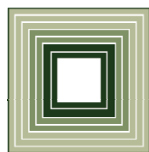


American Reinvestment and Recovery Act and the Education Budget

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FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Overview

Key Takeaways

- Overview of available ARRA education funds
- Competitive Funds – no guidelines yet, but NC could try to position itself favorably
- Categorical Funds – understanding of maintenance of effort (MOE) requirements
- Education Stabilization Fund (ESF)
 - Governor’s use of ESF to meet 08-09 budget shortage
 - General Fund Targets and MOE requirement implications
 - How to budget the ESF

Overview of ARRA Funds in Education Budget

Overview of ARRA Funds

Competitive Funds

- Amounts below to be competed between **all** states
- Guidance expected Summer 2009

	Competitive Funds
State Incentive Fund	\$4,350,000,000
Innovation Fund	\$650,000,000
Teacher Incentive Fund	\$200,000,000
<u>Statewide Data Systems</u>	<u>\$250,000,000</u>
Total	\$5,450,000,000

Source: US Department of Education

Overview of ARRA Funds

Categorical Funds

	FY 2009-10	FY 2010-11
Title I - LEA Grants	\$128,722,478	\$128,722,478
Title I - School Improvement	\$38,649,258	\$38,649,258
IDEA - Part B	\$157,205,020	\$157,205,020
IDEA - Part B (Preschool)	\$6,035,571	\$6,035,571
Education Technology	\$8,188,391	\$8,188,391
<u>Homeless Assistance</u>	<u>\$813,505</u>	<u>\$813,505</u>
Total	\$339,614,221	\$339,614,221

Source: US Department of Education

Overview of ARRA Funds

State Fiscal Stabilization Fund - Estimated North Carolina Distributions

Education Stabilization Fund (81.8%)	\$1,161,931,564
<u>Government Services Fund (18.2%)</u>	<u>\$258,522,671</u>
Total	\$1,420,454,235

Source: US Department of Education

- Two installments:
 - 67% within two weeks of USED receipt of an approvable SFSF application
 - 33% after approval of the State's plan detailing its strategies for addressing the education reform objectives described in the assurances (sometime after 7/1/09)

Competitive Funds

Competitive Funds

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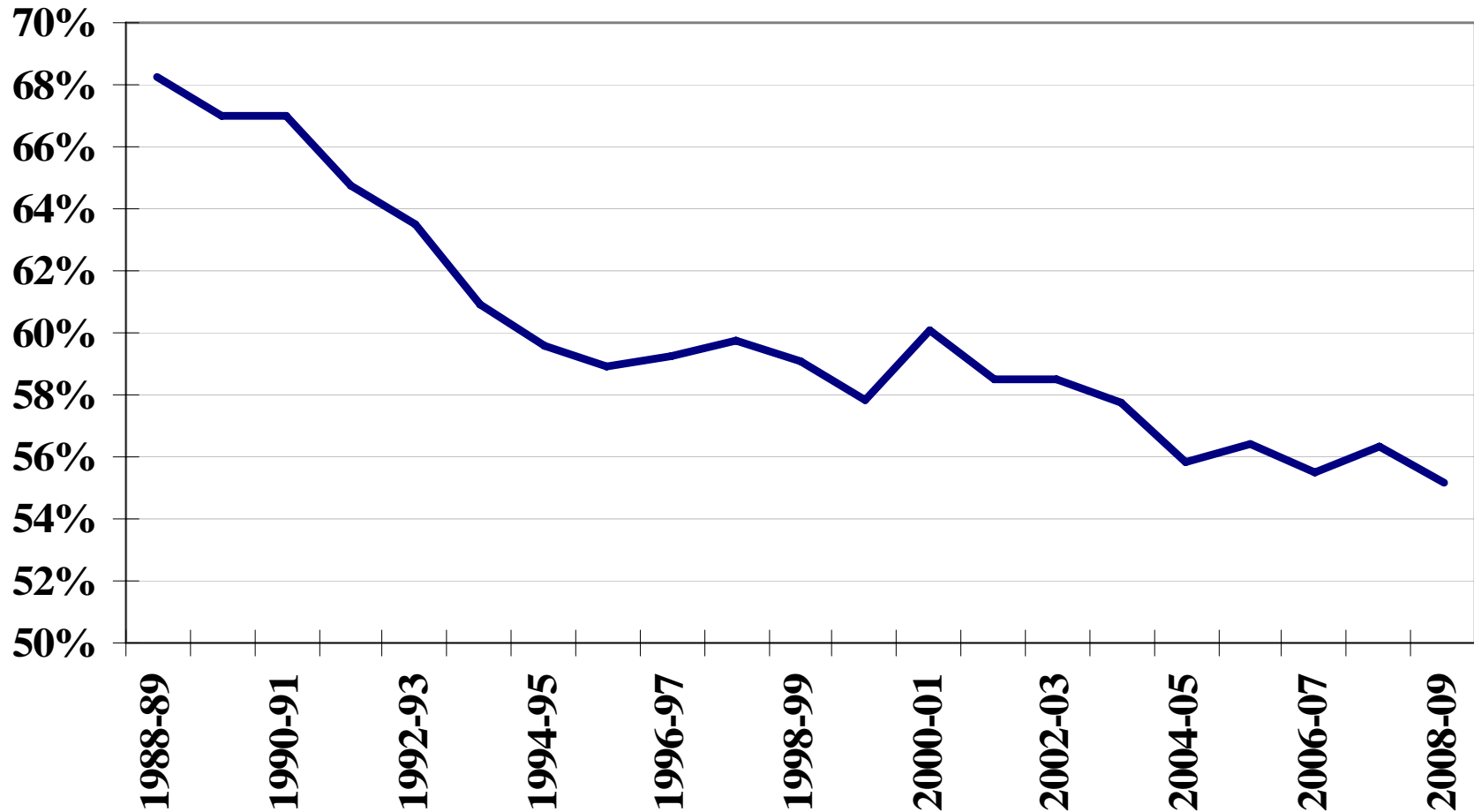
Source: US Department of Education

Competitive Funds

- States should advance the following 4 policy goals
 - Achieving equity in teacher distribution
 - Improving collection and use of data
 - Enhancing the quality of standards and assessments
 - Supporting struggling schools
- Secretary will also consider whether the State
 - Is effectively using other ARRA funds
 - Has reduced the proportion of total State revenues spent on education (see next slide)
- Administration also desires to expand Pre-K within education

Competitive Funds

Education Budget as % of Total General Fund (1998-99 to 2008-09)



Competitive Funds

- **State Incentive Fund (aka “Race to the Top”)** (**\$4.35 bn**) – available to states with strategies to help struggling students close the achievement gap
- **Innovation Fund (\$650 m)** – recognize LEAs or schools closing the achievement gap
- **Teacher Incentive Fund (\$200 m)** – states and LEAs with innovative principal and teacher compensation models
- **Statewide Data Systems (\$250 m)** – grants to help states develop statewide longitudinal data systems

Additional Categorical Funds

Additional Categorical Funds

Overview

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Title I - LEA Grants	\$128,722,478	\$128,722,478
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Source: US Department of Education

- Federal intent (per USED guidance)
 - Implement innovative strategies
 - Serve more students

Additional Categorical Funds

Title I

- Expands existing Title I funding by 44%

	2008-09	2009-10 (est.)	2010-11 (est.)
Title I - LEA Grants	\$365,638,869	\$494,361,347	\$494,361,347
Title I - School Improvement	\$12,282,079	\$50,931,337	\$50,931,337

- **Purpose**

- LEA Grants: supplement State and local funding for low-achieving & high-poverty children
- School Improvement: provides additional resources to those schools identified for school improvement

Additional Categorical Funds

Title I

- **Maintenance of Effort**
 - Applies to LEAs, **not** States
 - Requires an LEA to have combined local and State funding not less than 90% of prior year level
- **Supplement not Supplant**
 - State shall use Title I funds only to supplement, and not supplant, the funds that would, in the absence of the Title I funds, be made available from non-federal sources for the education of Title I pupils
 - Often difficult to apply, little guidance from USED

Additional Categorical Funds

Title I

- State allotments with similar purposes
 - At-Risk Student Services \$226.6 m
 - DSSF \$76.4 m
 - Improving Student Accountability \$38.3 m

Additional Categorical Funds

IDEA

- Expands existing IDEA funding by 59%

	2008-09	2009-10 (est.)	2010-11 (est.)
IDEA	\$269,006,197	\$426,211,217	\$426,211,217
IDEA - Preschool	\$8,315,122	\$14,350,693	\$14,350,693

- Purpose** – support the educational needs and other related services for children with disabilities

Additional Categorical Funds

IDEA

- **LEA Maintenance of Effort**

- If an LEA has an increase in IDEA funds, the LEA may reduce state and local expenditures on special ed. by up to 50% of the IDEA increase
- Must use freed-up money to provide services to other at-risk students
- LEA MOE requirements cannot be waived

Additional Categorical Funds

IDEA

- **State Maintenance of Effort**
 - Cannot reduce State support below prior year expenditures
 - Can be waived if there is "a precipitous and unforeseen decline in the financial resources of the state"
- **Supplement not Supplant**
 - More restrictive than Title I language
- **State allotments with similar purposes**
 - Children With Disabilities \$693.5 m

Additional Categorical Funds

Education Technology

- Expands existing Education Technology funding by 127%

2008-09	2009-10 (est.)	2010-11 (est.)
\$6,420,996	\$14,609,387	\$14,609,387

- Purpose** – support the integration of educational technology into classrooms

Additional Categorical Funds

Education Technology

- **Maintenance of Effort**
 - Same as Title I
- **Supplement not Supplant**
 - Same as Title I
- **State allotments with similar purposes**
 - School Technology (GF appropriation) \$10 m
 - School Technology (Fines & Forfeitures) \$18 m

Additional Categorical Funds

Homeless Assistance

- Expands existing McKinney-Vento Homeless Assistance funding by 64%

2008-09

\$1,264,090

2009-10
(est.)

\$2,077,595

2010-11
(est.)

\$2,077,595

- Purpose** – meet the educational and related needs of homeless students

Additional Categorical Funds

Homeless Assistance

- **Maintenance of Effort**
 - Same as Title I
- **Supplement not Supplant**
 - Same as Title I
- **State allotments with similar purposes**
 - At-Risk Student Services \$226.6 m

Governor's 08-09 use of State Fiscal Stabilization Fund

Overview of State Fiscal Stabilization Fund

State Fiscal Stabilization Fund - Estimated North Carolina Distributions

Education Stabilization Fund (81.8%)	\$1,161,931,564
<u>Government Services Fund (18.2%)</u>	<u>\$258,522,671</u>
Total	\$1,420,454,235

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State Fiscal Stabilization Fund Usage in 08-09

- Governor is planning to use \$400 million of SFSF to meet 08-09 budget shortfall

	Total	June Distribution (67%)	Late Summer Distribution (33%)	Governor's 08-09 Use	Net Availability 09-11 Biennium
Education Stabilization Fund (ESF)	\$1,161,931,564	\$778,494,148	\$383,437,416	\$226,789,810	\$935,141,754
Government Services Fund (GSF)	\$258,522,671	\$173,210,190	\$85,312,481	\$173,210,190	\$85,312,481
Total SFSF	\$1,420,454,235	\$951,704,337	\$468,749,898	\$400,000,000	\$1,020,454,235

- Education Stabilization Fund (ESF)
 - Unclear how Governor will use in 08-09
 - Remainder (\$935 million) appropriated by Ed. Subcommittee
- Government Services Fund (GSF)
 - Remainder (\$85 million) appropriated by JPS Subcommittee

State Fiscal Stabilization Fund Maintenance of Effort

SFSF Maintenance of Effort

- **SFSF MOE requirement:** maintain State education funding above 05-06 levels

House Targets and MOE Requirements: FY 2009-10

	2005-06 Expended Appropriation	2009-10 General Fund Targets*	2009-10 Excluded Budget Items	2009-10 State Support	2009-10 MOE Cushion
K12	6,954,242,208	7,015,829,062	-103,009,104	7,118,838,166	164,595,958
NCCCS	774,265,875	912,633,584	28,961,196	883,672,388	109,406,513
UNC	1,853,325,862	2,574,932,478	429,182,961	2,145,749,517	292,423,655
TOTAL	9,581,833,945	10,503,395,123	355,135,053	10,148,260,070	566,426,125

NOTE: There are no agency-specific targets. Analysis assumes agency targets based on agency share of Continuation Budget.

- If 09-10 General Fund Target apportioned based on 09-10 Continuation Budget percentages, all three satisfy MOE

SFSF Maintenance of Effort

- **SFSF MOE requirement:** maintain State education funding above 05-06 levels

House Targets and MOE Requirements: FY 2010-11

	2005-06 Expended Appropriation	2010-11 General Fund Targets	2010-11 Excluded Budget Items	2010-11 State Support	2010-11 MOE Cushion
K12	6,954,242,208	6,876,124,178	-102,330,734	6,978,454,912	24,212,704
NCCCS	774,265,875	916,428,415	28,980,973	887,447,442	113,181,567
UNC	1,853,325,862	2,550,842,530	429,191,475	2,121,651,055	268,325,193
TOTAL	9,581,833,945	10,343,395,123	355,841,714	9,987,553,409	405,719,464

NOTE: There are no agency-specific targets. Analysis assumes agency targets based on agency share of Continuation Budget.

- If 10-11 General Fund Target apportioned based on 10-11 Continuation Budget percentages, all three satisfy MOE...*barely*
 - Public Schools exceed 05-06 by only \$24 million

SFSF Maintenance of Effort

MOE Takeaways

- Can also look at MOE on a per student basis
 - But you don't want to
- Assumes that there are no pay cuts
 - Each 1% pay cut would reduce agency budgets approximately
 - K-12: \$61.3 million
 - CCs: \$9.0 million
 - UNC: \$23.5 million
- MOE will need to be monitored very closely as proposals are made

Budgeting the Education Stabilization Fund

Budgeting the ESF

Budgeting the ESF Takeaways

- ESF will require offsetting, nonrecurring cuts to GF appropriations
- Allocation of ESF between Public Schools and Higher Ed determined by GF appropriations and federal guidelines
- Pros and cons of appropriating ESF up-front or over biennium
- GA authority over LEA and IHE use of ESF funds
- How to show ESF within budget Committee Report

Budgeting the ESF

Overview

	2009-10	2010-11
Cont. Budget	\$12,344,098,234	\$12,573,704,392
GF Target	\$10,503,395,123	\$10,343,395,123
<u>ESF Availability</u>	<u>\$467,570,877</u>	<u>\$467,570,877</u>
Total Spending	\$10,970,966,000	\$10,810,966,000

- Two rounds of cuts:
 - Recurring cuts to reach “Total Spending” level
 - Nonrecurring cuts to reach General Fund Target

Budgeting the ESF

Determining Allocations of ESF Between Agencies

- Allocation of ESF between Public Schools and Higher Ed determined by
 - Federal guidance
 - General Fund appropriations
- If shortfall, State must use ESF to support public schools and higher ed. “in proportion to their relative shortfall”

	"Fully-Funded Level" (higher of 07-08 or 08-09)	2009-10 State Support	2009-10 Shortfall	2009-10 Share of Shortfall	2009-10 Calculated Distribution
K12	8,375,931,203	7,118,838,166	1,257,093,037	83%	774,930,320
NCCCS	937,591,478	883,672,388	53,919,090	4%	33,238,222
UNC	2,351,725,636	2,145,749,517	205,976,119	14%	126,973,212
TOTAL	11,665,248,317	10,148,260,070	1,516,988,247	100%	935,141,754

Budgeting the ESF

Determining Allocations of ESF Between Agencies

	"Fully-Funded Level" (higher of 07-08 or 08-09)	2009-10 State Support	2009-10 Shortfall	2009-10 Share of Shortfall	2009-10 Calculated Distribution
K12	8,375,931,203	7,118,838,166	1,257,093,037	83%	774,930,320
NCCCS	937,591,478	883,672,388	53,919,090	4%	33,238,222
UNC	2,351,725,636	2,145,749,517	205,976,119	14%	126,973,212
TOTAL	11,665,248,317	10,148,260,070	1,516,988,247	100%	935,141,754

- As GA changes 09-10 State Support, 09-10 Share of Shortfall will also change
- Can look at NCCCS and UNC separately or combined
- GA can appropriate the calculated amounts over the biennium

Budgeting the ESF

Appropriating the ESF Over Biennium

- GA can appropriate ESF over the biennium to avoid “funding cliff”
- Three options:
 - Provide up-front, allow agencies to manage “cliff”
 - Split evenly between 09-10 and 10-11
 - Provide more ESF in 10-11 to account for enrollment increases

Budgeting the ESF

Option 1: Provide All ESF in 09-10

	2009-10	2010-11
General Fund	\$10,503,395,123	\$10,343,395,123
<u>ESF</u>	<u>\$935,141,754</u>	<u>\$0</u>
Total	\$11,438,536,877	\$10,343,395,123

- Pros:
 - Could delay potential lay-offs
 - Allows LEAs/IHEs flexibility to manage individual needs
- Cons:
 - Creates *potential* cliff of \$1.1 billion

Budgeting the ESF

Option 2: Split ESF Evenly Over Biennium

	2009-10	2010-11
General Fund	\$10,503,395,123	\$10,343,395,123
<u>ESF</u>	<u>\$467,570,877</u>	<u>\$467,570,877</u>
Total	\$10,970,966,000	\$10,810,966,000

- Pros:
 - Minimizes cliff
 - Simplicity
- Cons:
 - Requires lay-offs (if any) to take place immediately
 - LEAs/IHEs will still have to manage enrollment growth

Budgeting the ESF

Option 3: Provide ESF to Reflect Enrollment

	2009-10	2010-11
General Fund	\$10,503,395,123	\$10,343,395,123
<u>ESF</u>	<u>\$317,236,770</u>	<u>\$617,904,984</u>
Total	\$10,820,631,893	\$10,961,300,107

- Pros:
 - Mitigates decrease in 2010-11 General Fund
 - Because Total increases with expected enrollment growth, less need for LEA/IHE management of ESF spending
- Cons:
 - Reduces LEA/IHE flexibility
 - Not all LEAs or IHEs growing at some rate

Budgeting the ESF

General Assembly Authority – LEAs

- The General Assembly
 - Determines allocation of ESF between LEAs using primary State funding formulas
 - Can *recommend* uses, but cannot *mandate* uses
- The LEA determines
 - When to expend ESF funds (must be obligated by 9/30/11)
 - What to spend it on (anything permitted under Federal Impact Aid program)

Budgeting the ESF

General Assembly Authority – IHEs

- The General Assembly determines
 - How funds are distributed between IHEs
 - When they have to spend the money
 - What they can spend the money on
- The IHE determines
 - How to spend (and monitor) funds within federal and General Assembly guidelines
- Takeaway: GA can be more proscriptive with IHE usage than with LEA usage

Budgeting the ESF

ESF Committee Report Language

- For each section of Education Budget, separate section for “ESF cuts”
 - Show one or more nonrecurring “ESF cuts” that show how ESF is being appropriated
 - Explicitly state General Assembly intent on usage (non-binding for LEAs)

Budgeting the ESF

ESF Committee Report Language – Public Schools

- GA has to distribute ESF via “primary funding formulae”
- “Primary funding formulae” defined by State application
 - Does not include formulae that only go to select LEAs (Low Wealth, Small County)

Budgeting the ESF

ESF Committee Report Language – Public Schools

Public Education

	FY 09-10	FY 10-11
Adjusted Continuation Budget	\$8,245,341,827	\$8,358,798,223
Legislative Changes		
Application of Education Stabilization Fund		
1 General Fund Reduction to Primary Funding Formulae	(\$387,465,160) NR	(\$387,465,160) NR

Temporarily reduces the State's primary funding formulae, as defined by the provision in Section 7.X of the budget bill, on a nonrecurring basis for both years of the biennium. This reduction will be off-set by the appropriation of the Education Stabilization Fund. It is the General Assembly's intent that LEAs utilize ESF monies to minimize disruption to classroom instruction over the biennium.

- Two-year, nonrecurring cut
- Nonbinding language stating GA intent

Budgeting the ESF

ESF Committee Report Language – Higher Ed

- GA can distribute ESF however it chooses
 - Additional NR “management flexibility” cuts
 - NR cuts to specific programs
 - NR cuts to specific institutions

Budgeting the ESF

ESF Committee Report Language – Higher Ed

UNC System

	FY 09-10	FY 10-11
<i>Adjusted Continuation Budget</i>	\$3,026,185,255	\$3,100,871,575
<i>Legislative Changes</i>		
<i>Application of Education Stabilization Fund</i>		
1 General Fund Management Flexibility Reduction	(\$63,486,606) NR	(\$63,486,606) NR
Provides a two-year, nonrecurring management flexibility reduction. This reduction will be off-set by the appropriation of the Education Stabilization Fund.		

- Two-year, nonrecurring cut
- Rather than management flexibility, could also name specific programs or initiatives

Budgeting the ESF

Budgeting the ESF Takeaways

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Review

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Questions