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**M E M O R A N D U M**

**DATE:** November 13, 2007  
**TO:** TechMIS Subscribers  
**FROM:** Charles Blaschke  
**SUBJ:** FY 2008 Joint Conference Funding Levels for Education Likely to Be Vetoed by President; Then Negotiations Begin

Last week, the House and Senate agreed on a Joint Conference Report that included the proposed funding levels for major education programs which can be used to purchase instructional materials, software and related products. The bill will likely be vetoed by the President because of an “excessive” \$10 billion increase in discretionary funds.

Earlier this week, Congress overrode the President’s veto of a supplemental budget which included numerous “pork” and other related budget items. While the Senate vote was not enough to override a Presidential veto, the House vote was just three votes shy of the two-thirds required for an override. However, 17 House members did not vote. Some of these non-voters have been supporters for education funding increases in the past.

Several appropriation observers feel that it is still possible for the House to override the President’s veto; a problem would still exist in the Senate. Even though the likelihood of a veto is very high in this initial submission, the numbers on Exhibit A attached not only reflect the House-Senate leadership agreement on funding priorities, but also suggest those bargaining chips which Congress is likely to use in subsequent negotiations. In addition to the increases, the Conference Report does provide additional information reflected in Congressional intent on how some of the funds should be used.

Title I is the biggest winner with a 8.3 percent increase of \$1.473 billion. Virtually all of the formula grant increase will be under the “targeted” and “incentive” components, which will primarily benefit large urban districts with high numbers of poverty students. The School Improvement Grant, which are supposed to be allocated to districts by SEAs primarily to help schools in “corrective” action and “restructuring” would increase from \$125 million this year to \$500 million in FY 2008. IDEA special education funding would increase from \$10.783 million to \$11.292 million, an increase of about \$550 million. Education Technology State Grants funded under Title IID would be level funded at \$272 million, while 21<sup>st</sup> Century Community Learning Centers would receive a 14 percent increase to \$1.081 billion. The stated Congressional intent is to have 40 percent of the increased funding be used to establish afterschool programs in middle and high schools.

As we noted in our November TechMIS Washington Update, both House and Senate Appropriation Chairmen stated that they would “hold the line” on the proposed cuts to Reading First until there was evidence that USED has “cleaned up” the mismanagement and other problems which were identified by the Office of Inspector General during the early days of Reading First implementation. The proposed Joint Conference funding of \$400 million is much closer to the House initial mark than the Senate which would have provided a smaller reduction to \$800 million. In the House’s original Appropriations Conference Report, Chairman Obey indicated that the proposed increase in Title I funding could make up for any shortfalls in districts which received budget reductions for their Reading First schools, and that, in some states, it wouldn’t affect existing programs, but rather only new competitions. As we noted in the (September or August) Washington Update, using Title I funds to make up for shortfalls in existing Reading First programs may be difficult because the definitions of scientifically-based research and the criteria for purchasing certain instructional products or even services are different. In a document sent to Education Daily (November 7, 2007), USED refuted the argument that the funding cut would affect only new competitions by stating, “This is not the case with the reduction of \$600 million. Approximately 4,300 schools would lose funding based

on the average school grant size, some of which would be schools that are currently receiving grants and other schools that would receive a grant if funding weren't cut.”

Without question, the Reading First budget will be one of the negotiating points; the key question is who holds the most bargaining chips. If the Administration wants to preserve the existing funding level of Reading First rather than getting funds for new proposals (noted below), then the safest way to do so would be to continue vetoing Congressional proposed FY 2008 budget levels and forcing education to operate under a Continuing Resolution through September 30, 2008 which would mean Reading First would receive no reduction. The implications for different firms are very clear. If a firm has products and/or services which are being purchased under Reading First, then significant opportunities could occur as districts are more likely to use such funds to invest in products or professional development than to hire new teachers or other staff for fear that the potential for Reading First budget cuts is high in following years. Under this Administration's strategy, the \$1.5 billion increase in Title I funds would not occur, negatively affecting potential sales of products and services offered by firms selling into the Title I marketplace generally. As we note in a related Washington Update item, over 60 percent of districts with Reading First schools indicate they will continue to purchase products and services for their Reading First schools.

While the proposed Conference mark would increase funding for some of the President's priority, such as Advanced Placement which would receive a \$10 million increase to \$46 million, for some of the Administration's proposed new initiatives such as Math Now, Promise Scholarships, and Opportunity Scholarships -- which would have received more than \$500 million together in the President's proposed budget submitted last February -- the Conference funding for these programs is zero. Funding for the newly-enacted America Competes Act, which includes two Math Now type programs, does not appear to have been addressed in the Conference report. However, the proposed Conference mark for Smaller Learning Communities will receive about \$80 million, or a slight reduction from previous years. The Smaller Learning Communities competitive grants

funded projects similar to those currently funded under Striving Readers and the proposed Math Now initiative.

When the President vetoes the bill, then the negotiations will begin in earnest. Most observers feel that Title I will remain the winner with some of the funding for Reading First restored, some of the proposed reductions for Reading First will be restored. One of the first casualties is likely to be many of the 2,200 pork barrel set-aside items that are in the current bill; ironically, Democratic supporters of the bill will likely be the first to lose their “pet project” funding earmarks because without them they would still support the revised bill. On the other hand, Republican swing votes will likely be protected from reductions in order to attract their votes once again. We will keep you posted on developments, or contact me directly if you have any questions.