

Program Description: This program utilizes planning grants and matching construction grants to extend public telecommunications services to as many United States citizens as possible. Additional objectives are to increase the numbers of telecommunications services and facilities that are owned and operated by women and minorities and to strengthen the service capabilities of existing public telecommunications facilities. Funds may be used both to build new facilities and to upgrade existing ones.

Administering Agency: Kentucky Educational Television (KET)

Formula Description: This program offers project grants. The maximum amount of federal grant for the construction of a public telecommunications facility is 75% of the eligible project costs.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$266,894	$462,090	$807,505
TOTAL	$266,894	$462,090	$807,505

***Topical Issues*:** NONE

Federal Program Profiles – A Summary of Programs, Funding, and Potential Future Issues

HOUSING AND URBAN DEVELOPMENT (HUD)

Issues Concerning HUD Programs: All community development programs are cut, most notably HOME Investment Partnerships and Community Development Block Grants are reduced by a full 5%. Assistance grants for the homeless are reduced by 1.6%. Section 8 project based funding will be a separate appropriation now with a $227 million increase. Funding for vouchers that allow aid recipients to obtain their own rental housing will increase by $634 million.

Lower Income Housing Assistance Program – Section 8 New Construction/ Substantial Rehab CFDA 14.182

Program Description: This CFDA number was deleted from the federal catalog in 1997, therefore, a program description is not available.

Administering Agency: Kentucky Housing Corporation (KHCORP)

Formula Description: N/A

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$86,146,000	$84,569,000	-0-
TOTAL	$86,146,000	$84,569,000	-0-

Topical Issues: NONE

Community Development Block Grants/State's Program CFDA 14.228

Program Description: The primary objective of this program is the development of viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income. Each activity funded must meet one of the program's National Objectives by: Benefiting low and moderate income families; aiding in the prevention or elimination of slums or blight; or meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available.

Administering Agency: Department of Local Development (DLG)

Formula Description: Allocations to States are based on U.S. Census data using a dual formula prescribed under Section 106 of the Act. Allocations for each State are based on an amount equaling the greater of the amounts calculated under the two formulas. The factors involved in the first formula are population, extent of poverty and extent of overcrowding, weighted 0.25, 0.50, and 0.25, respectively. The factors involved in the second formula are population, poverty, and age of housing, weighted 0.20, 0.30, and 0.50, respectively. The statistical factors used for fund allocation are (1) total resident population for all places in the nation (2) number of persons with incomes below the poverty level; (3) number of housing units with 1.01 or more persons per room; and (4) age of housing (number of year-round housing units built in 1939 or earlier). The statistical factors for each State are adjusted to reflect only the non-entitled area; that is, the State area excluding metropolitan cities and urban counties. The amount of non-entitlement funds allocated to a State is not affected by whether the State or HUD administers the fund in that State. There is no matching requirement for the allocation of funds under the formula.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$41,606,553	$31,649,043	$31,287,919
TOTAL	$41,606,553	$31,649,043	$31,287,919

Topical Issues**:** NONE

Supportive Housing Program CFDA 14.235

Program Description: This program disburses project grants to develop supportive housing and provide support services to homeless persons. Funds can be used to provide transitional housing, follow-up services, safe havens for the mentally ill homeless who may not be ready for support services yet, and any innovative projects designed to meet the needs of homeless persons and their families.

Administering Agency: Kentucky Housing Corporation (KHCORP)

Formula Description: Recipients must match grants for acquisition, rehabilitation, and new construction, with an equal amount of funds from other sources. Recipients must also provide a cash match for support services and operations. The Supportive Housing Program will pay no more than 80 percent of total support service costs and 75 percent of total operating costs.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$3,302,000	$3,245,000	-0-
TOTAL	$3,302,000	$3,245,000	-0-

(Note**:** Program began 7/1/04)

Topical Issues: Program changes annually. Expect greater requirements on access to mainstream services, match for services and discharge planning.

Home Investment Partnerships Program CFDA 14.239

Program Description: Funds are provided to increase the supply of affordable housing for low and very low income Americans. States, cities, urban counties, and groups of contiguous counties that are united under any sort of agreement for funding purposes are eligible to receive the formula allocations. Funds are used to renovate existing housing, build new housing, and provide monetary assistance to low-income renters and potential homebuyers. Funds can also be used to cover ancillary activities if they are reasonably related to the goal of providing more low-income housing. For example, land purchases, demolition costs, and site improvements would be covered.

Administering Agency: Kentucky Housing Corporation (KHCORP)

Formula Description: HUD (Housing and Urban Development) has designed and established a formula to determine a jurisdiction's need for affordable housing. The statistical factors used in the formula are: the jurisdiction's amount of substandard housing, the number of low-income households in housing units that are in likely need of rehabilitation, the cost to produce housing in the jurisdiction, federal poverty guidelines, and the jurisdictions; capability to carry out the appropriate housing activities without the benefit of federal assistance.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$20,005,000	$17,183,000	$18,678,000
TOTAL	$20,005,000	$17,183,000	$18,678,000

Topical Issues**:** NONE

Lower Income Housing Assistance Program - Section 8 Moderate Rehab CFDA 14.856

Program Description: This program provides financial assistance to enable very low-income families to obtain decent, safe, and sanitary rental housing. Participating owners of rental properties receive payments from the federal government to make up the difference between the approved rent and the low-income family's required rental contribution. Assisted families must pay whatever is the highest of three (3) figures: 30% of their monthly adjusted family income, 10% of gross family income, or the portion of their welfare assistance that is designated for housing.

Administering Agency: Kentucky Housing Corporation (KHCORP)

Formula Description: Assisted families must pay whatever is the highest of three (3) figures: 30% of their monthly adjusted family income, 10% of gross family income, or the portion of their welfare assistance that is designated for housing.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$468,000	$240,000	-0-
TOTAL	$468,000	$240,000	-0-

(Note: Program began 7/1/04)

Topical Issues**:** NONE

Section 8 Housing Choice Vouchers CFDA 14.871

Program Description: This program is intended to increase housing choices for low-income families. It provides housing assistance payments to participating property owners on behalf of eligible tenants. Housing assistance payments are usually the difference between the established local payment standard and 30% of the family's adjusted income.

Administering Agency: Kentucky Housing Corporation (KHCORP)

Formula Description: N/A

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$15,425,000	$20,485,000	-0-
TOTAL	$15,425,000	$20,485,000	-0-

***Topical Issues*:** Changes in the Section 8 Housing Choice Voucher program are currently being considered at the federal level. Potential impact of the proposed changes is not yet known.

LABOR

Labor Program Issues: Federal Funds for Unemployment Insurance were slightly increased. The Adult Training Program, Youth Training Program, and State Administered Employment Services were virtually unchanged from the 2004 budget. The Dislocated Worker program was increased to $1.48 billion.

Unemployment Insurance CFDA 17.225

Program Description: The U.S. Social Security Act requires that all states have an operational unemployment insurance system in place. These systems are structured to collect unemployment insurance taxes from employers to fund benefit payments to workers who have become involuntarily unemployed. Federal funds from this grant program pay for the states' costs of administering these programs. Federal funds also pay for half (50%) of the cost of paying out any extended benefits required by law.

Administering Agency: Cabinet for Workforce Investment (CWD)

Formula Description: N/A

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund			
*Admin:	$25,598,296	$28,901,181	$33,133,131
*Benefits:	$553,909,033	$614,947,027	$532,881,157
TOTAL	$579,507,329	$643,848,208	$566,014,288

***Topical Issues*:** Current Federal administration is proposing a radical change in the way that UI administration is funded. Proposal is in debate to devolve the taxing authority down to States to raise the funds necessary to administer all Unemployment Insurance programs. UI administration funds are currently derived from FUTA tax paid to employers. This change would place the authority at the State level or SUTA.

Trade Adjustment Assistance – Workers CFDA 17.245

Program Description: This program exists to aid qualified workers who have suffered adverse economic effects due to foreign trade conditions. Potential beneficiaries must meet detailed group and individual eligibility requirements. A beneficiary must be a member of a certified eligible group before their individual eligibility can even be considered. Groups of three (3) or more workers (or their representative, such as a union) may file a petition for trade adjustment assistance with the Secretary of Labor. The Secretary then determines whether the petitioning group has been adversely affected by increased imports or production shifts to other countries, and, if they have, issues them a certificate of eligibility to apply for trade adjustment assistance. The worker must then apply and meet individual eligibility criteria. For example, the worker's periods of unemployment must comply with certain dates. Also, benefit payments will not be paid to workers until their individual unemployment compensation, along with any extended benefits, has run out. In addition to the weekly trade readjustment allowance that is paid, eligible workers can also receive testing, counseling, job placement services, job search and relocation assistance.

Administering Agency: Cabinet for Workforce Investment (CWD)

Formula Description: N/A

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$14,423,708	$18,516,129	$21,569,134
TOTAL	$14,423,708	$18,516,129	$21,569,134

***Topical Issues*:** NONE

Workforce Investment Act CFDA 17.255

Program Description: The overall objectives of the Act were to design, with states and local communities, a revitalized workforce investment system that provides workers with information, advise, and job search assistance and training to get and keep jobs. The Act also provided employers with skilled workers.

Administering Agency: Cabinet for Workforce Investment (CWD)

Formula Description:

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$5,080,665	$6,622	-0-
TOTAL	$5,080,665	$6,622	-0-

Topical Issues: NONE

Workforce Investment Act Adult Program CFDA 17.258

Program Description: The overall objectives of this program are to improve the quality of the nation's workforce, reduce welfare dependence, and enhance the productivity and competitiveness of the national economy. Program funds are used to provide services to adults through One Stop Career Centers that are run by local workforce investment boards. The Centers provide three (3) levels of service: 1) Core Services (job search and placement assistance); 2) Intensive Services (individualized counseling and career planning); and 3) Training Services (occupational skills training and basic skills training). Priority for these services is given to low-income citizens and those on public assistance. Training Services (Level 3) are only offered to those who are unable to obtain employment following the completion of Intensive Services (Level 2).

Administering Agency: Workforce Development Investment (CWD)

Formula Description: The statutory formula is based on the most recent 12 months of unemployment statistics available for each state. The following factors are equally weighted: 1/3 number of unemployed residing in areas of substantial unemployment (greater than or equal to 6.5 percent); 1/3 excess unemployment (greater than 4.5 percent); 1/3 economically disadvantaged adults.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$13,241,025	$13,537,375	$14,659,945
TOTAL	$13,241,025	$13,537,375	$14,659,945

***Topical Issues*:** The Workforce Investment Act is currently undergoing re-authorization at the Federal level that may have an impact on the programs' design or the current level of funding.

Workforce Investment Act Youth Activities CFDA 17.259

Program Description: Program funds are disbursed to help low-income youth between the ages of fourteen (14) and twenty-one (21) obtain the education, occupational skills, and necessary training to succeed academically, enter the workforce, and be self-sufficient.

Administering Agency: Cabinet for Workforce Investment (CWD)

Formula Description: The statutory formula is based on the most recent 12 months of unemployment statistics available for each state. The following factors are equally weighted: 1/3 number of unemployed in areas of substantial unemployment (greater than or equal to 6.5 percent); 1/3 excess unemployment (greater than 4.5 percent); 1/3 economically disadvantaged youth.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$3,999,874	$14,264,083	$14,776,034
TOTAL	$3,999,874	$14,264,083	$14,776,034

***Topical Issues*:** The Workforce Investment Act is currently undergoing re-authorization at the Federal level that may have an impact on the programs' design or the current level of funding.

Workforce Investment Act Dislocated Workers CFDA 17.260

Program Description: This program specifically targets displaced workers. The same three (3) service levels are available as detailed in CFDA #17.258 above: core, intensive, and training services. Only participants who fail to find employment after receiving core and intensive services can access specialized training services that are linked to specific job opportunities in their communities. Participants have individual training accounts they can draw upon to obtain training from a qualified training provider.

Administering Agency: Cabinet for Workforce Investment (CWD)

Formula Description: One-third (1/3) is allotted based on the ratio between unemployed individuals in the state compared to the total unemployment figure for all the states combined; one-third (1/3) is allotted based on the excess number of unemployed individuals (4.5%) residing in the state compared to the total excess number of unemployed individuals in all the states; and one-third (1/3) is allotted based on the relative number of individuals unemployed for fifteen (15) or more weeks in the state, compared to the total number of such individuals in all the states.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$11,450,753	$15,491,645	$15,229,241
TOTAL	$11,450,753	$15,491,645	$15,229,241

Topical Issues: The Workforce Investment Act is currently undergoing re-authorization at the Federal level that may have an impact on the programs' design or the current level of funding.

Chapter 11

Federal Program Profiles – A Summary of Programs, Funding, and Potential Future Issues

TRANSPORTATION

Transportation Program Issues: The Highway Planning and Construction Cluster, CFDA # 20.205 represents the sole federal Department of Transportation program with the Major Program designation for the Commonwealth.

Funding levels have been impacted by failure to pass a multi-year extension for the Transportation Equity Act for the21st Century (TEA-21) and a continuation of short-term extensions.
The Surface Transportation Extension Act of 2004, Part V (P.L. 108-310) extends the federal-aid highway program through 2004 and the availability of all core programs until May 31, 2005.

According to recent news accounts, states are losing millions of dollars because Congress failed to pass a federal highway bill last year. Virginia has expressed concern that it will lose $50 million in buying power and Ohio stated it could gain 75,000 to 150,000 jobs with the passage of a long-term bill. Impact on Kentucky jobs and buying power is not known.

Highway Planning and Construction CFDA 20.205

Program Description: This program exists to maintain the U.S. highway system in order to facilitate interstate commerce and travel. Money can be used for transportation improvements to all public roads, except for roads that are designated as local. Some examples of covered activities include: repairing roads following natural disasters, replacing or rehabbing obsolete bridges, and making road modifications that foster highway safety. The funds cannot be used for routine events like weed abatement, snow removal, or police patrols.

Administering Agency: Kentucky State Police (KSP)

Formula Description: The majority of highway funds are distributed by statutory formula. However, there are also a significant number of discretionary project allowances that are Congressionally appropriated. Most programs require the state to match some portion of the federal funds. For example, the federal share is 90% for Interstate projects, but only 80% for most other projects. The federal government may elect to pay more than these shares in states that have large tracts of federal land. Eligibility criteria for this program vary widely. Projects in urban areas (over 50,000 in population) must be based on the Metropolitan Planning Organization's planning process, while projects in non-urban areas have to comply with a Statewide Transportation Plan.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	-0-	$290	$8697
TOTAL	-0-	$290	$8697

***Topical Issues*:** Grant complete, no activity in the upcoming year.

Highway Planning and Construction CFDA 20.205

Program Description: The description is provided under CFDA 20.205 for KSP above.

Administering Agency: Transportation Cabinet (TC)

Formula Description: The description is provided under CFDA 20.205 for KSP above.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	$115,996,721	$108,086,351	$95,620,090
Federal Fund	$522,066,211	$485,145,061	$463,876,582
TOTAL	$638,062,932	$593,231,412	$559,496,672

Topical Issues: The only issue is related to the Kennedy Bridge Project, for which the original federal funds were returned to the Federal Highway Administration. The Kennedy Bridge improvements are presently 100% state funded, but since the Transportation Cabinet has implemented corrective measures improving internal controls, the Federal Highway Administration has indicated that federal funding may be available again for this project.

SPECIAL DESIGNATION

Program Issues: There is not a federal program associated with this fiscal relief. The program description below provides additional information.

Job Growth Tax Relief Reconciliation Act CFDA 21.999

Program Description: As part of the Jobs and Growth Reconciliation Act of 2003, the federal government provided $10 billion in temporary fiscal relief payments to states. Generally, the use of these funds was unrestricted. The funds were provided to close state budget shortfalls and provide antirecession fiscal stimulus to the national economy.

Administering Agency: Finance Cabinet (FAC)

Formula Description: Under the formula of the Act, each state has available its proportionate share of the $5 billion appropriated by Congress for each of FY 2003 and FY 2004 based on relative population of each state, using 2000 census data, adjusted to provide minimum payments to smaller jurisdictions.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	$68,720,606.18	$68,720,606.18
Agency Fund	-0-	-0-	-0-
Federal Fund	-0-	-0-	-0-
TOTAL	-0-	$68,720,606.18	$68,720,606.18

***Topical Issues*:** NONE

ENVIRONMENTAL PROTECTION AGENCY

EPA Program Issues: The EPA's current budget includes an 18.7% decrease in the Drinking Water State Revolving Fund. However, the 2005 budget proposal included a $380 million request for Superfund site cleanup. This figure represents an increase of nearly 50% in Superfund spending. Other programs will be level funded or sustain small to moderate decreases. $26 million in additional state grant money will be available to support state inspections of underground petroleum storage tanks.

Capitalization Grants for Clean Water CFDA 66.458

Program Description: The Clean Water Act requires the states to have clean water state revolving funds. These funds are intended to finance the construction of wastewater treatment facilities and implement other water quality management activities. Funds from this federal program are used to capitalize the revolving funds. In addition to capitalization grants, loans and other repayable financial assistance are also available under this program.

Administering Agency: Kentucky Infrastructure Authority (KIA)

Formula Description: State allotments are determined by a table of decimal fractions in Section 205 (c)(3) of the Clean Water Act. The required state match is 20% of the amount of each federal grant payment.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	$2,030,228	$2,937,878	$1,398,555
Federal Fund	$10,148,709	$14,685,841	$6,991,105
TOTAL	$12,178,936	$17,623,719	$8,389,660
Pass thru to EPPC			
Federal Fund:	$769,614	$8,780	$316,493

***Topical Issues*:** NONE

Capitalization Grants for Clean Water 66.458

Program Description: The Clean Water Act requires the states to have clean water state revolving funds. These funds are intended to finance the construction of wastewater treatment facilities and implement other water quality management activities. Funds from this federal program are used to capitalize the revolving funds. In addition to capitalization grants, loans and other repayable financial assistance are also available under this program.

Administering Agency: Environmental and Public Protection Cabinet (NREPC)

Formula Description: State allotments are determined by a table of decimal fractions in Section 205 (c)(3) of the Clean Water Act. The required state match is 20% of the amount of each federal grant payment.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	$275,746	$513,353	$177,716
Agency Fund	$67,895	$97,758	$38,415
Federal Fund	$628,059	-0-	$322,564
TOTAL	$971,700	$611,111	$538,695

***Topical Issues**:* NONE

Capitalization Grants for Drinking Water CFDA 66.468

Program Description: The Safe Drinking Water Act requires states to finance the costs of their drinking water infrastructure by maintaining Drinking Water State Revolving Funds. The federal money provided by this program is used to capitalize these Revolving Funds. The states prioritize funding allocation within their own borders, however, they must do so in accordance with the provisions of the federal Safe Drinking Water Act. This means that top priority must be accorded to projects that either protect public health, assist systems that are deemed to be in economic need, or help the state stay in compliance with the Act.

Administering Agency: Environmental and Public Protection Cabinet (NREPC)

Formula Description: The Regional Administrator may award capitalization grants for DWSRFs from funds appropriated for this purpose. Allotments to the States are based on a formula, approved by the Administrator that allocates the funds based on the proportional share of the State needs identified in the most recent needs survey conducted, except that each State and the District of Columbia will receive a minimum of one percent. The required State match is 20 percent of the amount of the capitalization made to the State. States must also provide a match or demonstrate a credit for State funded eligible activities to receive Federal funds for certain program support activities.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	$8,555	$31,760
Agency Fund	-0-	$11,757	$23,355
Federal Fund	$1,206,857	$1,173,469	$1,544,244
TOTAL	$1,206,857	$1,193,781	$1,599,359

***Topical Issues**:* NONE

Capitalization Grants for Drinking Water CFDA 66.468

Program Description: The Safe Drinking Water Act requires states to finance the costs of their drinking water infrastructure by maintaining Drinking Water State Revolving Funds. The federal money provided by this program is used to capitalize these Revolving Funds. The states prioritize funding allocation within their own borders, however, they must do so in accordance with the provisions of the federal Safe Drinking Water Act. This means that top priority must be accorded to projects that either protect public health, assist systems that are deemed to be in economic need, or help the state stay in compliance with the Act.

Administering Agency: Kentucky Infrastructure Authority (KIA)

Formula Description: The Regional Administrator may award capitalization grants for DWSRFs from funds appropriated for this purpose. Allotments to the States are based on a formula, approved by the Administrator that allocates the funds based on the proportional share of the State needs identified in the most recent needs survey conducted, except that each State and the District of Columbia will receive a minimum of one percent. The required State match is 20 percent of the amount of the capitalization made to the State. States must also provide a match or demonstrate a credit for State funded eligible activities to receive Federal funds for certain program support activities.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	$3,763,339	$3,099,556	$2,612,772
Federal Fund	$17,063,339	$14,154,256	$10,010,077
TOTAL	$20,827,329	$17,253,812	$12,622,849
Pass thru to EPPC			
Federal Funds	$1773,763	$1,189,076	$1,750,290

***Topical Issues**:* NONE

Chapter 11
Federal Program Profiles – A Summary of Programs, Funding, and Potential Future Issues
EDUCATION

Education Program Issues: The 2005 budget shows a 1.6% overall increase in education program spending, but this increase is concentrated in three (3) key program areas: Title I, Special Education, and Pell Grants. Other education programs either received level funding or sustained cuts. In keeping with the provisions of 2002's No Child Left Behind Act, $500 million is earmarked for parental choice programs that allow parents to withdraw their children from failing schools with the aid of vouchers.

Title I Grants to Local Educational Agencies CFDA 84.010
Program Description: These Title I grants are intended to aid schools help children who are either actually failing or designated to be at-risk of failing to meet state academic standards. Schools with 40% of their students falling below the poverty rate are allowed to combine these program funds with other funding sources (federal, state, and local sources, etc.) to work on improving the school's overall curriculum and instructional quality. However, schools that do not meet this threshold must use these program funds in a targeted manner and can only allocate the money to provide extra instruction or tutoring to the children who are failing or at-risk of failing to meet statewide standards.

Administering Agency: Education Cabinet (EDU)

Formula Description: The statute includes four separate formulas for allocating Title I Grants to LEAs. Under the statute, Basic and Concentration Grants are funded at the 2001 appropriation level. Basic Grants are allocated to almost all local educational agencies based on each State's per-pupil expenditure for education and the number of school-aged children from low-income families. Concentration Grants are allocated to Local Education Agencies (LEAs) having more than 6,500 children from low-income families or a poverty rate of more than 15 percent. In addition, funds appropriated in excess of the fiscal year 2001 level are to be distributed as Targeted Grants, which make higher payments to counties with higher numbers or percentages of poor children. The law also includes a separately authorized Education Finance Incentive Grants formula, which incorporates factors designed to measure a State's commitment to provide sufficient education funding, as well as how equitably that funding is distributed across districts. Allocations from all four formulas are combined into a single award to eligible LEAs. Within LEAs, school officials target funds to schools with the greatest numbers of poor children. The Bureau of Indian Affairs, Outlying Areas, and the Pacific Regional Education Laboratory also receive funding.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$146,605,336	$146,257,281	181,702,153
TOTAL	$146,605,336	$146,257,281	181,702,153

Topical Issues: NONE

Special Education – Grants to States CFDA 84.027
Program Description: Provides funds to the states in order to assist them in making free public education available to children with disabilities. The program is completely self-administered; state educational agencies disburse the funds to local educational agencies that in turn use the monies to provide special education services to children with disabilities.

Administering Agency: Education Cabinet (EDU)

Formula Description: Funds for the 50 States, the District of Columbia, and Puerto Rico, are allotted on the basis of a certified count of the number of children with disabilities aged 3 through 21 years, receiving special education and related services on December 1 of the fiscal year that the grant is made. Funds to the outlying areas are allotted proportionately among them on the basis of their respective need, not to exceed one percent of the aggregate amounts available to the States in a fiscal year, as determined by the Secretary of Education. The Department of the Interior receives 1.226 percent of the total amount available to States. There are non-supplanting and excess cost requirements. The statistical factors used are: 1) The total number of children with disabilities receiving special education (3 through 21 years old) by State: the sources are the unpublished reports from the State educational agencies; 2) the average national per pupil expenditure; and 3) "Revenues and Expenditures," CES. Statistical factors used for eligibility do not apply to this program.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$78,960,762	$97,583,761	$107,286,239
TOTAL	$78,960,762	$97,583,761	$107,286,239

Topical Issues: NONE

Federal Family Education Loans CFDA 84.032

Program Description: This grant program provides funds for Stafford loans, PLUS loans, and consolidation loans. Stafford loans are disbursed directly to students, while the PLUS program allows parents to borrow funds on behalf of their dependent children. The proceeds of consolidation loans are generally paid directly to the lenders who hold the loans. Recipients of Stafford and PLUS funds must be enrolled at least halftime in an eligible postsecondary institution. However, anyone with multiple outstanding student loans can apply for a consolidation loan, regardless of their school enrollment status.

Administering Agency: Kentucky Higher Education Assistance Authority (KHEAA)

Formula Description: N/A

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund*	$45,665,348	$59,420,775	$50,907,494
TOTAL	$45,665,348	$59,420,775	$50,907,494

*FFEL funds from Key Federal Program CFDA 84.032 are held outside the State Treasury.

***Topical Issues*:** Congress passed the Higher Education Act (HEA) in 1965 creating (among others) what is today known as the FFEL program. The HEA has been amended several times and is subject to periodic reauthorization. Such legislation is generally effective for five years at a time, at which point Congress reviews it prior to its scheduled expiration. The Higher Education Act has been extended through federal fiscal year 2005 (September 30, 2005).

Federal Family Education Loans CFDA 84.032

Program Description: Program exists to develop more fully the academic, vocational, and technical skills of secondary and postsecondary students who elect to enroll in vocational and technical programs.

Administering Agency: Kentucky Higher Education Student Loan Corporation (KHESLC)

Formula Description: N/A

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund*	$14,871,899	$13,322,775	$36,606,127**
TOTAL	$14,871,899	$13,322,775	$36,606,127

***FFEL funds from Key Federal Program CFDA 84.032 are held outside the State Treasury.
**Estimate of FY04 expenditures. Final expenditure amount could differ slightly.

Topical Issues: NONE

Vocational Education – Basic Grants to States 84.048

Program Description: Program exists to develop more fully the academic, vocational, and technical skills of secondary and postsecondary students who elect to enroll in vocational and technical programs.

Administering Agency: Cabinet for Workforce Investment (CWD)

Formula Description: Section 101 (a) (2) of the Perkins Act sets forth allotment procedures. Funds for basic grants are allotted to States according to a formula based on States' populations in three age groups, and their per capita income (averaged for the three most recent consecutive fiscal years). The age groups are 15-19, 20-24, and 25-65. They are weighted 50 percent, 20 percent and 15 percent respectively. A fourth distribution, weighted 15 percent, is based on the sums of the amounts resulting from the three age group distributions. Generally, each State receives an allotment consisting of four parts: 1) An amount which bears the same ratio to 50 percent of the sums being allotted as the product of the State's population aged 15-19 bears to the sum of the corresponding products for all the States; 2) an amount which bears the same ratio to 20 percent of the sums being allotted as the product of the State's population aged 20-24 bears the sum of the corresponding products for all the States; 3) an amount which bears the same ratio to 15 percent of the sums being allotted as the product of the State's population aged 25-65 bears to the sums of the corresponding products for all the States; and 4) an amount which bears the same ratio to 15 percent of the sums being allotted as the amounts allotted to the State in the previous three age group distributions bears to the sum of the amounts allotted to all the States under the previous three age group distributions. The Bureau of the Census supplies the population data; the Department of Labor supplies the per capita income data. Matching. Section 102 of the Perkins Act requires 50/50 matching for State administration. No match is required for American Samoa, the Northern Mariana Islands, the Virgin Islands, the Trust Territory of the Pacific Islands, the Federated States of Micronesia, or the Republic of Palau. Section 502 of the Perkins Act describes maintenance of effort requirements.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	$1,760,600	$1,236,398	$1,370,446
Agency Fund	-0-	-0-	-0-
Federal Fund	$15,919,039	$18,783,259	$23,383,741
TOTAL	$17,679,639	$20,019,657	$24,754,187

Topical Issues*:* For FY 2005, the funding is a continuing resolution. Reauthorization of the Carl D. Perkins Vocational and Technical Education Act of 1998 appears to be on a fast track.

Vocational Rehabilitation Grants to States CFDA 84.126

Program Description: Individuals who possess physical and/or mental impairments that pose a substantial barrier to employment are eligible for vocational rehabilitation services. These grants to states are used to defray the costs of providing these services. Funds are not disbursed to individuals; only the state agencies that administer vocational rehabilitation programs are eligible to receive funds. Covered rehabilitation services can include: assessments, counseling, vocational training, job placement services, readers and interpreters for the blind and hearing impaired, medically related services, prosthetic and orthotic devices, rehabilitation technology, transportation to vocational rehab services, and any other goods and services that may be necessary to help an individual secure a job.

Administering Agency: Cabinet Workforce Investment (CWD)

Formula Description: Under the Rehabilitation Act of 1973, as amended, Title I, Part A, Section 110, Federal funds are distributed (78.7 percent Federal and 21.3 percent State) based on population weighted by per capita income. Funds become available for obligations for the fiscal year for which they are appropriated and may remain available for an additional year if the matching requirement is met in the year of the appropriation. The statistical factors for fund allocation are: 1) The per capita income 3-year average by State and the source is the Survey of Current Business, Bureau of Economic Analysis; 2) the U.S. total population and State population and the source is the Population Estimates Annual, Bureau of the Census; Bureau of Labor Statistics. Statistical factors used for eligibility do not apply to this program.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	$11,327,667	$11,588,780	$8,918,365
Agency Fund	$801,903	$691,715	$1,410,866
Federal Fund	$42,904,112	$45,504,749	$48,392,759
TOTAL	$55,033,682	$57,785,244	$58,721,990

***Topical Issues*:** NONE

Special Education – Preschool Grants CFDA 84.173

Program Description: Provides disabled children aged three (3) through five (5) with a free public education in order to meet the mandates of the Individuals with Disabilities Education Act (IDEA). States may choose to include two-year olds who will reach age three (3) during the school year, but this is not mandatory. Covered disabilities include: mental retardation, hearing impairments, visual impairments, serious emotional disturbances, orthopedic impairments, autism, traumatic brain injury, other health impairments, and learning disabilities or developmental delays that require special education and related services.

Administering Agency: Education Cabinet (EDU)

Formula Description: Preschool Grants are awarded to States based on a statutory formula. A State first receives the amount it received under this program in federal fiscal year 1997. If the appropriation for this program in any subsequent fiscal year exceeds the amount for the preceding fiscal year, 85 percent of the excess appropriation over the fiscal year 1997 appropriation is awarded to States based on their relative populations of children aged 3 through 5, and 15 percent of the excess appropriation is awarded based on the State's relative population of all children aged 3 through 5 living in poverty.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$10,381,014	$10,923,826	$10,981,243
TOTAL	$10,381,014	$10,923,826	$10,981,243

Topical Issues**:** No significant budgetary impact expected.

Eisenhower Professional Development State Grants CFDA 84.281

Program Description: This program supported teacher improvement initiatives at the individual school and district levels by funding intensive professional development activities in core academic subjects. In FY04 Eisenhower grants were phased out and reauthorized to Title II of the Elementary and Secondary Education Act. See CFDA 84.367 Title II, Part A – Improving Teacher Quality State Grants.

Administering Agency: Council on Postsecondary Education (CPE)

Formula: N/A

Expenditure Data	FY 02	FY 03	FY 04
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$5,099,632	$5,305,050	*$1,158,680
TOTAL	$5,099,632	$5,305,050	*$1,158,680

*In FY04 Eisenhower grants were phased out and reauthorized to Title II, Improving Teacher Quality – CFDA 84.367

Topical Issues**:** NONE

Gaining Early Awareness and Readiness for Undergrad Programs CFDA 84.334

Program Description: The overall objectives of this program are to prevent low-income students and students in high-poverty schools from dropping out and to encourage them to pursue postsecondary education. The program has two (2) separate components: Early Intervention and Scholarships. The Early Intervention component uses funds to provide activities like mentoring, tutoring, counseling, outreach, and support services to students preschool through grade 12. Schools, colleges, community-based organizations, public and private agencies, nonprofit and philanthropic organizations, and businesses can all offer Early Intervention services. The Scholarship component provides federal grant assistance to students pursuing postsecondary education.

Administering Agency: Council on Postsecondary Education (CPE)

Formula Description: This program is composed of discretionary project grants. There is a statutory matching requirement of at leas 50% of the program cost.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$2,047,561	$1,975,340	$2,356,447
TOTAL	$2,047,561	$1,975,340	$2,356,447

Topical Issues: NONE

Chapter 11

Federal Program Profiles – A Summary of Programs, Funding, and Potential Future Issues

HEALTH AND HUMAN SERVICES (HHS)

Health and Human Services Issues: HHS represents the largest and most financially significant segment of the 12 Major Programs in the FY 2003 Statewide Single Audit of the Commonwealth. Kentucky's, and the national healthcare system both rely on Medicaid to provide care for low-income populations.

According to the Centers for Medicare and Medicaid Services (CMS), the overall ***rate of growth*** of healthcare has tempered in recent years. Still, states face much budget morass with Medicaid still rising. Within the various HHS programs, Medicaid and its companion program for children, SCHIP, stand ubiquitous and impact all state and federal funding, not just HHS programs. Medicaid accounted for 8% of all federal outlays in 2004 and, it is expected to grow from 1.5 percent of our gross domestic product (GDP) to 2 percent of our GDP over the next decade. Kentucky's budget impact for FY 2005 follows that of other states. In aggregate, funding for FY 2005 Medicaid is lower because state Medicaid spending for three quarters of FY 2004 was increased via the Federal Medical Assistance Percentage (FMAP) match that has now expired. SCHIP, is funded at a 29% increase over the $3.15 billion provided in FYs 2002-2004 with lapsed unspent funds returned to the Treasury and uncertain redistribution. Intergovernmental transfers and other financing stratgies once used by states to bolster Medicaid budgets will no longer be viable leverage devices available to the states to increase funding.
The 109th Congress will be faced with profound decisions about Medicaid's entitlement-based funding. A December 2004 National Governors Association letter to Congress and the Administration urges rejection of federal plans to shift Medicaid funding burdens to states. The upcoming budget negotiations will no doubt be a battle between Medicaid's advocates and those that see the program as having surpassed all reasonable budgetary constraints.

Regarding Temporary Assistance to Needy Families (TANF), the 1996 Welfare Reform Act expired on September 30, 2002 and Congress has made quarterly extensions through June 30, 2005 when the program will be up for reauthorization. Prior reauthorization proposals have called for increasing work requirements, cutting education and training opportunities and diverting funds from TANF benefits into marriage promotion efforts. Therefore, it is possible that the 109th Congress and the President will work for policy changes rather than a simple extension of the funding period.

The FY 2005 Budget funds SSBG at its authorized level and continues a 10% transfer authority from TANF to SSBG.

<u>Temporary Assistance for Needy Families (TANF) CFDA 93.558</u>
Program Description: TANF funds are used to meet the ongoing basic needs of poor families, like food and shelter. There is a 60-month time limit on TANF benefits, and recipients must participate in programs designed to help them transition back into the workforce. TANF money is awarded to the states in the form of block grants. The states are then free to design their own welfare programs, so long as the programs meet the dual goals of providing for families' immediate needs and moving recipients back into paid employment.

Administering Agency: Cabinet for Workforce Development (CWD)
Formula Description: The TANF block grant program has an annual cost-sharing requirement known as "maintenance-of-effort" (MOE). This basically means that every fiscal year, each State receiving Federal TANF funds must spend an applicable percentage of its own money to help eligible families in ways that are consistent with the purposes of the TANF program. The applicable percentage depends on whether the State meets the minimum work participation rate requirements for that fiscal year. If the State does not meet the work participation rates, then it must spend 80 percent of the amount it spent for fiscal year 1994 on AFDC and AFDC-related programs. If the State meets the work participation rates, then the applicable percentage is 75 percent of the amount it spent for fiscal

year 1994 on AFDC and AFDC-related programs. Tribes that receive Federal TANF funds to operate their own approved Tribal TANF program have no matching or maintenance-of-effort requirement. In addition to the TANF funds States receive to operate their TANF programs, needy States may request and receive funds from the Contingency Fund. The Contingency Fund was established for periods when unfavorable economic conditions threaten a State's ability to operate its TANF program.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$3,288,296	$2,816,207	$2,960,457
TOTAL	$3,288,296	$2,816,207	$2,960,457

Topical Issues: NONE

<u>Temporary Assistance for Needy Families (TANF) CFDA 93.558</u>

Program Description: TANF funds are used to meet the ongoing basic needs of poor families, like food and shelter. There is a 60-month time limit on TANF benefits, and recipients must participate in programs designed to help them transition back into the workforce. TANF money is awarded to the states in the form of block grants. The states are then free to design their own welfare programs, so long as the programs meet the dual goals of providing for families' immediate needs and moving recipients back into paid employment.

Administering Agency: Cabinet for Families and Children (CFC)

Formula Description: The TANF block grant program has an annual cost-sharing requirement known as "maintenance-of-effort" (MOE). This basically means that every fiscal year, each State receiving Federal TANF funds must spend an applicable percentage of its own money to help eligible families in ways that are consistent with the purposes of the TANF program. The applicable percentage depends on whether the State meets the minimum work participation rate requirements for that fiscal year. If the State does not meet the work participation rates, then it must spend 80 percent of the amount it spent for fiscal year 1994 on AFDC and AFDC-related programs. If the State meets the work participation rates, then the applicable percentage is 75 percent of the amount it spent for fiscal year 1994 on AFDC and AFDC-related programs. Tribes that receive Federal TANF funds to operate their own approved Tribal TANF program have no matching or maintenance-of-effort requirement. In addition to the TANF funds States receive to operate their TANF programs, needy States may request and receive funds from the Contingency Fund. The Contingency Fund was established for periods when unfavorable economic conditions threaten a State's ability to operate its TANF program

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	$69,074,765	$71,981,990	$71,913,100
Agency Fund	$6,192,400	-0-	-0-
Federal Fund	$188,933,590	$116,975,543	$118,123,145
TOTAL	$264,200,755	$188,957,533	$190,036,245

***Topical Issues*:** TANF was originally set to expire September 30, 2002. However, for various reasons, Congress has extended the program, and it is currently set to expire on September 30, 2005. The House of Representatives has passed a bill for TANF reauthorization. The Senate has produced a mark-up, but no legislative action has been taken. It appears TANF will be reauthorized at flat funding. Significant changes proposed by both sides of congress that could have a budgetary impact include: increasing the participation rate by 5% each year leveling out at 70%; increasing the number of required hours of participation; universal engagement (includes development and updating of case plans) for all families receiving assistance, the amending or elimination of the caseload reduction credit, and all systems changes required as a result of the proposed changes to the program.

Temporary Assistance for Needy Families 93.558

Program Description: TANF funds are used to meet the ongoing basic needs of poor families, like food and shelter. There is a 60-month time limit on TANF benefits, and recipients must participate in programs designed to help them transition back into the workforce. TANF money is awarded to the states in the form of block grants. The states are then free to design their own welfare programs, so long as the programs meet the dual goals of providing for families' immediate needs and moving recipients back into paid employment.

Administering Agency: Office of the Attorney General (OAG)

Formula Description: The TANF block grant program has an annual cost-sharing requirement known as "maintenance-of-effort" (MOE). This basically means that every fiscal year, each State receiving Federal TANF funds must spend an applicable percentage of its own money to help eligible families in ways that are consistent with the purposes of the TANF program. The applicable percentage depends on whether the State meets the minimum work participation rate requirements for that fiscal year. If the State does not meet the work participation rates, then it must spend 80 percent of the amount it spent for fiscal year 1994 on AFDC and AFDC-related programs. If the State meets the work participation rates, then the applicable percentage is 75 percent of the amount it spent for fiscal year 1994 on AFDC and AFDC-related programs. Tribes that receive Federal TANF funds to operate their own approved Tribal TANF program have no matching or maintenance-of-effort requirement. In addition to the TANF funds States receive to operate their TANF programs, needy States may request and receive funds from the Contingency Fund. The Contingency Fund was established for periods when unfavorable economic conditions threaten a State's ability to operate its TANF program.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$405,199	$385,000	$385,000
TOTAL	$405,199	$385,000	$385,000

***Topical Issues*:** NONE

Child Support Enforcement CFDA 93.563

Program Description: Title IV-D of the Social Security Act requires all states to operate a State Child Support Enforcement Agency. These offices are responsible for enforcing child support obligations, establishing paternity when necessary, and locating absent parents. Child support enforcement services are available to everyone who needs them regardless of income levels. Citizens who receive public assistance receive these services automatically; others must directly apply for them.

Administering Agency: Office of the Attorney General (OAG)

Formula Description: Federal funds will pay 66% of the state's administrative costs, 90% of paternity testing costs, and 90% for any Tribal Child Support program.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	-0-	-0-	-0-
Agency Fund	$76,023	$71,351	$75,507
Federal Fund	$147,577	$138,506	$146,573
TOTAL	$223,600	$209,857	$222,080

Topical Issues**:** NONE

Child Support Enforcement CFDA 93.563

Administering Agency: Cabinet for Health Services (CHS) and Cabinet for Family and Children (CFC)

Formula Description: Federal funds will pay 66% of the state's administrative costs, 90% of paternity testing costs, and 90% for any Tribal Child Support program.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	$9,020,849	$9,198,841	$9,403,887
Agency Fund	$12,543,740	$11,841,418	$11,230,406
Federal Fund	$43,015,430	$40,399,878	$39,787,925
TOTAL	$64,580,019	$61,440,137	$60,422,218

Topical Issues: A "less-than-obvious" provision in the proposed Welfare Reform Reauthorization is a change in the distribution of child support. Currently, states keep a portion of the child support collections to run their Child Support programs. The proposed change could eliminate the states' share of this distribution. The Federal Office of Child Support Enforcement is phasing in changes to how states' Incentives are calculated. Prior to FFY 2000, these incentives were based on collections and Kentucky always fully qualified. Gradually over three years, these Incentives will be calculated based on various performance criteria that will likely decrease Kentucky's share of the total incentives pool available.

Low Income Home Energy Assistance CFDA 93.568

Program Description: Program funds are allocated as either Energy Assistance Block Grants or Training and Technical Assistance. The block grants are designed to make LIHEAP grants (Low-Income Home Energy Assistance Program) available to states and localities, so they can use these funds to help low-income households pay their utility bills. Training and technical assistance is regularly provided to educate and update those who administer the LIHEAP block grant program for states and localities.

Administering Agency: Cabinet for Health Services (CHS) and Cabinet for Family and Children (CFC)

Formula Description: Energy Assistance Block Grants: There is no requirement for matching Federal funds with grantee funds. Allocations to grantees are based on the formulas described in Section 2604 of the authorizing statute. Allocations for leveraging incentive funds are based upon the amount of leveraging activity carried out by the grantee in the previous year as a proportion of its regular LIHEAP allotment, taking into account the amount of leveraging carried out by all grantees. Contact funding agency for further details. Any matching requirements for REACH funds will be established by program announcements each year. Training and Technical Assistance: There is no requirement for matching Federal funds with grantee funds.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$23,013,626	$27,997,414	$26,688,119
Tobacco Fund	-0-	-0-	-0-
TOTAL	$23,013,626	$27,997,414	$26,688,119

***Topical Issues*:** NONE

Child Care and Development Block Grant CFDA 93.575

Program Description: Program funds are intended to assist low-income families with childcare availability and costs. The stated objectives are to: (1) allow each state to develop childcare programs and policies that best suit the parents and children residing in that state; 2) promote parental choice to empower working parents to make their own decisions about the child care option that best suits the family's needs; 3) encourage states to provide consumer education information to enable parents to make informed childcare choices; 4) assist states in providing childcare to parents who are trying to transition off of public assistance; and 5) assist states to implement the health, safety, licensing and registration standards for childcare established in state regulations.

Administering Agency: Cabinet for Families and Children (CFC)

Formula Description: Allocations for states are based on a formula that takes into account the number of children below age 5, the number of children receiving assistance through the National School Lunch Program, and state per-capita income.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$16,236,252	$95,160,956	$68,003,523
Tobacco Fund	-0-	-0-	-0-
TOTAL	$16,236,252	$95,160,956	$68,003,523

Topical Issues: Currently on the federal level, there are several bills concerning TANF or CCDF reauthorization. The House bill increases the mandatory and discretionary funding by $1 billion each over the next five years. It also contains provisions that increase the quality set-a-side and increase the work participation requirements for the TANF population, thereby increasing the demand for child care. In the Senate there is S.367, which increases the available childcare funding over the next five years. Just like the House version, the Senate bill has provisions that will adjust the quality set-a-side, impact the TANF work requirements or reduce the total amount available for the child care assistance fund through other mandated requirements. Both TANF and CCDF reauthorization have only been extended on limited continuation basis pending approval by Congress. This has negatively impacted the Commonwealth's ability to adequately plan how to meet the need for childcare support services and quality enhancements that are in line with No Child Left Behind.

Child Care Mandatory/ Matching Funds of Child Care Development Fund-CFDA 93.596

Program Description: This program grants States, Tribes, and tribal organizations funds for child care assistance for low-income families and to: (1) allow each State maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within such State; (2) promote parental choice to empower working parents to make their own decisions on the child care that best suits their family's needs; (3) encourage States to provide consumer education information to help parents make informed choices about child care; (4) assist States to provide child care to parents trying to achieve independence from public assistance; and (5) assist States in implementing the health, safety, licensing, and registration standards established in State regulations

Administering Agency: Cabinet for Health Services (CHS) and Cabinet for Families and Children (CFC)

Formula Description: Allocations of the Mandatory Funds are based on a State's Federal share of the funding for the now-repealed AFDC-linked child care programs (AFDC/JOBS Child Care, Transitional Child Care, and At-Risk Child Care) in 1994 or 1995, whichever was greater. A State is not required to expend any funds in order to receive its share of the mandatory funds. The remaining funds are matching funds and are distributed based on the number of children under age 13 in a State compared with the national total of children under age 13. To access matching funds, a State must obligate all of its mandatory funds allotted in a fiscal year and maintain 100 percent of the State's share of expenditures for the former programs in fiscal year 1994 or fiscal year 1995, whichever is greater. Matching funds must be matched at the applicable Medicaid rate. Which is the Medicaid Program matching rate.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	$16,463,017	$16,463,000	$21,005,489
Agency Fund	-0-	$238,700	$586,228
Federal Fund	$53,109,779	$32,451,387	$40,483,413
Tobacco Fund	$ 4,173,246	$7,523,254	$7,432,899
TOTAL	$73,746,042	$56,676,341	$69,508,029

***Topical Issues*:** Currently on the federal level, there are several bills concerning TANF or CCDF reauthorization. The House bill increases the mandatory and discretionary funding by $1 billion each over the next five years. It also contains provisions that increase the quality set-a-side and increase the work participation requirements for the TANF population, thereby increasing the demand for child care. In the Senate there is S.367, which increases the available childcare funding over the next five years. Just like the House version, the Senate bill has provisions that will adjust the quality set-a-side, impact the TANF work requirements or reduce the total amount available for the child care assistance fund through other mandated requirements. Both TANF and CCDF reauthorization have only been extended on limited continuation basis pending approval by Congress. This has negatively impacted the Commonwealth's ability to adequately plan how to meet the need for childcare support services and quality enhancements that are in line with No Child Left Behind.

Foster Care: Title IV-E CFDA 93.658

Program Description: The objective is to provide safe, appropriate, round-the-clock care to the minors who are under the supervision of Juvenile Justice if their parents are unable to do so. Federal funding helps to underwrite the costs related to providing this care.

Administering Agency: Juvenile Justice (JUV)

Formula Description: The federal government pays from 50% to 83% of program costs, based on the particular state as detailed in Sections 474 and 1905 of the Social Security Act. Additionally, training expenses are matched at 75%, and administrative costs are matched at 50%.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	$437,466	$833,779	$836,626
Agency Fund	-0-	-0-	-0-
Federal Fund	$1,017,844	$1,935,332	$1,960,518
TOTAL	$1,455,310	$2,769,111	$2,797,144

***Topical Issues*:** Kentucky will have its second Child and Family Services Review in the Spring of 2005. Kentucky along with every state in the country, failed the first review. Should Kentucky fail the second one, the federal government will start assessing the Adoption and Safe Families Act (ASFA) penalties. The amount will be determined by the number of factors that were not met. These penalties could start in SFY 2006.
There have been overtures in Washington, DC, to block grant the Title IV-E Foster Care grant, which currently is an entitlement grant. The general consensus is that it is only a matter of time before this happens. House Resolution 4856 does not address the administrative claim so it is unknown what fiscal impact would be realized should 4856 pass.

Foster Care: Title IV-E CFDA 93.658

Program Description: The objective is to provide safe, appropriate, round-the-clock care to the minors who have been placed under the care of the Administrative Office of the Courts. Federal funding helps to underwrite the costs related to providing this care.

Administering Agency: Cabinet for Health Services (CHS) and Cabinet for Families and Children (CFC)

Formula Description: FFP for foster care maintenance payments is equal to the medical assistance percentage, i.e., the Federal share of payments is from 50 percent to 83 percent, depending on the State (Sec. 474(a)(1) and 1905(b) of the Social Security Act). Training and other administrative expenditures are matched at 75 and 50 percent Federal share, respectively (Sec. 474(a) of the Social Security Act).

Expenditure Data	FY 02	FY 03	FY 04
General Fund	$94,677,509	$78,667,640	$80,086,543
Agency Fund	$3,591,654	$24,465,184	$39,303,391
Federal Fund	$48,929,690	$53,410,853	$49,995,300
Tobacco Fund	-0-	-0-	-0-
TOTAL	$147,198,853	$156,543,677	$169,385,234

Topical Issues: Kentucky will have its second Child and Family Services Review in the Spring of 2005.
Kentucky, along with every state in the country, failed the first review. Should Kentucky fail the second one, the federal government will start assessing the ASFA penalties. The amount will be determined by the number of factors that were not met. These penalties could start in SFY 2006.

There have been overtures in Washington, DC, to block grant the Title IV-E Foster Care grant, which currently is an entitlement grant. The general consensus is that it is only a matter of time before this happens. House Resolution 4856 does not address the administrative claim so it is unknown what fiscal impact would be realized should HR 4856 pass.

Foster Care: Title IV-E CFDA 93.658

Program Description: The objective is to provide safe, appropriate, round-the-clock care to the minors who have been placed under the care of the Administrative Office of the Courts. Federal funding helps to underwrite the costs related to providing this care.

Administering Agency: Administrative Office of the Courts (AOC)

Formula Description: FFP for foster care maintenance payments is equal to the medical assistance percentage, i.e., the Federal share of payments is from 50 percent to 83 percent, depending on the State (Sec. 474(a)(1) and 1905(b) of the Social Security Act). Training and other administrative expenditures are matched at 75 and 50 percent Federal share, respectively (Sec. 474(a) of the Social Security Act).

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	$482,344	$516,434	$530,706
Agency Fund	-0-	-0-	-0-
Federal Fund	$217,461	$229,640	$250,032
TOTAL	$699,805	$746,074	$780,738

***Topical Issues*:** Implementation of Adoption and Safe Families Act. ASFA timelines tightening all of the timelines, safety, wellbeing, permanency. Every state found deficient – need to implement program improvement standard. Foster Care staff must work with cabinet.
Also, Child Abuse Prevention and Treatment Act (CAPTA) requires Guardian Ad Litem (GAL) training; potentially Cabinet could lose funds if they don't train. Approximately 12,000 attorneys need training.

Social Services Block Grant CFDA 93.667

Program Description: This federal block grant enables each state to tailor its social service offerings to best meet the needs of its population. The only requirement is that the funds be directed toward achieving one of these five core goals: 1) to prevent, reduce, or eliminate dependency; 2) to achieve or maintain self-sufficiency; 3) to prevent neglect, abuse, or exploitation of children and adults; 4) to prevent or reduce inappropriate institutional care; and 5) to secure admission or referral for institutional care when other forms of care are not appropriate.
Administering Agency: Cabinet for Health Services (CHS) and Cabinet for Families and Children (CFC)

Formula Description: Each state is entitled to payments equal to its designated allotment for that fiscal year. Four times a year federal funds are transferred via the Electronic Transfer System, and states withdraw their allocated money on a monthly basis from Federal Reserve banks. Title XX of the Social Security Act details how the state allotments are calculated. The ratio between a state's population and the total United States population (including the District of Columbia) determines the amount of each state's block grant.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	$33,051,240	$33,458,106	$26,475,703
Agency Fund	$42,742,707	$44,681,079	$49,923,121
Federal Fund	$14,620,075	$17,278,293	$18,347,429
Tobacco Fund	-0-	-0-	-0-
TOTAL	$90,414,022	$95,417,478	$94,746,253

Topical Issues: Every year, there are attempts in Washington DC to restore the funding for SSBG to the authorized amount of $2,800,000,000. So far none of these attempts have been successful. The odds of restoring the funding in the near future are remote.

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Administering Agency: Juvenile Justice (JUV)

Formula Description: Each state is entitled to payments equal to its designated allotment for that fiscal year. Four times a year federal funds are transferred via the Electronic Transfer System, and states withdraw their allocated money on a monthly basis from Federal Reserve banks. Title XX of the Social Security Act details how the state allotments are calculated. The ratio between a state's population and the total United States population (including the District of Columbia) determines the amount of each state's block grant.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	$18,318,352	$18,415,871	$19,379,592
Agency Fund	-0-	-0-	-0-
Federal Fund	$7,733,779	$7,677,969	$7,460,937
TOTAL	$26,052,131	$26,093,840	$26,840,529

Topical Issues: Every year, there are attempts in Washington DC to restore the funding for SSBG to the authorized amount of $2,800,000,000. So far none of these attempts have been successful. The odds of restoring the funding in the near future are remote.

State Children's Insurance Fund CFDA 93.767

Program Description: Provides funds to States to enable them to initiate and expand child health assistance to uninsured, low-income children. Assistance is provided primarily by two methods: (1) Obtain health insurance coverage that meets the requirements in Section 2103 relating to the amount, duration, and scope of benefits; or (2) expand eligibility for children under the State's Medicaid program.

Administering Agency: Cabinet for Health Services (CHS) and Cabinet for Families and Children (CFC)

Formula Description: Section 2105(b), Title XXI, provides for an "enhanced Federal Matching Assistance Percentage (FMAP)" for child health assistance provided under Title XXI that is equal to the current FMAP for the fiscal year in the Medicaid Title XIX program, increased by 30 percent of the difference between 100 and the current FMAP for that fiscal year. The enhanced FMAP may not exceed 85 percent. The formula for determining the final allotment includes: determining the number of States with approved State Plans as of the end of the fiscal year. In order for a State to receive a final allotment for a fiscal year, CMS must approve the SCHIP State Plan for that State by the end of the fiscal year. Only States with approved State Plans by the end of the fiscal year will be included in the final allotment calculation. States' final allotments will be determined in accordance with the statutory formula that is based on two factors: (1) Number of children (those potentially eligible for SCHIP), and (2) the State cost factor. These factors will be multiplied to yield a final allotment product for each State. Once the final allotment product has been determined for all the States with approved SCHIP plans, the products for each State will be added to determine a national total. Each State's product will be divided by this national total to determine a State specific percentage of the national Title available amount for allotment that each State would be eligible to receive. The State specific percentage is then multiplied by the national total amount available for allotment, resulting in the final allotment for each State.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	$10,366,524	$19,337,321	$17,756,762
Agency Fund	$5,799,059	$(572,550)	$104,411
Federal Fund	$60,762,233	$70,237,491	66,542,780
Tobacco Fund	-0-	-0-	-0-
TOTAL	$76,927,816	$89,002,262	$84,403,953

***Topical Issues*:** The federal Children's Health Insurance Program is scheduled to expire in 2007. If the federal program is not reauthorized, the state would have to discontinue the program or fund it with 100% state funds.

State Medicaid Fraud Control Units CFDA 93.775

Program Description: This program awards federal money to the states to help them fund law enforcement units that investigate and prosecute fraud and patient abuse within Medicaid programs. Under federal law, these state units must be organizationally separate and distinct from the state's Medicaid agency. In order to meet this requirement, Kentucky's Medicaid Fraud unit operates within the Office of the Attorney General.

Administering Agency: Office of the Attorney General (OAG)

Formula Description: States submit detailed cost breakdowns of the estimated expenditures needed to support the program, and the federal government awards funds based on these analyses. States are reimbursed for 90% of the costs incurred during the unit's first twelve (12) quarters of operation. Thereafter, states are reimbursed for 75% of their incurred quarterly costs up to a maximum of $125,000 or one-fourth (1/4) of 1% of the sums expended by the federal, state, or local government in carrying out the state plan under Title XIX of the Social Security Act, whichever is greater.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	$308,192	$280,279	$384,350
Agency Fund	$39,558	$47,530	$19,049
Federal Fund	$1,044,575	$983,713	$1,138,959
TOTAL	$1,392,325	$1,311,522	$1,542,358

***Topical Issues*:** NONE

State Certification of Health Care Providers and Suppliers CFDA 93.777

Program Description: Program funds are used to reimburse the states for the costs they incur to inspect health care providers and suppliers to ensure they are meeting Medicare and Medicaid health and safety standards.

Administering Agency: Cabinet for Health Services (CHS)

Formula Description: These funds are not subject to state matching requirements. The state simply certifies its fund availability as prescribed by Section 1903(a), (2), and (7) of 42 CFR, Part 433.15.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	$1,429,599	$869,177	$725,088
Agency Fund	-0-	-0-	-0-
Federal Fund	$5,206,307	$5,782,711	$5,593,099
TOTAL	$6,635,906	$6,651,888	$6,318,187

***Topical Issues*:** There are no pending issues that will have budgetary impact to the Key Federal Program Title profiled for the upcoming federal budget cycle.

Chapter 11
Federal Program Profiles – A Summary of Programs, Funding, and Potential Future Issues

Medical Assistance Program CFDA 93.778

Program Description: This program covers both Medicare and Medicaid. It provides financial assistance to the states to pay for medical assistance for those who qualify.

Administering Agency: Cabinet for Health Services (CHS) and Cabinet for Families and Children (CFC)

Formula Description: The statistical factors used for fund allocation are: 1) the state's medical assistance expenditures; and 2) a 3-year average of state per capita income. The federal share for medical services may range from 50% to 83%.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	$764,898,328	$758,540,559	$768,341,713
Agency Fund	$384,172,403	$404,718,501	$388,452,877
Federal Fund	$2,665,132,460	$2,752,888,657	$3,064,674,894
TOTAL	$3,814,203,191	$3,916,147,717	$4,221,469,484

Topical Issues: Kentucky's Medicaid match rate will drop in FFY 2005, which will require more state funds to operate the program. Another concern is a proposal to convert the Medicaid federal award to a block grant, which will cap federal funding.

Medical Assistance Program CFDA 93.778

Program Description: This program covers both Medicare and Medicaid. It provides financial assistance to the states to pay for medical assistance for those who qualify

Administering Agency: Office of the Attorney General (OAG)

Formula Description: The statistical factors used for fund allocation are: 1) the state's medical assistance expenditures; 2) a 3-year average of the state's per capita income. The federal share for medical services may range from 50% to 83%.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	-0-	-0-	-0-
Agency Fund	$108,000	$106,500	$106,500
Federal Fund	$108,000	$106,500	$106,500
TOTAL	$216,000	$213,000	$213,000

***Topical Issues*:** NONE

Block Grants for Prevention/Treatment of Substance Abuse CFDA 93.959

Program Description: This program provides financial assistance to the states that is to be used to prevent and treat alcoholism and drug abuse. At least twenty percent (20%) of the money must be used to educate and counsel individuals who are not substance abusers to reduce the risk of future abuse.

Administering Agency: Cabinet for Health Services (CHS)

Formula Description: Allotments to the states are based on weighted population factors along with the service delivery costs of the particular state.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	$19,213,490	$21,918,102	$21,420,937
TOTAL	$19,213,490	$21,918,102	$21,420,937

Topical Issues**:** NONE

Block Grants for Prevention/Treatment of Substance Abuse CFDA 93.959

Program Description: This program provides financial assistance to the states that is to be used to prevent and treat alcoholism and drug abuse. At least twenty percent (20%) of the money must be used to educate and counsel individuals who are not substance abusers to reduce the risk of future abuse.

Administering Agency: Administrative Office of the Courts (AOC)

Formula Description: Allotments to the states are based on weighted population factors along with the service delivery costs of the particular state.

Expenditure Data	FY 02	FY 03	FY 04
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	79,276	330,525	-0-
TOTAL	79,276	330,525	-0-

Topical Issues**:** Treatment needs for abuse of narcotic pain medication doubled in last ten years; co-occurring substance abuse and mental illness treatment needs.

SOCIAL SECURITY SERVICES

Social Security Program Issues: Social Security expenditures to states mostly represent administrative expenses for initial disability determinations and other matters related to disability insurance. Although there is much current debate over changes to Social Security, there are no known changes that will significantly impact states in the short-term.

Social Security Disability Insurance CFDA 96.001

Program Description: Monthly cash benefits are paid to entitled disabled persons to replace a portion of their lost earnings. Disability can result from either physical or mental impairment, or a combination of both, but the disability must be deemed severe enough to completely prevent a person from working. State agencies typically make the initial disability determinations for the federal government.

Administering Agency: Cabinet for Families and Children (CFC)

Formula Description: N/A

Expenditure Data	FY 02	FY 03	FY 04
General Fund	$4,155	$ 4,116	-$3,863
Agency Fund	$54,716	$60,060	$49,389
Federal Fund	$37,833,963	$38,278,470	40,190,412
Tobacco Fund	-0-	-0-	-0-
TOTAL	$37,892,834	$38,342,646	$40,243,664

***Topical Issues*:** None

HOMELAND SECURITY

Homeland Security Program Issues: The President's FY 05 budget proposal of an additional $3.6 billion represents a full 10% increase in homeland security funding over FY 04 levels. Funding for Homeland Security programs has doubled since the Department's inception in 2001. Grant money is primarily funneled to first responders in high-threat areas.

State Domestic Preparedness Equipment Support Program CFDA 97.004

Program Description: This program is designed to enhance state and local first responders' capabilities to handle a terrorist incident. Program funds are disbursed for two different uses. Administrative funds are provided to allow states to conduct comprehensive threat and needs assessments and to develop and implement a Statewide Domestic Preparedness Plan. Equipment funds are used to purchase equipment for state and local first responders. Purchased equipment must comply with an authorized equipment list that is included in the grant application kit. **Note:** This program did not provide federal funding until October 2003. Other agencies may have received some federal funding through this program, but Military Affairs receives the majority share.
Administering Agency: Military Affairs (MIL)

Formula Description: Funds are provided to the states on the basis of a formula that provides a base amount to each state, with the balance of funds distributed based on population. There is no matching requirement for this program.

Expenditure Data	FY 02	Expended FY 03	FY 04
General Fund	-0-	-0-	-0-
Agency Fund	-0-	-0-	-0-
Federal Fund	-0-	$865,583	$11,443,976
TOTAL	-0-	$865,583	$11,443,976

***Topical Issues*:** At this time, no federal budget issues are known which would affect any FFY match rate requirement.

Public Assistance Grants CFDA 97.036

Program Description: This program consists of cost-shared grants to states, localities, and other political subdivisions that are awarded to alleviate the hardship and suffering that result from major disasters or emergencies. The President must declare that an emergency exists before funds can be distributed. **Note:** Prior to FY 2004 this program was designated as 83.544. While other agencies may have received some federal funding through this program, Military Affairs receives the majority share.

Administering Agency: Military Affairs (MIL)

Formula Description: The federal share of these grants is at least 75%; the state and local governments are responsible for the remainder.

Expenditure Data	**FY 02**	**FY 03**	**FY 04**
General Fund	$1,103,828	$3,061,733	$4,947,720
Agency Fund	-0-	-0-	-0-
Federal Fund	$5,277,122	$18,640,040	$36,153,787
TOTAL	$6,380,950	$21,701,773	$41,101,507

***Topical Issues*:** At this time, no federal budget issues are known which would affect any FFY match rate requirement.

FFIS

BUDGET BRIEF 05-03

President's FY 2006 Budget: Will the Third Time be the Charm?

February 11, 2005

Executive Summary

On Monday, February 7, 2005, President Bush released his budget for fiscal year (FY) 2006. The budget includes increases for defense and homeland security while reducing non-defense and non-security discretionary programs by 1%. For states, this budget has marked similarities to the FY 2004 and FY 2005 requests. It would consolidate and eliminate some existing programs, increase funding for a few select programs, make significant cuts in justice programs and reform mandatory programs.

Unlike FYs 2004 and 2005, however, it is expected that Congress will seriously consider proposals to cut spending for Medicaid and other grant-in-aid programs.

This *Budget Brief* describes the major proposals of importance to states. Table 1 summarizes proposed changes in budget authority for major grant programs. Under the president's budget, discretionary programs listed on this table would be reduced by less than 1% in FY 2006 and mandatory programs would increase by slightly more than 2%. The resulting change for all the programs listed is an increase of 1% reflecting the dominance of mandatory programs in state grant funding.

Major Spending Proposals

The president's budget funds most education and health and human services programs at their FY 2005 levels. Consolidated health centers, Title I Education for the Disadvantaged and Pell grants are exceptions and would receive notable funding increases. States would see cuts in funding for Medicaid, discretionary health grants, homeland security, labor and justice programs. Examples of other programs receiving large reductions or being eliminated altogether include state grants for vocational and adult education, the Community Services Block Grant (CSBG), the Clean Water State Revolving Fund and mass transit discretionary grants.

All told, the president proposes to eliminate funding for 150 programs. Table 2 identifies some that are targeted to state and local governments. These programs were funded at nearly $10 billion in FY 2005.

Health and Human Services

The budget reiterates the president's recommendations for several programs with pending reauthorizations, including welfare and labor programs. Similar to last year, it proposes to increase the flexibility of the secretary of Health and Human Services (HHS) to move appropriated funds within the department from 1% to 3%, and to permit him to move funds between budget accounts rather than shift funds among activities within an account.

Federal Funds Information for States, 444 N. Capitol St., NW, Suite 642, Washington, DC 20001

Health Medicaid. The budget proposes substantial reductions in Medicaid reimbursements to states, most of which have their major impact after the FY 2006 budget year. While at least one major change would affect the overall size of the program, reducing costs both for the federal government and the states, most major savings represent reductions in reimbursement to states.

The budget proposes a major change in Medicaid budget accounting. Through FY 2005, budget authority for Medicaid has reflected the expected cash payments for the program, and the appropriation has tracked these amounts. Beginning in FY 2006, Medicaid budget authority will be recorded as the estimated accrued level of services provided in that year; the appropriation will provide this level of funding, and large obligated balances will carry over from one year to the next. This change makes Medicaid accounting similar to accounting for other entitlement programs whose appropriation is provided annually, such as for student loans and veterans compensation and pensions, but separates it from similar grant-in-aid programs such as foster care and child support enforcement. While the full implications of the shift are unclear, the change will permit states to similarly book federal obligations in the year when services are provided.

The budget repeats a wide variety of Medicaid program savings proposals, many of which have been made previously. Unlike recent years, however, it is expected that Congress will undertake a budget reconciliation process to force the passage of savings, though not necessarily the ones spelled out in the budget.

Major budget proposals for FY 2006 include the following:

- A one-year extension of Transitional Medicaid Assistance (TMA), which funds short-term transitional Medicaid assistance to individuals who become ineligible because of earnings or child support, and the 100% federally funded QI-1 program, which provides Medicare cost-sharing assistance for low-income dual eligibles between 120% and 135% of the federal poverty level. Both programs were recommended for extensions in the FY 2005 budget, TMA for five years. Both received short-term extensions for that year (see *Issue Brief 04-56*).

- Medicaid and SCHIP "modernization" would give states additional flexibility to increase coverage without prior waiver approval. It is projected that this will cost $389 million in FY 2006 and a total of $4.1 billion over five years.

- The budget would limit Medicaid reimbursement for pharmaceuticals from the current system utilizing average wholesale price (AWP) to average sales price (ASP). It is felt that using AWP inflates reimbursements, and that using ASP would save $542 million in FY 2006 and $5.4 billion over five years.

- States' ability to finance their Medicaid programs through a set of financing mechanisms would be limited. The federal government has recently curbed some mechanisms; states already using them were given transition periods to reduce these structures. The proposal would have no effect on FY 2006, but would reduce Medicaid grants by an estimated $5.9 billion in FYs 2007-2010.

- The budget proposes two changes in current law regulating provider taxes. Under current rules, taxes imposed on providers may not exceed 6% of total revenues and must be applied uniformly across all such health care providers in the state. The budget proposes to reduce the ceiling to 3% and require that managed care organizations meet the same requirements. The proposal would save the federal government an estimated $231 million in FY 2006 and $3.2 billion over FYs 2006-2010.

- The budget again proposes to reduce the types of services for which reimbursement may be claimed under the targeted case management (TCM) structure, and reduce the TCM matching rate from the state's FMAP to 50% (see *Issue Brief 04-23*).

- Under current law, states receive open-ended matching for state Medicaid administrative expenses ranging from the standard 50% up to 100%. The budget would convert this reimbursement to a block grant after FY 2006, saving $1.1 billion in FYs 2007-2010.

<u>SCHIP</u>. The State Children's Health Insurance Program (SCHIP) entitlement is funded in Title XXI of the Social Security Act and does not need an annual appropriation. Under current law, FY 2006 funding of $4.1 billion is the same as that provided for FY 2005, and FY 2007 funding increases to $5 billion.

The administration proposes to reauthorize the SCHIP program two years early at a permanent $5 billion level, freezing the program when many states already are spending more than their annual allotments. The administration's Medicaid reform proposal also would permit states to merge their SCHIP entitlements with Medicaid funds.

The budget also recommends using $799 million of SCHIP funds that lapsed on October 1, 2004, for two purposes: $129 million would be used for a Cover the Kids campaign and $670 million would become available for SCHIP redistribution (see *Issue Brief 05-01*).

<u>Discretionary health programs</u>. Overall, the budget would approximately level fund discretionary health grants. Increased funding of $304 million for consolidated health centers, which generally bypasses states, would be offset by cutbacks in three state grants: eliminating the preventive health block grant (-$131 million), reducing funding for the bioterrorism grant of the Centers for Disease Control and Prevention (-$130 million) and reducing Section 317 immunization grants (-$50 million).

<u>Immunization</u>. The FY 2006 budget proposes a number of changes to immunization programs, most of which were included in the FYs 2004-2005 budgets. They include continuing the expansion of privately held vaccine stockpiles under the Vaccines for Children (VFC) program authority and improving access to VFC vaccines for underinsured children already entitled to receive them at federally qualified health clinics by permitting delivery at state and local health clinics.

The budget assumes that these proposals will result in fewer children needing to be vaccinated through the discretionary Section 317 immunization program. While proposing a $50 million increase for this program, it would then reduce it by $100 million if the VFC proposal passes. This shift would directly affect states since the Section 317 program helps finance administration of state and local public health departments, while the VFC program provides almost no reimbursement for administrative costs.

Bioterrorism. Despite an overall increase in funding for homeland security, two public health preparedness and capacity-building grants administered by the Centers for Disease Control and Prevention (CDC) and the Health Resources and Services Administration (HRSA) would be reduced by 14% and 8% respectively. Of the $483 million proposed for the HRSA grants, $25 million is included for competitive grants to create emergency care centers designed to respond to any incident requiring mass casualty care or containment of infectious agents.

Human Services

TANF. The 1996 welfare reform act expired on September 30, 2002. Congress has funded these programs through quarterly extensions, with the most recent one set to expire on March 31, 2005.

The president's budget maintains funding for TANF at $16.489 billion. The budget provides $319 million for supplemental grants to states over five years and it funds the contingency fund at $2 billion over a five-year period. It also eliminates the out-of-wedlock bonus, and proposes an initiative to fund research, demonstration, and technical assistance for family formation and healthy marriage at $100 million. Another $100 million is provided for a healthy marriage matching grant program for states, as well as an additional $40 million in mandatory funding for a responsible fatherhood initiative. Funding for these initiatives is provided through reducing the high-performance bonus to states by 50%.

Child Support. The president's budget proposes an increase in child support incentive payments of $12 million for a FY 2006 total of $458 million. The budget also contains proposals for legislative change in child support through provisions in the TANF reauthorization proposal and through previous proposals.

Also included is a provision to increase children's access to health care that would allow states to seek child medical support from both custodial and non-custodial parents. In addition, the budget proposes to require health care plan administrators to notify the relevant agency when a child loses health care coverage.

Social Services Block Grant (SSBG). The president proposes to maintain SSBG at its current level of $1.7 billion. The budget proposes to continue 10% state transferability authority from TANF to SSBG.

Low-Income Home Energy Assistance Program (LIHEAP). The budget would reduce LIHEAP formula funding by $85 million to $1.8 billion and discretionary emergency funding from $298 million to $200 million.

Child Welfare Programs. Continuing a trend set in FY 2004 and repeated last year, the president's budget includes an alternative financing method for foster care. States choosing to participate would receive funds in the form of flexible grants (rather than matching payments). These provisions would reduce states' administrative costs and encourage states to create child welfare programs with a strong emphasis on prevention and family support. States would, however be required to uphold the child protections outlined in the Adoption and Safe Families Act, agree to maintain existing levels of state investment in child welfare programs, and continue to participate in the Child and Family Services Reviews. The proposal would provide access to the TANF contingency fund as a way to increase funding if a severe foster care crisis were to arise. The federal cost for this program is projected at $36 million for FY 2006, and the changes are projected to be budget-neutral over five years.

The budget also repeats a proposal that would change states' processes for determining foster care eligibility, resulting in federal savings of $84 million in FY 2006 and $399 million over five years. This proposal, first made in FY 2005, would reverse a court decision that a child living with an interim caregiver may be eligible for foster care even though the child would not have been eligible in the home from which the child was legally removed. According to HHS, the court decision contradicts the department's interpretation of the Social Security Act that eligibility is based upon the home from which the child is removed, not the home of the caretaker. The proposal in this year's budget would amend the statute to come into accord with the department's policy.

Head Start. The president's FY 2006 budget calls for $6.888 billion for Head Start. The $45 million increase would go to nine state pilot projects for the coordination of preschool programs, federal child care grants, and Head Start into a system of early childhood programs.

Criminal Justice

The president's FY 2006 budget repeats many previous calls for changes in federal justice assistance to states. The proposal would create a new $1.2 billion criminal justice grant program that does not appear to include any significant formula funding for states. Of the major discretionary programs going to states, only Violence Against Women and Community Oriented Policing Services (COPS) were funded, but cut by 5% and 80% respectively.

Other major grants to states have been eliminated, including the newly created Byrne Justice Assistance Grants, the State Criminal Alien Assistance Program (SCAAP), which reimburses states for the cost of incarcerating immigrants, and the Juvenile Accountability Incentive Block Grant (JAIBG).

Election Reform

The president proposed no funding for Election Assistance Commission election reform grants to states. Approximately $9 million in FY 2004 funding remains undistributed. It is unlikely that any new money will be allocated until that balance is spent, despite a $650 million authorization for FY 2006 requirements payments in the 2002 Help America Vote Act.

Education

Total discretionary funding for education was reduced by 1%. The proposal calls for eliminating or reducing more than 50 programs including Safe and Drug-Free Schools, Educational Technology State Grants and Even Start. The proposal would reduce the Innovative Programs Block Grant by nearly 50% to $100 million. The budget creates a few new programs, including a $1.24 billion High School Interventions program, a $500 million Teacher Incentive Fund and Community College Access Grants funded at $125 million.

The budget would increase Title I grants and Pell Grants by 5%, to $13.3 billion and $13.6 billion respectively. Special education grants were reduced 2% to $11.1 billion, approximately 19% of average per pupil expenditure.

EPA

The most significant proposed change in the Environmental Protection Agency's (EPA) budget is a $361 million reduction in the Clean Water State Revolving Fund. The president proposed a large cut to this program in the two previous budgets; however, it has yet to be adopted by Congress. Other major programs would receive either level funding or modest increases.

Homeland Security

Despite a 7% increase in the Department of Homeland Security budget over FY 2005, funding for major state grant programs would be reduced by more than 10%. In addition, the proposed $2.6 billion would be distributed differently. The $1.02 billion provided for a state grant program would be allocated based on risk, with each state receiving a minimum of 0.25%. The Urban Area Security Initiative (UASI) also would receive $1.02 billion. Recipients of both UASI and the state grant would be required to set aside 20% of their funds for law enforcement terrorism prevention grants. Currently, the three state grant programs (State Homeland Security Grant Program, Law Enforcement Terrorism Prevention Program, and Citizen Corps) are allocated based on a formula that distributes 40% of the funding equally among the states with the remainder awarded according to population. Only the Citizen Corps program, proposed at $50 million, would continue to be distributed in this manner.

Community Development and Housing

Community Development Block Grants (CDBG). The President has proposed to consolidate 18 existing economic and community development programs, including CDBG, CSBG and the Economic Development Administration into a Strengthening America's Communities Grant Program. This program would be in the Department of Commerce. The president provides $3.7 billion in FY 2006; the 18 replaced programs were funded at $5.3 billion in FY 2005.

Homeless Assistance. Under the president's FY 2006 budget, homeless assistance programs will be consolidated into one program funded through a Continuum-of-Care Homeless Assistance Grant at $1.44 billion.

Housing. FY 2005 appropriations separated the Section 8 program into two programs, and the FY 2006 budget continues that structure. The FY 2006 appropriation for tenant-based rental assistance would increase from $14.9 billion to $15.8 billion, and the appropriation for project-based assistance would decrease from $5.3 billion to $5.1 billion. Much Section 8 funding in recent years has been funded from unobligated balances from prior years, and the FY 2006 budget continues the practice of rescinding these funds rather than redistributing them. The proposed FY 2006 rescission from the Housing Certificate Fund would be $2.5 billion.

The Department of Housing and Urban Development also proposed changes that would expand a dollar-based approach, and would allocate a set dollar amount to local housing authorities instead of a demand-driven system. The HOME program would be level funded, but the block grant share would be reduced by $200 million for the American Dream Down Payment Initiative, which helps first time homeowners with home buying costs.

Labor

The president's proposal for the Work Force Investment Act (WIA) is similar to previous proposals. He proposes to redefine WIA by combining funding for Adult Employment and Training Activities, Dislocated Worker Employment and Training Activities, Youth Activities and employment services into a single grant program for states. Total FY 2006 funding for the consolidated grants would be $3.9 billion, down $205 million from the enacted levels for FY 2005.

The FY 2006 proposal includes an option for governors to further consolidate core WIA programs with additional one-stop partner programs such as adult education, veterans' employment, trade adjustment assistance training, vocational rehabilitation, and FSP employment training. The proposed budget would also transfer the Youthbuild program from the Department of Housing and Urban Development to the Department of Labor, and eliminate funding for migrant and seasonal farm workers and responsible reintegration for youth offenders.

The budget also proposes a legislative package to change the Unemployment Insurance program and create personal innovation training accounts.

Transportation

Most federal transportation programs were scheduled for reauthorization during FY 2004. The airport program was reauthorized; the highways and mass transit reauthorization is still pending more than a year later. Balances in both the Airports and Airways Trust Fund and the Highway Trust Fund have been declining in recent years. The former is primarily the result of lower revenues from decreased flying, which has now been reversed; the latter primarily from unanticipated high levels of spending, which have continued.

<u>Highways</u>. The budget would level-fund the federal-aid highway obligation limitation at $34.7 billion, a 1% increase over FY 2005. However, $1 billion of this limitation would transfer to the Federal Transit Administration, resulting in a net reduction in funds available for highways.

The administration has not fully laid out its highway program. It will support a $284 billion six-year reauthorization expected to be passed in the House in the coming weeks, but it has not fully identified either a proposed allocation of contract authority among programs or sources of funding. It is expected to propose legislation maintaining highway program "firewalls" in the annual budget process but to discontinue the revenue adjusted budget authority (RABA) structure (see *Issue Brief 02-28*).

The annual funding authorization for the Emergency Relief Program would be increased from $100 million, a level that has proved inadequate, to $250 million.

<u>Highway Safety</u>. Transportation safety has been identified as the Department of Transportation's top priority. Grants under the National Highway Traffic Safety Administration (NHTSA) are proposed to double from $224 million to $456 million. However, most of the increase would reflect a direct appropriation rather than the current transfer of funds from the Federal Highway Administration. The actual proposed increase is $19 million.

Mass Transit. As in previous budgets, a 55% increase in formula funding would be offset by a similar decrease for discretionary funding. While the Federal Transit Administration budget would be approximately level funded, $1 billion of the funded would come from "flex" funding from the Federal Highway Administration.

Airports. The budget would fund air transportation programs at $3.0 billion, $472 million less than FY 2005, despite an expected 23% increase over FY 2004 in passenger ticket tax revenues paid into the Airport and Airways Trust Fund. The $20 million Small Community Air Service Development Program would be terminated.

Next Steps

The president's budget now moves to Congress, where some of his legislative proposals already have been introduced (see *Budget Brief 05-02*).

Congress faces an April 15, 2005 deadline for adopting a FY 2006 budget resolution. In many years, Congress has been unable to meet the deadline. However, recent increases in the federal deficit suggest that Congress will focus on the budget process (and the reconciliation process within it), to force reductions in federal spending. Moreover, the absence of national elections this year may allow for more budget progress than was seen last year.

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Table 1

Funding for Major Discretionary and Mandatory Programs

(federal fiscal years; dollars in millions)

Major Discretionary	Enacted FY 2004	Pres. Budget FY 2005	Enacted FY 2005 1/	Pres. Budget FY 2006	Change FY 05-FY 06 $	Change FY 05-FY 06 %
Department of Agriculture	**$5,037**	**$4,787**	**$5,241**	**$5,575**	**$334**	**6.4%**
Women, Infants & Children (WIC)	5,037	4,787	5,241	5,575	334	6.4%
Department of Commerce	**286**	**290**	**284**	**3,710**	**$3,426**	**1206.1%**
Economic Development Assistance 2/ 9/	286	290	284	0	-284	-100.0%
Economic Development Grants 9/	0	0	0	3,710	3,710	NA
Department of Education	**48,279**	**50,303**	**49,501**	**49,738**	**$237**	**0.5%**
Title I: Education for the Disadvantaged 4/	12,342	13,342	12,740	13,342	602	4.7%
Improving Teacher Quality 4/	2,930	2,930	2,917	2,917	0	0.0%
Educational Technology State Grants	692	692	496	0	-496	-100.0%
Impact Aid	1,230	1,230	1,244	1,241	-3	-0.2%
Innovative Programs Block Grants 4/	297	297	198	100	-98	-49.6%
Reading First 4/ 21/	1,024	1,125	1,042	1,042	0	0.0%
21st Century Community Learning Centers	999	999	991	991	0	0.0%
State Assessments	390	410	412	412	0	0.1%
Drug-Free Schools State Grants 4/	441	441	437	0	-437	-100.0%
Special Education State Grants 4/ 18/	10,900	11,922	11,415	11,132	-283	-2.5%
Even Start	226	0	225	0	-225	-100.0%
English Language Acquisition 4/	681	681	676	676	0	0.1%
Vocational & Adult Education 4/ 24/	2,102	1,602	2,011	1,007	-1,004	-49.9%
Pell Grants 20/	12,256	12,863	12,929	13,619	690	5.3%
Federal Supplemental Ed. Opportunity Grants	770	770	779	779	0	0.0%
Work Study	999	999	990	990	0	0.0%
High School Assessments	0	0	0	250	250	NA
High School Intervention	0	0	0	1,240	1,240	NA
Health and Human Services	**22,071**	**22,285**	**22,418**	**21,778**	**-$640**	**-2.9%**
Substance Abuse Block Grant	1,779	1,832	1,776	1,776	0	0.0%
Mental Health Block Grant	435	436	433	433	0	0.1%
Maternal & Child Health Block Grant	730	730	724	724	0	0.0%
Consolidated Health Centers	1,618	1,836	1,734	2,038	304	17.5%
Preventive Health Block Grant	132	133	131	0	-131	-100.0%
Family Planning	278	278	286	286	0	0.1%
Immunization Grants 13/	469	359	479	429	-50	-10.4%
Ryan White AIDS Grants	2,065	2,080	2,073	2,083	10	0.5%
CDC-State & Local Capacity (Bioterrorism)	934	829	927	797	-130	-14.0%
Head Start 4/	6,775	6,944	6,844	6,888	44	0.6%
Child Welfare Services	289	292	290	290	0	0.1%
Community Services Block Grant	642	495	637	0	-637	-100.0%
Child Care & Dev. Block Grants	2,087	2,100	2,083	2,083	0	0.0%
Low Income Home Energy Assistance 8/	1,789	1,801	1,885	1,800	-85	-4.5%
Refugee Assistance	448	473	484	552	68	14.0%
Weatherization Assistance Program 23/	227	291	228	230	2	0.8%
Administration On Aging	1,374	1,377	1,405	1,369	-36	-2.6%
HUD and Independent Agencies	**35,133**	**32,488**	**32,840**	**30,145**	**-$2,695**	**-8.2%**
Community Development Block Grant (Entitlement) 9/	3,032	3,032	2,882	0	-2,882	-100.0%
Community Dev. Block Grants (Nonentitlement) 9/	1,299	1,299	1,235	0	-1,235	-100.0%
Homeless Assistance Grants	1,260	1,282	1,240	1,440	200	16.1%
HOME Program 22/	2,006	2,084	1,900	1,941	41	2.2%
Public Housing Operating Fund 19/	3,579	3,573	2,438	3,407	969	39.7%
Tenant-Based Rental Assistance (Section 8) /12	19,257	18,466	14,885	15,845	960	6.4%
Project-Based Rental Assistance (Section 8) /12	0	0	5,341	5,072	-269	-5.0%
Housing for the Elderly	774	773	747	741	-6	-0.8%
Housing for Persons with Disabilities	249	249	238	119	-119	-50.0%
EPA Clean Water State Rev. Fund	1,342	850	1,091	730	-361	-33.1%
EPA Drinking Water State Rev. Fund	845	850	843	850	7	0.8%
EAC Election Reform Grants	1,491	30	0	0	0	NA
Departments of Energy and Interior	**192**	**244**	**189**	**188**	**-$1**	**-0.8%**
Abandoned Mine Rec. Fund	192	244	189	188	-1	-0.8%
Department of Justice 2/	**1,988**	**697**	**1,745**	**275**	**-$1,470**	**-84.2%**
Violence Against Women	167	177	166	157	-9	-5.3%
COPS/21st Century Policing 19/	748	97	598	118	-480	-80.3%
Local Law Enforcement Block Grant 15/	223	0	0	0	0	NA
State Criminal Alien Assistance Program	297	0	301	0	-301	-100.0%
E. Byrne Formula Grants 15/	495	0	0	0	0	NA
Justice Assistance Grants 15/	n/a	423	626	0	-626	-100.0%
Juvenile Accountability Block Grant	59	0	54	0	-54	-100.0%
Department of Homeland Security	**3,072**	**2,620**	**2,555**	**2,260**	**-$295**	**-11.5%**
State Homeland Security Grant Program 27/	1,690	700	1,085	1,020	-65	-6.0%
Law Enforcement Terrorism Prevention Program	497	500	400	0	-400	-100.0%
Citizen Corps	35	50	15	50	35	233.3%
High-Threat, High-Density Urban Areas Grants 27/	671	1,200	875	1,020	145	16.6%
Emergency Management Performance Grants	179	170	180	170	-10	-5.6%

(Continued)

Major Discretionary (Cont'd.)	Enacted FY 2004	Pres. Budget FY 2005	Enacted 1/ FY 2005	Pres. Budget FY 2006	Change FY 05-FY 06 $	Change FY 05-FY 06 %
Department of Labor	**$6,744**	**$6,431**	**$6,788**	**$6,542**	**-$246**	**-3.6%**
Dislocated Worker Assistance 4/ 10/	1,454	0	1,467	1,060	-407	-27.8%
Adult Training 4/ 10/	899	0	891	712	-179	-20.1%
Youth Training 10/	995	751	986	0	-986	-100.0%
Employment Service State Admin. 10/	787	0	781	0	-781	-100.0%
Consolidated Grant Proposal 10/	NA	2,979	0	2,148	2,148	NA
Unemployment Insurance State Admin.	2,609	2,701	2,664	2,622	-42	-1.6%
Department of Transportation	**45,188**	**45,525**	**46,301**	**46,715**	**$414**	**0.9%**
Airport Obligation Ceiling	3,380	3,500	3,472	3,000	-472	-13.6%
Highway Obligation Ceiling 26/	33,949	33,643	34,263	34,700	437	1.3%
Highway Exempt from Ceiling	700	740	1,031	852	-179	-17.4%
Highway Traffic Safety Grants 25/	224	456	223	465	242	108.3%
Mass Transit Formula Grants	3,816	5,623	3,950	6,135	2,185	55.3%
Mass Transit Discretionary Grants	3,119	1,563	3,362	1,563	-1,799	-53.5%
Subtotal: Discretionary	**$167,992**	**$165,670**	**$167,862**	**$166,926**	**-$936**	**-0.6%**

Mandatory/Entitlement	Enacted FY 2004	Pres. Budget FY 2005	Enacted 1/ FY 2005	Pres. Budget FY 2006	Change FY 05-FY 06 $	Change FY 05-FY 06 %
Child Nutrition	11,454	11,381	11,803	12,454	651	5.5%
Commodity Assistance Program	150	179	179	178	-1	-0.6%
Food Stamps - State Administration	2,310	2,378	2,402	2,481	79	3.3%
Social Services Block Grant (SSBG)	1,700	1,700	1,700	1,700	0	0.0%
Child Care Entitlements to States 14/	2,732	2,717	2,717	2,717	0	0.0%
Temporary Assistance to Needy Families (TANF) 6/ 14/	16,887	16,886	16,886	16,892	6	0.0%
Child Support Enforcement Benefit Payments 3/ 4/	4,048	4,101	4,101	4,270	169	4.1%
Foster Care 17/	4,742	4,627	4,627	4,645	18	0.4%
Adoption Assistance	1,544	1,703	1,703	1,795	92	5.4%
Independent Living 7/ 16/	185	200	187	200	13	7.0%
Promoting Safe and Stable Families 16/	404	505	404	410	6	1.4%
State Fiscal Relief Payments	5,000	0	0	0	0	NA
State Child Health Insurance (SCHIP) 11/	4,924	4,725	4,725	4,082	-643	-13.6%
Medicaid Vendor Payments 5/	165,852	177,750	177,750	181,413	3,663	2.1%
Medicaid Administration	9,327	9,112	9,112	9,803	691	7.6%
Vaccines for Children 13/	1,012	1,287	1,147	1,320	173	15.1%
Vocational Rehab. State Grants	2,584	2,636	2,636	2,720	84	3.2%
Subtotal: Mandatory/Entitlement	**$234,855**	**$241,887**	**$242,079**	**$247,080**	**$5,001**	**2.1%**
Total: Selected Grants-In-Aid	**$402,847**	**$407,557**	**$409,942**	**$414,006**	**$4,064**	**1.0%**

Footnotes:

1/ The enacted FY 2005 omnibus included a 0.8% across-the-board cut for most discretionary programs. Funding levels reflect the cut.
2/ The FY 2005 omnibus included a separate across-the-board cut of 0.54% for all programs in the Departments of Justice and Commerce. Funding levels reflect the cut.
3/ Funding levels include administrative costs, hold-harmless payments, incentive payments, and access and visitation grants.
4/ Funding for these programs includes an advance appropriation.
5/ FY 2004 includes $5 billion in fiscal relief. These estimates reflect FY 2006 budget estimates of Medicaid outlays because budget authority data reflect two unusual events; the carryover of $6.0 billion of FY 2004 budget authority for use in FY 2005 and an apparently new accounting for Medicaid budget authority in FY 2006 to reflect expenses incurred but not reported.
6/ Funding levels include state and territory family assistance grants and supplemental grants for population increases.
7/ The amounts include discretionary funding for education and training vouchers for youth aging out of foster care.
8/ Formula grants only; amounts in this table do not include emergency funding of $99 million, $298 million, and $200 million for FYs 2004-2006.
9/ The FY 2006 budget proposes Economic Development Grants, funded at $3.7 billion, that would replace several programs, including Economic Development Assistance and the Community Development Block Grant.
10/ Data reflect program years rather than fiscal years. The president's FY 2006 budget consolidates Dislocated Workers, Adult Training, Youth Services and Employment Services.
11/ SCHIP appropriations are provided in Title XXI of the Social Security Act. Amounts for FYs 2004-2005 include $1.7 and $0.6 billion in redistributed funds.
12/ In FY 2005, Section 8 funding was divided between tenant-based rental assistance and project-based rental assistance.
13/ VFC amounts exclude $40 million, $488 million and $322 million for FYs 2004-2006 for vaccine stockpiles held by suppliers. The $140 million cost of the VFC program expansion proposed in the president's budget would be partially offset by a proposed reduction in the CDC discretionary immunization program.
14/ These programs have not been reauthorized. Current funding expires on March 31, 2005.
15/ LLEBG and Byrne Grants were consolidated into Justice Assistance Grants in FY 2005. For FY 2006, the president proposes a new criminal justice grant program that does not appear to include formula funds for states.
16/ These programs consist of discretionary and mandatory funds; only the discretionary funds are subject to the FY 2005 across-the-board cut.
17/ The FY 2005 president's budget figures reflect a proposal for a child welfare financing option and changes to the eligibility process ($40 million in savings).
18/ Amount includes the basic state grant (Part B-611 and Part D-164), preschool grants (Part B-619), and grants for infants and families (Part C).
19/ For FY 2005, converting PHAs to calendar-year accounting is expected to save about $1 billion.
20/ The maximum grant amount increases to $4,150 in FY 2006 under the president's proposal. Also, the budget proposes $4.3 billion to make up a FY 2005 shortfall.
21/ This program's funding level excludes Early Reading First Grants.
22/ The amount available for HOME formula grants would decline from $1,865 million to $1,741 million to increase funding for the American Dream Downpayment Act.
23/ This program's jurisdiction has moved to the Labor/HHS/Ed Appropriations Subcommittee.
24/ New funding for state grants is eliminated in the FY 2006 budget proposal.
25/ The FY 2006 proposal would result in a $19 million net increase, but fund it entirely from the appropriation rather than the current transfer from highways.
26/ While unclear, the budget appears to propose a legislated "flex" transfer of $1billion per year for mass transit, resulting in a net decline for highways.
27/ Of the funding allocated for this grant 20% must be used for law enforcement terrorism prevention efforts.

Table 2

Proposed Eliminations of Selected Grant Programs

(dollars in millions)

Program Area:	FY 2005 Funding
Department of Agriculture	**$96**
Watershed and flood prevention operations	96
Department of Commerce	**$292**
Economic development assistance programs	292
Department of Education	**$2,374**
Alcohol Abuse Reduction	33
Arts in Education	36
Civic education	29
Comprehensive School Reform	213
Community technology centers	5
Dropout prevention programs	5
Education technology state grants	511
Elementary and Secondary School Counseling	35
Even Start	247
Foreign Language Assistance	18
Higher Education - GEAR UP	306
Higher Education - Byrd scholarships	41
Higher Education - teacher quality enhancement	68
Javits Gifted and Talented Education	11
Literacy programs for prisoners	10
National writing project	20
Parental information and resource centers	42
Projects with industry	22
Ready to Teach	14
Regional educational laboratories	66
Safe and Drug-Free Schools - state grant program	441
School Leadership	15
Star schools	21
State Grants for Incarcerated Youth Offenders	22
Supported Employment State Grants	37
Tech-Prep education state grants	106

Program Area:	FY 2005 Funding
Department of Health and Human Services	**$929**
Preventive Health Block Grant	117
Early Learning Opportunities	35
Community Food and Nutrition	7
Community Services Block Grant	631
Rural Community Facilities	7
HRSA - Rural Health Flexibility Grants	39
HRSA - Healthy Communities Access Program	82
HRSA - State Planning Grant Program	11
Department of Housing and Urban Development	**$4,456**
Community Development Formula Grants	4,117
Community Development Loan Guarantee Program	15
HOPE VI Revitalization of Severely Distressed Public Housing	165
Empowerment Zones	10
Brownfields Redevelopment	50
Neighborhood Network Initiative	38
Partnership for Advancing Technology in Housing (PATH)	10
Rural Housing and Economic Development	51
Department of the Interior	**$116**
Rural fire assistance	10
Land acquisition - grants to states	106
Department of Justice	**$1,390**
Justice assistance grants	595
State Criminal Alien Assistance Program (SCAAP)	297
Residential substance abuse treatment	33
COPS Crime fighting technology grants	411
Juvenile Accountability Incentive Block Grants	54
Department of Labor	**$10**
OSHA training grants	10
Department of Transportation	**$293**
Small community air service	20
Appalachian development highway system	273
TOTAL	**$9,956**

Scope and Methodology

Appendix II

Scope

The purpose of this audit was to better understand the Commonwealth's current and historical federal funding levels, determine if there are potential missed opportunities, examine ways in which federal funds information is shared, and explore ways in which federal funds may be efficiently utilized. We addressed the following overall objective:

To determine Kentucky's approach to managing federal funds and provide important data for federal funds administrators and other stakeholders

The APA conducted this audit in accordance with *Government Auditing Standards* promulgated by the Comptroller General of the United States.

Our presentation of data and statistics was pulled from the most recent information available at the conclusion of our fieldwork or through fiscal year end June 30, 2003, depending on the source and use of data. Due to the wide array of sources used and special requests accommodations were occasionally made to exclude certain periods and/or certain sources due to limited availability of information. We included historical data and statistics sufficient to provide readers with recent trends in important federal funds and census categories. We have included additional information qualifying our scope throughout the Chapters and Appendices, where important to outcome.

Methodology

Most important to our audit was research and data accumulated through the following four sources:

1. The federal *Catalog for Federal Domestic Assistance* listing of all programs available for state governments from among its listing of all programs available for state and local governments (including the District of Columbia); federally recognized Indian tribal governments; territories (and possessions) of the United States; domestic public, quasi-public, and private and not-for-profit organizations and institutions; specialized groups, and individuals.
2. The United States Census Bureau, *Consolidated Federal Funds Report* that include federal program funding, population, poverty and related data for the nation, Kentucky, and other states and Kentucky Data Center reports.
3. The Federal Audit Clearinghouse operating on behalf of the Office of Management and Budget and containing OMB Circular A-133 data and reporting packages providing Statewide Single Audit federal program listings for Kentucky and the regional states selected.
4. The APA's Reports of the Statewide Single Audits of the of the Commonwealth of Kentucky SSWAK that include schedules of expenditures of federal awards.

From these sources and documents we formed the core of information used to document Kentucky's and the regional states' federal funding levels and national ranking statistics.

We interviewed and requested information from state agencies related to federal funds participation in order to compile a listing of federal programs Kentucky participated in and compare the list to regional states' data obtained from

statewide single audits.
The regional states selected for comparison to Kentucky were:

- Alabama
- Florida
- Georgia
- Mississippi
- North Carolina
- South Carolina
- Tennessee

Each of the regional states' Statewide Single Audits for fiscal years 1999 through 2003 were obtained from the Federal Audit Clearinghouse. The regional states' auditors' offices were contacted to determine what entities are included and not included in these reports. We appreciate the cooperation of these contacts and the information provided concerning the state's reporting practices.

We also reviewed other states' performance audit reports related to managing federal funds for information on best practices and recent developments in federal funds monitoring.

The Kentucky Office of the State Budget Director (OSBD) worked closely with the APA in order to assimilate information for program profiles and highlight important components of Kentucky's Major Programs. OSBD also provided information concerning the Commonwealth's efforts in obtaining federal funding by using outside contractors and consultants. Additionally, we directly interviewed outside consultants employed and contracted with the Commonwealth concerning federal funds opportunities and successes in securing federal funds

We obtained information from the Kentucky Finance and Administration Cabinet and U.S. Treasury concerning interest payments made under the Cash Management Improvement Act.

We obtained TANF performance data from the U.S. Department of Health and Human Services and the Kentucky Health and Family Services Cabinet and Food Stamp Bonus Data from the U.S. Department of Agriculture.

For much of our research, we used outside reporters' data and reports, both programmatic and general in scope, notably *Federal Funds Information for States*, in order obtain current trends and analyses of federal funds and impact on states budgets and decision-making. We made special requests from some reports for customized data. Throughout our report we have provided supplemental information describing methods used to evaluate and compare data.

List of Federal Grants/Programs in Which Kentucky Did Not Participate

Appendix III

This list represents federal grants/programs in which state governments are eligible and at least one of the regional states did receive funding. Grants/programs that Kentucky would obviously not qualify for, such as Alaska Salmon Enhancement or Chesapeake Bay Studies, were deleted from this initial list. Additionally, we deleted any grants/programs that Kentucky's public universities participated in during FY 2002, because this information would not be included in Kentucky's SSWAK. The one program in which all of the seven states received funding, CFDA # 93.566, Refugee and Entrant Assistance – State Administered Programs, is highlighted in yellow.

CFDA #	AL	FL	GA	MS	NC	SC	TN
Department of Agriculture							
10.200: Grants for Agricultural Research, Special Research Grants	$297,754	$243,669	$0	$0	$162,157	$0	$63,084
10.220: Higher Education Multicultural Scholars Program	0	22,916	0	0	0	0	39,000
10.303: Integrated Programs	0	123,455	0	0	374,799	0	45,447
10.420: Rural Self-Help Housing Technical Assistance	0	0	177,864	0	0	0	0
10.435: State Mediation Grants	157,865	0	0	0	0	0	0
10.475: Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	1,206,581	0	3,505,134	2,185,355	3,010,439	0	0
10.574: Team Nutrition Grants	0	58,063	0	61,533	21,802	0	37,327
10.576: Senior Farmers Market Nutrition Program	0	0	0	0	0	0	346,602
10.665: Schools and Roads-Grants to States	2,430,504	2,457,323	0	0	0	0	516,837
10.773: Rural Business Opportunity Grants	0	0	0	0	0	0	9,180
10.800: Livestock, Meat and Poultry Market Supervision	0	905	0	0	0	0	0
10.855: Distance Learning and Telemedicine Loans to Grants	0	0	0	0	0	0	737,890
10.902: Soil and Water Conservation	0	0	147,391	889,733	0	0	11,273
10.904: Watershed Protection and Flood Prevention	0	0	0	0	1,021	0	0
10.950: Agricultural Statistics Reports	5,000	0	33,851	110,112	0	0	42,654
10.960: Technical Agricultural Assistance	0	0	0	0	456,782	0	0
TOTAL	$4,097,704	$2,906,331	$3,864,240	$3,246,733	$4,027,000	$0	$1,849,294
# of Programs Per State	5	6	4	4	6	0	10
Avg Per Program	$819,541	$484,389	$966,060	$811,683	$671,167	$0	$184,929

List of Federal Grants/Programs in Which Kentucky Did Not Participate

CFDA #	AL	FL	GA	MS	NC	SC	TN
Department of Commerce							
11.300: Grants for Public Works and Economic Development Facilities	$0	$0	$0	$0	$283,863	$0	$0
11.400: Geodetic Surveys and Services	0	0	0	0	0	306,706	0
11.407: Interjurisdictional Fisheries Act of 1986	29,301	153,258	163,589	65,696	0	0	0
11.440: Environmental Sciences, Applications, Data, and Education	0	0	0	0	10,000	0	0
11.460: Special Oceanic and Atmospheric Projects	0	349,615	0	0	0	0	0
11.470: Office of Administration Special Programs	0	279	0	0	0	0	0
11.481: Educational Partnership Program	0	0	0	0	18,212	0	0
11.552: Technology Opportunities	0	196,174	0	0	79,722	153,629	150,898
11.601: Caliberation Program	0	0	0	0	64,685	0	0
11.603: National Standard Reference Data System	0	0	0	0	44,494	0	0
11.604: Standard Reference Materials	0	0	0	0	146	0	0
11.609: Measurement and Engineering Research and Standards	0	0	0	0	160,764	0	2,077,699
TOTAL	$29,301	$699,326	$163,589	$65,696	$661,886	$460,335	$2,228,597
# of Programs Per State	1	4	1	1	8	2	2
Avg Per Program	$29,301	$174,832	$163,589	$65,696	$82,736	$230,168	$1,114,299
Department of Defense							
12.106: Flood Control Projects	$0	$0	$0	$0	$0	$0	$2,750
12.107: Navigation Projects	251,667	740,592	198	0	8,751	0	0
12.112: Payments to States in Lieu of Real Estate Taxes	0	0	0	0	0	0	524,734
12.900: Language Grant Program	0	89,003	0	0	0	0	0
TOTAL	$251,667	$829,595	$198	$0	$8,751	$0	$527,484
# of Programs Per State	1	2	1	0	1	0	2
Avg Per Program	$251,667	$414,798	$198	$0	$8,751	$0	$263,742

List of Federal Grants/Programs in Which Kentucky Did Not Participate

Appendix III

CFDA #	AL	FL	GA	MS	NC	SC	TN
Department of Housing and Urban Development							
14.244: Empowerment Zones Program	$0	$0	$0	$0	$0	$0	$507,192
14.250: Rural Housing and Economic Development	0	0	0	0	0	0	922
14.866: Demolition and Revitalization of Severely Distressed Public Housing	0	0	0	0	0	0	33,058
14.900: Lead-Based Paint Hazard Control in Privately-Owned Housing	0	0	956,980	0	0	0	0
TOTAL	$0	$0	$956,980	$0	$0	$0	$541,172
# of Programs Per State	0	0	1	0	0	0	3
Avg Per Program	$0	$0	$956,980	$0	$0	$0	$180,391
Department of Interior							
15.602: Conservation Law Enforcement Training Assistance	$0	$0	$0	$0	$700	$0	$0
15.626: Hunter Education and Safety Program	0	0	0	0	0	0	882,204
15.809: National Spatial Data Infrastructure Cooperative Agreements Program	30,000	0	0	0	0	0	0
15.912: National Historic Landmark	0	0	9,616	0	0	0	0
15.922: Native American Graves Protection and Repatriation Act	0	20,669	0	0	0	0	0
15.923: National Center for Preservation Technology and Training	0	0	0	0	6,471	0	0
15.926: American Battlefield Protection	0	0	0	0	2,001	3,720	0
TOTAL	$30,000	$20,669	$9,616	$0	$9,172	$3,720	$882,204
# of Programs Per State	1	1	1	0	3	1	1
Avg Per Program	$30,000	$20,669	$9,616	$0	$3,057	$3,720	$882,204

List of Federal Grants/Programs in Which Kentucky Did Not Participate

Appendix III

CFDA #	AL	FL	GA	MS	NC	SC	TN
Department of Justice							
16.005: Public Education on Drug Abuse-Information	$89,056	$0	$0	$0	$0	$0	$0
16.203: Sex Offender Management Discretionary Grant	0	0	0	0	4,901	0	0
16.564: Crime Laboratory Improvement-Combined Offender DNA Index System Backlog Reduction	0	0	740,745	82,007	0	0	0
16.595: Executive Office for Weed and Seed	0	35,774	0	0	158,846	0	0
16.601: Corrections-Training and Staff Development	0	0	91,724	0	0	0	0
16.602: Corrections-Research and Evaluation and Policy Formulation	0	103,806	0	0	0	0	0
16.610: Regional Information Sharing Systems	0	0	0	0	0	0	4,143,942
16.611: Closed-Circuit Televising of Child Victims of Abuse	0	43,155	4,269	0	0	0	0
16.614: State and Local Anti-Terrorism Training	0	517,074	0	0	0	0	0
16.711: Troops to COPS	0	0	0	0	772	0	0
TOTAL	$89,056	$699,809	$836,738	$82,007	$164,519	$0	$4,143,942
# of Programs Per State	1	4	3	1	3	0	1
Avg Per Program	$89,056	$174,952	$278,913	$82,007	$54,840	$0	$4,143,942

List of Federal Grants/Programs in Which Kentucky Did Not Participate

Appendix III

CFDA #	AL	FL	GA	MS	NC	SC	TN
Department of Labor							
17.257: One-Stop Career Center Initiative	$0	$0	$60,343	$0	$0	$0	$236,599
17.261: Employment and Training Administration Pilots, Demonstrations, and Research Projects	0	8,032	0	0	0	6,630,308	399,661
17.802: Veterans' Employment Program	635,330	0	0	0	0	0	51,302
TOTAL	$635,330	$8,032	$60,343	$0	$0	$6,630,308	$687,562
# of Programs Per State	1	1	1	0	0	1	3
Avg Per Program	$635,330	$8,032	$60,343	$0	$0	$6,630,308	$229,187
Department of Transportation							
20.312: High Speed Ground Transportation-Next Generation High Speed Rail Program	$0	$431,974	$0	$0	$0	$0	$0
20.500: Federal Transit-Capital Investment Grants	3,278,194	0	227,179	174,800	1,628,200	0	1,943,549
20.512: Federal Transit Technical Assistance	0	0	77,041	0	0	0	0
20.514: Transit Planning and Research	0	7,191	0	0	0	0	0
20.516: Job Access-Reverse Commute	0	0	234,448	109,636	124,204	0	1,324,848
20.601: Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	585,317	6,310,102	0	-10,761	944,817	261,929	1,770,487
20.602: Occupant Protection	75,469	298,775	0	0	215,449	0	2,369,982
20.603: Federal Highway Safety Data Improvements Incentive Grants	56,787	50,486	0	0	315,581	0	1,011,465
TOTAL	$3,995,767	$7,098,528	$538,668	$273,675	$3,228,251	$261,929	$8,420,331
# of Programs Per State	4	5	3	2	5	1	5
Avg Per Program	$998,942	$1,419,706	$179,556	$136,838	$645,650	$261,929	$1,684,066

List of Federal Grants/Programs in Which Kentucky Did Not Participate

Appendix III

CFDA #	AL	FL	GA	MS	NC	SC	TN
Appalachian Regional Commission							
23.003: Appalachian Development Highway System	$72,723,309	$0	$0	$0	$0	$0	$0
TOTAL	$72,723,309	$0	$0	$0	$0	$0	$0
# of Programs Per State	1	0	0	0	0	0	0
Avg Per Program	$72,723,309	$0	$0	$0	$0	$0	$0
National Foundation on the Arts and the Humanities							
45.162: Promotion of the Humanities-Education Development and Demonstration	$0	$0	$25,615	$0	$0	$0	$0
45.163: Promotion of the Humanities-Seminars and Institutes	0	113,667	45,932	0	1,694	0	94,157
45.164: Promotion of the Humanities-Public Programs	0	16,700	0	0	0	0	0
45.301: Institute of Museum and Library Services	0	159,097	0	0	117,469	36,416	0
45.302: Museum Assessment Program	0	1,620	1,650	0	0	525	0
TOTAL	$0	$291,084	$73,197	$0	$119,163	$36,941	$94,157
# of Programs Per State	0	4	3	0	2	2	1
Avg Per Program	$0	$72,771	$24,399	$0	$59,582	$18,471	$94,157

List of Federal Grants/Programs in Which Kentucky Did Not Participate

CFDA #	AL	FL	GA	MS	NC	SC	TN
Department of Veterans Affairs							
64.014: Veterans State Domiciliary Care	$0	$808,621	$955,976	$0	$0	$0	$0
64.015: Veterans State Nursing Home Care	6,856,695	4,615,727	9,471,401	0	0	0	3,934,404
64.022: Veterans Home Based Primary Care	0	0	0	0	0	0	991,987
64.101: Burial Expenses Allowance for Veterans	0	0	0	0	0	0	290,550
TOTAL	$6,856,695	$5,424,348	$10,427,377	$0	$0	$0	$5,216,941
# of Programs Per State	1	2	2	0	0	0	3
Avg Per Program	$6,856,695	$2,712,174	$5,213,689	$0	$0	$0	$1,738,980
Environmental Protection Agency							
66.418: Construction Grants for Wastewater Treatment Works	$0	$0	$1,807,018	$0	$0	$0	$0
66.605: Performance Partnership Grants	298,883	873,646	16,488,684	4,365,009	0	7,277,127	538,721
66.607: Training and Fellowships for the Environmental Protection Agency	943,255	328,610	0	0	1,200,470	0	57,381
66.608: State Information Grants	0	23,500	98,264	0	0	406,440	33,727
TOTAL	$1,242,138	$1,225,756	$18,393,966	$4,365,009	$1,200,470	$7,683,567	$629,829
# of Programs Per State	2	3	3	1	1	2	3
Avg Per Program	$621,069	$408,585	$6,131,322	$4,365,009	$1,200,470	$3,841,784	$209,943

List of Federal Grants/Programs in Which Kentucky Did Not Participate

Appendix III

CFDA #	AL	FL	GA	MS	NC	SC	TN
Department of Energy							
81.104: Office of Technology Development and Deployment for Environmental Management	$0	$4,055	$475,987	$0	$0	$2,799,931	$0
TOTAL	$0	$4,055	$475,987	$0	$0	$2,799,931	$0
# of Programs Per State	0	1	1	0	0	1	0
Avg Per Program	$0	$4,055	$475,987	$0	$0	$2,799,931	$0
Department of Education							
84.021: Overseas-Group Projects Abroad	$0	$0	$64,000	$0	$0	$0	$0
84.144: Migrant Education-Coordination Program	0	7,531	0	0	469,916	0	0
84.195: Bilingual Education-Professional Development	0	1,796,440	51,863	0	192,047	0	59
84.206: Javits Gifted and Talented Students Education Grant Program	0	0	0	0	139,188	0	0
84.214: Even Start-Migrant Education	0	0	0	0	239,552	0	0
84.235: Rehabilitation Services Demonstration and Training Programs	0	0	0	13,999	0	0	0
84.257: National Institute for Literacy	0	0	0	0	0	0	247,473
84.264: Rehabilitation Training-Continuing Education	0	0	888,543	0	0	0	325,494
84.283: Comprehensive Regional Assistance Centers	0	9,369	0	0	0	0	0
84.302: Regional Technology in Education Consortia	0	641,182	0	0	1,002,968	0	0
84.342: Preparing Tomorrow's Teachers to Use Technology	516,365	548,948	2,307,707	400,327	2,739,487	0	849,107
84.351: Arts in Education	0	0	0	94,070	0	0	-3,274
TOTAL	$516,365	$3,003,470	$3,312,113	$508,396	$4,783,158	$0	$1,418,859
# of Programs Per State	1	5	4	3	6	0	4
Avg Per Program	$516,365	$600,694	$828,028	$169,465	$797,193	$0	$354,715

List of Federal Grants/Programs in Which Kentucky Did Not Participate

CFDA #	AL	FL	GA	MS	NC	SC	TN
Department of Health and Human Services							
93.004: Cooperative Agreements to Improve the Health Status of Minority Populations	$0	$0	$5,000	$0	$0	$0	$0
93.006: State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	0	192,792	153,646	0	0	134,597	186,310
93.106: Minority International Research Training Grant in the Biomedical and Behavioral Sciences	0	0	0	0	146,424	0	0
93.115: Biometry and Risk Estimation-Health Risks from Environmental Exposures	0	92,217	0	0	133,751	0	0
93.157: Centers of Excellence	0	853,415	0	0	0	0	0
93.161: Health Program for Toxic Substances and Disease Registry	156,544	409,392	0	31,952	65,333	58,077	0
93.165: Grants for State Loan Repayment	50,000	0	75,000	0	22,935	0	0
93.178: Nursing Workforce Diversity	0	137,465	326,603	0	139,320	0	83,070
93.184: Disabilities Prevention	310,745	0	0	0	0	24,908	0
93.206: Human Health Studies-Applied Research and Development	0	0	28,336	0	0	0	0
93.225: National Research Service Awards-Health Services Research Training	0	5,379	0	0	0	0	0
93.229: Demonstration Cooperative Agreements for Development and Implementation of Criminal Justice Treatment Networks	0	175,641	0	0	0	0	0
93.240: State Capacity Building	0	0	79,265	0	0	142,502	0
93.245: Innovative Food Safety Projects	141,959	36,181	0	0	0	0	0

List of Federal Grants/Programs in Which Kentucky Did Not Participate

Appendix III

CFDA #	AL	FL	GA	MS	NC	SC	TN
93.253: Poison Control Stabilization and Enhancement Grants	0	68,192	0	0	0	0	11,627
93.551: Abandoned Infants	0	0	48,921	0	0	0	0
93.566: Refugee and Entrant Assistance-State Administered Programs	6,311,196	46,081,391	6,708,018	1,400,073	2,702,993	163,798	1,135,562
93.579: U.S. Repatriation	0	11,172	275	0	0	0	0
93.584: Refugee and Entrant Assistance-Targeted Assistance	0	8,657,402	1,717,941	0	228,048	0	654,249
93.631: Developmental Disabilities Projects of National Significance	0	0	137,574	0	107,319	21,190	113,941
93.647: Social Services Research and Demonstration	0	0	0	0	0	0	73,921
93.768: Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	0	0	227,488	0	0	0	0
93.887: Health Care and Other Facilities	0	498,941	0	0	178,682	0	0
93.910: Family and Community Violence Prevention Program	0	0	0	0	363,825	0	0
93.926: Healthy Start Initiative	0	2,619,203	281,528	0	1,854,651	33,642	0
93.941: HIV Demonstration, Research, Public and Professional Education Projects	0	871,737	917,219	0	148,656	0	0
93.962: Health Administration Traineeships and Special Projects Program	0	56,200	18,473	0	0	0	0
93.974: Family Planning-Service Delivery Improvement Research Grants	0	0	0	0	335,860	0	0
93.978: Preventive Health Services-Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	0	126,945	0	0	0	0	0

List of Federal Grants/Programs in Which Kentucky Did Not Participate

Appendix III

CFDA #	AL	FL	GA	MS	NC	SC	TN
93.990: National Health Promotion	0	0	0	0	3,689	0	0
93.995: Adolescent Family Life-Demonstration Projects	0	0	0	0	0	120,026	0
TOTAL	$6,970,444	$60,893,665	$10,725,287	$1,432,025	$6,431,486	$698,740	$2,258,680
# of Programs Per State	5	17	15	2	14	8	7
Avg Per Program	$1,394,089	$3,581,980	$715,019	$716,013	$459,392	$87,343	$322,669
Corporation for National and Community Service							
94.005: Learn and Serve America-Higher Education	$0	$28,245	$4,968	$0	$0	$0	$0
94.013: Volunteers in Service to America	1,862	273,575	0	0	0	0	665,861
94.016: Senior Companion Program	0	321,630	179,643	134,737	0	0	0
TOTAL	$1,862	$623,450	$184,611	$134,737	$0	$0	$665,861
# of Programs Per State	1	3	2	1	0	0	1
Avg Per Program	$1,862	$207,817	$92,306	$134,737	$0	$0	$665,861
Social Security Administration							
96.007: Social Security-Research and Demonstration	$0	$1,577,692	$0	$0	$0	$0	$0
TOTAL	$0	$1,577,692	$0	$0	$0	$0	$0
# of Programs Per State	0	1	0	0	0	0	0
Avg Per Program	$0	$1,577,692	$0	$0	$0	$0	$0
TOTAL	**$97,439,638**	**$85,305,810**	**$50,022,910**	**$10,108,278**	**$20,633,856**	**$18,575,471**	**$29,564,913**
# of Programs Per State	**25**	**59**	**45**	**15**	**49**	**18**	**46**
Avg Per Program	**$3,897,586**	**$1,445,861**	**$1,111,620**	**$673,885**	**$421,099**	**$1,031,971**	**$642,716**

Useful Links to Sources of Federal Funds Information
Catalog of Federal Domestic Assistance http://www.cfda.gov Federal Business Opportunities at http://www.eps.gov/ Federal Grants: http://grants.gov Federal Register at GPO access http://www.gpoaccess.gov/fr/index.html Federal Funds Information for States www.FFIS.org FirstGov: http:// www.firstgov.gov/Government/State_Local/Grants.shtml Foundation Center http://fdncenter.org/ U.S. Department of Health and Human Services grants sources http://www.hhs.gov/grantsnet Welfare Information Network http://www.financeprojectinfo.org/win/grant.asp The White House www.whitehouse.gov White House Office of Faith-Based and Community Initiatives http://www.whitehouse.gov/government/fbci/grants-catalog-index.html

Returned Federal Funds FY 2002 & FY 2003	
Item	Paid to Grantor Amounts FY 2002 & FY 2003
1	Agency: Council on Postsecondary Education Grant: 84.281 Eisenhower Professional Development State Grants Total Adjusted Award for Grant: $802,866 Paid to Grantor (Returned) Amount: $4,554 Period: 6/30/02 Agency's Stated Reason: *CPE received a refund from a subgrantee (KCTCS) after the grant had closed. We deposited the refund, then issued a check to U.S. Department of Education for the same amount.*
2	Agency: Justice Cabinet Grant: 16.579 Byrne Formula Grant Program Total Adjusted Award for Grant: $7,396,993 Paid to Grantor (Returned) Amount: $150,249 Period: 6/30/02 Agency's Stated Reason: *Returned to US Justice – Grant Closed*
3	Agency: Department of Fish and Wildlife Grant: 15.605 Sport Fish Restoration (Statewide Investigations Project F40- 23) Total Adjusted Award for Grant: $274,457 Paid to Grantor (Returned) Amount: $2,319 Period: 6/30/02 Agency's Stated Reason: *An error was made in calculating reimbursable expenses; therefore, we overdrew our grant. When the error was discovered, we refunded the money back to the feds.*
4	Agency: Department of Fish and Wildlife Grant: 15.623 Lattourneau Woods Total Adjusted Award for Grant: $1,000,000 Paid to Grantor (Returned) Amount: $281,033 Period: 6/30/03 Agency's Stated Reason: *An error was made in calculating reimbursable expenses; therefore, we overdrew our grant. When the error was discovered, we refunded the money back to the feds.*
5	Agency: Department of Education Grant: 17.250 Job Training Partnership Act Total Adjusted Award for Grant: $554,235 Paid to Grantor (Returned) Amount: $22,165 Period: 6/30/02 Agency's Stated Reason: *Returned to Workforce Development Cabinet*
6	Agency: Department of Education Grant: 10.558 Child and Adult Care Food Program Total Adjusted Award for Grant: $22,979,003 Paid to Grantor (Returned) Amount: $4,888 Period: 6/30/03 Agency's Stated Reason: *Explanation not provided with SEFA*
7	Agency: Department of Education Grant: 10.560 State Administrative Expense for Child Nutrition Total Adjusted Award for Grant: $1,681,481 Paid to Grantor (Returned) Amount: $1,382 Period: 6/30/03 Agency's Stated Reason: *Explanation not provided with SEFA*

8	Agency: Department of Education Grant: 93.945 Assistance Program for Chronic Disease Prevention and Control Total Adjusted Award for Grant: $560,000 Paid to Grantor (Returned) Amount: $121 Period: 6/30/02 Agency's Stated Reason: *Returned to Health Services*
9	Agency: Justice Cabinet Grant: 16.592 Local Law Enforcement Block Grants Program Total Adjusted Award for Grant: $1,648,074 Paid to Grantor (Returned) Amount: $291 Period: 6/30/03 Agency's Stated Reason: No explanation provided with SEFA
Source: Statewide Single Audit Reports and associated Schedules of Expenditures of Federal Awards FY 2002 and FY 2003, Returned to Grantor Amounts. Agencies provided no notes or additional clarifying information for Items 6, 7, and 9. Additional information was requested for the materially significant amounts paid to grantors for the Justice Cabinet and Department of Fish and Wildlife transactions.	
Additional Information Provided by Agencies to Clarify Large Returns of Funds	
Item 2: *The Kentucky Justice Cabinet - $150,249*	
The Justice Cabinet's return of $150,249 FY 02 was due in part to overdrafts in excess of allowed expenditures and cannot be fully attributed to failure to maximize available funding. Justice Cabinet officials noted that there were three factors that resulted in the return of federal funds: • STARS/MARS conversion errors • Various subgrantee deobligations over time • Drawdowns in excess of final, allowed expenditures	
Items 3 & 4: *The Kentucky Department of Fish and Wildlife -$281,033*	

Returned Federal Funds

Appendix V

Returned funds at The Department of Fish and Wildlife resulted from the agency's failure to take full advantage of an available match rate when a federal grant proposal was submitted. The agency proposed a rate of greater than the 50% minimum required in the grant proposal and this resulted in an unforeseen return of $281,033 to the federal government. It is important to note that this competitive grant was, in part, awarded based on Kentucky's decision to offer a higher match – whether intentional or accidental.

Supporting documentation and an email response from the U.S. Department of the Interior – the federal program responsible for the funds - substantiates the award was made, in part, due to Fish and Wildlife's "favorable match-to-grant ratio." The Kentucky agency's March 7, 2003 response to the U.S. Fish and Wildlife Service states that it instituted "some internal changes that will have a positive impact on how NAWCA-funded land acquisitions are handled in the future, including changes in personnel. The state agency's funds covered the cost of the error.

Following is description of events concerning the designated $281,033 paid to grantor amount provided by The Department of Fish and Wildlife at the request of the APA:

KDFWR [The Department of Fish and Wildlife] participated in federal program called the North American Wetlands Conservation Fund (CFDA# 15.623) for the period 5/00 through 4/02 and incorrectly reported $962,410 in expenditures as of 6/30/02. The total adjusted award was $1,000,000 as of 6/30/03. This award was for a land purchase and relied on third-party donations. KDFWR was able to secure the land at less than its original estimates.

To receive this award, KDFWR had submitted a proposal that became the basis for its federal award match rate. In order to win the competitive award KDFWR's proposal contained a match rate that failed to take full advantage of the available match rate of 50%. When the 50% match rate was incorrectly used as the basis for the final award billing, the federal government noticed the error and required KDFWR to remit $281,033 to cover the understated match. The agency's funds covered the cost of the error.

Since KDFWR had budgeted $250,000 for this project via the proposal and had already incurred $15,400 in pre-awards costs, the unanticipated cost to KDFWR was $23,323. KDFWR had budgeted $125,000 for license paper and ribbons but was able to purchase them at a reduced rate for a total of $92,729.53 that fiscal year. The savings from the license supplies covered the additional cost of the land purchase.

Food Stamp Enhanced/Bonus Performance for Kentucky and Regional States 1996 –2003

State	1996 Food Stamp Bonus Funding and Error Rates			
	Potential Liabilities	Enhanced Funding	Total Error Rate	Regional Rank
Alabama	0	$1,070,183	5.80	2
Florida	$323,741	0	9.70	5
Georgia	$824,510	0	10.26	8
Kentucky	0	$3,044,650	5.33	1
Mississippi	$254,467	0	10.01	7
North Carolina	$360,814	0	10.00	6
South Carolina	0	0	6.32	3
Tennessee	0	0	8.99	4
Total Number of States Receiving Bonuses Nationwide in 1996 = 6				
State	1997 Food Stamp Bonus Funding and Error Rates			
	Potential Liabilities	Enhanced Funding	Total Error Rate	Regional Rank
Alabama	0	0	8.65	4
Florida	$155,095	0	10.26	5
Georgia	$2,589,473	0	11.95	7
Kentucky	0	$1,011,756	5.76	1
Mississippi	0	0	6.99	3
North Carolina	$294,423	0	10.66	6
South Carolina	0	0	6.31	2
Tennessee	$2,262,108	0	12.05	8
Total Number of States Receiving Bonuses Nationwide in 1997 = 5				
State	1998 Food Stamp Bonus Funding and Error Rates			
	Potential Liabilities	Enhanced Funding	Total Error Rate	Regional Rank
Alabama	0	0	7.67	3
Florida	$4,003,351	0	12.94	7
Georgia	$4,411,896	0	13.65	8
Kentucky	0	0	7.40	2
Mississippi	0	0	6.01	1
North Carolina	$3,191	0	10.78	6
South Carolina	0	0	8.07	4
Tennessee	0	0	8.74	5
Total States Receiving Bonuses Nationwide in 1998 = 6				
State	1999 Food Stamp Bonus Funding and Error Rates			
	Potential Liabilities	Enhanced Funding	Total Error Rate	Regional Rank
Alabama	$218,846	0	11.29	8
Florida	0	0	9.43	6
Georgia	0	0	10.86	7
Kentucky	0	0	7.72	3
Mississippi	0	$5,161,155	4.91	1
North Carolina	0	0	9,25	5
South Carolina	0	$757,997	5.79	2
Tennessee	0	0	8.64	4
Total States Receiving Bonuses Nationwide in 1999 = 6				
State	2000 Food Stamp Bonus Funding and Error Rates			
	Potential Liabilities	Enhanced Funding	Total Error Rate	Regional Rank
Alabama	$2,203,648	0	11.37	8

Florida	0	0	9.40	7
Georgia	0	0	8.61	6
Kentucky	0	$595,110	5.81	4
Mississippi	0	$4,958,828	4.69	2
North Carolina	0	0	6.93	5
South Carolina	0	$3,725,822	4.47	1
Tennessee	0	$1,259,171	5.71	3
Total States Receiving Bonuses Nationwide in 2000 = 11				
State	2001 Food Stamp Bonus Funding and Error Rates			
	Potential Liabilities	Enhanced Funding	Total Error Rate	Regional Rank
Alabama	$446,822	0	9.76	7
Florida	$541,466	0	9.80	8
Georgia	0	0	6.42	5
Kentucky	0	0	7.53	6
Mississippi	0	$4,775,951	3.47	1
North Carolina	0	0	6.35	4
South Carolina	0	$4,392,948	4.62	2
Tennessee	0	0	6.22	3
Total States Receiving Bonuses Nationwide in 2001 = 10				
State	2002 Food Stamp Bonus Funding and Error Rates			
	Potential Liabilities	Enhanced Funding	Total Error Rate	Regional Rank
Alabama	$2,476	0	8.34	7
Florida	$1,715,327	0	9.63	8
Georgia	0	0	7.95	5
Kentucky	0	0	4.64	4
Mississippi	0	$4,898,620	2.80	3
North Carolina	0	$10,122,355	1.40	2
South Carolina	0	$4,865,345	0.83	1
Tennessee	0	0	8.24	6
Total States Receiving Bonuses Nationwide in 2002 = 13				
State	2003 Food Stamp Bonus Funding Under the New Farm Bill			
	Participant Access Rate	Application Processing Time	Payment Error Rates	Negative Error Rate
Alabama	0	0	0	0
Florida	0	0	0	0
Georgia	0	0	0	0
Kentucky	0	$1,948,772	0	0
Mississippi	0	0	$1,471,230	0
North Carolina	0	0	0	0
South Carolina	$1,812,972	0	0	$2,780,978
Tennessee	$3,081,290	0	0	0
Total Number of States Receiving Bonuses Nationwide in 2003 = 24				

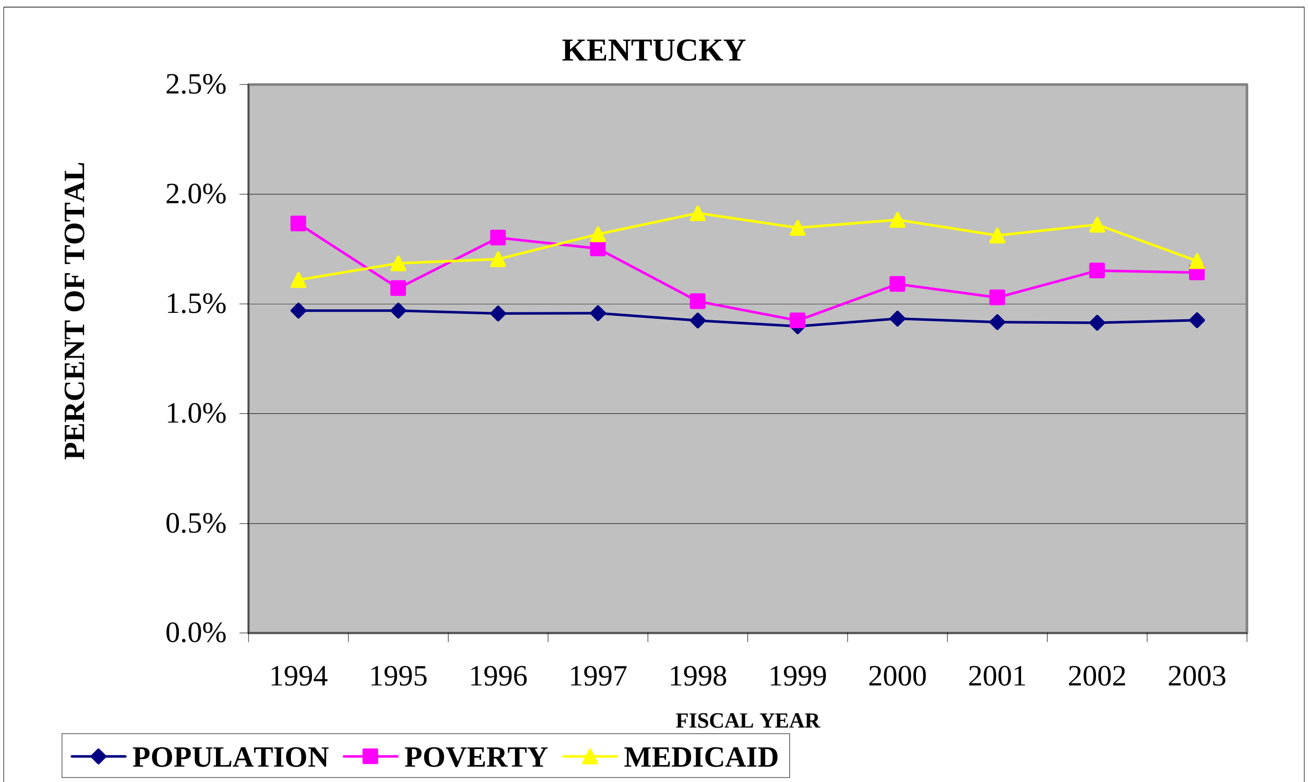
Source: United States Department of Agriculture Food and Nutrition Service Branch as requested by APA and USDA News Releases September 8, 2004 and September 27, 2004. Note that the rule changes under the 2002 Farm Bill have resulted in 4 regional states benefiting under the new categories and 24 states and the District of Columbia receiving bonus awards nationwide.

Federal Program Expenditure Amounts and Block Grant Designations by Federal Agency				
CFDA #	Title	Amount	Block Grant?	
			Yes	No
Major Programs				
Department of Agriculture				
10.551	Food Stamps	467,646,178		No
10.561	Sate Administrative Matching Grants for Food Stamp Program	26,106,666		No
10.553	School Breakfast Program	31,442,100		No
10.555	National School Lunch Program	96,865,656		No
10.556	Special Milk Program for Children	93,914		No
10.559	Summer Food Service Program for Children	4,532,272		No
10.557	Supplemental Nutrition Program for Women, Infants, and Children (WIC)	80,187,442		No
10.558	Child and Adult Care Food Program	25,044,722		No
10.766	Community Facilities Loans and Grants	67,738,386		No
Department of Commerce				
11.550	Public Telecommunications Facilities – Planning and Construction	462,090		No
HUD				
14.182	Lower Income Housing Assistance Program – Section 8 New Construction/Substantial Rehabilitation	84,569,085		No
14.856	Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	240,015		No
14.228	Community Development Block Grants / State's Program	31,661,755	Yes	
14.235	Supportive Housing Program	3,245,684		No
14.239	HOME Investment Partnerships Program	17,182,667	Yes	
14.871	Section 8 Housing Choice Vouchers	20,485,291		No
Department of Labor				
17.225	Unemployment Insurance	640,076,477		No
17.245	Trade Adjustment Assistance – Workers	18,516,129		No
17.255	Workforce Investment Act	109,196		No
17.258	WIA Adult Program	13,537,375		No
17.259	WIA Youth Activities	15,210,786		No
17.260	WIA Dislocated Workers	19,565,986		No
Department of Transportation				
20.205	Highway Planning and Construction	485,248,928	Yes	
Department of Treasury				
21.999	Job Growth Tax Relief Reconciliation Act	68,720,606		No

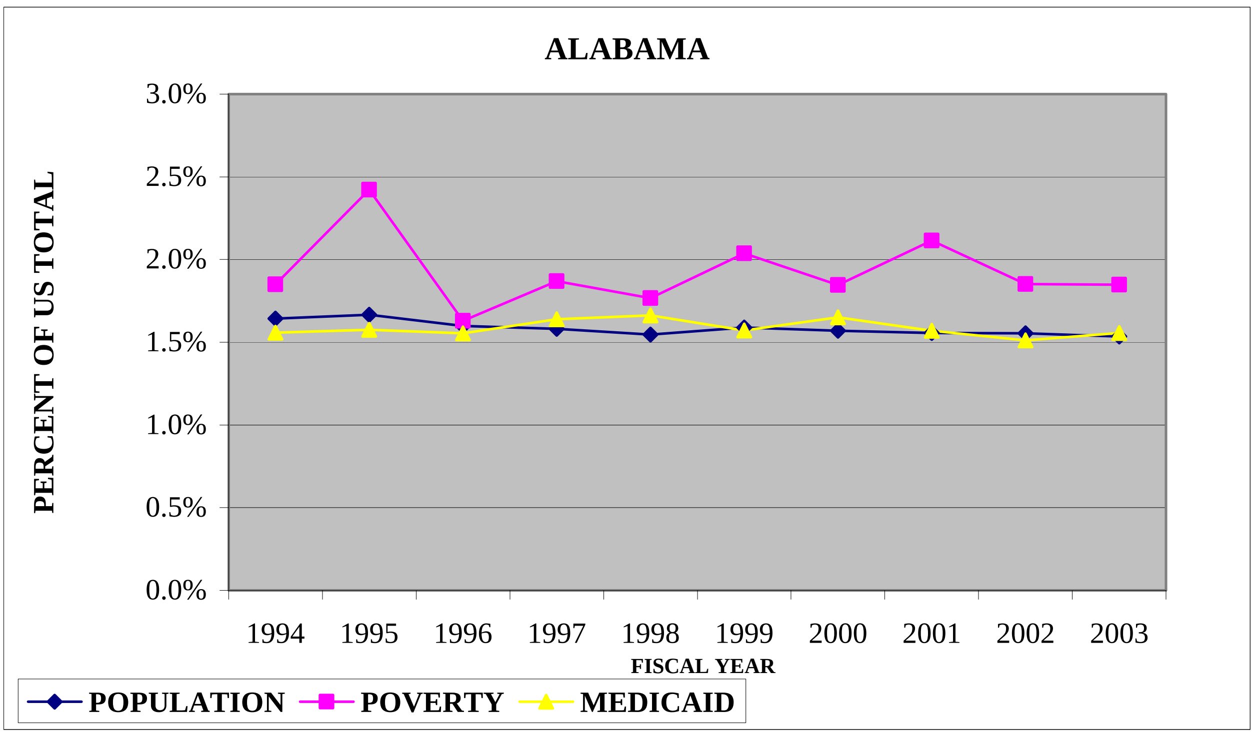
Department of Veterans Affairs				
64.114	Veterans Housing-Guaranteed and Insured Loans	8,941,862		No
EPA				
66.458	Capitalization Grants for Clean Water State Revolving Funds	14,826,894		No
66.468	Capitalization Grants for Drinking Water State Revolving Funds	14,363,474		No
FEMA				
83.544	Public Assistance Grants	20,132,642		No
Department of Education				
84.010	Title I Grants to Local Education Agencies	129,061,216		No
84.027	Special Education – Grants to States	97,583,762		No
84.173	Special Education - Preschool Grants	10,923,826		No
84.032	Federal Family Education Loans	72,743,550		No
84.048	Vocational Education – Basic Grants to States	18,783,257		No
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	45,504,749		No
84.281	Eisenhower Professional Development State Grants	5,305,049		No
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,975,340		No
Department of Health and Human Services				
93.558	Temporary Assistance for Needy Families	120,897,506	Yes	
93.563	Child Support Enforcement	40,538,384		No
93.568	Low-Income Home Energy Assistance	27,997,414	Yes	
93.575	Child Care and Development Block Grant	95,160,956	Yes	
93.596	Child Care Mandatory and Matching Funds of Child Care and Development Fund	32,451,387		No
93.658	Foster Care – Title IV-E	55,575,825		No
93.667	Social Services Block Grant	24,956,262	Yes	
93.767	State Children's Insurance Program	70,237,491		No
93.775	State Medicaid Fraud Control Units	983,713		No
93.777	State Survey and Certification of Health Care Providers and Suppliers	5,782,711		No
93.778	Medical Assistance Program	2,752,895,158		No
93.959	Block Grants for Prevention and Treatment of Substance Abuse	22,415,776	Yes	
Social Security Administration				
96.001	Social Security – Disability Insurance	38,278,470		No

Additional Block Grants Among Non Major Programs				
Department of Justice				
16.523	Juvenile Accountability Incentive Block Grants	2,634,315	Yes	
16.579	Byrne Formula Grants	7,380,962	Yes	
16.592	Local Law Enforcement Block Grants Program	910,894	Yes	
			Yes	
Department of Transportation				
20.507	Federal Transit-Formula Grants	10,791,834	Yes	
Department of Justice				
84.318	Education Technology State Grants	1,231,722	Yes	
84.365	English Language Acquisition Grants	366,403	Yes	
84.367	Improving Teacher Quality State Grants	11,470,566	Yes	
93.150	Projects for Assistance in Transition From Homelessness	300,000	Yes	
93.569	Community Services Block Grant	10,899,285	Yes	
93.571	Community Services Block Grant Discretionary Awards – Community Food and Nutrition	73,235	Yes	
93.958	Block Grants for Community Mental Health Services	6,091,667	Yes	
93.991	Preventative Health and Health Services Block Grant	1,795,984	Yes	
93.994	Maternal and Child Health Services Block Grant to the States	12,462,437	Yes	
Total Block Grants FY2003 = $891,930,568				
Source: APA Report of the Statewide Single Audit of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2003				

Kentucky							
Year	**Number in Poverty**	**% of U.S. Population in Poverty**	**State's Population**	**State's % of U.S. Population**	**State's Federal Medicaid Expenditures**	**State's % of Federal Medicaid**	**Total Federal Medicaid Expenditures (All States)**
1994	710,000	1.9%	3,843,000	1.5%	$1,344,302,245	1.6%	$83,516,369,179
1995	572,000	1.6%	3,876,000	1.5%	$1,497,212,283	1.7%	$88,908,586,040
1996	658,000	1.8%	3,877,000	1.5%	$1,570,454,738	1.7%	$92,218,964,758
1997	623,000	1.8%	3,913,000	1.5%	$1,730,025,660	1.8%	$95,243,936,016
1998	521,000	1.5%	3,860,000	1.4%	$1,899,727,255	1.9%	$99,266,835,311
1999	467,000	1.4%	3,859,000	1.4%	$2,047,163,230	1.8%	$110,857,460,882
2000	502,000	1.6%	3,995,000	1.4%	$2,276,778,069	1.9%	$120,898,665,587
2001	503,000	1.5%	3,989,000	1.4%	$2,420,270,745	1.8%	$133,579,104,923
2002	571,000	1.7%	4,033,000	1.4%	$2,811,679,199	1.9%	$151,148,749,226
2003	589,000	1.6%	4,100,000	1.4%	$2,842,565,207	1.7%	$167,790,232,644

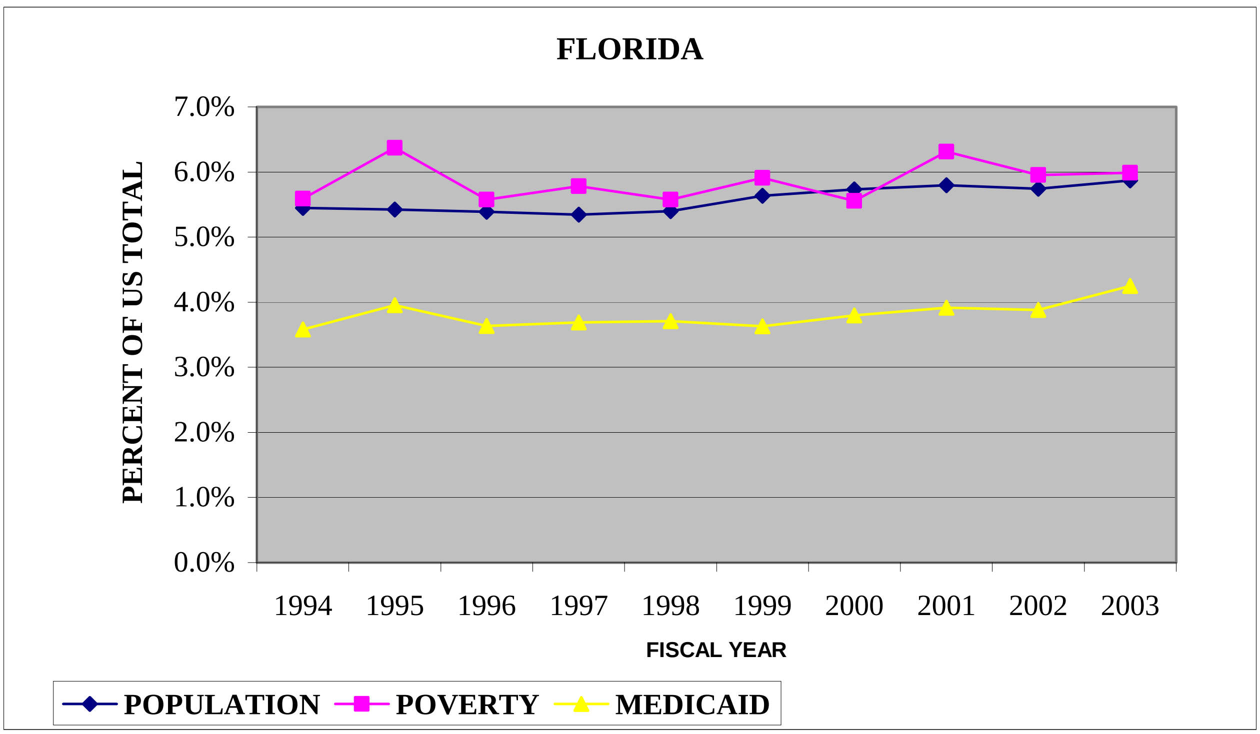


Alabama							
Year	Number in Poverty	%of U.S. Population in Poverty	State's Population	State's % of U.S. Population	State's Federal Medicaid Expenditures	State's % of Federal Medicaid	Total Federal Medicaid Expenditures (All States)
1994	704,000	1.8%	4,299,000	1.6%	$1,301,502,720	1.6%	$83,516,369,179
1995	882,000	2.4%	4,396,000	1.7%	$1,400,077,212	1.6%	$88,908,586,040
1996	595,000	1.6%	4,258,000	1.6%	$1,432,958,489	1.6%	$92,218,964,758
1997	665,000	1.9%	4,243,000	1.6%	$1,560,303,043	1.6%	$95,243,936,016
1998	609,000	1.8%	4,190,000	1.5%	$1,650,816,226	1.7%	$99,266,835,311
1999	668,000	2.0%	4,388,000	1.6%	$1,742,249,124	1.6%	$110,857,460,882
2000	583,000	1.8%	4,376,000	1.6%	$1,996,680,777	1.7%	$120,898,665,587
2001	696,000	2.1%	4,378,000	1.6%	$2,097,733,721	1.6%	$133,579,104,923
2002	640,000	1.9%	4,432,000	1.6%	$2,285,375,989	1.5%	$151,148,749,226
2003	663,000	1.8%	4,417,000	1.5%	$2,610,578,528	1.6%	$167,790,232,644

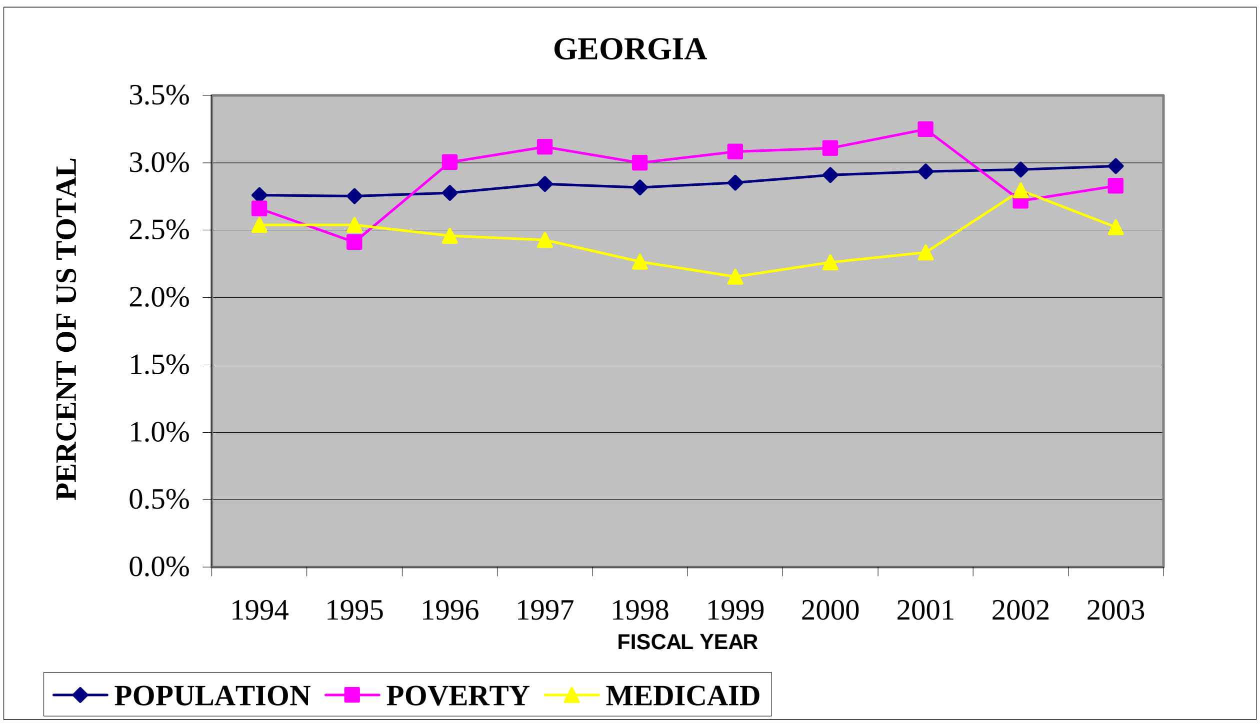


Population, Poverty, and Medicaid Statistics

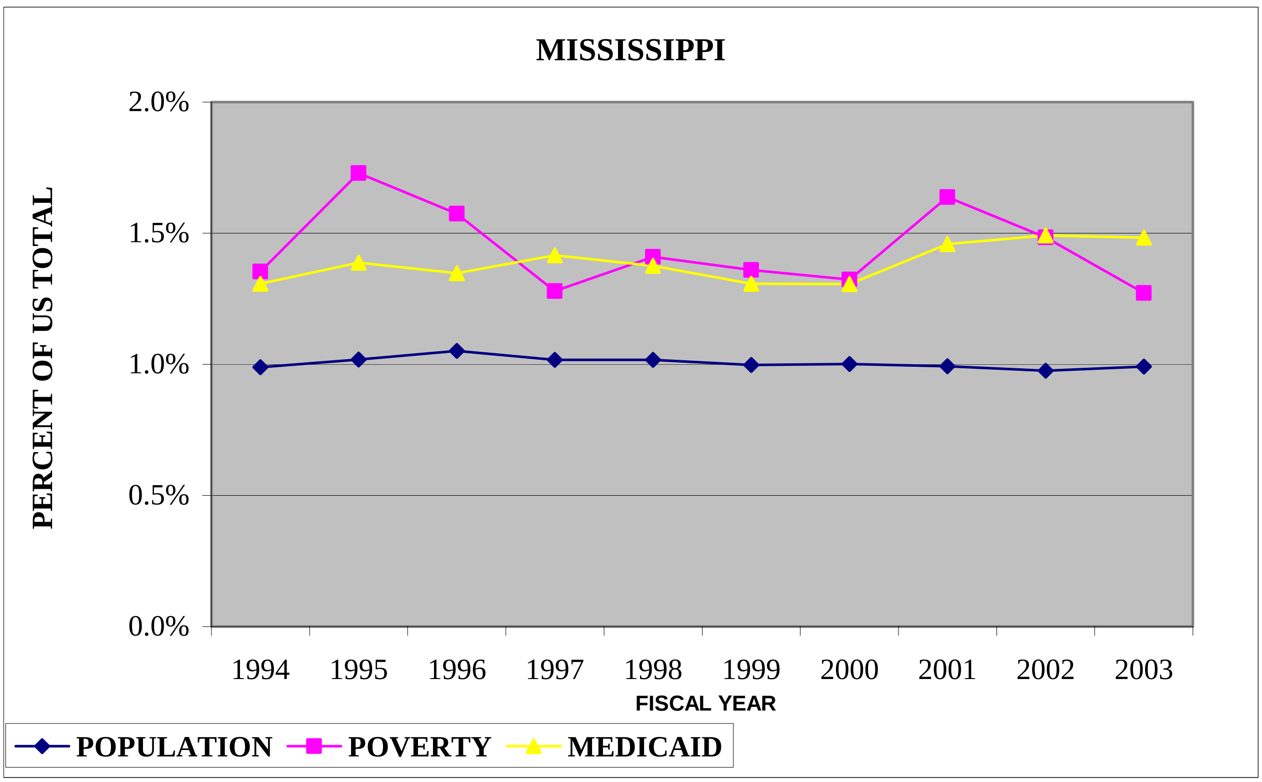
Florida							
Year	Number in Poverty	%of U.S. Population in Poverty	State's Population	State's % of U.S. Population	State's Federal Medicaid Expenditures	State's % of Federal Medicaid	Total Federal Medicaid Expenditures (All States)
1994	2,128,000	5.6%	14,258,000	5.4%	$2,991,502,109	3.6%	$83,516,369,179
1995	2,321,000	6.4%	14,306,000	5.4%	$3,515,186,007	4.0%	$88,908,586,040
1996	2,037,000	5.6%	14,343,000	5.4%	$3,354,143,024	3.6%	$92,218,964,758
1997	2,056,000	5.8%	14,354,000	5.3%	$3,512,197,311	3.7%	$95,243,936,016
1998	1,923,000	5.6%	14,629,000	5.4%	$3,682,725,283	3.7%	$99,266,835,311
1999	1,937,000	5.9%	15,566,000	5.6%	$4,022,028,964	3.6%	$110,857,460,882
2000	1,754,000	5.6%	15,991,000	5.7%	$4,590,349,697	3.8%	$120,898,665,587
2001	2,077,000	6.3%	16,316,000	5.8%	$5,229,680,487	3.9%	$133,579,104,923
2002	2,058,000	6.0%	16,391,000	5.7%	$5,861,990,263	3.9%	$151,148,749,226
2003	2,148,000	6.0%	16,884,000	5.9%	$7,128,039,886	4.2%	$167,790,232,644



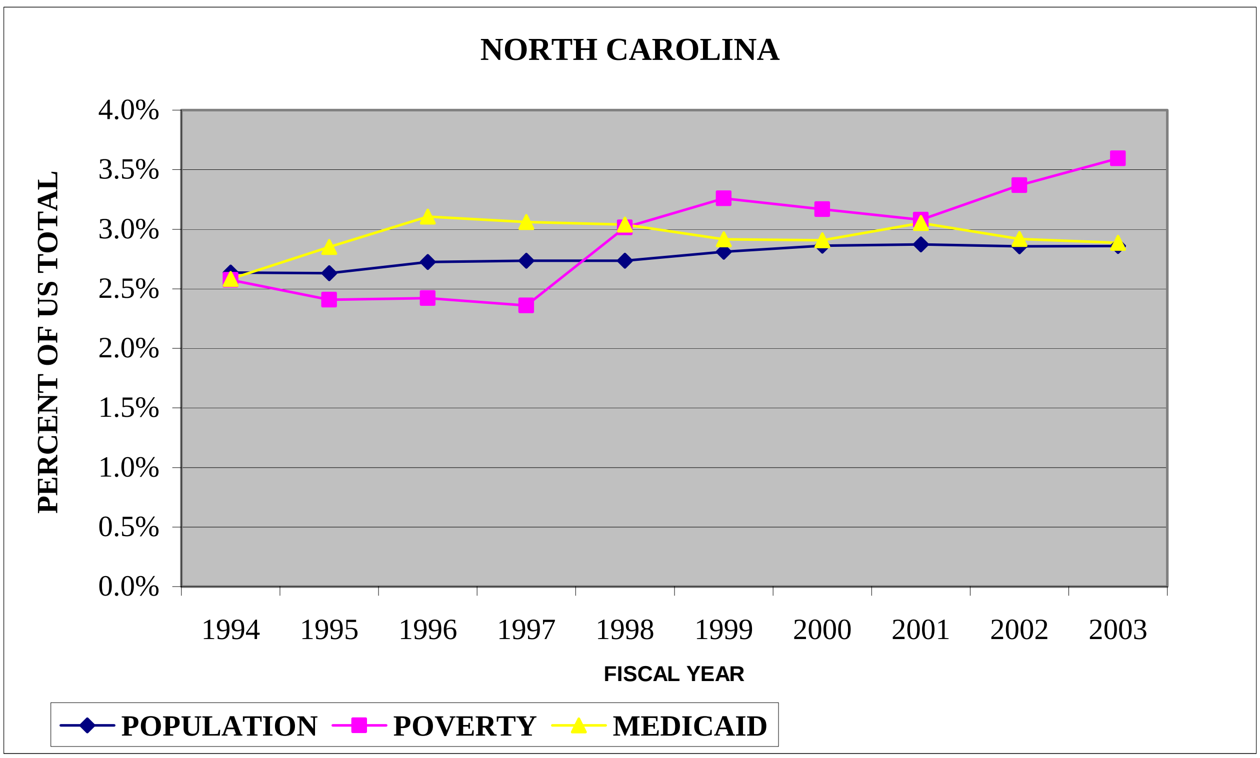
Georgia							
Year	Number in Poverty	%of U.S. Population in Poverty	State's Population	State's % of U.S. Population	State's Federal Medicaid Expenditures	State's % of Federal Medicaid	Total Federal Medicaid Expenditures (All States)
1994	1,012,000	2.7%	7,220,000	2.8%	$2,121,418,486	2.5%	$83,516,369,179
1995	878,000	2.4%	7,262,000	2.8%	$2,257,053,003	2.5%	$88,908,586,040
1996	1,097,000	3.0%	7,390,000	2.8%	$2,265,953,598	2.5%	$92,218,964,758
1997	1,109,000	3.1%	7,631,000	2.8%	$2,311,379,241	2.4%	$95,243,936,016
1998	1,034,000	3.0%	7,634,000	2.8%	$2,249,934,734	2.3%	$99,266,835,311
1999	1,011,000	3.1%	7,877,000	2.9%	$2,388,186,348	2.2%	$110,857,460,882
2000	982,000	3.1%	8,112,000	2.9%	$2,735,337,233	2.3%	$120,898,665,587
2001	1,069,000	3.2%	8,261,000	2.9%	$3,120,055,780	2.3%	$133,579,104,923
2002	939,000	2.7%	8,413,000	2.9%	$4,223,823,481	2.8%	$151,148,749,226
2003	1,014,000	2.8%	8,559,000	3.0%	$4,234,217,440	2.5%	$167,790,232,644



Mississippi							
Year	Number in Poverty	%of U.S. Population in Poverty	State's Population	State's % of U.S. Population	State's Federal Medicaid Expenditures	State's % of Federal Medicaid	Total Federal Medicaid Expenditures (All States)
1994	515,000	1.4%	2,587,000	1.0%	$1,091,445,962	1.3%	$83,516,369,179
1995	630,000	1.7%	2,685,000	1.0%	$1,234,015,700	1.4%	$88,908,586,040
1996	575,000	1.6%	2,797,000	1.1%	$1,242,923,337	1.3%	$92,218,964,758
1997	455,000	1.3%	2,731,000	1.0%	$1,347,949,915	1.4%	$95,243,936,016
1998	486,000	1.4%	2,758,000	1.0%	$1,365,165,478	1.4%	$99,266,835,311
1999	446,000	1.4%	2,755,000	1.0%	$1,448,857,121	1.3%	$110,857,460,882
2000	418,000	1.3%	2,794,000	1.0%	$1,579,406,244	1.3%	$120,898,665,587
2001	539,000	1.6%	2,794,000	1.0%	$1,947,816,031	1.5%	$133,579,104,923
2002	513,000	1.5%	2,785,000	1.0%	$2,254,644,044	1.5%	$151,148,749,226
2003	456,000	1.3%	2,851,000	1.0%	$2,487,528,789	1.5%	$167,790,232,644

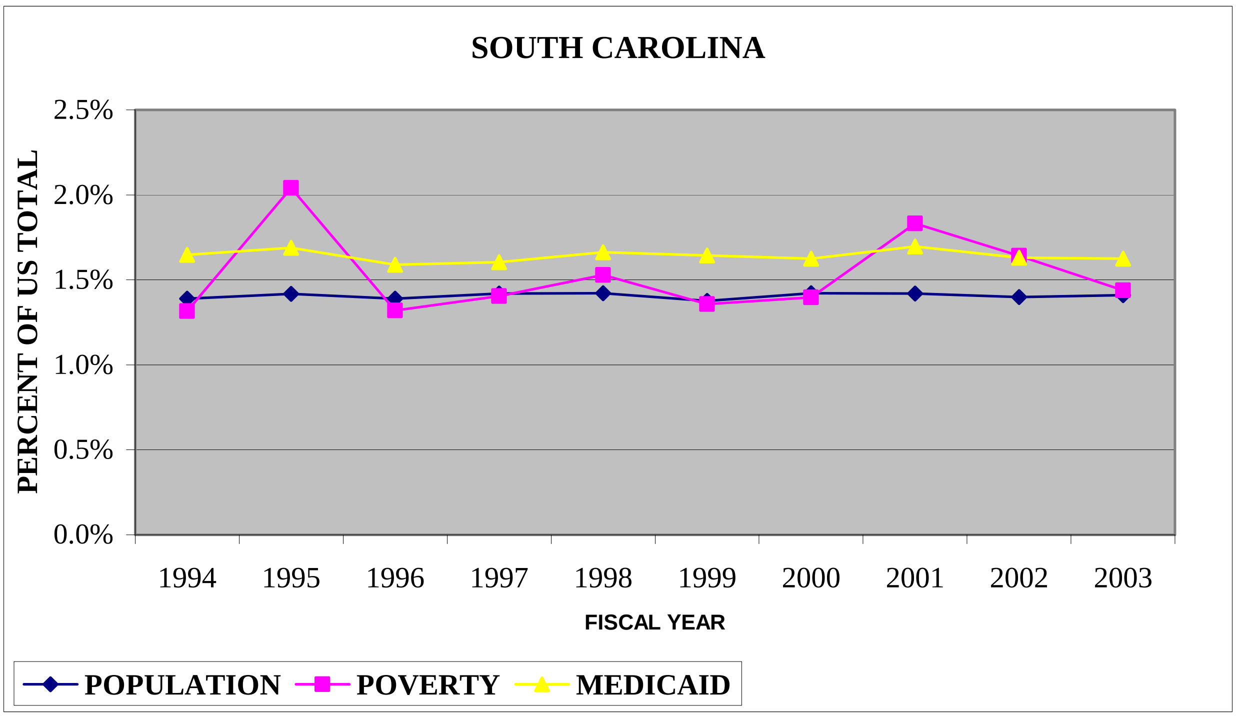


North Carolina							
Year	Number in Poverty	%of U.S. Population in Poverty	State's Population	State's % of U.S. Population	State's Federal Medicaid Expenditures	State's % of Federal Medicaid	Total Federal Medicaid Expenditures (All States)
1994	980,000	2.6%	6,895,000	2.6%	$2,157,636,191	2.6%	$83,516,369,179
1995	877,000	2.4%	6,935,000	2.6%	$2,533,900,684	2.9%	$88,908,586,040
1996	885,000	2.4%	7,254,000	2.7%	$2,864,892,094	3.1%	$92,218,964,758
1997	839,000	2.4%	7,345,000	2.7%	$2,915,087,042	3.1%	$95,243,936,016
1998	1,039,000	3.0%	7,412,000	2.7%	$3,017,003,345	3.0%	$99,266,835,311
1999	1,069,000	3.3%	7,766,000	2.8%	$3,233,346,107	2.9%	$110,857,460,882
2000	1,000,000	3.2%	7,983,000	2.9%	$3,514,856,377	2.9%	$120,898,665,587
2001	1,013,000	3.1%	8,084,000	2.9%	$4,076,307,761	3.1%	$133,579,104,923
2002	1,165,000	3.4%	8,146,000	2.9%	$4,409,361,751	2.9%	$151,148,749,226
2003	1,289,000	3.6%	8,223,000	2.9%	$4,843,979,841	2.9%	$167,790,232,644

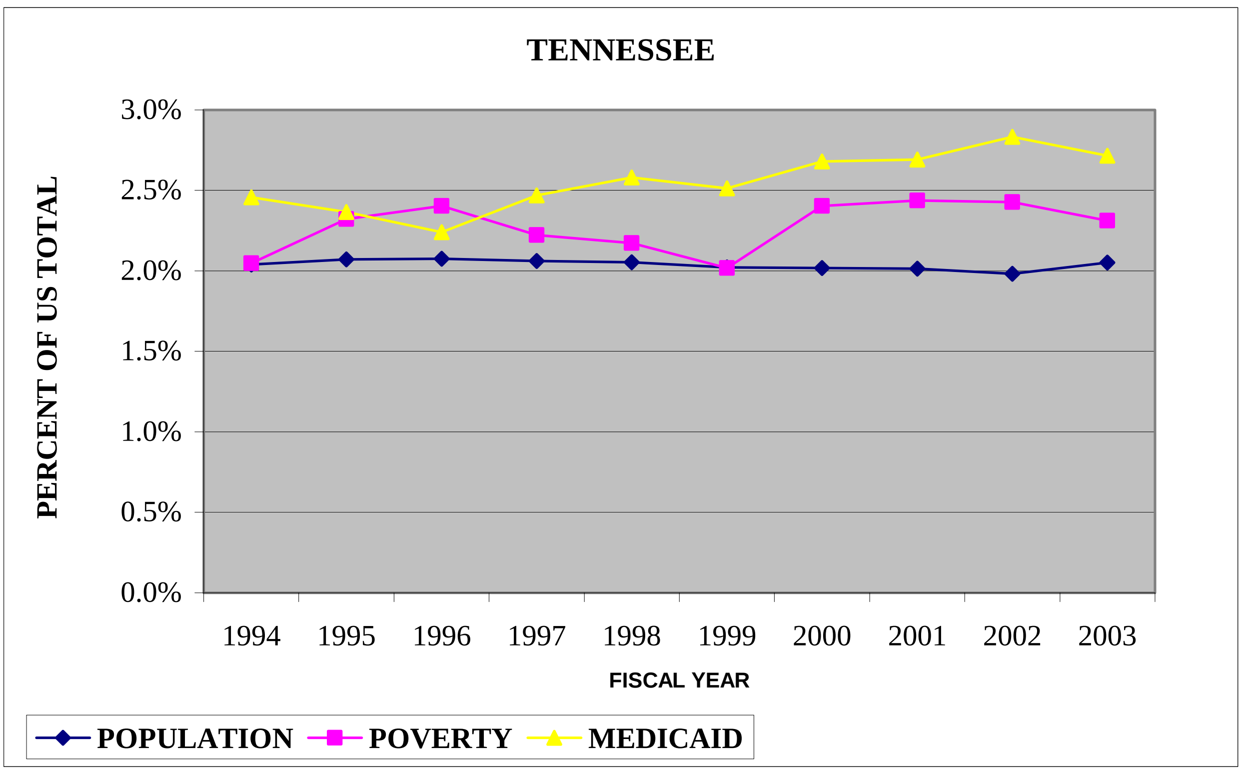


Population, Poverty, and Medicaid Statistics

South Carolina							
Year	**Number in Poverty**	**%of U.S. Population in Poverty**	**State's Population**	**State's % of U.S. Population**	**State's Federal Medicaid Expenditures**	**State's % of Federal Medicaid**	**Total Federal Medicaid Expenditures (All States)**
1994	501,000	1.3%	3,633,000	1.4%	$1,376,410,582	1.6%	$83,516,369,179
1995	744,000	2.0%	3,741,000	1.4%	$1,501,468,751	1.7%	$88,908,586,040
1996	482,000	1.3%	3,698,000	1.4%	$1,466,550,756	1.6%	$92,218,964,758
1997	500,000	1.4%	3,813,000	1.4%	$1,528,023,769	1.6%	$95,243,936,016
1998	527,000	1.5%	3,851,000	1.4%	$1,650,273,214	1.7%	$99,266,835,311
1999	445,000	1.4%	3,800,000	1.4%	$1,821,848,851	1.6%	$110,857,460,882
2000	441,000	1.4%	3,964,000	1.4%	$1,965,153,631	1.6%	$120,898,665,587
2001	603,000	1.8%	3,995,000	1.4%	$2,267,566,993	1.7%	$133,579,104,923
2002	568,000	1.6%	3,989,000	1.4%	$2,465,198,206	1.6%	$151,148,749,226
2003	516,000	1.4%	4,060,000	1.4%	$2,726,783,560	1.6%	$167,790,232,644



Tennessee							
Year	**Number in Poverty**	**%of U.S. Population in Poverty**	**State's Population**	**State's % of U.S. Population**	**State's Federal Medicaid Expenditures**	**State's % of Federal Medicaid**	**Total Federal Medicaid Expenditures (All States)**
1994	779,000	2.0%	5,338,000	2.0%	$2,051,810,400	2.5%	$83,516,369,179
1995	846,000	2.3%	5,462,000	2.1%	$2,104,031,241	2.4%	$88,908,586,040
1996	878,000	2.4%	5,528,000	2.1%	$2,067,013,876	2.2%	$92,218,964,758
1997	791,000	2.2%	5,536,000	2.1%	$2,351,494,416	2.5%	$95,243,936,016
1998	749,000	2.2%	5,569,000	2.1%	$2,560,835,167	2.6%	$99,266,835,311
1999	662,000	2.0%	5,583,000	2.0%	$2,786,391,367	2.5%	$110,857,460,882
2000	759,000	2.4%	5,630,000	2.0%	$3,239,692,726	2.7%	$120,898,665,587
2001	802,000	2.4%	5,670,000	2.0%	$3,595,716,999	2.7%	$133,579,104,923
2002	839,000	2.4%	5,655,000	2.0%	$4,282,837,683	2.8%	$151,148,749,226
2003	829,000	2.3%	5,901,000	2.1%	$4,555,669,794	2.7%	167,790,232,644



Note: OSBD's response references page numbers that do not necessarily correspond to the page numbers of this report once it was printed in its final form

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Bradford L. Cowgill
State Budget Director

March 21, 2005

Ms. Marcia Morgan, Director
Division of Performance Audit
Office of the Auditor of Public Accounts
105 Sea Hero Road, Suite 2
Frankfort, KY 40601

Dear Ms. Morgan:

Thank you for the opportunity to review the draft audit regarding Kentucky's Federal Funds maximization efforts. You will note that most of the comments relate to suggested edits rather than issues of overall content or policy, and many of the edits relate to the summaries compiled by agencies. The Federal Funds review was a significant undertaking and I found the comparisons with other states in the southeast of particular interest. Below you will find my comments.

- Page 26. While this office cannot commit to implementing the recommendations, the recommendations are worthy of serious consideration.

- Page 29, pages 101-112. Were there federal programs in which Kentucky participated, but other states in the region did not participate? If so, that might be worth mentioning, as well as the total annual dollars involved.

  Additionally, merely as an observation: it is interesting to note that for the three states that were significantly higher recipients of federal dollars in our region, each of those could attribute a significant portion of that increase to one grant, and, absent that one grant, none would have been markedly different from their peers in the region. For example, Alabama realized $72 M from the Appalachian Development Highway System Grant—a grant no other state in the region received. Florida received $46 M from the Refugee and Entrant Assistance Program—approximately 7 times more than any other state in the region received. Finally, Georgia received $16 M from Performance Partnership Grants—this is more than double any other state in the region.

Ms. Marcia Morgan
March 21, 2005
Page 2

- Page 38, Recommendation. Suggest the recommendation be modified to read: "We recommend the Kentucky Cabinet for Health and Family Services *continue to* aggressively pursue TANF and Food Stamp bonus payments….."

- Page 48. Suggest the IGT piece be inserted before "Medicaid and the President's Budget".

- Page 54, first full paragraph, last sentence. Based on my understanding (which could be in error), I believe the word "allow" should be replaced with the word "require". Additionally, some mention might be made regarding the impact block granting Medicaid would have on efforts of less wealthy states to expand programs/services in the future.

- Page 59. Some mention of the months in which the state agencies first compiled the data might be in order. Some of the information presented will appear quite dated, simply because of the time required to compile the entire report. The information was current when it was first provided by the agencies.

- Page 65. This is probably not an issue for the auditor, but it appears odd that the Department of Education received $25 M in FY 03 for the Child and Adult Care Food Program and $0 in FY 02 and FY 04. This item might be worth sharing with Petie Day in KDE and/or Ann Guarnieri in the Office of the Secretary of Education. They may wish to offer a footnote or other comment. I faxed this information to them several days ago.

- Page 76, Highway Planning and Construction Grant, Topical Issue. After consulting with the Transportation Cabinet, suggest the topical issue comments be revised to read as follows: "The only issue is related to the Kennedy Bridge Project, for which the original Federal Funds were returned to the Federal Highway Administration. The Kennedy Bridge improvements are presently 100% state funded, but since the Transportation Cabinet has implemented corrective measures improving internal controls, the Federal Highway Administration has indicated that federal funding may again be available for this project."

- Page 81, Topical Issues. The Higher Education Act has been extended through federal fiscal year 2005 (September 30, 2005).

- Page 85, Health and Human Services Issues. Suggest the wording of the first sentence be revised as follows: "HHS represents the *largest and most financially significant* segment of the 12 Major Programs……" (So no one in another program area in state government takes undue offense!!)

Ms. Marcia Morgan
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Page 3

- Page 86, second line. I would spell out TANF the first time it is used and change the date for the Temporary Assistance to Needy Families (TANF) extension to June 30, 2005 since it has just recently been extended.

- Page 87, Administering agency for TANF. Suggest changing this to Cabinet for Health and Family Services, Department for Community Based Services.

- Page 87, Topical Issues. Suggest this be changed to reflect TANF being extended to June 30, 2005 and strike the next two sentences in their entirety simply because they are so time sensitive.

- Page 94, top of page. Spell out CAPTA (Child Abuse Prevention and Treatment Act) and GAL (Guardian Ad Litem).

- Page 96, State Children's Health Insurance Fund, Topical Issues. After the word "funds", add ", the program will have to be modified or discontinued."

- Page 97, Medical Assistance Program, Topical Issues, second sentence. Modify to read as follows: "Another concern is *a proposal to convert* the Medicaid federal award to a block grant….."

- Pages 122-128, column heading should read "State's **Federal** Medicaid Expenditures". My first thought when I first read the chart was that the expenditures were incorrect until I realized that appeared to represent only the federal share. Others with less knowledge of the program would not understand that the figures did not represent total state expenditures.

Once again, thank you for the opportunity to review the draft report. If you have additional questions or require further explanation of the above comments, feel free to contact me.

Sincerely,

Beth Jurek

Beth Jurek
Deputy State Budget Director

C: Brad Cowgill
Bill Hintze
Mary Lassiter

sp/bj/100

Auditor of Public Accounts Information

Appendix X

Contributors To This Report

Crit Luallen, Auditor of Public Accounts

Marcia R. Morgan, Director, Division of Performance Audit
Jettie Sparks, CPA, Performance Audit Manager
Mike Helton, Performance Auditor
Deborah Crocker, JD, MPA, Performance Auditor

Obtaining Audit Reports

Copies of this report or other previously issued reports can be obtained for a nominal fee by faxing the APA office at 502-564-0067. Alternatively, you may order by mail:

Report Request
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visit : 8 AM to 4:30 PM weekdays

email: crit.luallen@auditor.ky.gov

browse our web site: http://www.auditor.ky.gov

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The staff of the APA office performs a host of services for governmental entities across the commonwealth. Our primary concern is the protection of taxpayer funds and furtherance of good government by elected officials and their staffs. Our services include:

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Investigations: Our fraud hotline, 1-800-KY-ALERT (592-5378), and referrals from various agencies and citizens produce numerous cases of suspected fraud and misuse of public funds. Staff conduct investigations in order to determine whether referral of a case to prosecutorial offices is warranted.

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General Questions

General questions should be directed to Jeff Derouen, Intergovernmental Liaison, at (502) 573-0050 or the address above.