New America Foundation

Issue Brief

The State Fiscal Stabilization Fund and Higher Education Spending in the States

Part 1 of 4

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By late 2008, the United States was in the midst of its most severe economic recession since the 1930s, brought on by a collapse in real estate prices and exacerbated by the failure of many large banks and financial institutions. Heeding calls from economists, Congress and the Obama administration passed a historic law in early 2009 to stimulate the economy with $862 billion in new spending and tax cuts.

This law, the American Recovery and Reinvestment Act of 2009 (ARRA), included nearly $100 billion in one-time funding for new and existing education programs, a historic sum given that annual appropriations for federal education programs at the time were approximately $60 billion. The largest single education program included in the law was the State Fiscal Stabilization Fund, a new $48.6 billion program that provided direct grant aid to state governments in 2009 and 2010. The program was designed to help states maintain support for both K-12 and higher education that they might have otherwise cut in response to budget shortfalls brought on by the economic downturn.

As 2010 draws to a close, the data now exist to take a close look at how states responded to the policies and funding made available through the State Fiscal Stabilization Fund. An examination of available state budget information can help address whether the State Fiscal Stabilization Fund was successful in supporting state higher education spending or if it enabled states to make larger cuts to their higher education spending than they otherwise would have. To better understand these issues, this paper examines changes in higher education spending during the implementation of the State Fiscal Stabilization Fund by comparing how state spending on higher education has fluctuated in the context of total state spending. Specifically, it explores higher education spending in the 50 states and the District of Columbia as a proportion of total state spending before and during the implementation of the ARRA. Using this information, we can make general conclusions about how the ARRA may have affected state spending on higher education and whether policymakers' concerns about the law were valid.

This paper is the first in a four-part series examining the ARRA's effect on state spending for higher education. The forthcoming reports will provide an analysis of state allocations of State Fiscal Stabilization Funds (SFSF) to higher education, a study of how those funds were used in select states, and a look at the status of state higher education funding after the SFSF monies are no longer available at the end of fiscal year 2011.

The State Fiscal Stabilization Fund and State Higher Education Budgets

Congress intended the State Fiscal Stabilization Fund to bolster state budgets for K-12 and higher education by providing federal funds to fill budget shortfalls caused by lower than anticipated tax revenues. The program also required states to agree to pursue four reform areas that were primarily focused on K-12 education – called "assurances" in the law – through their use of the funds. When the SFSF was enacted, some states were already facing funding shortfalls as a result of the economic downturn, while others were projecting shortfalls in the near future. Lawmakers targeted education for the grant aid because public schools and institutions of higher education employ a significant proportion of the workforce in every state. By ensuring that K-12 and higher education were well supported, Congress could theoretically ensure that a significant number of jobs would be saved during the economic downturn.[1]

Congress divided the State Fiscal Stabilization Fund (SFSF) into two parts – Education Stabilization funds, which were to be used to support education purposes only, and Government Services funds, which were to be used to support other government services in addition to education, like public safety or health care. Education Stabilization funds accounted for $39.8 billion of the $48.6 billion SFSF. The U.S. Department of Education distributed the funds according to a formula defined in the law based on each state's share of the national 5 to 24 year-old population and each state's total population.[2] This means that Education Stabilization funds were distributed based on population rather than which states were facing the most severe funding shortfalls and would therefore need the most federal support for education funding.

Lawmakers designed the Education Stabilization fund under the assumption that states would not be able to maintain then-current levels of spending due to the economic recession and would need federal assistance to maintain their education programs.[3] While some states did need the funds more than others, Congress distributed the funds to all states to garner support from a majority of lawmakers. Congress also wanted to ensure that states would not take advantage of the new federal funds to cut state funding for K-12 and higher education by more than the magnitude of their budget shortfalls. In other words, lawmakers wanted to prevent states from cutting their education budgets by more than they would have absent the federal funds to balance their budgets.[4] As a result, Congress included a "maintenance of effort" provision in the law that requires states to maintain education spending for K-12 and higher education each at fiscal year 2006 levels in fiscal years 2009, 2010, and 2011. States could then use the Education Stabilization funds to fill the gap between what they spent on higher education in 2006 and the greater of 2008 or 2009 spending levels. The provision effectively put a floor on state spending for education at 2006 levels.

Ideally, the maintenance of effort provision requires states facing significant shortfalls to maintain a certain level of funding for K-12 and higher education. However, by allowing states to cut their funding for education to 2006 levels regardless of the severity of the budget shortfalls they were and are facing, the maintenance of effort provision enables states with minimal budget shortfalls to cut their funding for K-12 and higher education by more than the amount necessary to balance their budgets. As a result, these states were and are able to shift state spending that otherwise would have been used for K-12 and higher education to other areas of their budgets and replace those state funds with federal Education Stabilization dollars.[5]

States must use Education Stabilization funds for both K-12 and higher education in proportion to each sector's share of a state's budget shortfall. For example, in a state where budget shortfalls would cause the state to make a 60 percent cut to K-12 spending and a 40 percent cut to higher education spending, the SFSF regulations require that state to spend 60 percent of its allocated Education Stabilization funds on K-12 education and 40 percent on higher education.[6] States where there was no shortfall in higher education funding would have to use the funds to fill budget gaps for only K-12 education and vice versa. Additionally, states could choose to divide the funds between both fiscal years 2009 and 2010 or use them in only one of the two years. As a result, states that had no predicted budget shortfall in 2009 could have opted to use all Education Stabilization funds in 2010, while those with anticipated shortfalls in both years could spread the funds between the two years to make up for budget shortages.

While most states have cut both higher education spending and overall state spending, others have used the Education Stabilization funds as an opportunity to cut state higher education funding more than necessary.

In accordance with the program requirements, each of the 50 states and the District of Columbia submitted an application to the U.S. Department of Education by July 1st, 2009 stating how much of their Education Stabilization fund allocation they planned to use to support K-12 and higher education in fiscal years 2009 and 2010. States determined these numbers by calculating the difference between projected spending on K-12 and higher education in each year and the greater of 2008 or 2009 spending on both sectors. For example, if a state spent $800 million on higher education in 2009, and its projected spending for higher education in 2010 was $650 million (which was at or above 2006 spending levels for higher education), then the state could opt to use up to $150 million of its Education Stabilization funding for higher education in 2010. Any funds a state did not use in fiscal years 2009 and 2010 would be distributed directly to K-12 school districts in fiscal year 2011 via existing formulas under the Title I program of the Elementary and Secondary Education Act, which provides federal grant aid to school districts with low-income students. As a result, Education Stabilization funds could only go towards higher education expenditures in 2009 and 2010.

Since states initially submitted their SFSF applications, many have had to make additional cuts to their budgets or have needed to adjust how they allocated Education Stabilization funds between the K-12 and higher education sectors and fiscal years. As tax revenues have continued to falter, some states have lowered their spending on higher education. These states have relied more heavily on Education Stabilization funds to keep their higher education programs afloat by allocating more of the federal funds to higher education than they had originally planned in their SFSF applications. Typically, these additional amounts were redirected from the portion of a state's Education Stabilization fund allocation that the state had not previously planned to use in 2009 or 2010 and would have otherwise been distributed in 2011 through the Title I formula, as discussed above.

While most states have cut both higher education spending and overall state spending to accommodate lower tax revenues, others have used the Education Stabilization funds as an opportunity to cut state higher education spending more than would be necessary to balance their budgets. This allows them to shift those state funds to other areas of their budgets and replace state funding for higher education with Education Stabilization funds. In some cases, states have actually increased their total spending while simultaneously reducing state spending on higher education and using Education Stabilization funds to make up for those higher education decreases. As long as states maintain higher education spending at 2006 levels, using the Education Stabilization funds in this manner does not violate the maintenance of effort provision included in the law. Whether states are using Education Stabilization funds to displace state funding for higher education is not immediately obvious in the SFSF applications they filed with the U.S. Department of Education. To answer this question, this paper provides a closer examination of state spending on higher education and total state spending during the SFSF.

Methodology

Data on state spending for higher education and total state expenditures were obtained directly from state budget websites, financial reports, budget or financial offices, or higher education system staff members for fiscal years 2008, 2009, and 2010. In a few cases where final expenditure numbers were not available, most recent appropriations or budget data were used instead. Data were collected for General Revenue Fund expenditures as well as for any other major sources of state funding for higher education not including tuition, fees, and other receipts. In some states, this included lottery or other dedicated higher education funding streams.

The *Grapevine*, a publication of the Illinois State University, was used to determine which expenditures were considered part of higher education in each state. States submit annual information on tax appropriations for higher education by line item to the *Grapevine*. These line items were used to establish what state expenditures were included in each state's "higher education spending" amount in each year. However, the numbers provided in this report differ from those in the *Grapevine* because they include actual expenditures rather than appropriations.[7] This means that the data are based on actual funds spent rather than legislatively approved appropriations amounts. Data collection occurred between September and November 2010. Any budgetary or expenditure adjustments made available after November 2010 are not reflected.

The proportion of state expenditures dedicated to higher education was calculated by dividing each state's total higher education expenditure by the state's total expenditures in each year.

Information on the years in which each state intended to use its Education Stabilization funds for higher education were collected from each state's most up-to-date State Fiscal Stabilization Fund application submitted to the U.S. Department of Education. This information was used to determine the point at which state expenditures on higher education were expected to change due to the presence of Education Stabilization funds. For example, if a state's application indicated that it planned to use Education Stabilization funds for higher education in fiscal year 2009, then we would expect to see a significant change in state funding for higher education between 2008 and 2009. Conversely, if a state intended to use Education Stabilization funds only in 2010, then we would expect to see a change in state funding between 2009 and 2010.

Findings

Forty-two states and the District of Columbia chose to use Education Stabilization funds to support higher education spending in 2009 or 2010. Of those, 23 cut the proportion of state spending dedicated to higher education in the first year they used the funds. While most of these 23 states made cuts to both higher education spending and total state spending, six appear to have cut their higher education spending while actually increasing total state spending. These states confirm the concern that the Education Stabilization fund would lead some states – particularly those states with relatively stable tax revenue – to cut higher education spending during the economic downturn. Seventeen of the 42 states that chose to use Education Stabilization funds for higher education, on the other hand, actually increased the proportion of state spending on higher education. These findings are explained below.

Eight States Chose Not to Apply Education Stabilization Funds to Higher Education in Either 2009 or 2010

According to their State Fiscal Stabilization Fund applications, eight states did not intend to spend any of their Education Stabilization funds on higher education. These states include Alaska, Connecticut, Maryland, Nebraska, North Dakota, Texas, Vermont, and Wisconsin. Because U.S. Department of Education regulations require each state to use Education Stabilization funds for both K-12 and higher education in proportion to their share of the state's budget shortfall, this suggests that higher education funding in these states was not affected by a budget shortfall. Seven of these eight states chose instead to dedicate all of their Education Stabilization funds to K-12 education. Alaska, on the other hand, did not allocate any Education Stabilization funds to K-12 or higher education in either 2009 or 2010. According to the default provision in the law, all of Alaska's Education Stabilization funds will be distributed directly to school districts in fiscal year 2011 through federal Title I formulas.

Because governors in these states did not decide to use any Education Stabilization funds for higher education in either 2009 or 2010 – suggesting that any budget shortfall these states were facing would not affect higher education spending – one would assume that higher education spending in these states would remain relatively stable over those years. At the same time, one would expect the share of total state spending dedicated to higher education to increase as the economic recession caused overall state spending to contract. This would occur because many of these states cut their own spending on K-12 education in response to available Education Stabilization funds (though not below 2006 levels), while leaving higher education spending unchanged. As a result of these cuts and potentially cuts to other spending areas, overall state spending would decline, making the proportion of state spending dedicated to higher education larger. This is the case in almost all of the eight states that elected not to use Education Stabilization funds for higher education: spending on higher education grew as a share of the total state budget.

In Alaska, Maryland, Nebraska, and Vermont, the proportion of state spending dedicated to higher education increased noticeably between 2008 and 2009, and 2009 and 2010. This increase was largest in Alaska where higher education spending rose from 3.5 percent of total state spending in 2008 to 4.9 percent in 2009 and 10.3 percent in 2010. While higher education spending increased only slightly from 2008 to 2009, it nearly doubled between 2009 and 2010 while total state spending decreased slightly. While we cannot speculate on the underlying cause of this increase, it suggests that Alaska put significantly more funding into its higher education system in 2010 than in the past, both as a proportion of total state funding and in absolute dollar terms.

Connecticut boosted its spending on higher education by roughly $32 million from 2008 to 2009 and then cut it by roughly $35 million from 2009 to 2010. However, due to similar fluctuations in overall state spending, the relative

Table 1. States That Did Not Use Education Stabilization Funds for Higher Education

State	State Higher Ed Spending ($ millions)			Total State Spending ($ millions)			Share of Total State Spending on Higher Ed (%)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Alaska	295	315	621	8,470	6,490	6,016	3.5	4.9	10.3
Connecticut	754	786	751	17,280	17,773	17,375	4.4	4.4	4.3
Maryland	1,549	1,619	1,554	14,488	14,353	13,296	10.7	11.3	11.7
Nebraska	616	645	653	3,252	3,347	3,338	18.9	19.3	19.6
North Dakota	244	262	311	1,182	1,280	1,560	20.7	20.4	19.9
Texas	5,213	5,673	5,847	36,645	41,994	36,058	14.2	13.5	16.2
Vermont	84	80	80	1,200	1,146	1,087	7.0	7.0	7.4
Wisconsin	1,301	1,373	1,238	13,526	14,199	13,246	9.6	9.7	9.3

Source: New America Foundation

share of state spending on higher education was nearly constant over that time period – between 4.3 percent and 4.4 percent of the state's total budget each year. In North Dakota, on the other hand, the proportion of state spending dedicated to higher education dropped from 20.7 percent of the state's budget in 2008 to 20.4 percent in 2009 and then to 19.9 percent in 2010. Though absolute spending on higher education increased in each year, the growth in overall state spending outpaced the growth in higher education spending. It should be noted that North Dakota is one of the few states that has not struggled with budget shortfalls over the past two years because it has been able to rely on stable revenue from state oil fields.[8] Finally, in Texas the proportion of state spending for higher education first dropped from 14.2 percent of the state's total budget in 2008 to 13.5 percent in 2009 and then increased to 16.2 percent in 2010. In each year, absolute state spending on higher education rose, by $460 million from 2008 to 2009 and $175 million from 2009 to 2010. However, total state spending also rose dramatically between 2008 and 2009 and then dropped significantly from 2009 to 2010. This large fluctuation in state total spending accounts for the drop in the proportion of state spending on higher education from 2008 to 2009 and the increase from 2009 to 2010.

Higher Education Spending As a Share of Total State Spending Fell in 12 of the 25 States that First Used SFSF Monies in 2009

The share of total state spending dedicated to higher education dropped in 12 of the 25 states that began using SFSF Education Stabilization funds to support higher education in 2009. The largest reduction occurred in Alabama, where the proportion of spending on higher education dropped from 23.7 percent of the total budget in 2008 to 22.0 percent in 2009. Alabama cut state higher education spending by nearly $400 million over one year while the state's total budget shrank by more than $1 billion. This means that Alabama used Education Stabilization funds to replace state contributions to higher education in the face of shortfalls that also affected overall state spending on programs that likely included K-12 education, among others. For Alabama, Education Stabilization funds appear to have helped stabilize higher education funding by providing alternative sources of support even though the state was forced to cut spending in other areas of its budget.

Tennessee also significantly reduced its higher education spending as a share of total state spending – from 14.9 percent of its overall budget in 2008 to 13.7 percent in 2009. Unlike Alabama, however, Tennessee cut its state support for higher education from 2008 to 2009 while simultaneously increasing total state spending. In this case, Education Stabilization funds likely allowed the state to reduce contributions for higher education and shift those funds elsewhere. However, given that the state's overall spending increased over that time, it is unlikely that Tennessee needed Education Stabilization funds to maintain its higher education budget. This suggests that Tennessee manipulated its budget to take advantage of the Education Stabilization funds – cutting state spending on higher education and shifting those dollars elsewhere in the state budget. To be sure, Tennessee did not violate the maintenance of effort provision that governs Education Stabilization funds because it maintained its higher education spending above what it spent in 2006. Nevertheless, the state did take advantage of the Education Stabilization funds to cut higher education spending by more than what was necessary to accommodate its budget shortfalls. Tennessee likely created these gaps in funding for higher education to ensure that it could use the Education Stabilization funds to support higher education in 2009. Otherwise, Tennessee may not have been able to use all of its Education Stabilization fund allocation in 2009 and 2010, meaning the U.S. Department of Education would distribute any unused funds to Tennessee's K-12 school districts in 2011 via Title I formulas. Other states that cut their higher education spending from 2008 to 2009 while increasing total state spending include Arkansas and Pennsylvania.

Minnesota and the District of Columbia made no changes to the proportion of state funding dedicated to higher education between 2008 and 2009 even though they used Education Stabilization funds to support higher education. In both states, absolute state spending on higher education dropped slightly from 2008 to 2009, as did total state spending, but the reductions kept pace with each other. This means that both the District of Columbia and Minnesota likely used Education Stabilization funds to fill gaps in higher education spending created by real budget shortfalls that were felt across state spending, not gaps in higher education spending created by shifting funds from higher education to other budget areas.

Eleven states actually increased the proportion of their state spending dedicated to higher education from 2008 to 2009. The largest increase occurred in Utah where spending on higher education increased from 14.2 percent of the state's total budget to 16.3 percent. Although Utah cut both total spending and higher education spending from 2008 to 2009, the rate of the decrease was much higher for total spending, which fell by nearly $970 million from $5.8 billion to $4.8 billion. Spending on higher education shrank by $39 million from $821 million to $783 million. This means that sectors of Utah's government services

Table 2. States that Used Education Stabilization Funds for Higher Education in 2009

State	State Higher Ed Spending ($ millions)		Total State Spending ($ millions)		Share of Total State Spending on Higher Ed		
	2008	2009	2008	2009	2008 (%)	2009 (%)	Change
Alabama	2,039	1,649	8,589	7,489	23.7	22.0	-1.7
Tennessee	1,638	1,572	10,973	11,454	14.9	13.7	-1.2
California	13,513	12,671	145,543	144,489	9.3	8.8	-0.5
South Carolina	1,135	928	6,987	5,892	16.2	15.7	-0.5
Arkansas	947	936	8,411	8,640	11.3	10.8	-0.4
Kansas	829	800	6,102	6,064	13.6	13.2	-0.4
Oregon	728	686	7,494	7,318	9.7	9.4	-0.3
North Carolina	3,695	3,498	20,376	19,652	18.1	17.8	-0.3
Pennsylvania	1,560	1,507	26,968	27,084	5.8	5.6	-0.2
South Dakota	180	176	1,146	1,137	15.7	15.5	-0.2
Massachusetts	1,061	1,027	28,053	27,715	3.8	3.7	-0.1
New Jersey	2,174	2,125	33,619	33,244	6.5	6.4	-0.1
District of Columbia	176	159	7,696	7,035	2.3	2.3	0.0
Minnesota	1,563	1,550	17,005	16,861	9.2	9.2	0.0
Indiana	1,513	1,579	8,972	9,329	16.9	16.9	0.1
Maine	275	268	3,129	3,018	8.8	8.9	0.1
Florida	4,537	4,045	29,666	26,293	15.3	15.4	0.1
Rhode Island	190	171	3,405	2,999	5.6	5.7	0.1
Colorado	748	783	7,328	7,560	10.2	10.4	0.2
Mississippi	914	881	5,040	4,772	18.1	18.5	0.3
Georgia	2,473	2,345	20,693	19,063	12.0	12.3	0.3
Virginia	1,886	1,884	16,960	16,192	11.1	11.6	0.5
Arizona	1,109	1,078	10,113	8,779	11.0	12.3	1.3
Louisiana	1,734	1,714	14,476	12,712	12.0	13.5	1.5
Utah	821	783	5,784	4,817	14.2	16.3	2.1

Source: New America Foundation

other than higher education likely bore the brunt of the budget cuts the state made in response to budget shortfalls.

Many of the states that began using Education Stabilization funds for higher education in 2009 made subsequent cuts to their higher education budgets in 2010. In most cases, the cuts reflect states' decisions to increase the amount of Education Stabilization funds they dedicated to their higher education spending in 2010 compared to 2009. According to its SFSF application, Colorado dedicated significantly more of its federal Education Stabilization funds to higher education in 2010 than 2009. At the same time, Colorado reduced the share of its spending dedicated to higher education from 10.4 percent of the state's total budget in 2009 to 6.4 percent in 2010. Because the state made more Education Stabilization funds available for higher education in 2010 than 2009, Colorado was able to use the federal funds to make up for its own reductions in higher education spending in 2010. Over this time period, the state cut both state higher education spending and total state spending.

Indiana, on the other hand, cut its spending on higher education from 16.9 percent to 9.6 percent of overall state spending from 2009 to 2010, while it increased overall state spending significantly. The state cut higher education spending by more than $270 million over that time, while total state spending increased by more than $4.2 billion. Interestingly, according to its SFSF application, Indiana allocated fewer Education Stabilization funds to higher education in 2010 than it did in 2009. This means that the state had fewer federal funds in 2010 to make up for the increased cut to higher education spending. Assuming that Indiana did allocate fewer Education Stabilization funds to higher education in 2010 than in 2009, then Indiana's higher education system received significantly less funding (a combination of both state funds and federal Education Stabilization funds) in 2010 than in 2009 because Education Stabilization funds were not sufficient to make up for the additional $270 million cut in state spending in 2010.

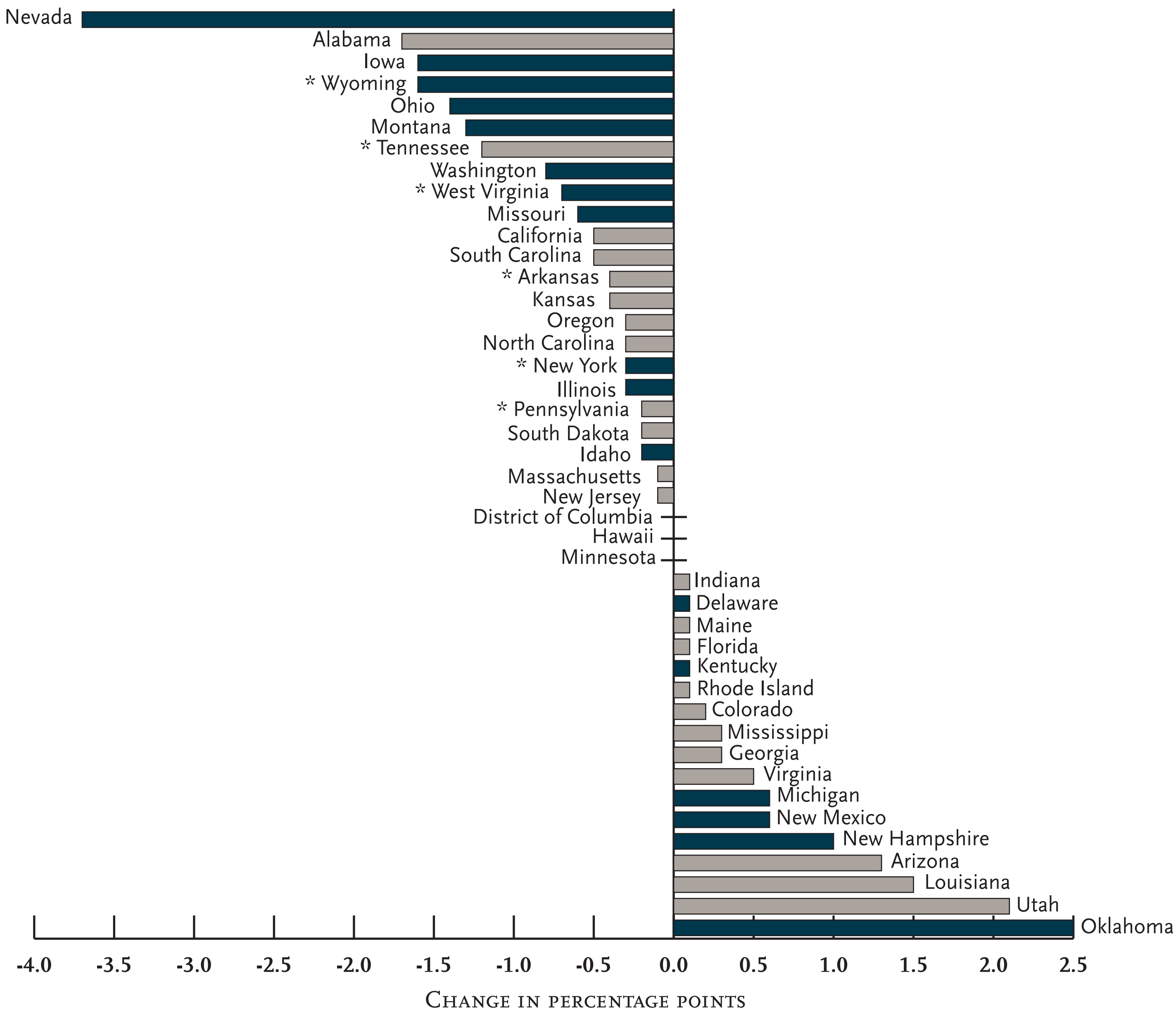
Unlike Colorado and Indiana, North Carolina increased the proportion of state spending dedicated to higher education from 2009 to 2010 from 17.8 percent of total state spending to 19.2 percent. During this time, the state increased higher education spending while it cut total state spending. Though North Carolina dedicated Education Stabilization funds to higher education in 2009, it did not dedicate any in 2010, meaning the state received no federal assistance from the Education Stabilization fund to support higher education in 2010. As a result, North Carolina had to increase its own higher education spending in 2010 to accommodate for the lack of Education Stabilization funds.

Higher Education Spending As a Share of Total State Spending Fell in 11 of the 18 States that First Used SFSF Monies in 2010

Of the 18 states that elected to use Education Stabilization funds to support higher education in only 2010, 11 cut the proportion of total state spending that was dedicated to higher education between 2009 and 2010. Nevada reduced its higher education spending as a proportion of total state spending the most, from 16.5 percent of its total spending in 2009 to 12.9 percent in 2010. Over that time, Nevada cut its higher education spending from $623 million to $397 million and used Education Stabilization funds to make up most of the difference. At the same time, the state lowered its total spending by nearly $700 million from $3.8 billion to $3.1 billion, a sizeable reduction but not enough to keep pace with the cuts it made to higher education spending.

Iowa also cut its share of state spending dedicated to higher education significantly – from 15.2 percent of total state spending in 2009 to 13.7 percent in 2010. In the state, both higher education spending and total state spending fell, though reductions in higher education spending outpaced overall spending reductions. Wyoming, on the other hand, lowered the share of total state spending on higher education from 13.9 percent to 12.3 percent – the same number of percentage points as Iowa, but as a result of a combination of reductions in higher education spending and increases in total state spending. This means that Wyoming likely used Education Stabilization funds to

Change in State Spending on Higher Education as a Share of Total State Spending in the First Year States Used Education Stabilization Funds



States that first used Education Stabilization funds for higher education in 2009; Reflects change from FY2008 to FY2009. Includes District of Columbia and Minnesota.

States that first used Education Stabilization funds for higher education in 2010; Reflects change from FY2009 to FY2010. Includes Hawaii.

* *States where total state spending increased while state spending on higher education decreased.*

replace state spending on higher education, effectively shifting those state funds to other uses rather than making up for real shortfalls. Wyoming faced one of the smallest budget shortfalls in the country in 2010, suggesting that it did not need the Education Stabilization funds to support its higher education spending.[9] Thus the state likely created gaps in its higher education spending so that it could use Education Stabilization funds in 2010 rather than wait until 2011 for the U.S. Department of Education to distribute the funds to K-12 school districts via the Title I formula. West Virginia and New York also appear to have cut state higher education spending from 2009 to 2010 while simultaneously increasing total state spending.

Using the Education Stabilization funds to fill budget gaps created by a reallocation of state funds, rather than actual shortfalls, was not the intent of the SFSF. However, these states did not violate any provision of the SFSF, including the maintenance of effort provision. In fact, the maintenance of effort provision gave states license to cut their higher education spending as they saw fit, as long as the reductions did not bring spending below 2006 levels. However, these states increased their total spending at the same time that they cut their higher education spending, suggesting that they did not need to cut higher education spending to balance their budgets.

One state, Hawaii, did not change the proportion of state spending dedicated to higher education between 2009 and 2010. In this case, total state spending and higher education spending dropped by the same proportion. This indicates that Hawaii used Education Stabilization funds to fill gaps in state higher education spending due to real budget shortfalls that affected other areas of state spending as well.

Six states increased the proportion of state spending

Table 3. States that Used Education Stabilization Funds for Higher Education in 2010 Only

State	State Higher Ed Spending ($ millions)		Total State Spending ($ millions)		Share of Total State Spending on Higher Ed		
	2009	2010	2009	2010	2009 (%)	2010 (%)	Change
Nevada	623	397	3,776	3,089	16.5	12.9	-3.7
Iowa	908	717	5,959	5,249	15.2	13.7	-1.6
Wyoming	310	289	2,228	2,345	13.9	12.3	-1.6
Ohio	2,497	2,031	19,888	18,231	12.6	11.1	-1.4
Montana	212	172	2,927	2,914	7.2	5.9	-1.3
Washington	1,793	1,574	16,144	15,292	11.1	10.3	-0.8
West Virginia	504	516	5,301	5,858	9.5	8.8	-0.7
Missouri	1,113	1,006	8,662	8,180	12.9	12.3	-0.6
New York	5,110	4,989	58,137	58,496	8.8	8.5	-0.3
Illinois	2,749	2,505	43,876	41,677	6.3	6.0	-0.3
Idaho	400	341	2,800	2,724	14.7	14.5	-0.2
Hawaii	642	641	5,361	5,356	12.0	12.0	0.0
Delaware	249	232	3,348	3,092	7.4	7.5	0.1
Kentucky	1,282	1,210	9,030	8,470	14.2	14.3	0.1
Michigan	1,843	1,807	8,507	8,128	21.7	22.2	0.6
New Mexico	863	818	5,862	5,349	14.7	15.3	0.6
New Hampshire	142	144	1,650	1,494	8.6	9.6	1.0
Oklahoma	1,023	1,013	7,193	6,070	14.2	16.7	2.5

Source: New America Foundation

dedicated to higher education from 2009 to 2010. Of these, the proportion of total state spending dedicated to higher education increased the most in Oklahoma – from 14.2 percent of the state's total spending in 2009 to 16.7 percent in 2010. Oklahoma cut its total spending by $1.1 billion over that time, while cutting higher education spending by roughly $10 million. The reductions that the state made to total state spending far outpaced the cuts it made in higher education spending. New Hampshire made the second largest increase in the share of state spending dedicated to higher education from 8.6 percent to 9.6 percent of the state's total spending. Though overall state spending in New Hampshire fell during this time, the state's higher education spending increased slightly. This suggests that both New Hampshire and Oklahoma cut other areas of spending while sparing higher education. In comparison, the four other states that boosted the proportion of their budgets dedicated to higher education cut both higher education and total state spending.

Prior to using Education Stabilization funds in 2010, several of these states did cut the proportion of state spending dedicated to higher education in the first year of the SFSF. Between 2008 and 2009, nine of the 18 states cut higher education's share of state spending by between 0.1 and 1.6 percentage points. In most cases, however, absolute spending on higher education increased slightly from 2008 to 2009 while total state spending increased by a larger degree. These increases in both higher education and total state spending from 2008 to 2009 suggest that budget shortfalls had a stronger effect on these states in 2010 – when they began to use Education Stabilization funds for higher education – than in 2009 when revenues were more stable.

Conclusion

Changes in state spending on higher education as a proportion of total state spending varied widely across states during the time Education Stabilization funds were available. Though 25 states chose to use Education Stabilization funds to support their higher education spending beginning in 2009, 18 chose to delay the use of those funds until 2010, perhaps when these states expected budget shortfalls to be more severe. At the same time, eight states opted not to use the funds for higher education at all (using the funds for K-12 education instead), suggesting that those states budgeted to protect their higher education spending from the effects of any revenue shortfalls.

Of the states that did use federal Education Stabilization funds for higher education, 23 reduced the share of state spending dedicated to higher education in the first year they used the funds (2009 or 2010). They were then able to use the Education Stabilization funds to compensate for the reductions they made in their own spending. Most of these states also reduced total state spending at the same time they cut higher education spending, indicating that budget shortfalls were felt across state budgets and that Education Stabilization funds were used to fill real shortfalls in higher education spending. This suggests that Education Stabilization funds operated exactly as policymakers had intended for these 23 states, with the following exception.

Six of these 23 states actually cut higher education spending even as they increased total state spending. In these states – Tennessee, Arkansas, and Pennsylvania (in 2009), and Wyoming, West Virginia, and New York (in 2010) – it appears that Education Stabilization funds were used to replace state funds for higher education, allowing states to shift that funding to other areas of their budgets and increase other spending. Many stakeholders have argued that this use of the funds – to displace existing state funds – was not the intention of the SFSF and indicates a manipulation of federal funding. To be sure, the presence of the Education Stabilization funds may have allowed these states to expand other areas of government spending, providing additional services in public safety or health care, for example, during the economic downturn. Unfortunately, it is impossible to determine exactly how funds were shifted or manipulated or the degree to which this was intentional.

The maintenance of effort provision included in the SFSF arguably encourages such budget manipulation. The provision explicitly allows states to reduce higher education spending to 2006 levels and replace those funds with Education Stabilization dollars. While this was likely intended to help states where budget shortfalls in education were as large as the difference between 2006 and 2008 or 2009 spending, states in relatively strong fiscal conditions had an incentive to lower state contributions to education (both K-12 and higher education) and apply the Education Stabilization funds to make up the difference. This would then free up state funds that otherwise would have been spent on higher education to be used on other spending areas. If these states had not reduced their spending on higher education, they could not have demonstrated a shortfall in higher education spending and claimed Education Stabilization funds to fill the gap. The U.S. Department of Education would have then distributed the unused portion of those states' fund allocations directly to their K-12 school districts via federal Title I formulas in fiscal year 2011. This would have removed any state control over the funds, delayed receipt of the funds, and excluded higher education as a recipient of funds.

This unfortunate consequence of the program – effectively incentivizing states with less severe shortfalls to create gaps in education funding to gain eligibility for the funds in 2009 or 2010 – was likely unavoidable because Congress did not want to distribute Education Stabilization funds based on state need. Doing so would have, it was argued, rewarded states that had been the most fiscally irresponsible. Furthermore, a majority in Congress would not have been willing to vote for a program that awarded such a large amount of federal aid to only a few states. Instead, Congress designed the program to distribute funds based on state population, meaning that some states received more funds than they needed while other states still had budget shortfalls even after using all of their Education Stabilization funds.

The Education Stabilization funds appear to have played a significant role in higher education spending in a number of states, likely supporting higher education services while many other government services were being cut. While we cannot speculate as to how states would have funded higher education in the absence of the Education Stabilization funds, our data show that many states were struggling to maintain spending levels across all areas of government. The Education Stabilization funds may have lessened this burden.

The Education Jobs Fund of 2010

In August of 2010, Congress passed and the President signed into law the Education Jobs Fund. This program is similar to the SFSF and provides an additional $10 billion to states to support spending on employment-related costs in K-12 education only, such as staff salaries and benefits. It is instructive that Congress has strengthened the maintenance of effort provision in this more recently passed education funding program. Accordingly, states that receive Education Jobs Funds must (1) maintain state spending on K-12 and higher education spending for 2011 at 2009 spending levels; (2) maintain state spending on K-12 and higher education for 2011 at the same proportion of total state spending as they did in 2010; or (3) if state tax revenues in 2009 were lower than in 2006, maintain state spending on K-12 and higher education for 2011 at either 2006 levels or in the same proportion of state spending as they did in 2006.

States that qualify under the third option, but where state education spending has not yet been lowered to 2006 levels, will have more flexibility to manipulate their budgets and further cut higher education spending. Though the current maintenance of effort provision is stronger than the one included for the State Fiscal Stabilization Fund, it will still allow some states to shift state funds from education purposes to better take advantage of the new federal monies.

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Notes

[1] House Committee on Education and Labor. (February 2009). House Approves Obama's Economic Recovery Plan. Available: http://edlabor.house.gov/newsroom/2009/02/house-approves-obamas-economic.shtml

[2] For more information on state-by-state allocations of the State Fiscal Stabilization Fund, see: http://www2.ed.gov/programs/statestabilization/sfsf-state-allocations.pdf.

For information on each state's State Fiscal Stabilization Fund application, see: http://www2.ed.gov/programs/statestabilization/resources.html.

[3] U.S. Department of Education. (February 2009). U.S. Education Secretary Visits Charter School in New York City, Discusses State-by-State Estimates. Available: http://www.ed.gov/news/press-releases/us-education-secretary-visits-charter-school-new-york-city-discusses-statebystat

[4] USA Today. (June 2009). Duncan: States Could Lose Out on Stimulus Funds. Available: http://www.usatoday.com/news/education/2009-06-19-duncan-stimulus_N.htm

[5] If a state is unable to maintain state education spending at 2006 levels, the state must apply to the Department of Education for a waiver and maintain education funding in2009, 2010, and 2011 at the same proportion of total state spending as it was in 2006.

[6] Ibid.

[7] *Grapevine* publishes an annual compilation of data on state tax support for higher education, including general fund appropriations for universities, colleges, community colleges, and state higher education agencies. Each year, the *Grapevine* survey asks states for tax appropriations data for the new fiscal year and for revisions (if any) to data reported in previous years. For further information, see: http://www.grapevine.ilstu.edu/datalimitations.htm.

[8] For more information see: http://www.minotdailynews.com/page/content.detail/id/543971.html?nav=5010

[9] For state by state budget shortfall information, see: http://www.cbpp.org/cms/?fa=view&id=711

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