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MEMO TO: Sheila Peterson
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SUBJECT: State Allocation of American Recovery and Reinvestment Act (ARRA) Funding to Local Education Agencies (LEA's)

This memorandum summarizes education funds available to North Dakota as a result of the ARRA, legislative options for the allocation of those funds to LEA's, and the current status of funds distributed.

Funds Available As A Result of the ARRA

The ARRA of 2009, signed into law in February 17, 2009, includes approximately \$787 billion in economic stimulus funding through various grants and tax cuts. Included in that total is \$39.5 billion to be provided to states specifically for K-12 schools and higher education. North Dakota's share includes funding for the following major programs:

- \$27.4 million for supplemental Title I - Part A distributions to LEA's.
- \$7.1 million for supplemental Title I - School Improvement grants to LEA's.
- \$27.4 million for supplemental IDEA - Special education grants to LEA's.
- \$85.6 million for State Fiscal Stabilization Fund (SFSF) - Education Stabilization Fund grants to LEA's.

Most ARRA funds were provided to the state with little flexibility regarding how they could be used or how they could be allocated. The entire Title I allocation was required to be distributed to LEA's based on the state's approved Title I formula. The entire IDEA allocation was required to be distributed using the state's approved formula for that program. The only education related funds where the state was afforded any flexibility regarding allocation was in relation to the education stabilization fund grant of \$85.6 million. Even with this program, state options were limited.

State Options for SFSF Moneys

States were required to use SFSF education stabilization fund allocations to support elementary, secondary, postsecondary and early childhood education programs and services. The ARRA allowed states two options for allocation of the education stabilization fund moneys:

- The first designated use was to maintain state funding for K-12 and higher education in fiscal years 2009, 2010, and 2011 at a level at least equal to fiscal year 2006. In determining the level of state support for K-12 education, only moneys allocated through the primary school funding formula were to be considered. Any education stabilization fund moneys allocated by the state to maintain K-12 funding were required to be allocated using the state's primary school funding formula.

- If funds remained after satisfying the first criteria, the state was required to allocate the remaining funds to LEA's based on the Title I formula.

At the time SFSF funds were made available to the state, the 2009 legislature was in session and there had been no action to authorize a specific amount for the state school fund formula for fiscal years 2010 and 2011. Because no amount had yet been authorized, the legislature was allowed, under rules issued by the U.S. Department of Education, to use the entire state SFSF education stabilization fund allocation to supplement state funding in the school funding formula. State funds that may have otherwise been used to maintain the same level of state support for the school funding formula were then able to be used for other K-12 programs, such as supplemental operations grants and one-time grants to be used for infrastructure, equipment, and professional development. The 2009 legislature appropriated \$16.8 million for operations grants and \$85.6 million for one-time grants using state general fund moneys.

In addition to allowing the legislature flexibility to use state moneys to provide funding for other educational grant programs, the distribution of SFSF funds through the school funding formula benefited the state and LEA's by simplifying reporting requirements. The SFSF program authorization contains specific reporting requirements to ensure transparency and accountability. States must report to the Department of Education on the use of funds, the number of jobs funded, and progress in the areas of various assurances included in the state application process.

Current Status of SFSF Distributions to LEA's

In June 2009, the state was notified that its application for Phase I of SFSF education funds was approved. The Phase I approval made available \$57.4 million, which is 67 percent of the state's education stabilization fund allocation. The Phase II application has been submitted and is pending approval.

In order to receive education stabilization funds, a school district was required to submit an application to the Department of Public Instruction. The application required a declaration of intended use. All school districts declared intent to apply the full amount of federal education stabilization funds to expenses incurred for instructional salaries. This has allowed the department to complete federal quarterly reports on behalf of school districts without the need for additional data collection.

The department plans to distribute the total \$85.6 million in five equal disbursements to school districts as part of the regular school aid distribution. The original timeline anticipated disbursements of \$17.1 million each month from October 2009 through February 2010. The timing of the actual disbursements will be contingent upon when the Phase II application is approved and the U.S. Department of Education makes the remaining \$28.5 million of education stabilization funds available to North Dakota.