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# Federal American Recovery and Reinvestment Act: Opportunities for California Higher Education

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LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review Subcommittee

No. 1 on Education

Hon. Gloria Romero, Chair

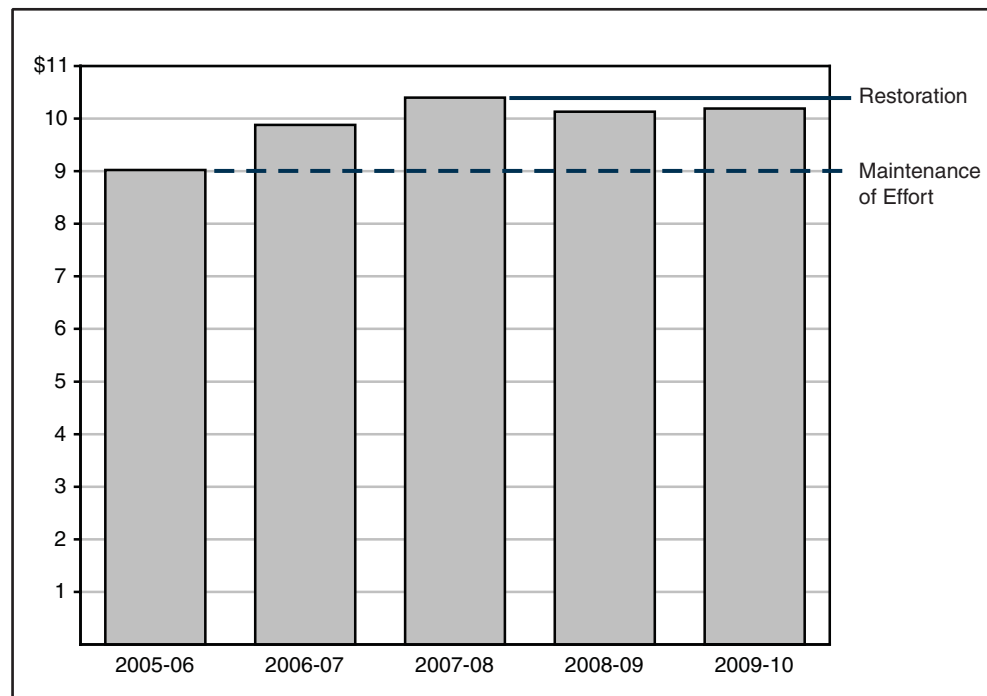




## Federal Stabilization Funding

- ☑ About \$5 Billion in federal stabilization funds are available to replace reductions in state support for K-12 and higher education.
  - Can be used in 2009, 2010, and 2011.
  - State support must not fall below 2005-06 level
  - Funds must be shared between K-12 and higher education in proportion to their funding “shortfalls.”
  - Funding shortfalls are defined as the gap between 2005-06 funding and the highest level in certain subsequent years.
  - *2009-10 Budget Act* assumes \$510 million in federal stabilization funds will backfill University of California and California State University General Fund reductions.

### State Higher Education Appropriations (General Fund, In Billions)





## Federal Stabilization Funding *(Continued)*

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- ☑ Another \$1 billion in federal stabilization funding is available for general purposes, including higher education facilities.
  - About \$1 billion in additional federal stabilization funding is available for “public safety and other government services.” While potential uses of this funding are broad, federal statute specifically includes higher education facilities among permitted uses.
  - The 2009-10 budget packages assumes these funds will be used to offset General Fund costs.



## Financial Aid Provisions

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- Pell Grants will be larger and easier to obtain.
  - The maximum value of Pell Grants will be increased from \$4,731 in 2008-09 to \$5,350 in 2009-10. This is an increase of \$619, or 13 percent.
  - The number of students receiving Pell Grants is also expected to increase by 13 percent.
  - We estimate that students at California public colleges and universities will receive about \$500 million in additional Pell Grant funding next year.
  - The increase in Pell Grants will reduce the amount of financial need among students. A key policy consideration will be how campuses adjust their institutional aid programs in response to this reduced need.
  
- Increased tax credits will reimburse students for more college expenses.
  - The American Opportunity tax credit replaces the Hope tax credit.
  - The new program reimburses eligible students for up to \$2,500 in fee payments and textbook costs per year.
  - Credit covers 100 percent of first \$2,000, and 25 percent of next \$2,000.
  - Students with family incomes up to \$160,000 are eligible for full reimbursement (\$80,000 for single filers).
  - Hundreds of millions of dollars of additional community college costs could be covered by the federal government (instead of the General Fund) if fees were increased.
  
- Public and private colleges and universities will receive an estimated \$20 million in additional work-study funds—a 20 percent increase.



## Other Provisions

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- Workforce development.
  - The stimulus package provides the state with an additional \$494 million in Workforce Investment Act funds for employment and training purposes.
  - The package also includes \$1 billion in grant funding administered at the federal level. California can compete for a share of these grants.
  - Community colleges and other educational providers will be able to compete for contracts to provide job training and other services to job seekers and employers.
  
- California universities can compete for federal research grants.
  - The stimulus package includes billions of dollars for competitive research grants. We estimate that faculty at California's public universities may receive over \$1 billion of this funding over the next two years.
  - Private universities may receive another half-billion dollars.