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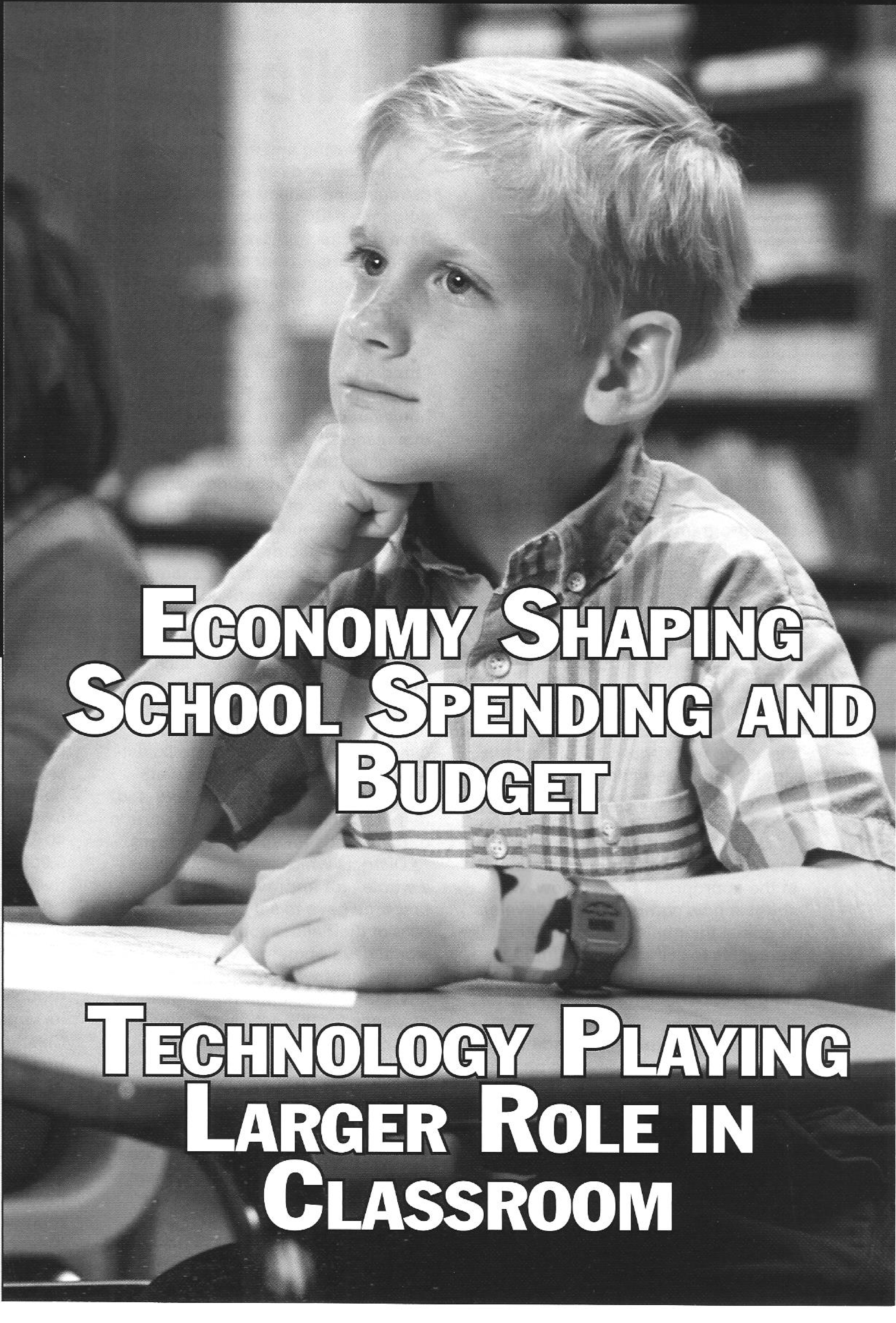


ECONOMY SHAPING SCHOOL SPENDING AND BUDGET

TECHNOLOGY PLAYING LARGER ROLE IN CLASSROOM

NSSEA
NATIONAL SCHOOL SUPPLY AND EQUIPMENT ASSOCIATION

Federal Spending

By Charles Blaschke

Ways Companies Can Capitalize on Education Niches for FY 2009

For almost four decades, Education TURNKEY Systems has monitored policies and other federal guidance for such niche markets as Title I and IDEA: special education, identifying opportunities for several hundred firms through its Technology Monitoring and Information Service, special reports, and consulting service. During that time, federal funding for these two programs has increased annually with the exceptions of a rescission in the mid-1990s when Republicans gained leadership in Congress and most recently in FY 2006 when the same two large programs received small budget cuts for the 2006-07 school year. In FY 2007, Title I received a small increase to $12.8 billion, while IDEA special education received a smaller increase to $10.8 billion.

Although many instructional software and supplemental materials publishers experienced flat or declining sales during the last year in these two niche markets, a small but significant percent did show moderate to significant growth. Key to their success was targeting specific states and, more importantly, "types" of districts which were "similarly-situated" at the appropriate time. Below, we suggest how companies can develop or adjust their sales and marketing strategies to sell effectively into these niches, even when state budgets are tight or experiencing only moderate overall growth.

Two common mistakes made by firms when they are developing strategies to penetrate these two niches are:

1 Looking at overall federal education budgets for the coming school year or even total funding levels for Title I and IDEA: special education;

2 Reviewing and analyzing only the law and regulations, while disregarding federal non-regulatory guidance (NRG), which does not have the effect of law, but reflects the priorities the current administration has placed on federal monitoring and enforcement.

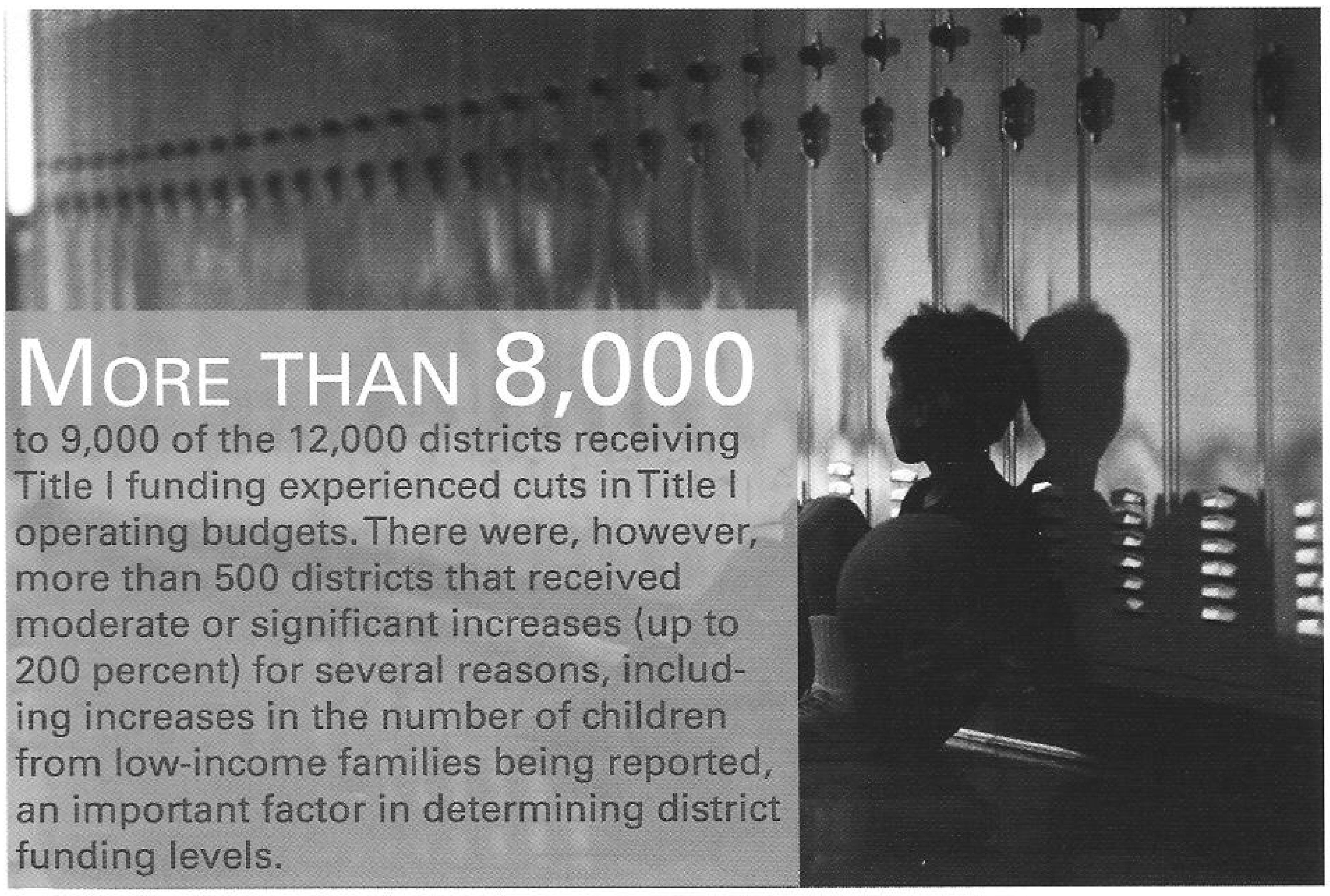
In 2007-08, more than 8,000-9,000 of the 12,000 districts receiving Title I funding experienced cuts in Title I operating budgets. There were, however, more than 500 districts that received moderate or significant increases (up to 200 percent) for several reasons, including increases in the number of children from low-income families being reported, an important factor in determining district funding levels. For example, in April 2008, we identified more than 500 districts that received increases of $400,000 or more for the 2008-09 school year, before "state adjustments" (discussed below). We also identified more than 600 districts that received increases of 20 percent to over 100 percent before state adjustments. Within these districts were those which were "similarly situated," in that they had to set aside a portion of their funds for specific purposes:

- Districts which are "identified as a whole" for improvement for the first time have to set aside 10 percent of their allocations for professional development. Even though this requirement was not specified in the law, USED developed non-regulatory guidance for this set-aside, requiring that any unused portion of the 10 percent set-aside for one year must be carried over and added to an additional 10 percent the following year for professional development.
- Districts, which have one or more schools identified for improvement for two or more years have to set aside 20 percent for supplemental educational services (SES) and/or parent choice transfer option.
- If a school is identified for improvement for the first time, 10 percent of that school's Title I allocation has to be used for professional development, although, as USED non-regulatory guidance clarified three years after NCLB was passed, such staff development activities do not have to occur in that school, but could be reallocated or centrally administered to serve the "greatest staff development need."
- If a school continues to be in "improvement" for four or more years, it enters into "corrective action" or "restructuring" status which, under federal policy (and to greater extent, state policy in at least three states), requires it to undertake new initiatives to change its governance structure (e.g. takeover by the state or district central office, provide extensive professional development for existing or new teachers, or replace the entire school's curriculum). The latter approach, according to recent studies by the Center on Education Policy and Government Accountability Office (GAO), occurred in about 40-50 percent of the approximately 5,000 schools which were in corrective action/restructuring in 2007-08.

Because of this increase in Title I funding for set-asides, in 2008-09 more districts will suffer real cuts in Title I operating budgets even though, nationally, Title I will receive its largest ever funding increase! Clearly, in "similarly-situated" districts (e.g. the district and/or schools in "improvement" or "restructuring"), which receive moderate to large Title I increases, most of the increases will be used to provide services such as staff development, to purchase appropriate supplemental instructional materials and related interventions, or even to adopt entirely new curricula, purchased with Title I funds and/or the state 4 percent set-asides. School Improvement Grants totaling $125 million were funded for the first time in the 2007-08 school year and will receive $491 million in 2008-09. Successful firms will target these similarly-situated districts and schools within districts with specific products and services that could be purchased with set-aside funds.

When Congress reauthorized the IDEA special education law in 2004, it included a requirement that any district that has an overrepresentation of minorities in special education programs (i.e., disproportionality) had to set aside 15 percent of its IDEA funds for "early intervening services" (EIS), which included so-called "response-to-intervention" (RTI) approaches. These services were to be provided to at-risk students to remediate learning problems so they would not have to be placed in special education programs. In fact, early drafts of the IDEA reauthorization were very specific in stating that a student could not be placed in special education until the student had received instruction which used core and supplemental materials that included all of the "essential elements" required for programs purchased under the Reading First program. However, because of the mismanagement of Reading First, reported by USED's Office of Inspector General about the same time final IDEA regulations were published, USED guidance provided much greater flexibility to districts in selecting the types of instructional, behavioral, and professional development interventions for which such set-aside funds could be used.

In 2007-08, about $1.3 billion was set aside for EIS, up from $500 million the previous year. Hence, while IDEA funds increased by only a small percent overall, the amount of money reallocated for EIS will almost triple. Most of these funds have been reallocated to the district central office and then assigned to the Title I program to provide early intervening services to Title I and other students to remediate reading and related problems so the students do not eventually have to be placed into much more costly special education programs. Some firms have successfully repositioned interventions they have sold to districts, which provide



MORE THAN 8,000 to 9,000 of the 12,000 districts receiving Title I funding experienced cuts in Title I operating budgets. There were, however, more than 500 districts that received moderate or significant increases (up to 200 percent) for several reasons, including increases in the number of children from low-income families being reported, an important factor in determining district funding levels.

their own supplemental educational services (SES) as appropriate for use under EIS, thus providing districts the opportunity to purchase such interventions from either Title I or reallocated IDEA funds. Moreover, even though the IDEA legislation is not prescriptive, the USED policy announced more than a year ago (and confirmed at the first National Summit on Response to Intervention in December 2007) encouraged districts to reallocate the 15 percent to Title I schoolwide programs. In schoolwide programs, USED policy has been not to enforce "supplement not supplant" provisions as rigorously as in Title I Targeted Assistance Schools, in which funds can be used to serve only Title I eligible students.

The key to successful marketing/sales to the Title I and, to a lesser extent, the IDEA niche markets, is targeting districts that receive moderate to significant percentage increases in Title I funding (after state education agency adjustments are made) and setting aside funds for purposes such as district-operated supplemental educational services, professional development and/or curriculum replacement. To identify districts receiving actual increases, one must go beyond official USED allocations usually made in the summer before school starts; rather, one has to take into account a number of factors, including:

- the number of districts in a state receiving budget cuts of 10 percent or more, which means funds will be reallocated from districts receiving preliminary increases to ensure that districts receiving cuts receive at least 90 percent of what they received last year;
- the amount, if any, the SEA will withhold from the districts receiving increases for school improvement grants (i.e. the 4 percent state set-aside) which, in turn, could be reallocated to some other districts;
- other adjustments such as the number of Title I eligible students enrolled in charter schools or the amount of funds set aside or reallocated to intermediate education units.

As one approaches district offices with an intervention-type product or service, one should not assume that office will be aware of "new flexibilities" reflected in USED non-regulatory guidance or policy letters from the Secretary to Chief State School Officers. For example, if a firm has an intervention that can be used in a district-operated SES program (rather than an outside third-party SES provider), but the district has been told by the state that it cannot be approved to operate its own program because the district as a whole has been "identified," then the district office may not be aware of the fact that district-operated after-school programs funded under the 21st Century Community Learning Centers (if approved as an SES provider) could provide such SES. In her 2006 policy letter, the Secretary ruled that such an after-school program operated by the district, which has been "identified" is a "separate and distinct" entity because of its separate funding

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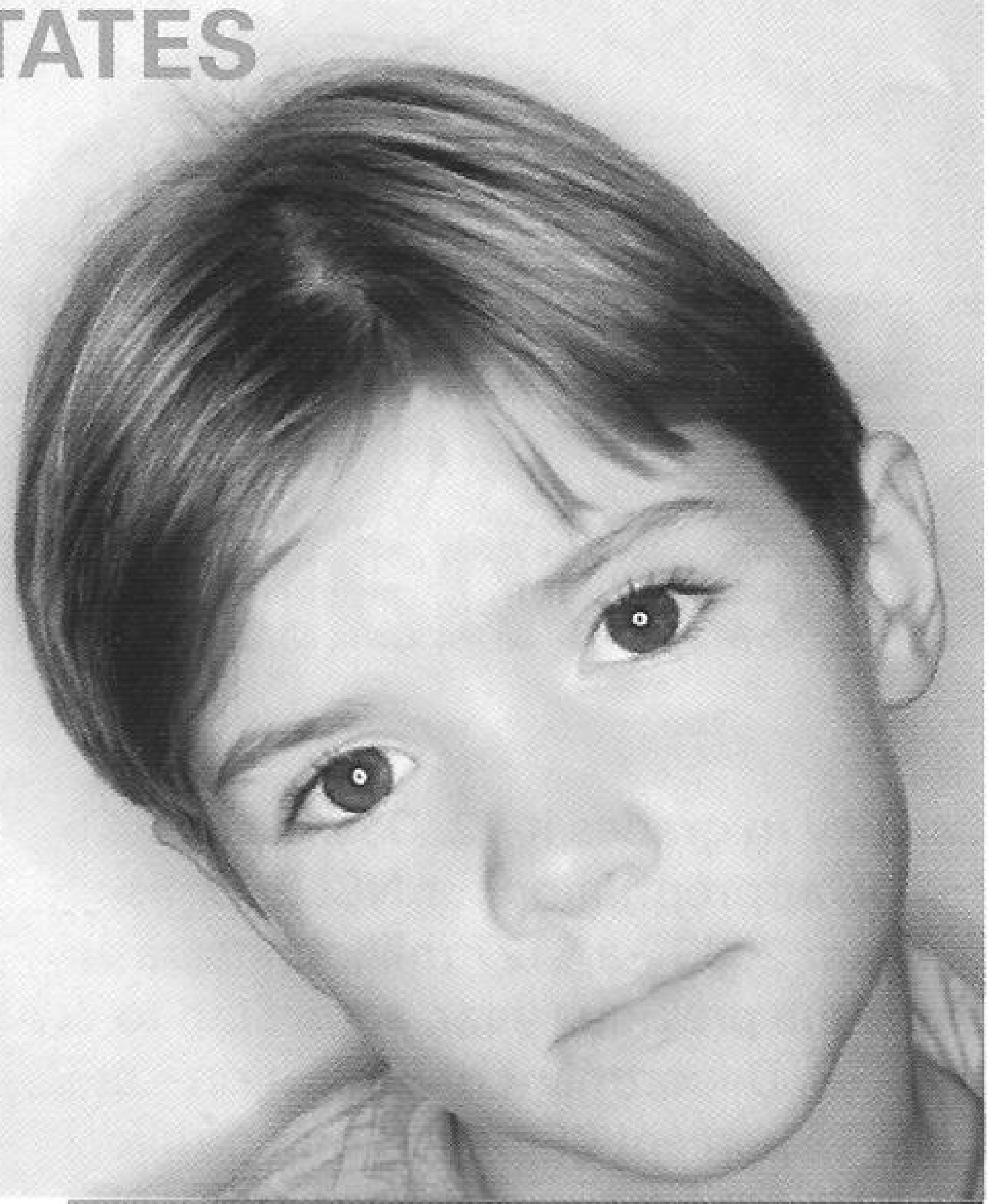

ABOUT HALF OF STATES are facing projected education budget shortfalls, according to a Center on Budget & Policy Priorities study. The housing crisis has caused a dip in state revenue sales tax and recent job losses has led to a reduction of income taxes collected by states. California will be the hardest hit where it is proposed that more than $4 billion will be cut out of the education budget.

nomic situation has tightened like it has, when it gets to a point where milk and gas are over $4 a gallon, more decisions are made about what is discretionary income," Ivy said. Aside from a more vigilant budgetary approach, the company has managed steps in the way of environmental consciousness.

"As we've remodeled, we have more efficient lighting fixtures in. We try to recycle boxes and ship them out. You are able to save a part of a tree," he added.

Ivy's company, like many others, has undergone changes to indemnify for rising expenses. "We've looked at staffing. We've looked at adjusting our opening hours. We don't want any extra payroll. We're looking at everything being out of kilter. We're outsourcing...and have added additional programs that run Web-based to be more efficient," Ivy said. "We have, unfortunately, had to reduce our staff. When you impact someone you've been working with for so long, it still hurts."

As the year progresses, gas prices will likely follow suit.

"We're not out of this yet. That's the scary part," Ivy said. "We do need alternative fuel, but (we need to) transition in a logical manner and not drive our citizens into bankruptcy."

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AT LEAST 10 states have implemented or proposed major cuts to K-12 education. Below are four state's plans.

- **Florida** has cut aid to local school districts for the current year by $130 per pupil.

- In **Nevada**, the governor has ordered various cuts to K-12 education, including delaying an all-day kindergarten expansion, cutting per pupil expenditures by $400 in a pilot program, eliminating funds for gifted and talented programs, eliminating funds for a magnet program for students who are deaf or hard of hearing, and making across-the-board cuts.

- The governor in **California** has proposed cuts to K-12 education that translate to a reduction of $665 per student, including cuts in general operating spending, special education, K-3 class size reduction and other educational programs.

- **Rhode Island** has frozen state aid for K-12 education at last year's levels in nominal terms and reduced the number of children who can be served by Head Start and similar services by more than 550.

Source: Center on Budget & Policy Priorities

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from 21st CCLC and could operate an SES program if approved by the state. Another option to be considered in such a district is that, if some of the 20 percent earmark is unspent before the end of the fiscal year, such funds could (in most states) be reprogrammed and used for outright purchases of the intervention product or services. Indeed, some firms have targeted specific districts with the sole intent of having unspent SES earmarks used to purchase their products before June 30, which is a fiscal year deadline in 45 states.

For FY 2008, many of the above considerations hold, even though overall Title I funding will increase by more than 8 percent. While more districts will actually receive some funding increases, the big winners will be large, mostly urban, districts and some suburban districts with pockets of poverty. In addition, the 5,000 schools in corrective action and restructuring will benefit from the $366 million increase in School Improvement Grants which will be reallocated by SEAs to districts with such schools. The SIGs will increase opportunities for professional development and new curriculum purchases, including many of the intervention-type products and services which can be used in SES programs or EIS. As more districts and schools are identified for improvement, the amount of Title I funding reallocated for SES, professional development and other set-asides will continue to increase, and purchasing decisions using set-aside funds will increasingly be made at the district level.

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