Funding Alert Update on
Title I Funding and Purchasing Cycles

A Technology Monitoring and Information Service (TechMIS)
<u>SPECIAL REPORT</u>

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Below, we provide new information related to Title I funds allocation, purchasing cycles, carry over funds and directly related considerations that firms should take into account when developing marketing and sales strategies.

1. <u>Although September 30 Is the End of the Federal Fiscal Year, States Are Increasingly Telling Districts They Should Encumber Unspent Title I Funds Which Are Not to be Carried Over By June 30</u>.

Discussions with district Title I directors in a number of states strongly suggest that unspent Title I funds, which cannot be carried over to next year, will likely be encumbered by June 30 with the "books being cleared" before September 30. In Texas, many districts have unspent Title I funds because the last allocation of funds for this year by the TEA to districts did not occur until mid- to late March. The TEA has applied for a blanket waiver to allow districts to carry over more than 15 percent, in anticipation of many districts having large numbers of schools identified for improvement for the first time and to ensure adequate funds are available for staff development earmarks of 10 or 15 percent. State funds for compensatory education and related programs must be expended by August 30 which is the end of the Texas state-funded fiscal year.

In California, where approximately 370 schools had to offer parents transportation choice options and supplemental education services this year, unspent Title I funds beyond the 15 percent cap on carryover have to be returned by the schools to the district and encumbered before June 30. Because of unspent earmarks for SES and transportation last year and due to the "blanket waiver" by Secretary Paige last August to allow districts to carry over more than 15 percent, many districts carried over more than 15 percent to this year; once again they earmarked 20 percent in September 2003 for SES and transportation. Because these districts cannot receive a waiver to carry over more than 15 percent this year to next year, they will likely have to encumber those excess unspent funds by June 30.

In Florida, most Title I district directors have told Title I schools to carry over to next year as much unspent Title I funds as possible because virtually all of the districts, and over 85 percent of the schools, will have been identified for improvement for the first time and have to earmark 10-15 percent for staff development. Unofficially the state has told districts to spend any funds they don't plan into carryover by June 30, although the amount districts plan to carry over has to be reported to the state before September 30. Very few districts have carried over more than 15 percent last year to this year, giving them the flexibility to request a waiver this year to carry over more than 15 percent.

In North Carolina the estimated number of schools identified for improvement will increase from 36 this year to over 450 next year, with 112 of the 115 districts also identified for improvement. However, unlike Florida, the North Carolina SEA adheres to the Federal fiscal year and requires that the amount of unspent funds which are planned for carryover to next year, be reported to the SEA by September. Similar to Florida, North Carolina plans to have all of the districts identified for improvement to earmark 10 percent for staff development and, in certain districts, an additional five percent to help teachers meet the highly-qualified requirements under NCLB. Because so many districts in Florida and North Carolina will have been identified for improvement, they cannot qualify as SES providers under current USED policy and, therefore, will not be able to provide SES services internally. However, like Texas, Florida and North Carolina are also Ed Flex states and generally have more flexibility than non-Ed Flex states.

Indiana is unique among states in that it has three fiscal years. The state does not allow any carryover of Federal or state education funds from one year to the next and all funds must be expended by June 30 or returned. For some non-Title I Federal funds, the September 30 end-of-fiscal year applies. Moreover, most school districts, which are corporations, also have a local budget fiscal year which corresponds to the calendar year.

Some of the pressures to spend unused Title I funds can be attributed to the "implicit threat" by Secretary Paige several months ago in response to states' requests for more Federal funds for implementing No Child Left Behind. Both Secretary Paige and Chairman Boehner (R-OH) argued that there was enough Federal funding available to do so, stating that districts have failed to spend more than $6 billion of Federal education funds allocated to them two years ago. In Texas, Governor Perry has fueled the "spending" fire when he became aware that the TEA had to return $11 million of unused Federal education funds last year mostly because the TEA "lost the money" and failed to let districts such as Houston know that such funds were still available before the end of the fiscal year.

2. <u>Because of the NCLB Requirement That USED Use the Most Current Annual Census Data in Determining District Allocations, Funds Allocation Will Continue to be Volatile Which Creates an Uncertainty and Incentives for Districts to Carry Over Funds to Make Up for Potential Future Budget Cuts.</u>

As noted in the March TechMIS Funds Allocation Reports, eleven states suffered a total of $80 million reductions in Title I funding for the coming year, as did over 7,500 districts. Last year, four states received Title I allocation reductions totaling almost $4 million for which USED was authorized to use some of its discretionary funds to make up for those shortfalls. A bill has been introduced in the House to provide additional supplemental funds to make up for the shortfalls in the eleven states. It is not clear whether this will actually be passed by the full House and Senate and signed by the President. As Bill McGrady, State Coordinator of Federal Programs in the North Carolina Office of Public Instruction, stated in the May 14 Heller Report webcast, use of the most current census data requires districts and even state education departments to develop contingency plans and could affect multiple year contracts and planned purchases.

3. Suggested Considerations to be Used in Qualifying Districts with the Highest Probability of Spending or Encumbering Unspent Title I Funds.

As reflected in the three March 2004 TechMIS reports, at a general level, one could use the following rationale for identifying priority districts: select districts with large preliminary Title I funding increases for this coming year (greater than $400,000 increase), which also received a large increase last year (e.g., $500,000 or more increase) and which carried over relatively large amounts of funds from last year to this year earmarked in September-October 2002 for transportation and supplemental education services. Those districts which carried over more than 15 percent under the Secretary's waiver, are not allowed to carry more than 15 percent to next year. Districts that did not use the entire 20 percent earmark in September 2003 for SES and transportation should be prime candidates. The prospects would appear to be even greater in those districts receiving a greater than $400,000 increase which also represents greater than a 10 percent increase. As we explained in the April Washington Update, this year, five percent of a district's preliminary allocation will be set aside at the state level for school improvement (four percent) and for SEA administration (one percent); the four percent school improvement set aside should be targeted to districts with large numbers of schools identified for improvement for failing AYP three or more consecutive years. These districts will have to go through a competitive grant process, in most states, to obtain such funds to be used for school improvement and to receive such funds generally after December. In the eleven states experiencing statewide cuts, such as Pennsylvania, there will be significant pressures to disperse these funds to districts having the greatest budget cuts.

As might be expected, there are exceptions to the above "rule." First, in states such as Florida, North Carolina, and also Nevada (which estimates the number of schools identified for improvement for the first time will increase tenfold to over 200 schools next year), there will be pressures to carry over funds to next year or to spend Title I funds this summer on earmarked staff development. In states where there are class size reduction initiatives under way, resulting in an inadequate supply of qualified substitute teachers, unused Title II A/Teacher Quality Staff Development funds (i.e., up to 50 percent) could be transferred to Title I and used to meet this earmarked requirement.

Second, for those states and districts with anticipated needs to earmark the 20 percent or even more Title I and other funds for training, transportation, SES, and other required sanctions, district officials are likely to carry over more than the 15 percent if USED allows a waiver or "exception" as Secretary Paige did last August; or, if USED approves, on a state-by-state basis such SEA requested changes in states' accountability and assessment plans. As of this date, more than 40 states have requested changes which could reduce the number of districts and schools identified for improvement by 50 percent or more.

And last, districts that have taken advantage of a "newly-found flexibility" in the Law (see February and March TechMIS Washington Updates and Special Reports) and otherwise have figured out a way to "game the system" to reduce the number of schools identified for improvement -- and hence reduce the earmarks for transportation -- should be considered as good prospects. Recent discussions with district Title I directors have brought to the surface a number of these activities, including:

- Almost half of the Title I districts with whom we have talked over the last two months are planning to "strategically assign" scores of special education students who achieve proficiency on alternative state tests to other Title I schools and/or even non-Title I schools in such a way that the number of schools identified for improvement is minimized.

- A growing number of Title I officials indicate that they are planning to redesignate schoolwide programs which failed to meet AYP this year back to "targeted assistance school" status next year in order to reduce the number of students in each subgroup below the minimal amount as used for determining AYP; while this would reduce the number of schools identified for improvement the following year, it could also increase the probability that the district would be in improvement in the future.

- Some districts will no longer designate a low-performing school as being a Title I school and replace Title I funding with state compensatory education funding; this is happening in some districts in Texas.

If a firm wants to develop a partnership to provide training, support and materials to a district which offers supplemental education services, there is an easy-to-access new source of information which identifies state-approved service providers by state, including school districts. It also has information about the number of schools identified for improvement for 2003-2004 and Title I schools required to provide SES services for most states. Based on discussions with SEA Title I offices, the numbers and other information appear to be fairly accurate in most states but sorely lacking in a few states. The website is www.tutorsforkids.org.

4. Title I Funds Allocation Milestones and Purchasing Cycles.

Below we have attempted to outline the general funding allocation process which will begin in July 2004 when the Title I funds that were not "advanced funded" begin to be released to states. As we have emphasized, certain types of districts will likely be receiving their funding, particularly increases, at different times because of their individual situations. For example, districts receiving unexpectedly large percentage increases, as identified in our March 16 TechMIS report, will be allocated such funds beginning in October through December-January 2005. These are excellent prospects in that they will most likely be investing in products and training. Large districts receiving large absolute increases will be allocated much of their funds in November-December and once again, will receive final allocations in the Spring. Districts with identified for improvement schools and which reserved up to 20 percent for training, transportation and SES purposes, will likely have unspent money next April-May and will begin to encumber these funds by June 30 or September 30, 2005, the end of the Federal fiscal year, unless their FY 2005 Title I funds are cut or they receive only a small increase, in which case unspent funds may be carried over to next year.

In states where the district and the county are the same and in which few adjustments have to be made by the SEA, districts will be receiving their final Title I allocations in October-November. On the other hand, in certain states (California, Texas, New York, among others), districts will be receiving their final Title I allocations much later because of the need for the SEA to make adjustments (e.g., for set-asides, students enrolled in charter schools, etc.). This is particularly true in states where the Title I office staff has been cut back dramatically, such as Texas and Florida. If you have any questions please contact me directly regarding specific states.

<u>July 2004</u>

- USED publishes list of districts' final allocation estimates and posts them on USED website (see March 16, 2004 TechMIS Special Reports). As in the past, USED is likely to publish a district-by-district list of estimated Title I allocations per eligible Title I student which suggests the amount the districts should allocate per eligible student to supplemental education service providers where they are required to do so.

- USED allocates between 20 and 40 percent of districts' funding for school year 2004-2005; in July, districts receiving large increases receive a smaller percentage of their total allocation because all of the Title I increases in FY 2004 are "advanced funded."

- LEAs amend previous consolidated plans to SEA because of funding differences and possible changes in state accountability plans (currently awaiting USED approval in more than 40 states).

<u>August 2004</u>

- Most SEAs notify LEAs of allocations <u>before adjustments</u>.

- LEAs begin receiving lists of schools identified for improvement for the first time, for which the LEA must allocate 15 percent from the Title I reserve for staff development and parent transportation choice; and 20 percent for schools identified for two consecutive years, which begin negotiations with state-approved providers of supplemental education services through mid-year.

- LEAs with funding increases begin purchasing products, training, and other services for <u>new</u> Title I schools, if any. Districts will add new schools to the Title I program only in states with significant percentage increases such as Arizona or in districts where school boards decide to "spread the Title I money around" to as many eligible schools as possible.

- LEAs designate eligible schools (greater than 40 percent poverty) as schoolwide programs, which do not have to report on how Title I funds are spent; an increasing number of districts with schoolwide programs who fail to meet AYP this year will redesignate those schools as "targeted assistance schools" next year to reduce the number of students in subgroups for which AYP cannot be determined and hence will likely not be identified for improvement.

- LEAs begin to earmark up to 20 percent of their total Title I allocation to cover potential costs of transportation related to parent choice and/or staff development and/or supplemental education services as schools are identified for improvement on the state list.

- LEAs begin appeals to justify taking schools off their state list; some LEAs will also be requesting exemptions or waivers to be able to count more than one percent of the special education students who demonstrate proficiency on alternative state assessments and standards, and for students who fail to participate in test taking as a result of medical problems.

September 2004

- LEAs -- particularly those with five or more schools identified for improvement a year ago -- spend any leftover FY 2004 funds in lieu of carrying over funds to this school year (where they are allowed to do so); most spending of leftover 2004 funds will have actually occurred this June with some in July.

- LEAs communicate with parents about selected schools to which the students can be transferred and/or identify supplemental education service providers approved by the state which can provide tutoring and SES at no cost to parents.

October 2004

- SEAs begin to notify districts of second round of preliminary funds allocations before finalized adjustments; districts which are also counties will receive funding allocations sooner than districts which are not coterminous with counties.

- SEA begins to notify districts of large percent increases (see March 16, 2004 TechMIS Special Report).

November 2004-February 2005

- SEA begins funds allocation process to districts after adjustments for: (a) prorated allocation of four percent of state Title I funds which are supposed to be targeted to schools identified for improvement; (b) eligible Title I students who are enrolled in charter schools in which case the funds "follow the child"; and (c) determinations of how much of a county Title I allocation goes to each of several districts in the county based upon census data or data submitted by each district to maximize the amount it gets.

- SEA notifies specific districts which may receive "supplemental" funding in FY 2005 Appropriation Act in 11 states because of reduced state Title I allocations through regular formula.

- After six months, newly-designated schoolwide programs generally complete their planning and decide upon what products and services to purchase for use in operational Title I programs during the remainder of the year and the following year.

- Districts begin to estimate the demand for transportation and SES services and decide how much of the earmarks will be released to Title I schools which can be used for other allowable purposes; in some cases individual schools will decide how such "new funds" will be used; in other cases, district Title I office will decide.

March through May 2005

- USED notifies SEAs of preliminary district allocations under the FY 2005 budget; SEAs begin notifying LEAs of preliminary district allocations or USED posts preliminary estimates on website.

- Districts which have distributed school Title I allocations in November/December 2004 might have told schools to keep the funds in their Title I reserve to cover potential SES and transportation costs; then it may request that such funds be returned to the district Title I fund after which a decision will be made by the district Title I office as to how much of such previously earmarked funds are to be spent and how much will be carried over to the following year.

- LEAs initiate planning process to take into account funding increases or decreases, other programmatic changes, and estimates of "earmarks" required for next year.

- District Title I office reassesses how much of the FY 2004 earmark for transportation and supplemental education services will have actually been used by the end of the school year.

- District Title I office decides whether to spend unspent funds or carry over to next year, depending upon FY 2005 district Title I allocations.

June/July 2005

- If funds are available over the amount which could be carried over, such funds are expended by June 30 in most states; by September 30, 2005 in other states.