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Update on the Federal Stimulus Package and Funding to Higher Education

www.cpec.ca.gov • Report 09-19 • June 2009

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On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). The Act commits \$100 billion to education, with \$8.5 billion allocated to California. Education programs to receive funding through ARRA include Local Education Agency Title I Grants, Educational Technology Grants, IDEA Grants, Federal Pell Grants, and Work-Study Programs.

The largest portion of stimulus funds allocated to education is the Fiscal Stabilization Fund, of which California is using \$4.8 billion for education. An important condition attached to stabilization funding is Maintenance of Effort. ARRA requires states to maintain funding for colleges and universities at levels equivalent to that in 2006. Consequently, the exact amount of stabilization funding that California will receive cannot be determined until the 2009–10 state budget is signed and state funding for higher education is finalized.

Budget Reductions and Stabilization Funds

A state budget for the 2009–10 fiscal year was signed into law in February. This called for a one-time reduction of \$255 million each for the University of California and the California State University. Since then, economic conditions have continued to deteriorate and the May 19 ballot measures that were intended to allow for an increased rainy day fund and other revenue proposals failed to pass. As a result of the worsening crisis, UC and CSU will face greater budgetary reductions.

Some actions being considered would affect current-year funding and would interact with the planned usage of federal stimulus funds. The Governor's May budget proposal calls for State General Fund spending for UC and CSU to be reduced by nearly \$3 billion for the current and upcoming budget years. UC and CSU will each receive an estimated \$640 million in stabilization funds to help backfill reductions in state funding. The Legislature is expected to approve a budget by the end of June, but until this is finalized, the exact allocations of stimulus funds needed to comply with the federal requirements of the ARRA will remain unknown.

The most recent budget proposal for the community college system reduces current and budget year spending by nearly \$820 million. The latest community college estimate is that \$130 million in stabilization funds will offset a small portion of this reduction.

The impact of the budget crisis on higher education is expected to be more far-reaching than what is reflected in General Fund cuts. The systems will also face budget shortfalls resulting from the state not fully funding student enrollments or inflationary increases to general operating expenses.

UC and CSU estimate that the actual impact for the 2009–10 fiscal year will be \$531 million and \$844 million, respectively.

In addition to reduced General Fund support, the community colleges are likely to take a large hit from local funding sources. Stabilization funding cannot supplant local district support such as property tax revenues. Financing that cannot be backfilled by stabilization funds accounts for over 40% of community college funding.

Maintenance of Effort and Base Funding

The Fiscal Stabilization Fund has a number of guidelines for calculating the Maintenance of Effort (MOE) base 2006 state funding level. The base funding must exclude any state support to private institutions and local funds such as community college districts’ property tax revenues. It must also exclude fees paid by students and support for capital projects and research and development. Stabilization funds cannot be used to supplant private donations or corporate contributions, or to replace revenues from sources such as state lotteries or tobacco settlements.

The 2005–06 General Fund figure used as California’s MOE base funding is the combined total for the three higher education systems. In theory, one or more systems could be funded below its individual 2005–06 level as long as the combined total does not fall below the total General Fund allocation to higher education for 2005–06. As shown in the table, UC and CSU funding levels for 2009–10 fall very close to their 2005–06 levels, without falling below the threshold.

Base Funding Comparison

	General Fund Allocation		
	2005–06	2008–09	2009–10
	billion \$		
University of California	\$2.8	\$3.1	\$2.9
California State University	\$2.6	\$2.9	\$2.7
California Community Colleges	\$3.4	\$4.3	\$4.6
Total higher education	\$8.8	\$10.3	\$10.2

Reaction from the Higher Education Systems

Chancellor Charles Reed of CSU and President Mark Yudof of UC each expressed concern, through statements in various public venues and media, for their systems’ ability to properly serve students in the face of such drastic budget reductions. Both systems have implemented cost-saving plans to address the base funding cuts applied earlier in the fiscal year. CSU applied salary and hiring freezes for some administrative positions and is restricting equipment, supply and travel purchases. UC has also put into action salary freezes and purchasing restrictions, in addition to a \$60 million downsizing effort at the Office of the President. Both CSU and UC have reduced the number of entering students for 2009–10. CSU will increase fees by 10% and UC by 9.3%.

The community colleges Chancellor's Office has expressed concern for the impact that the budget cuts will have on students and families who rely on community colleges as a low-cost means for obtaining their education. The Chancellor's Office estimates that the cuts will translate to a loss of 250,000 students. It notes that such a loss is likely to create a devastating ripple effect in supplying workforce needs.

The Stimulus Package and Federal Loan Proposal Models

The ARRA proposes \$20 billion cost savings over five years through elimination of the Federal Family Education Loan program, restructuring student loan programs with administrative changes, eradicating subsidies for lenders and guaranty agencies, and subjecting loan servicing to a more competitive bidding process.

Sallie Mae, the National Association of Student Loan Administrators (NASLA), and the National Association of Student Financial Aid Administrators (NASFAA) have introduced counterproposals. The NASLA proposal estimates an annual savings of \$522 million. The Sallie Mae and NASFAA proposals have not provided savings estimates, but with the NASFAA as the only counterproposal to eliminate the lender and guaranty subsidies, it is likely to be the closest savings comparator to the ARRA proposal.