HOUSE FISCAL AGENCY

MEMORANDUM

DATE: August 4, 2009

TO: House Appropriations Subcommittee on Higher Education

FROM: Kyle I. Jen, Associate Director

RE: Proposed TANF-Related Fund Shift

On July 30, the State Budget Office proposed supplemental appropriation adjustments to five financial aid line items in the Higher Education budget. These adjustments would have no net impact on the total appropriation amounts for those line items, but would replace $173.1 million in existing financial aid appropriations from GF/GP, Merit Award Trust Fund, and associated federal funds with an equal amount of federal Temporary Assistance for Needy Families (TANF) revenue.

Offsetting adjustments are proposed in the Department of Human Services (DHS) budget to balance GF/GP, Merit Award Trust Fund, and TANF appropriations. The end goal of these proposed adjustments is to leverage additional TANF contingency funds available to Michigan due to economic conditions in the state, as explained below.

TANF Contingency Revenues

Federal TANF contingency revenues of $155 million are available to the state due to the state's current unemployment and food stamp rates. Receipt of those funds requires identification of additional TANF maintenance of effort (MOE) funding in the state budget. The state has contracted with a private contractor, Public Consulting Group (PCG), to help accomplish that goal.

Under the plan developed by the State Budget Office in consultation with PCG, the steps being taken related to the Higher Education budget are as follows:

- Shifting GF/GP and Merit Award Trust Fund revenue to the DHS budget for field staff-related and Family Independence Program costs creates additional TANF MOE.

- TANF funds are then utilized for state financial aid programs, offsetting the GF/GP, Merit Award Trust Fund, and associated federal funds currently appropriated for the programs. The funds are expended under the allowable TANF purpose "to prevent and reduce the incidence of out-of-wedlock pregnancies."

Reportedly, the state financial aid expenditures from the current fund sources cannot be used as TANF MOE because the expenditures do not represent a funding increase from FY 1994-95 levels and because a recent federal rule allows only expenditures for "eligible" families can be claimed as TANF MOE, necessitating the fund shifts between the Higher Education and DHS budgets.

Proposed Higher Education Budget Adjustments

The table below shows financial aid funding amounts that would be offset with TANF revenue in the Higher Education budget under the proposal:

Program	*Federal	Merit Award Trust Fund	GF/GP	Total
State Competitive Scholarships	$2,641,200	$0	$31,958,800	$34,600,000
Tuition Grants	0	0	56,668,100	56,668,100
Tuition Incentive Program	0	15,850,000	9,350,000	25,200,000
Michigan Promise Grants	0	53,899,200	0	53,899,200
Nursing Scholarship Program	0	2,740,400	0	2,740,400
TOTAL	**$2,641,200**	**$72,489,600**	**$97,976,900**	**$173,107,700**

*Federal LEAP/SLEAP funds available to supplement GF/GP funding for Competitive Scholarships; funds would be forfeited if program is funded with federal, rather than state, funding.

A similar adjustment totaling $110.7 million was implemented in the FY 2007-08 budget through Public Act 279 of 2008. The larger proposed adjustment for FY 2008-09 results from inclusion of a portion of the appropriations for the Michigan Promise Grant and Nursing Scholarship Programs (in both cases, the funding amounts utilized directly for student tuition costs have been estimated).

As a practical matter, these financial aid expenditures have already been made by the state. Replacing the existing federal and state funds appropriated for the programs with TANF funds would have no apparent practical impact on student financial aid awards.

To date, the House Fiscal Agency is not aware of any major obstacles related to implementing these TANF-related adjustments. We will keep the subcommittee informed as new information is provided to us.

c: Mary Clark, Rep. Bauer's office
Ryan Wenburg, Rep. Caul's office
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Chris Harkins, House Republican Policy Office
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