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MEMORANDUM

DATE: August 20, 2009

TO: TechMIS Subscribers

FROM: Charles Blaschke and Blair Curry

SUBJ: Final Title I District Allocations and SEA School Improvement Initiatives Underway

Because of their timeliness, we are sending TechMIS subscribers two reports now. The first report identifies districts with $10 million or more in USED-determined final district Title I allocations, which are very similar to the preliminary allocations included in our April 29th Special Report. It also includes districts with the largest amount of SES allocations per eligible student, which in many cases, is more than double last year's 20 percent set-aside amount due to the inclusion of Title I ARRA funds. Whether or not the LEA requests a waiver not to include stimulus funding as part of the SES 20% calculation could create different opportunities for subscribers.

The second report is based largely on recently conducted interviews with state Title I directors who expect that School Improvement Grants (Part G) funds will not be allocated to them until February; in the meantime, they are allocating other "school improvement" funds to districts/schools (mostly in corrective action or restructuring) with intention of adding School Improvement Grants (Part G) later. Now is the time for firms to develop relationships with such districts/schools who are likely the best candidates for receiving six- to ten-fold increases in School Improvement Grant funding in the spring.

If you have any questions, please contact us directly.

Special Report:
Final District Title I Allocations and Maximum Per Student Expenditures for SES Could Take on a Different Meaning Due to Stimulus Funding and How it is Treated by States/Districts Which Will Create Different Opportunities

A Technology Monitoring and Information Service (TechMIS)
SPECIAL REPORT

Prepared by:
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August 20, 2009

As we have in the last several years, we have prepared a list of selected districts which will receive a combined Title I regular and Title I stimulus funding final allocation of $10 million or more and another list of districts receiving significantly increased per pupil amounts for supplemental educational services (SES). However, because of stimulus funding and the opportunity for waivers which states or districts can request, these funding levels have taken on a different meaning, creating different opportunities for TechMIS subscribers who:

- wish to partner with districts which will be allowed to provide their own SES;
- have products and/or services which can be used by districts who apply the 20% SES set-aside (and the 10% professional development set-aside) to stimulus funding to provide more intense SES for special education and English language learners; or
- have products and services that can be purchased for regular Title I programs in districts that free-up stimulus funds for Title I uses by not including stimulus funds under the 20% and/or 10% set-asides through the waiver process.

Exhibit A lists districts receiving a combined Title I regular and Title I stimulus funding allocation of $10 million or greater, along with the maximum per-student expenditure allowed for supplemental educational services. We have also marked with asterisks those districts that were also included in our April 29th TechMIS Special Report as receiving a $400,000 or greater increase in preliminary regular Title I funding. Comparing a large sample of districts included in the April 29th preliminary district allocations with their final allocations before state adjustments, we have not found any differences which are more than one-two percent. The per-pupil allocation -- which is the maximum fee that can be paid for students eligible for SES -- includes both the Title I regular and stimulus amount.

As we reported in the July 10th TechMIS Special Report analyzing USED guidance on waivers, states and/or districts can request waivers not to include the Title I stimulus portion under the SES 20 percent set-aside. This generally will reduce the newly posted amounts by about 40 percent which, nationwide, has a potential to free up between $2-3 billion to be used in a manner

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similar to regular Title I funds. As of the middle of August, our interviews with more than ten state Title I directors indicated that such waivers would be requested by most states. Even if such waivers are approved, districts could still apply the 20 percent to a portion of the Title I stimulus funds which would create other types of opportunities noted below. There are several reasons why a district might request a waiver not to include Title I stimulus funds in its 20 percent set-aside including:

- The actual demand for SES on the part of parents of eligible students may be very low and, hence, the district wishes to reduce the need to carryover a large portion of the unspent 20 percent set-aside, risking the possibility of such funds, above the 15 percent carryover limit, being "lost" (e.g., returned to the Federal Treasury).
- The district has had "bad experiences" with third-party SES providers in the past and/or does not feel there is a capacity among third-party providers to expand services even with an increased maximum per-student fee.
- A district which provides Title I services to students in schoolwide programs would resent having to pay a third-party SES fee, which is often two to three-times greater than the actual amount of Title I funds allocated per student served (which, in schoolwide programs, includes many students who are not Title I eligible).
- The district intends to apply for and become approved to provide its own SES.

Under another waiver request, a district that has been identified for "improvement" may request a waiver to be allowed to submit an application for approval by the state for providing its own SES. As noted above, this will likely be the case if the state applies for such a waiver for all of its districts and the district believes it has the capacity to provide SES at lower per-pupil costs than third-party providers, allowing it to serve more eligible students and not have to worry about end-of-year carryover of unspent SES set-asides. Many districts which request a waiver not to include the Title I stimulus funds under the 20 percent set-aside and thereby have a lower per-pupil SES maximum expenditure and which will be allowed to provide their own SES programs in most cases for the first time in several years, there will exist opportunities for firms to partner with these districts providing them with instructional programs, tools, professional development, and ongoing support.

For those districts that will include some Title I ARRA funds in calculating the 20 percent set-aside, there may be some unique opportunities as we identified in the April 9th TechMIS Special Report. The new Federal Non-Regulatory Guidance (NRG) is explicit in presenting an argument for districts not to exclude a portion of the 20 percent set-aside in order to provide higher per-pupil allocations for students with disabilities and English language learners. It states, "For example, an LEA might provide the per-pupil amount based on its regular FY 2009 allocation to most students but provide a higher amount (based on its regular allocation plus some or all of its ARRA allocation) to students for whom it is more costly to provide SES, such as students with disabilities, limited English proficient students, or students in remote rural areas." Some opportunities could exist in districts which take advantage of IDEA's Section 613, the Local Adjustment Provision, which allows up to 50 percent of a district's increase in IDEA funds to be used to free-up an equivalent amount of local funds, thereby reducing the amount of IDEA funds per special education student or the number of special education students served. Hence, if such occurs, supplemental services could be provided under the SES 20 percent set-aside to serve

these students or, for a variety of other reasons, some districts may wish to target limited English proficient and students with disabilities with more intensive service. Hence, firms that have products and services that could be used by districts who operate their own SES programs could use SES funds to develop a greater capacity to serve these subgroup populations.

One might reasonably expect that some rural districts in sparsely populated areas, with a relatively small number of students eligible to receive SES, might decide to maintain the high maximum expenditure per eligible student for SES. These districts could seriously consider online or distance learning options because of the lack of SES providers in close physical proximity. Indeed, as numerous studies, including recent ones conducted by USED/Institute of Education Sciences and cited by Secretary Duncan, have found, online instruction is often as effective or more so than face-to-face instruction. Distance learning is growing at annual rates of 30-50 percent and the area in which growth is occurring most rapidly is in remediation and credit recovery. Use of SES funds to conduct district-operated online instruction -- where bandwidth and technology capacity exist or where direct access to such online services from firms which can provide instructional support to district operated SES programs -- should expand. Other opportunities may exist working with intermediate education units (IEUs) which can aggregate demand, providing economies of scale while at the same time offering large volume sales for firms which have online remedial programs and/or distribution mechanisms.

Many of the same opportunities could be created under the 10% set-aside for professional development by excluding such stimulus funds in determining the set-aside amount. It remains unclear how states are likely to perceive the need to seek waiver requests. On one hand, unlike unspent SES funds at the end of the fiscal year, unspent 10% set-aside funds for professional development cannot be reallocated, but must be carried over and added to the ten percent set-aside for the following year. Many states and districts may feel that the potential loss of funds, because its unspent professional development set-aside exceeds the 15 percent limit, may be too high a risk, and therefore might seek waivers to exclude stimulus funding from the 10% calculation. In some states, such as Missouri, at least one percent of state aid to K-12 districts is already earmarked for professional development. In a recent discussion, Missouri SEA officials suggested they will request a waiver to exclude Title I stimulus funding from the calculation. On the other hand, some districts realize that professional development can be defined very broadly such that set-aside funds can be used for all types of staff support and wish to have that flexibility.

When approaching the district Title I office, sales staff should explore the possible opportunities which could exist in the context of SEA waiver requests for all districts in the state to determine what type of partnership would be best suited for the firm with the district. If the SEA, or even the LEA, requests a waiver to exclude the Title I stimulus portion from calculating the 20 percent set-aside, thereby reducing the maximum SES fee expenditure and thereby freeing up Title I funds, the district official should be reminded that assurances must be provided that freed-up money will be used by the districts to serve students who otherwise would have been eligible for SES. Moreover, the LEA is required to base how the freed-up funds will be used on data from state or formative assessment results and that such instructional strategies will be based on "scientifically-based research," as detailed in our July 10th TechMIS Stimulus Funding Alert.

Stimulus Funding Alert: While States Are Expecting to Receive Their Portions of the $3.5 Billion School Improvement Grants Funding in February-March, They Are Beginning to Allocate Other School Improvement Funds to Districts With Lowest-Performing Schools Now; Even Though Confusion Over Allowable Uses Exists, Firms Should Begin Approaching Districts/Schools Now to Get a Foothold as Many of the Same Districts Will Receive A Lion's Share of the $3.5 Billion Stimulus Amount Early Next Year

A Technology Monitoring and Information Service (TechMIS)
SPECIAL STIMULUS FUNDING ALERT

Prepared by:
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August 20, 2009

Virtually all State Title I Directors have begun to allocate "school improvement" funds to districts with the lowest-performing schools (i.e., those in corrective action or restructuring) under the expectation that their state will not receive their portion of the $3.5 billion School Improvement Grant (Part G) funds until next February-March. Even though publication of School Improvement Grant "guidance" was expected prior to the National State Title I Directors meeting in Washington, D.C. in July, such guidance has yet to be published; moreover, regulations will likely be posted soon for public comment with final regulations expected 50-70 days later. SEAs will likely have to submit applications under the new final guidance and regulations for USED approval, all of which will not be completed until December-January. In the meantime, recent discussions with more than ten state Title I directors indicate they are allocating unspent SIG (G) funds from last year, as well as prorated amounts of this year's 4% SEA set-aside for School Improvement under Part A, to districts and schools which were funded last year and a number of districts and/or schools which have just come under "corrective action" or "restructuring" sanctions, including high schools, in some states this year. The amount of unspent SIG (G) funds from last year, plus the 4% SEA set-aside, totals slightly over $1 billion.

Some observers feel that USED has decided to release the remaining 50 percent of the Title I ARRA funds one month earlier than planned in early September in order to increase the amount of the 4% SEA set-aside so it can be allocated sooner. This would help SEAs meet their commitments to districts by using these funds in lieu of the delayed SIG (G) funds.

The majority of SEA Title I directors with whom we talked were aware of the likely confusion which will have been created by their action. USED guidance published in April suggested that SEAs allocate all of the SIG (G) funds to districts with lowest-performing schools -- especially those in corrective action and restructuring -- first, and then allocate the 4% SEA set-aside for school improvement later because SEAs have much discretion about how the more flexible 4% set-aside funds can be allocated and used. There are, however, other major differences, as we pointed out in the June 30 Washington Update, regarding the "allowable" uses under the two "pots" of "school improvement" funds. For example, the most a school can receive under SIG (G) is $500,000, while under the 4% SEA set-aside, the SEA can determine the amount allocated per school. And, the 4% SEA set-aside can be allocated to districts identified for improvement which do not have individual schools identified for improvement. Moreover, if a school receiving the 4% SEA set-aside funds exits from its restructuring sanction, it is no longer eligible to receive such funds while a similar school exiting from restructuring receiving SIG (G) funds can receive such funds for an additional two years. Several state Title I directors indicated they would be taking advantage of this option in order to incentivize particular schools to maintain increased student achievement. Added to the possible confusion would be the subsequent addition of SIG (G) funds next spring to those districts receiving funds for schools that received initially the 4% SEA set-aside funding as a much more detailed and different set of reporting requirements exists for how SIG (G) stimulus funds are being used. Some observers doubt that USED will allow carte blanch combining such funds.

Perhaps the biggest bone of contention among state Title I directors relates to potential conflicts between their existing intervention models/approaches using the 4% SEA set-aside and last year's School Improvement Grant (G) funds and the anticipated very prescriptive guidance under the new SIG (G) stimulus funding, as reflected in yet-to-be published School Improvement guidance and/or regulations. For example, Michigan has implemented a turnaround initiative that provides three levels of support that the state provides, each with a set of guidelines and principles that are very structured (i.e., one for schools in improvement, another for schools in corrective action, and another for schools in restructuring with differentiated components in terms of intensity and coverage). Similar turnaround training is provided to principals, instructional staff, and coaches but at different levels of intensity. A concern is that the new School Improvement Grant guidance may be so prescriptive that it will conflict with the in-place state approach which has evidently worked well over the last several years. Other states, such as Maryland, do not allow SIG funds to be used to hire "turnaround experts." Some states, such as Tennessee and Montana, have already initiated interventions to be used with high schools which may conflict with the yet-to-be published guidance. Another major concern among virtually all SEA Title I directors is the pressure being placed on them to ensure that all SIG (G) funds are obligated by September 30, 2011, which in most states would mean they have only about 18 months to obligate such funds from the time they are actually received.

In the context of a changing and even confusing situation in most states, funds are being allocated to districts with schools that are also likely to be recipients of the larger SIG stimulus funding next spring. Given the use of 4% set-aside School Improvement funds to get started, along with unused SIG funds from last year, it is important for firms with appropriate products and services to develop relationships now with such districts/schools and to become familiar

with the SEA plans currently in place which, of course, could change as a result of new guidance and regulations. In our June 24th TechMIS Special Report, analyzing Race to the Top guidance that addressed "turning around failing schools," we suggested some of the opportunities which exist for certain types of products, which will likely be reflected in the School Improvement Grant guidance. The real question, however, is how prescriptive will such guidance be and how much flexibility will SEA Title I offices have in implementing their school improvement initiatives.