

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: February 19, 2009
TO: Members of the Senate
FROM: Gary S. Olson, Director
RE: State Funding for K-12 School Districts and Higher Education

The \$787.0 billion American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law on February 17, 2009, by President Barack Obama. The ARRA contains many provisions that will have an impact on the Michigan budget. Among these provisions are Federal requirements regarding the level of State appropriations for K-12 school districts, universities, and community colleges. This memorandum provides an update on the provisions of the ARRA and explains what impact these provisions will have on the State funding levels of K-12 school districts, universities, and community colleges.

One of the major provisions of the ARRA is \$53.6 billion of Federal funding for the State Fiscal Stabilization Fund (SFSF). The SFSF will result in an estimated \$1.8 billion of Federal funds passed down to the State of Michigan to be used to help balance the State budget. The language in the ARRA directs Michigan as to how these funds are to be distributed and places conditions on the use of these new Federal funds.

The language in the SFSF section of the ARRA provides overall funding guarantees for K-12 school districts, universities, and community colleges in FY 2009-10 and FY 2010-11. Specifically, the language mandates that funding for K-12 school districts through a State funding formula, operations funding for universities and community colleges in FY 2009-10 and FY 2010-11 shall be at least at the level of funding provided in FY 2008-09. The Senate Fiscal Agency interprets this provision to guarantee the K-12 foundation allowance in FY 2009-10 and FY 2010-11 cannot be reduced below the level of the foundation allowance received by school districts during FY 2008-09. In terms of higher education and community college funding, the SFA interprets the provision to guarantee that the operations funding levels for each university and community college in FY 2009-10 and FY 2010-11 cannot be reduced below the operations funding level received by universities and community colleges during FY 2008-09.

On February 12, 2009, Governor Granholm presented to the Legislature her budget recommendations for FY 2009-10. Among the recommendations in the Governor's budget was a proposed \$59 reduction in the K-12 foundation allowance and a proposed average 3.2% reduction in the operations funding for universities. The Governor's recommendation did not include operations funding reductions for community colleges. Based on the funding guarantees in the ARRA, it appears that the Legislature will not be able to enact the reductions in the K-12 foundation allowance and operations funding for universities included in the Governor's budget recommendation.

During the legislative debate over the FY 2009-10 State budget, the Legislature will be forced to follow the provisions of the ARRA dealing with the funding guarantees for K-12 school districts and universities. These provisions of the ARRA would allow the Legislature to enact FY 2009-10 reductions to the K-12 foundation allowance and university operations from *State* revenue sources. However, the level of total appropriations for the K-12 foundation allowance and universities operations could not be reduced. The Federal revenue from the ARRA then would be added to the appropriations from State revenue sources bringing the total appropriations to the FY 2008-09 State funding levels.

The funding guarantees in the ARRA for K-12 school districts, universities, and community colleges do not apply to all of the current funding in these budgets. The Senate Fiscal Agency believes that the Legislature, in FY 2009-10, could reduce categorical grants in the K-12 School Aid budget below the FY 2008-09 funding levels, since categorical grants are not necessarily part of the "State's primary elementary and secondary funding formulae". The Senate Fiscal Agency also believes that nonoperations funding for universities could be reduced. This funding is the \$224.9 million of funding appropriated in the FY 2008-09 Higher Education budget for grants and financial aid programs.

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