

Stimulus Funding Alert: Uncertainty About the Use of Governors' Portion (\$48 billion) of Stabilization Funds Suggest Initial Focus Should Be Upon IDEA and Title I Followed By School Improvement Grants on Release of Guidance

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

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During the last week, a number of concerns have surfaced, along with possible new interpretations of how stimulus funds can be used by governors. These strongly suggest that the priority focus of most TechMIS subscribers initially should be IDEA (\$12.2 billion), particularly the local adjustment provision, and Title I (\$10 billion) stimulus funds. Based on comments from high-level officials from large urban districts, recent media reports on initiatives by governors and/or state legislators, and new interpretations of how stabilization funds can be used by governors, it is becoming unclear how much of the stabilization funding will actually be available to school districts.

During the Council of the Great City Schools meeting, at which Secretary Duncan spoke on March 15th, high-level officials from some of the largest districts recited a number of concerns. Most agreed that governors and/or legislators would attempt to “bait and switch” by cutting state funds for districts through the state aid formula or categorical programs, hoping that the stabilization restoration funds could be used to replace them. This would be likely to happen even in states such as California and Florida where the maintenance of effort (MOE) requirement could be met by requiring that state funds, through existing governor-selected formulas, be restored to the 2006 level in proportion to the K-12 cuts relative to cuts in other areas such as transportation, safety, health, etc., which Secretary Duncan suggested might be a solution for at least these two states. The second major concern was that the governor could pick and choose which state aid revenue stream would be used to restore funds. For example, in some states which have weighted state aid formulas, the governor would likely be limited to using that funding stream to restore recent state cuts up to the 2008 or 2009 levels. On the other hand, in states which have three or four categorical programs, such as State Comp Ed, along with the state aid formula, the governor may elect to restore only funds in the state aid formula at the expense of Comp Ed and other categorical programs. This would hurt K-12 districts that rely heavily on state categorical programs unless the state had some remaining funds after the “statewide restoration,” which could be sent to some of these districts through the existing Title I formula.

Another related concern was that the specification of the maintenance of effort to 2006 would basically send a message to states that have not made major cuts to go ahead and reduce existing state funding to

the 2006 effort and then, in order to maintain effort, use stimulus funding to replace last minute cuts in state funding.

On top of the above uncertainty issues, during the Council's conference and the SIIA Ed Gov Forum held a couple of days later, knowledgeable observers very quietly referred to the Impact Aid Program (which is part of ESEA) as a means to provide almost "total flexibility" for the use of such stabilization funds, including the possibility that all of the \$48 billion could be used for school "construction," which is an allowable use of Impact Aid funding. On March 16th, the media began to pick up on this possible "loophole" which USED allegedly "confirmed." If this interpretation holds when final stabilization stimulus funding guidance becomes available in the next few weeks, then, in those states and districts which place a higher priority on school construction than on academic instruction, the amount of funding for purchases of products which most TechMIS subscribers provide could be limited.

And last, whereas the USED has planned to release stabilization funding to governors within two weeks after approval of an initial application, the Office of Management Budget has to approve such a "hurried up" release date. If the request by USED is not approved immediately, then it is conceivable that such funds will not be released until three months later.

In light of the above uncertainties and the governors' final decisions about how they will interpret and implement the stabilization fund provisions, we advise TechMIS clients to focus immediately on IDEA and Title I stimulus funding. As we noted in our last TechMIS report on IDEA guidance, half of the \$12.2 billion will be allocated to states by the end of March and, in turn, states are required to release such allocations (based on 2008 funding levels) to districts within 30 days. Hence, of all the stimulus funding -- if all states abide by this "encouragement" from USED (it is not explicit in the Law) -- then IDEA will be the first stimulus funding to be in the hands of districts. As emphasized by the spokesperson for the American Association of School Administrators, Mary Kusler, during the SIIA education forum on March 17th, the most flexible bucket of stimulus funding for use by districts is the "local adjustment provision" which we identified in our last TechMIS Special Report (March 10th). Under this provision, which has been in the Law since 1997 but seldom used, a district, usually in the person of the Superintendent or another high-level official, may use up to 50 percent of the increase in IDEA funding from one year to the next basically to supplant local funds that have been used to provide IDEA special education services. These local funds "freed up" can be used for any use allowable under ESEA. The amount of "freed up" funds under the local adjustment provision would reduce the amount of the 15 percent set-aside for Early Intervening Services/RTI. We suggest that there exists great opportunities immediately for TechMIS subscribers, who have products that would be allowable purchases under ESEA, to target superintendents or other high-level district officials who may not be aware of this local adjustment provision to determine whether their "pent up" priority uses could be fulfilled by these "freed up" resources. In addition, some of these superintendents or other high-level officials who are of an entrepreneurial nature may see this as an opportunity to purchase products and services quickly as part of an initiative that fits under one of the four major "assurances" that states have to provide in their applications. These assurances will become priorities for funding under the \$650 innovation fund for which proposals would be solicited from districts five to six months from now. By having a track record and "commitment" in these areas, districts can use innovation funds to scale up implementation of such initiatives using appropriate products and services.

If anyone has any questions, please contact Charles Blaschke directly.