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MEMORANDUM

DATE: May 13, 2009
TO: TechMIS Subscribers
FROM: Charles Blaschke and Blair Curry
SUBJ: FY 2010 Preliminary Budget Analysis

Attached is our preliminary analysis of the proposed FY 2010 budget for K-12 education. Further analysis will occur after discussions with SEA and LEA officials about implications for TechMIS subscribers. Please call if you have any questions.

Administration's Priority Initiatives Being Funded Through Redirected Title I Basic Grants While Prescriptive Approaches Are Encouraged Through Incentives and Increased Federal Control Over Competitive Grants

*A Technology Monitoring and Information Service (TechMIS)
SPECIAL REPORT*

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The President's proposed FY 2010 budget would fund the Administration's new priority initiatives by redirecting Title I "basic" grants rather than by requesting many new funding increases. While the Administration has emphasized greater flexibility than the previous Administration's "one size fits all" approach, one can expect prescriptive measures for implementing such initiatives to result through the use of financial incentives for states and districts and increased control in national (vs. SEA) competitive grants. Should Congress support the President's redirected priority funding request and general approach, the primary beneficiaries will be firms which have specific products and services which align closely to the prescriptive measures and/or can facilitate recommended effective practices and which can also assist districts in developing winning proposals under competitive grant programs. The budget document notes that the proposed budget represents an increase in discretionary programs of \$1.3 billion compared to the regular FY 2009 appropriations. The overall budget would make available about \$130 billion in new grants, loans and work study assistance in FY 2010 which is an increase of almost \$32 billion or 32 percent over the 2008 level. A portion of these new grants are for K-12 education. The increased emphasis on identifying effective practices in priority areas, such as turning around schools in restructuring, would also benefit research and evaluation groups.

It appears that the most significant K-12 initiative will continue to be to create and implement comprehensive research-based plans and approaches for schools identified for improvement, corrective action, or restructuring, including middle schools and high schools often referred to as "dropout factories." Of the approximately \$1.5 billion reduction in the "basic" component of Title I formula grants, \$1 billion would be used to increase the School Improvement Grant (SIG) program funded last year at \$545 million (excluding the \$3 billion increase in ARRA funds for SIG). In addition, \$50 million will be redirected toward a High School Graduation Initiative which will support innovative strategies for increasing high school graduation rates, particularly in 3,000+ "dropout

factories.” The Striving Readers program would increase from \$35.4 million to \$370.4 million, of which \$70 million would be used to double adolescent literacy grants and \$300 million would go for new Early Literacy Grants (about 70 to districts) which would implement “comprehensive and coherent programs of reading instruction for children in the elementary grades that are grounded in scientifically based reading research, with an emphasis on building comprehension skills, and on instruction and vocabulary development, oral language fluency, use of academic language andwriting skills.” Some observers feel this initiative would be a redirected replacement for Reading First. About 150 new grants would be funded and would require rigorous research and evaluation.

The budget narrative makes a point of which we have reminded TechMIS subscribers on several occasions. In justifying the increase in funding for adolescence literacy, and a 40 percent earmark for School Improvement Grants to serve middle and high schools, it states, “In addition, increasing the share of SIG funds used in middle schools makes sense because middle schools are almost twice as likely as elementary schools to be identified for improvement, corrective action, or restructuring (22 percent vs. 13 percent).” Our own analysis suggests that, while 15 percent of Title I schools are middle schools; they make up over 30 percent of all of the schools currently in “restructuring.” (MCH has these lists) The budget document also notes that the “number of schools identified for all stages of improvement grew by more than 10 percent, from 11,511 schools in the school year 2007-08 to 12,737 in school year 2008-09.” Moreover, the number of schools identified for restructuring has nearly tripled over the last three years, from 1,700 to 5,000 in 2008-09, with a prediction that if the trend continues, roughly half of all Title I schools “identified for improvement by the ESEA will be in restructuring as early as the 2009-10 school year.”

The much-heralded preschool initiative would receive approximately \$800 million as a first step of “redirected and new funding,” some of which would be used to leverage additional state and recovery funds. Under the new Title I Early Childhood Grants program, funded at \$500 million, states and districts would be required to provide matching funds from the Title I ARRA allocation to “establish or expand high-quality pre-K programs that are fully coordinated with their existing Title I programs.” In addition, \$300 million would be provided for a new Early Learning Challenge Fund which would help states “develop or refine systems for rating and improving the quality of early learning programs.” This new initiative is one of the largest state “capacity building” programs ever proposed. Unlike the zero-funded Reading First program, Early Reading First received an increase of approximately \$50 million to \$163 million based on the results of several studies which found “numerous positive effects, including improvements in children’s print and letter knowledge, which justify an increased investment in the program.”

One of the largest percentage increases in funding is the Teacher Incentive Fund which would increase from \$97 million to \$517 million. With the new monies, the budget document states that the Department “will place a priority on the support of comprehensive, aligned approaches that support improved teacher and principal

effectiveness and help ensure equitable distribution of effective educators, that actively involve teachers (including special education teachers) and principals in the design of human capital and compensation systems, and that use data from emerging State and local longitudinal data systems to track outcomes and associate those outcomes with educator performance.” Unlike the Bush administration’s version of the Teacher Incentive Fund, the Obama/Duncan Administration would request a change in language to allow “support for performance-based compensation to all staff in a school, because research indicates this approach can be effective in raising performance across a variety of organizations.” This request certainly reflects successful negotiations between the Administration and some teacher groups, including the AFT.

Another Obama/Duncan priority -- Charter Schools Grants -- would receive an increase from \$216 million to \$268 million that “represents the first step in meeting the Administration’s commitment to double financial support for the program over the next 4 years as part of its overall strategy of promoting successful models of school reform.” Many of the charter schools which Secretary Duncan was instrumental in initiating in Chicago Public Schools were very similar to Magnet Schools, which would receive level Federal funding at \$105 million under the budget request; approximately 40 new grants would be provided to LEAs.

Unlike proposed redirected Title I and new School Improvement and related initiatives, very few changes were requested under Special Education/IDEA. The Grants to States program would remain level-funded at \$11.5 billion which would maintain the Federal contribution to the cost of special education at around 17 percent. Including the ARRA increase for FY 2009-10 of \$11.3 billion for IDEA, the Federal contribution would be about 28 percent. While Secretary Duncan has, on several recent occasions, emphasized that the stimulus portion for IDEA is a “one-time” increase and does not constitute a new “baseline,” many Congressional leaders including Senator Tom Harkin, Chairman of the Appropriations Education Subcommittee, consider the stimulus increase to be a new “baseline.” Other knowledgeable observers -- with whom we agree -- feel that the stimulus increase for IDEA is much more likely than Title I to represent a new “baseline” for increased regular appropriations because IDEA has increasingly been recognized as an “unfunded” Federal mandate. With more and more education officials becoming aware of Section 613, the “local adjustment provision” -- which allows up to 50 percent of a district’s increase in IDEA funding, under certain conditions, to be used to free-up local resources currently used to pay for special education programs -- support through groups, such as the American Association of School Administrators, can be expected to pressure Congress even more to increase “baseline” funding for IDEA in 2010-11.

The budget request does call for new competitive grant opportunities under the Personnel Preparation and State Personnel Development components, level-funded at \$91 and \$48 million, respectively. Under Personnel Prep, \$21 million would be available for new competitive grants, and under State Personnel Development component, eight states would receive new awards to increase the total number funded thus far for the development of personnel professional development to 46 states. Such funds can also be used for recruitment and retention of highly-qualified personnel.

Under the Technology and Media Services component, level-funded at \$39 million, new grant awards are anticipated to “promote the use of technology, including universal design features, in providing special education and early intervening services.” Previously non-competitive earmark projects funded in 2009 would be used for new competitive grants in 2010.

While the Career and Technical Education component funding levels would remain unchanged -- to the chagrin of career-technical education advocacy groups (who argue that the last increase was in 2002) -- the Adult Basic and Literacy Education component would receive a \$74 million increase over the FY 2009 level to \$628 million. About 90 percent of this increase is needed to “compensate certain states for errors in calculating formula grants between fiscal years 2003 and 2008. This one-time increase would provide these states the additional amounts to which they were entitled, while holding harmless the states that received overpayments during this period.” The one-time windfall in these states could provide unique opportunities for firms with products that can be used for English language literacy, GED and adult basic education, credit recovery, and related activities. Additional funds would be freed-up for national competitive grants as a result of the proposed termination of the National Institute for Literacy which was created in the 1990s under the sponsorship of former Education Committee Chairman, Bill Goodling, who also supported Even Start which also would be eliminated. Because he still remains popular among Congressional leaders, these proposed cuts will likely face resistance. The states which are receiving windfall increases in state “basic” allocations, past miscalculations will be available shortly, according to USED officials.

One new initiative, which is similar to legislation proposed by Senator Obama two years ago, would provide one-year grants to non-profit, community-based organizations and other entities to develop plans for comprehensive neighborhood programs, modeled after the Harlem Children’s Zone Promise Academy, which is called the “Promise Neighborhoods Initiative.” Expanded opportunities will be created under this initiative, now and in future years, for firms with products and services that can implement and support behavioral, health, social and directly-related support interventions and systems. The WhatWorks in Innovation Fund which receives \$650 million in ARRA Stabilization funding for competitive grants this year and next, the FY 2010 budget request includes \$100 million which could pick up some of the “slack” once these Stabilization funds are obligated.

Not unexpectedly, as noted earlier, no funds were proposed for Reading First, although a large portion of the Striving Readers program could be used to continue funding successful Reading First programs at the district level.

Another casualty of the proposed budget would be the E²T² State Technology Grants program whose funds would be reduced from \$270 million to \$100 million. The budget document justifies this proposed reduction by noting the \$650 million increase in E²T² stimulus funding for 2009-2010. It also indicates that states could use up to 100 percent

of their allocations for competitive grants to high-need LEAs or consortia “that include such a district in partnership with an entity having expertise in integrating technology effectively into curricula.”

Another disappointment to afterschool advocacy groups was the level-funding at \$1.13 billion for 21st Century Community Learning Centers. Candidate Obama called for a 200 percent increase during the campaign. The budget document projects that funds would assist more than 10,000 centers and suggests that a priority be placed on centers “located in schools that have been identified in need of improvement under Title I” (see April [Washington Update](#) SES regulatory changes item).

The Smaller Learning Communities program would be level-funded and would support 55 continuation and seven new competitive awards; however, it is not clear whether the Administration would continue to support, as a top priority, programs for students struggling with reading and math at the upper middle school and lower high school levels as they have in the past.

As noted earlier, the Even Start program would receive no funding based on OMB review of recent study findings which reported that only a limited number of the 40 measurable outcomes for the program were positive -- a study which advocacy groups such as the National Council of Lu Raza have argued was flawed. The Fund for the Improvement of Education (FIE) was cut from \$116 million to \$67 million, although \$47 million would be available in new grant awards in the area of history, civics, reading readiness, digital professional development, and related competitive projects. The reduction of \$49 million would reflect the “elimination” of one-time earmarks.

One of the largest proposed reductions would be the elimination of Safe and Drug-Free Schools and Communities State Grants (almost \$300 million), while the National Activities competitive grant programs would increase by \$110 million. New initiatives would include comprehensive drug and violence prevention projects and related programs, all funded through national competitive grants totaling \$25 million. An additional \$33 million would continue to support alcohol abuse reduction programs.

While the funding levels for some programs proposed in the FY 2010 budget will be opposed and likely changed by Congress during the appropriations debate, the Administration is much more likely to fight for more centralized control through the Federal competitive grant process to initiate some of the major reforms. Many of these are called for in the ARRA stimulus package, but are likely to be “stepchildren” to financial recovery (i.e., retaining staff due to state funding cuts). This increased push for Federal competitive grants versus formula funding will create added burdens of proposal development and reporting for districts. However, the opportunities for firms with reform solutions and tools to facilitate desired best practices should increase or provide extended funding for district activities initiated under the initial year of stimulus funding. As we continue our discussions with SEA and LEA officials responsible for IDEA Title I and related new programs, we will provide updates on perceived the impact and opportunities of such changes.

**U.S. DEPARTMENT OF EDUCATION
FUNDS AVAILABLE TO
PURCHASE SUPPLEMENTAL/TECHNOLOGY
PRODUCTS AND SERVICES**

(millions of dollars)

	FY2009 Appropriations	FY 2009-10 House-Senate Stimulus Addn(est.)	FY 2010 President's Request
Title I (Total)	15,760	+13,000	16,431
Total LEA Grants (Part A)	14,492		12,992
Basic	6,598		5,098
Concentration	1,365		1,365
Targeted Grants	3,265	+5,000	3,265
Finance Incentive Grants	3,265	+5,000	3,265
Migrant	395		395
Even Start	66		-
Reading First	-		-
Early Reading First	113		163
Early Childhood Grants	-		500
Early Learning Challenge Fund (requires ARRA match)	-		300
Striving Readers (Early/Adolescent)	35		300/70
High School Graduation Initiative	-		50
School Improvement Grants	546	+3,000	1,546
Improving Teacher Quality(Title II)	2,948	+100	2,948
English Acquisition	730		730
State Assessments	411		411
Math Science Partnerships	179	+40	179
Advanced Placement	44		44
Teacher Incentive Fund	97	+200	517
Promise Neighborhoods	-		10
Technology State Grants(Title II D)	270	+650	100
Special Education (EHA/IDEA)	11,505	+12,200	11,505
Adult Education	554		628
Vocational/Technical	1,161	+60	1,161
Smaller Learning Communities	88		88
Safe & Drug-Free Schools and Communities State Grants	295		-
Safe & Drug-Free Schools and Communities National Programs	220		284
21st Century Community Learning Centers	1,131		1,131
Charter Schools	216		268
Statewide Data Systems	65	+250	65
College Mentoring (GEAR-UP)	313		313
HEA TRIO Program	848		848

* Reading First reduced to 0

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