

Update of the State Fiscal  
Stabilization Fund (SFSF)  
- Education  
American Recovery and Reinvestment  
Act of 2009

Presented to Senate Finance Subcommittee  
on Education  
January 21, 2010

Dan Timberlake, Department of Planning and Budget

# Education SFSF = \$983.9 Million

- Education SFSF available in two phases
  - Phase I = \$659,190,155 (67 percent)
  - Phase II = \$324,675,748 (33 percent)
- To date Virginia has only received approval for Phase I
- Phase II application has been filed by the Virginia Department of Education
- Phase II funding will come in stages
  - 75 percent based on the submission of a complete application
  - 25 percent based on a thorough review of the application by USED

# Virginia's Distribution

- U.S. Department of Education (USED) guidelines: The Governor must use the Stimulus funds to restore funding back to FY 2009 or FY 2008 levels of state support, whichever is greater.
  - For Virginia: FY 2009 was greater.
- Restoration is based on a calculated difference between Chapter 879 for FY 2009 and the FY 2010 budget.

# Maintenance of Effort (MOE)

- USED guidance: States must provide support to K-12 and higher education from state funds at a level that equals or exceeds FY 2006 levels.
- Federal guidelines provide an option for states to seek a waiver from the MOE requirement.
- The original proposed September reductions pushed higher education below the FY 2006 level.
- MOE waiver:
  - States may apply for a waiver on an annual basis.
  - State level support for K-12 and higher education as a percentage of total state revenue must equal or be greater than the prior year in which the waiver is sought.
    - For example, if Virginia applied for a waiver in FY 2010, the level of state support provided for K-12 and higher education as a percentage of total state revenues cannot be lower than FY 2009.

# Budget Actions

- Following the release of Governor Kaine's September reduction plan, a revised application and MOE waiver request were submitted to USED.
- Fall guidance from USED:
  - Preliminary approval will be given based on the application – but no promises of final approval.
  - Approval of a waiver is granted after the close of the fiscal year
  - Actual revenue and expenditures are used to measure state level support.
- As a result of the new guidance received from USED, the MOE waiver application was withdrawn.

# Budget Actions (continued)

- However, Virginia revised its initial application to include financial aid dollars for higher education based on revised guidance previously released by USED in July 2009.
- To maintain state level support above the FY 2006 level, the introduced budget restores \$150 million of the \$197 million reduction proposed in September.
- To maintain the balance required in the September reduction plan, a like amount of general fund reduction was transferred to K-12.
- To help alleviate this reduction for K-12, \$150 million in SFSF funds was provided.
- This required a reduction of \$51.7 million from the original \$126.7 million in SFSF money allocated to higher education in Chapter 781.

# SFSF Distribution

		FY 2010	FY 2011	Total	%
<b>1 Initial Assumptions (2009 Session)</b> Assumed equal distribution among years and Governor's introduced budget for restoration	K-12	\$365.2	\$365.2	\$730.4	74%
	Higher Ed	\$126.7	\$126.7	\$253.5	26%
	Total	\$491.9	\$491.9	\$983.9	100%
<b>2 Distribution - (May 2009)</b> USED guidelines - must restore one year at a time and Chapter 879 for restoration target	K-12	\$365.2	\$292.9	\$658.1	67%
	Higher Ed	\$126.7	\$199.1	\$325.8	33%
	Total	\$491.9	\$491.9	\$983.9	100%
<b>3 Distribution - (September 2009)</b> USED revised guidelines allow s the inclusion of financial aid	K-12	\$434.1	\$165.3	\$599.4	61%
	Higher Ed	\$218.3	\$166.2	\$384.5	39%
	Total	\$652.4	\$331.5	\$983.9	100%
<b>4 Introduced Budget (2010 Session)</b> Transfers \$150 million in reductions to K-12	K-12	\$584.2	\$126.4	\$710.5	72%
	Higher Ed	\$75.0	\$198.3	\$273.3	28%
	Total	\$659.2	\$324.7	\$983.9	100%

Amounts shown in millions

# SFSF Distribution Based on the Introduced Budgets (HB/SB 29 and SB/SB30)

	<b>FY 2010</b>	<b>FY 2011</b>	<b>Total</b>	<b>%</b>
K-12	\$584,173,737	\$126,372,427	\$710,546,164	72%
Higher Education	\$75,016,418	\$198,303,321	\$273,319,739	28%
<b>Total</b>	<b>\$659,190,155</b>	<b>\$324,675,748</b>	<b>\$983,865,903</b>	<b>100%</b>

- The FY 2010 K-12 amount includes the \$365 million allocated by the 2009 General Assembly, \$69 million resulting from the September reductions and \$150 million from the higher education reduction transfer.

- The FY 2010 SFSF allocation has been limited to the available funding of Phase I.

# Other Points to Consider

- The MOE requirement is still in effect for FY 2011.
- Since the restoration of SFSF money is based on a calculated difference between FY 2009 and FY 2010, actions to the FY 2010 budget will impact the split between K-12 and higher education as well the distribution of SFSF money between the years.
- USED guidance provides the Governor the authority to decide when to distribute the funds.
- Unlike K-12, the Governor can restrict the use and disbursement of SFSF money for higher education institutions.
- Tuition and fee revenue cannot be included in calculating the state level support amount.
- The maximum that the K-12 budget could be further reduced in general fund support beyond the introduced budgets before falling below the MOE is approximately \$195 million in FY 2010 and \$393 million in FY 2011.