



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 California education expected to receive over \$8.5 billion. Education programs to receive funding through ARRA include Local Education Agency Title I Grants, Educational Technology Grants, IDEA Grants, Federal Pell Grant, and Work-Study Programs. While funds for the Pell Grant and Work-Study programs are definitively directed toward higher education, it is difficult to determine the extent to which other parts of the education stimulus package will benefit higher education.

The State Fiscal Stabilization Fund

The largest part of the education stimulus package is the State Fiscal Stabilization Fund, of which California's slice is nearly \$6 billion. The fund is split into two categories: the Education Block Grant and the Flexible Block Grant.

The Education Block grant accounts for 81% (\$4.8 billion) of the funding and is to be used for maintaining the fiscal support at the support level equivalent to 2006.

The Flexible Block Grant accounts for the remaining portion of the fund and may be used by states for additional education funding or can be applied to other areas of government needing additional federal assistance.

Since the stabilization fund will be shared by P-12 and higher education based on maintaining funding levels, it is difficult to estimate the amount that higher education will receive.

A rough estimate of the portion of the stabilization fund that will go to higher education can be based on the Governor's budget veto message dated

California's Share of Education Funding in the 2009 American Recovery and Reinvestment Act

Higher Education	Federal Pell Grants	\$2.8 billion
	Federal Work Study	\$20 million
Elementary and Secondary Education	IDEA Part B Grants to States	\$1.2 billion
	Title I Grants to Local Educational Agencies	\$1.1 billion
	Educational Technology State Grants	\$70 million
Both — shares unknown	State Fiscal Stabilization Fund	\$5.9 billion
	Other*	\$160 million

*Includes Vocational Rehabilitation State Grants, Independent Living State Grants, Services for Older Individuals who are Blind, IDEA Part B Preschool Grants, and IDEA Part C Grants for Infants and Families.

Source: U.S. Department of Education. American Recovery and Reinvestment Act State Tables.

February 20, 2009. Regarding the University of California and California State University, the Governor stated:

I am reducing this item by an additional \$255,000,000 on a one-time basis to achieve General Fund savings. This unallocated reduction will be offset by federal funds the state will receive as part of the Federal American Recovery and Reinvestment Act. Consequently, this veto will not impact the University's core instructional functions. In addition, the increase in funding for federal Pell Grants contained in the Act will provide further relief to the University.

This statement can be interpreted as a commitment by the Governor to apply at least \$510 million of the stabilization fund to UC and CSU in order to maintain previous funding levels.

Other Provisions in the American Recovery and Reinvestment Act

- *Pell Grants and Work-Study.* California will receive \$2.8 billion funding for increased Pell Grant benefits, expanding both the award amount and the number of recipients. Although it is unclear the number of additional California students to be served by the increased number of awards (800,000 nationwide), the award amount will increase by \$500. Work-Study program funding will increase by \$20 million in California; nationally, work-study programs will expand to include 130,000 more students. It is unknown how many additional California students will benefit from the increase.
- *Income Tax Credits.* Students from low-income families will benefit from the American Opportunity Tax Credit which replaces the Hope Credit. Under the Hope Credit, a student from a family earning less than \$26,000 could not qualify for the credit because a family in that income bracket had little or no federal income tax liability. The new tax credit gives lower-income families a refundable credit of \$1,000. The Center on Budget and Policy Priorities, a Washington research group, estimates that about 520,000 California students will benefit from this tax credit.
- *Federal Loans.* New methods of administration for the Family Federal Education Loan (FFEL) program and Perkins Loan program will create efficiencies that will, in turn, be reinvested in aid to students. An estimated savings of \$24 billion will come from ending entitlements for financial institutions that participate in the FFEL programs. Administration of the Perkins Loan program will be shifted from colleges and universities to the Department of Education, resulting in an estimated \$3 billion in savings.

Effect on California Higher Education

With the largest portion of the education stimulus package contained in the State Fiscal Stabilization Fund, to be allocated between K-12 and higher education at the Governor's discretion, it is too early to know specific details on how higher education will be affected by the federal aid package. The state budget agreements include provisions whereby \$1.8 billion in planned income tax increases and \$948 million in adopted spending cuts will be rescinded if California receives \$10 billion in federal stimulus funds. As the situation solidifies in the coming weeks, staff will be better able to provide the Commission with more in-depth analysis of the ARRA and its benefits to California higher education institutions and the students they serve.