

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: March 12, 2009
TO: Members of the Michigan Senate
FROM: Kathryn Summers-Coty, Chief Analyst
RE: Estimates of School District Funding from the Federal Stimulus Package

On February 26, 2009, the Senate Fiscal Agency (SFA) published estimates of the amounts of certain Federal funds that could be allocated to individual school districts as a result of the enactment of the Federal American Recovery and Reinvestment Act (ARRA). The four categories of funding estimated were Title I, Special Education, Education Incentive grants, and virtually unrestricted Stabilization Funds. The report can be found at:

<http://www.senate.michigan.gov/sfa/main/K12Grants.pdf>

According to a number of recent published reports, it appears that there is a perception that the SFA estimates of these stimulus funds that will go to schools are being viewed as final allocations, rather than estimates. While the SFA analysis indicated an estimated amount for each school using a specific set of assumptions (outlined on the second page of the report), there are a number of factors that could significantly affect the estimates.

Specifically, the Title I and Special Education figures are accurate on a statewide basis, though school district allocations will differ, once complete formula data are available. The estimates for the Education Incentive grants used an assumption that the State would be awarded a competitive grant based on population, and half of that grant amount would be distributed to districts (per the ARRA). Therefore, these grants are true estimates, and there are no recent data or indications to change these numbers at this time, but they may change in the future.

Turning to the stabilization funds, the estimates for these grants to school districts could change substantially from the figures shown on the analysis. Since the time of the original report, there are three major factors, discussed below, which could reduce the estimates of the stabilization funds for schools, which totaled more than \$1.1 billion in the original analysis. Below are highlighted these three factors that could significantly reduce the estimates.

- **Declining State revenues.** The February 26, 2009, analysis only assumed the necessity of restoring the Governor's proposed K-12 foundation allowance cuts (about \$113.0 million) and the 3% cuts to universities (about \$81.0 million), which used the January revenue estimates as the base. As has been reported, January and February actual revenue collections were about \$200.0 million below the amount forecasted just two months ago. If this trend continues, more of the stabilization funds are likely to be required simply to shore up existing State funding levels, both in the current year and in fiscal year 2010. In addition, depending on the State's revenue situation, the State may need to set aside a portion of the stabilization funds in order to maintain guaranteed funding levels in fiscal year 2011. Each dollar used in this manner means a direct reduction in the amount of stabilization funds estimated to go out to school districts.

- **Higher Education Funding Guarantee.** The SFA analysis assumed that only \$81.0 million would be required to meet the funding guarantee for higher education, such that funding for universities and community colleges in fiscal years 2010 and 2011 couldn't be below the current-year level. However, there has been some discussion of an interpretation that universities and community colleges would receive their fiscal year 2008 (instead of 2009) funding levels, which were significantly higher due to the repayment of the August 2007 funding delay in fiscal year 2008. If this proposal is adopted, then \$506.0 million more would be paid to higher education, thereby reducing the stabilization fund estimates shown for school districts by 46%.
- **Other Funding Appropriated in Next Year's K-12 Budget.** Since the upcoming year's budget has not yet been enacted, the final appropriations will end up determining the net shortfall in State funding which will be "backfilled" with Federal stimulus dollars. If a budget is enacted which restores more than the \$113.0 million in foundation allowance cuts assumed in the SFA analysis, then each dollar spent on other K-12 initiatives will reduce the amount of stabilization funds flowing out to districts.

Therefore, given the unpredictability of the factors outlined above, schools in your Senate district should use caution when reviewing the estimated allocations of the specified Federal grants, particularly the estimates shown for the stabilization fund dollars. The numbers in the SFA report represent the maximum amount that could be received, if the assumptions originally used prove accurate. However, there is the potential for a "perfect storm" such that, given the continually changing economic and revenue climate, higher education funding potential, and final budget appropriations, the stabilization fund grants are virtually eliminated.

If you have any questions on the original analysis, or the information provided in this memo, please don't hesitate to call.

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c: Gary S. Olson, Director
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