

Fiscal Stabilization Funds American Recovery and Reinvestment Act (ARRA) of 2009

- Fiscal Stabilization Funds refers to one pot of increased federal funding that became available to the States as part of ARRA.
- Minnesota's allocation of Fiscal Stabilization funds totals \$816.5 million, of which \$667.9 (81.8%) must be used for education (K-12 and/or higher education) and \$148.6 (18.2%) is available for general purposes including education.
- To access any of the \$816.5 million, Minnesota must demonstrate that it meets certain maintenance of effort (MOE) funding levels in K-12 and Higher Education for 2009, 2010, and 2011.
- Minnesota's general fund support for K-12 and Higher Education cannot go below 2006 funding levels. Federal law leaves some flexibility as to how MOE compliance is calculated (i.e. on entitlement basis -v- appropriations basis) and what K-12 programs are included in the definition of general support (i.e., general education formula, special education, other programs)¹.
- Upon receiving the Fiscal Stabilization funds, federal law requires that the education funds (81.8% or \$667.9) first be used to restore K-12 and Higher Education funding levels for 2009, 2010, and 2011, to the higher of FY2008 or FY2009.
- Federal guidance clarifies that when restoring K-12 and Higher Education funding levels, each year must be restored sequentially, first 2009, then 2010, and then 2011. To the extent Fiscal Stabilization funds are not needed to restore funding levels, the funds may be used to enhance K-12 and Higher Education funding.
- The Governor's December 2008 unallotments included reductions of \$40 million to Higher Education institutions for FY 2009. In order to restore FY 2009 funding levels to the higher of FY2008/09, the first \$30.546 million of Fiscal Stabilization funds must be used to restore a portion of those unallotments. \$637.3 million of 'education' Fiscal Stabilization funds remain after the 2009 restoration for higher education.
- If the 'education' Fiscal Stabilization funds remaining available are less than the amounts needed to restore general fund support for both K-12 and higher education to the higher of FY2008/09 for each of FY2010 and FY2011, then federal law requires that the Fiscal Stabilization funds be allocated to K-12 and Higher Education in proportion to the shortfall in each area. Shortfall is defined as the difference between the general fund support level (after budget cuts) the higher of FY2008/09. Therefore, this amount could/would differ from the

¹ Minnesota's preliminary application specified the use of entitlements to calculate MOE. The Governor recommended defining 'general support' as general and special education with certain additional items.

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difference between general fund support after budget cuts and the February forecast base.

Observations:

1. Both the Governor and House had no net reductions to Higher Education institutions or E-12 Education under the ARRA guidelines and both used stabilization funds to maintain funding at the 2010-11 levels. The proportionate restoration guidelines did not apply.
2. Both the Governor and House made the maximum reduction in state funding to the higher education institutions in FY 2010-11 and replaced that reduction with stabilization funds.
3. After use of stabilization funds, the Senate had net reductions in funding for both Higher Education institutions and E-12 Education; this triggered the federal requirement to use stabilization funds to proportionately restore funding by fiscal year to the higher of FY 2008 or FY 2009 levels.