

DATE: March 19, 2009

SUBJECT: Status of: 2009-10 Budget Reductions and the Economic Stimulus Package for Higher Education

ACTION RECOMMENDED: Discussion

BACKGROUND INFORMATION: As discussed at the January THEC meeting, higher education submitted budget reduction plans to the Department of Finance and Administration (F&A) for 2009-10 totaling \$181.7 million or 14.6 percent. THEC distributed the cuts in tiers with larger reductions at institutions with greater tuition bases, and smaller reductions at community colleges, Tennessee Technology Centers and non-tuition generating entities. Each institution submitted, through its respective governing board, reduction plans and the impact of the reduction on the institution. Campuses have been engaged in extensive planning to absorb state budget reductions of this magnitude, and they have developed strategies to reduce base budgets by the levels expected to be included in the Governor’s budget. Specific strategies currently being considered include workforce reduction, increasing faculty workload and class sizes, deferring facility maintenance, reducing the frequency of course offerings and elimination of programs.

On February 17, 2009, the American Recovery and Reinvestment Act (ARRA) was signed into law which includes various provisions that impact higher education institutions and students. A major provision of the ARRA is a state fiscal stabilization fund (SFSF) of \$53.6 billion. Tennessee is expected to receive approximately \$950 million from that fund, of which \$775 million will provide funds for K-12 and higher education. Higher education is estimated to receive slightly less than \$500 million. Funding through this provision is intended to temporarily restore budget reductions that have been made in 2008-09 and proposed in 2009-10. In order to receive federal funds in fiscal years 2008-09, 2009-10 and 2010-11, Tennessee must first allocate state funding equal to 2005-06 levels of operating support per the state Maintenance of Effort (MOE) provisions in the ARRA. The federal funds for institutions would then restore 2007-08 levels of operating support in 2008-09, 2009-10 & 2010-11. The intention of these funds is to mitigate substantial fee increases. According to the U.S. Department of Education, funds may be used for operating or facilities modernization, renovation or repair, but can not be used for capital construction or to increase endowments.

The ARRA includes several major components related to student financial aid. Funds are provided to increase the maximum Pell Grant amount by \$500 to \$5,350 for 2009-10 and \$5,550 for 2010-11, as well as to increase tuition tax credits and Federal Work Study funds. Higher education institutions will also be eligible to competitively bid for research funding available from the National Institutes of Health and the National Science Foundation.

The ARRA provides significant one-time funding and will allow higher education time to carefully consider and implement budget reduction strategies consistent with the \$181.6 million state appropriation reduction. THEC will continue working in conjunction with UT, TBR, the Governor's office and Legislative officials to properly understand the full range of opportunities and responsibilities in the ARRA law. As well, THEC is developing budget guidelines that will allow for ARRA funds to be monitored and analyzed.