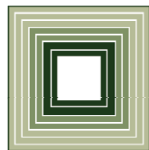


# **Education Stabilization Fund and the 09-11 Budget Process**

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# Overview

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## Key Takeaways

- Governor's 08-09 use of State Fiscal Stabilization Fund (SFSF)
- How General Fund Targets relate to required Maintenance of Effort (MOE) levels
- Budgeting the Education Stabilization Funds (ESF)
  - Decisions that the General Assembly controls
  - Budgeting constraints imposed by federal guidelines

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# Governor's 08-09 use of State Fiscal Stabilization Fund

# Overview of State Fiscal Stabilization Fund

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## State Fiscal Stabilization Fund - Estimated North Carolina Distributions

Education Stabilization Fund (81.8%)	\$1,161,931,564
<u>Government Services Fund (18.2%)</u>	<u>\$258,522,671</u>
<b>Total</b>	<b>\$1,420,454,235</b>

Source: US Department of Education

- Two installments:
  - 67% within two weeks of USED receipt of an approvable SFSF application
  - 33% after approval of the State's plan detailing its strategies for addressing the education reform objectives described in the assurances (sometime after 7/1/09)

# State Fiscal Stabilization Fund Usage in 08-09

- Governor is planning to use \$400 million of SFSF to meet 08-09 budget shortfall

	Total	June Distribution (67%)	Governor's 08-09 Use	Net Availability 09-11 Biennium	Annual Availability
Education Stabilization Fund (ESF)	\$1,161,931,564	\$778,494,148	\$226,789,810	\$935,141,754	\$467,570,877
Government Services Fund (GSF)	\$258,522,671	\$173,210,190	\$173,210,190	\$85,312,481	\$42,656,241
<b>Total SFSF</b>	<b>\$1,420,454,235</b>	<b>\$951,704,337</b>	<b>\$400,000,000</b>	<b>\$1,020,454,235</b>	<b>\$510,227,118</b>

- Education Stabilization Fund (ESF)
  - Unclear how Governor will use in 08-09
  - Remainder (\$935 million) appropriated by Ed. Subcommittee over the 09-11 biennium
- Government Services Fund (GSF)
  - Remainder (\$85 million) appropriated by JPS Subcommittee over the 09-11 biennium

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# State Fiscal Stabilization Fund Maintenance of Effort

# SFSF Maintenance of Effort

- **SFSF MOE requirement:** maintain State education funding above 05-06 levels

## House Targets and MOE Requirements: FY 2009-10

	2005-06 Expended Appropriation	2009-10 General Fund Targets*	2009-10 Excluded Budget Items	2009-10 State Support	2009-10 MOE Cushion
<b>K12</b>	6,954,242,208	7,015,829,062	-103,009,104	7,118,838,166	164,595,958
<b>NCCCS</b>	774,265,875	912,633,584	28,961,196	883,672,388	109,406,513
<b>UNC</b>	1,853,325,862	2,574,932,478	429,182,961	2,145,749,517	292,423,655
<b>TOTAL</b>	<b>9,581,833,945</b>	<b>10,503,395,123</b>	<b>355,135,053</b>	<b>10,148,260,070</b>	<b>566,426,125</b>

**NOTE:** There are no agency-specific targets. Analysis assumes agency targets based on agency share of Continuation Budget.

- If 09-10 General Fund Target apportioned based on 09-10 Continuation Budget percentages, all three satisfy MOE

# SFSF Maintenance of Effort

- **SFSF MOE requirement:** maintain State education funding above 05-06 levels

## House Targets and MOE Requirements: FY 2010-11

	2005-06 Expended Appropriation	2010-11 General Fund Targets	2010-11 Excluded Budget Items	2010-11 State Support	2010-11 MOE Cushion
<b>K12</b>	6,954,242,208	6,876,124,178	-102,330,734	6,978,454,912	24,212,704
<b>NCCCS</b>	774,265,875	916,428,415	28,980,973	887,447,442	113,181,567
<b>UNC</b>	1,853,325,862	2,550,842,530	429,191,475	2,121,651,055	268,325,193
<b>TOTAL</b>	<b>9,581,833,945</b>	<b>10,343,395,123</b>	<b>355,841,714</b>	<b>9,987,553,409</b>	<b>405,719,464</b>

**NOTE:** There are no agency-specific targets. Analysis assumes agency targets based on agency share of Continuation Budget.

- If 10-11 General Fund Target apportioned based on 10-11 Continuation Budget percentages, all three satisfy MOE...*barely*
  - Public Schools exceed 05-06 by only \$24 million

# SFSF Maintenance of Effort

## MOE Takeaways

- Can also look at MOE on a per student basis
  - But you don't want to
- Assumes that there are no pay cuts
  - Each 1% pay cut would reduce agency budgets approximately
    - K-12: \$61.3 million
    - CCs: \$9.0 million
    - UNC: \$23.5 million
- MOE will need to be monitored very closely as proposals are made

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# Budgeting the Education Stabilization Fund

# Budgeting the ESF

## Budgeting the ESF Takeaways

- There will be two rounds of cuts
  - Recurring cuts to meet Total Spending Target
  - Additional nonrecurring cuts to meet General Fund Target
- Allocation of ESF between Public Schools and Higher Ed determined by
  - Federal guidance
  - General Fund appropriations
- GA authority over LEA and IHE use of ESF funds
- How to show ESF within budget Committee Report

# Budgeting the ESF

## Overview

	2009-10	2010-11
<b>Cont. Budget</b>	<b>\$12,344,098,234</b>	<b>\$12,573,704,392</b>
<b>GF Target</b>	<b>\$10,503,395,123</b>	<b>\$10,343,395,123</b>
<b><u>ESF Availability</u></b>	<b><u>\$467,570,877</u></b>	<b><u>\$467,570,877</u></b>
<b>Total Spending</b>	<b>\$10,970,966,000</b>	<b>\$10,810,966,000</b>

- Two rounds of cuts:
  - Recurring cuts to reach “Total Spending” level
  - Nonrecurring cuts to reach General Fund Target

# Budgeting the ESF

## Determining Allocations of ESF Between Agencies

- Allocation of ESF between Public Schools and Higher Ed determined by
  - Federal guidance
  - General Fund appropriations
- If shortfall, State must use ESF to support public schools and higher ed. “in proportion to their relative shortfall”

	"Fully-Funded Level" (higher of 07-08 or 08-09)	2009-10 State Support	2009-10 Shortfall	2009-10 Share of Shortfall	2009-10 Calculated Distribution
<b>K12</b>	8,375,931,203	7,118,838,166	1,257,093,037	83%	774,930,320
<b>NCCCS</b>	937,591,478	883,672,388	53,919,090	4%	33,238,222
<b>UNC</b>	2,351,725,636	2,145,749,517	205,976,119	14%	126,973,212
<b>TOTAL</b>	<b>11,665,248,317</b>	<b>10,148,260,070</b>	<b>1,516,988,247</b>	<b>100%</b>	<b>935,141,754</b>

# Budgeting the ESF

## Determining Allocations of ESF Between Agencies

	"Fully-Funded Level" (higher of 07-08 or 08-09)	2009-10 State Support	2009-10 Shortfall	2009-10 Share of Shortfall	2009-10 Calculated Distribution
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- As GA changes 09-10 State Support, 09-10 Share of Shortfall will also change
- Can look at NCCCS and UNC separately or combined
- GA will appropriate the calculated amounts over the biennium

# Budgeting the ESF

## General Assembly Authority – LEAs

- The General Assembly
  - Can *recommend* uses, but cannot *mandate* uses
- The LEA determines
  - When to expend ESF funds (must be obligated by 9/30/11)
  - What to spend it on (anything permitted under Federal Impact Aid program)

# Budgeting the ESF

## General Assembly Authority – IHEs

- The General Assembly determines
  - How funds are distributed between IHEs
  - When they have to spend the money
  - What they can spend the money on
- The IHE determines
  - How to spend (and monitor) funds within federal and General Assembly guidelines
- Takeaway: GA can be more proscriptive with IHE usage than with LEA usage

# Budgeting the ESF

## ESF Committee Report Language

- For each section of Education Budget, separate section for “ESF cuts”
  - Show one or more nonrecurring “ESF cuts” that show how ESF is being appropriated
  - Explicitly state General Assembly intent on usage (non-binding for LEAs)

# Budgeting the ESF

## ESF Committee Report Language – Public Schools

- GA has to distribute ESF via “primary funding formulae”
- “Primary funding formulae” defined by State application
  - Does not include formulae that only go to select LEAs (Low Wealth, Small County)

# Budgeting the ESF

## ESF Committee Report Language – Public Schools

### Public Education

	FY 09-10	FY 10-11
<b><i>Adjusted Continuation Budget</i></b>	<b>\$8,245,341,827</b>	<b>\$8,358,798,223</b>
<b><i>Legislative Changes</i></b>		
<b><i>Application of Education Stabilization Fund</i></b>		
<b>1 General Fund Reduction to Primary Funding Formulae</b>	<b>(\$387,465,160) NR</b>	<b>(\$387,465,160) NR</b>

Temporarily reduces the State's primary funding formulae, as defined by the provision in Section 7.X of the budget bill, on a nonrecurring basis for both years of the biennium. This reduction will be off-set by the appropriation of the Education Stabilization Fund. It is the General Assembly's intent that LEAs utilize ESF monies to minimize disruption to classroom instruction over the biennium.

- Two-year, nonrecurring cut
- Nonbinding language stating GA intent

# Budgeting the ESF

## ESF Committee Report Language – Higher Ed

- GA can distribute ESF however it chooses
  - Additional NR “management flexibility” cuts
  - NR cuts to specific programs
  - NR cuts to specific institutions

# Budgeting the ESF

## ESF Committee Report Language – Higher Ed

### UNC System

	FY 09-10	FY 10-11
<b><i>Adjusted Continuation Budget</i></b>	<b>\$3,026,185,255</b>	<b>\$3,100,871,575</b>
<b><i>Legislative Changes</i></b>		
<b><i>Application of Education Stabilization Fund</i></b>		
<b>1 General Fund Management Flexibility Reduction</b>	<b>(\$63,486,606) NR</b>	<b>(\$63,486,606) NR</b>
Provides a two-year, nonrecurring management flexibility reduction. This reduction will be off-set by the appropriation of the Education Stabilization Fund.		

- Two-year, nonrecurring cut
- Rather than management flexibility, could also name specific programs or initiatives

# Budgeting the ESF

## Budgeting the ESF Takeaways

- There will be two rounds of cuts
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  - Additional nonrecurring cuts to meet General Fund Target
- Allocation of ESF between Public Schools and Higher Ed determined by
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# Questions