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MEMORANDUM

DATE: May 20, 2011

TO: TechMIS Subscribers

FROM: Charles Blaschke and Blair Curry

SUBJ: Final FY 2011 Budget Numbers and Preliminary District/Final State Allocations

Because of the timely nature of the recent USED reports, we have included two Special Reports now with remaining reports and Washington Update items to be sent TechMIS subscribers at the end of the month.

The first Special Report includes our analysis and final line item budget numbers for Federal K-12 programs. To the extent some of the agreed upon "language" underlying the FY 2011 negotiated budget was made available through footnotes, we include them now and will update such "language" if and when other reports are released by Congress or USED. There are several changes from our earlier Special Report on FY 2011 preliminary budget numbers sent on April 15th, after negotiations were completed. One is that a much larger amount of Title I and IDEA funds will be "forward funded" and released after October 1st than in previous years, which could affect purchasing cycles. Another is that the obligation deadline for new competitive rounds for Race to the Top, i^3, Promise Neighborhoods, and other programs receiving additional funding is December 31st. Because the applications for many of these programs are not yet available, the deadlines for proposal submissions and review will be tight.

The second Special Report includes final Title I state allocations and allocations to districts receiving a $400,000 or greater increase in funds and districts receiving a 30 percent or more increase beginning in July. Title I offers the best prospects to target over the next 18 months because of multiple purchasing cycles and the possibility of additional funds being made available this year through reallocations of "remaining" State Fiscal Stabilization Funds in certain states and larger-than-15 percent carryovers of this year's funds to next year in all states.

In these two reports we also refer to other reports/updates we are developing at this writing, based upon other data released by USED. These will be included in the TechMIS report at the end of this month.

If anyone has any questions, please contact Blair or Charles at 703-536-2310.

Special Report:
USED Finally Posts FY 2011 Budget Agreement Program Line Items Based on its "Interpretations": Several Administration Priorities, Such as Race to the Top, and i^3 Will Receive Increases for New Competitions, While Title I and IDEA Are Level-Funded

A Technology Monitoring and Information Service (TechMIS)
SPECIAL REPORT

Prepared by:
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May 20, 2011

In mid-April, with a Federal Government "shutdown" imminent, the FY 2011 education budget was finally negotiated after which time staff in the Office of the President and GOP leadership drafted language based on what was agreed upon (see April 15 TechMIS Special Report on preliminary numbers). Over the next several weeks, the Office of Management and Budget confirmed that the language reflected the "intent" and that the numbers were accurate; on May 13th USED was sent the final budget document from which "official charts" with line items budgets were published on May 16. The final line items for programs which TURNKEY monitors in detail are included in Exhibit 1, which includes final adjustments for a .02% "across-the-board" cut and other interpretations.

Two of the president's priorities -- Race to the Top and Investing in Innovation (i^3) received $689 and $150 million, respectively, in additional funds for new competitions. Promise Neighborhoods, which received $10 million in FY 2010 used for more than 20 planning grants, received an additional $20 million for a total of $30 million for additional competitive planning grants and several "implementations" of projects. On April 27th, Secretary Duncan announced that the Promise Neighborhoods application would be "announced shortly" with winners being selected no later than December 31st. The next competitive grant applications for Race to the Top and i^3 were not available as of May 17th, but winners will also be announced on or before December 31st. It is important to note that, even though the <u>proposed</u> Early Learning Challenge Grant $300 million initiative was not funded as a new separate line item initiative, a certain amount of the $689 million Race to the Top fund would be allocated for an initiative very similar to the proposed Early Learning Challenge Grant. Although the Administration had proposed allocating the next competitive round of Race to the Top funding to districts, the interpreted language in the budget agreement would limit such grants only to SEAs.

As Exhibit 1 displays, Title I and IDEA were reduced slightly as a result of applying the .02% across-the-board cut. However, the amounts of Title I and IDEA funding for next year which will be "advanced funded" differ greatly from previous years, with implications for most TechMIS subscribers. Of the $14.4 billion for Title I grants to states, $10.8 billion will not be allocated until after October 1st, with only $3.6 million allocated after July 1st. Negotiators were probably aware that $2 to $3 billion of Title I ARRA funds have yet to be obligated. In addition, they were likely aware that most states have received waivers to carry over much more than 15 percent of this year's regular Title I funds to next year. A number of purchasing cycles can be expected -- one between now and September 30th in which districts will be spending Title I ARRA funds rather than losing them; another cycle will begin in November-December with major increases in March-June next year, using FY 2011 Title I regular funds and FY 2010 carried over Title I regular funds.

For IDEA, $8.6 billion will be "advanced funded" and therefore not available until after October 1st, with $2.8 billion allocated in July. However, districts are not allowed to carry over regular IDEA Part B funds from this year to next year. Hence, with about $2.5-$3 billion of unobligated IDEA ARRA funds "remaining available" at the end of April, purchasing cycles using IDEA regular and ARRA funds are now at their peak and will remain so through September 30th (see April TechMIS Funding Alert).

School Improvement Grants Part G funds received a $10 million cut to $535 million for FY 2011. Currently, applications from districts are being reviewed and grants being made by SEAs using FY 2010 funds plus slightly over $800 million of FY 2009 funds which has been carried over from last year to this year which will fund full implementation of approximately 1,200 Tier I, II, and III schools in September. In light of the unstable funding and lengthy application approval process during the initial year of implementation of SIG grants at the SEA and district level, new funding stability, and few future anticipated changes in SIG guidelines (there have been five since 2009) should result in a healthy niche marketplace for firms with appropriate products and services over the next two to three years. The Teacher Incentive Fund, another Administration priority, was also level-funded at approximately $400 million which will lend some stability to that program.

As displayed in Exhibit 1, a number of programs either received substantial cuts or were zero-funded. Education State Technology Grants funded at $100 million in FY 2010 would be zero-funded, although the Administration earlier announced a new priority supporting technology use in the schools. However, using funds for technology from other Federal programs, such as Title I, IDEA, Race to the Top, and i^3, would be encouraged through new "flexibilities"; USED also created in December a new absolute priority for "technology" for competitive grants and included technology use to support another priority -- "increasing productivity" (see February 15 Washington Update).

The Safe Schools and Citizenship National Programs would be cut from about $224 million to $126 million for FY 2011 and the Career and Technical Education Program would be cut from

$1.2 billion this year to $1.1 billion next year with Tech Prep component being reduced to zero. Funding for some other programs was also eliminated, including $88 million for Smaller Learning Communities, $250 million for Striving Readers, $19 million for Literacy Through School Libraries, and $66 million for Even Start. Title IIA Teacher Quality Grants would receive almost a $500 million decrease. About half of the money taken out would be a set-aside for competitive grants for Administration priority "earmarks" such as Teach for America.

The .02% across-the-board cut would also reduce funding slightly for programs such as the 21st Century Community Learning Centers, Math and Science Partnerships, English Acquisition Title III, Advanced Placement, State Assessments, and School Leadership, among others.

As noted earlier, the publication of the final budget charts by USED took much longer than in the past, largely because of the interpretations which had to be made by OMB due to the nature of the final negotiations. Thus far, there has been no public document which lays out the specific language. Should such a document be provided by the Administration or the Congressional Appropriations Committees, we will address "new language" in any subsequent reports. In the meantime, it is likely that one will have to await the application forms for new rounds of competitive grants to gain insight into USED's interpretation of Congressional intent and priorities.

To review the FY 2011 budget charts go to: www2.ed.gov/about/overview/budget/news.html

Special Report:
Preliminary Title I Allocations
to Districts Receiving Significant Increases

A Technology Monitoring and Information Service (TechMIS)
SPECIAL REPORT

Prepared by:
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May 20, 2011

Enclosed are lists of preliminary Title I Part A school year 2011-2012 allocations for districts which, before SEA and other adjustments, would receive: (a) an increase of $400,000 or more (Exhibit A); and (b) an increase of 30 percent which is at least $75,000 (Exhibit B). For a host of reasons described later, these allocations should be considered very preliminary because of numerous adjustments which SEAs and others will have to make over the next 3-4 months.

We have also included Exhibit C which displays the actual FY 2011 state-by-state Title I allocations compared to the FY 2010 amount. Even though the negotiated final FY 2011 budget for Title I experienced only a $29 million reduction due to the .02 percent across-the-board cut because of increases or decreases in poverty rates among states (as determined by the latest Census data), some states had increases while others had cuts. As displayed in Exhibit C, states receiving a ten percent or greater increase include: Hawaii, Minnesota, Utah, and Washington. Other states received increases of between five percent and ten percent: Idaho, Kansas, Nevada, Ohio, and Wisconsin. Some large states received substantial absolute cuts including: California ($102 million), New York ($74 million), Pennsylvania ($33 million), and Puerto Rico ($34 million). We and others, such as the Center on Education Policy, have questioned the accuracy of census data sets and calculations used in the Title I formula, both of which have resulted in state-by-state volatility, with funding increases one year and decreases the next.

Volatility in preliminary Title I district allocations over the last four years has once again occurred this year. Most of the districts' funding increases (Exhibits A and B) can be attributed to higher enrollments of poverty students, while some of the districts' cuts can be attributed to lower census counts or lower per-pupil Title I allocations due to larger census poverty counts nationwide (see April TechMIS Washington Update).

The districts listed in Exhibit B are those which would receive preliminary increases in Title I allocations of 30 percent or more (before adjustments) which are at least $75,000. Many of these

districts received increases due to "miscalculated" allocations or large increases in poverty counts using the most recent census data, or because the percent of poverty enrollment in the district reached five percent or more for the first time which qualifies that district for a portion of the concentration, incentive and targeted grants. Five years ago, for this reason, Fairfax County, Virginia received a 75 percent increase in Title I funding because the percent of poverty enrollment went above the five percent threshold for the first time.

Within the context of the $10 billion FY 2009-10 Title I stimulus funding increase over the two years and remaining "balances" which have to be spent by September 30, 2011, it is difficult to predict with precision district officials' purchasing decision-making behaviors based on whether a district received a significant absolute or percentage increase in regular Title I allocations for FY 2011. However, it is logical that the types of districts, which are "similarly-situated" and which will likely use most of their Title I stimulus funding for long-term investments -- such as products and staff development with low reoccurring costs -- will be those districts receiving large unexpected percentage increases for the first time which appear not to be justified based on large increases in poverty enrollment, but which are most likely due to "mistakes." Hence, this will likely be considered a "wind fall" and will not be used to hire staff but to purchase products or one-time services. Also, these districts will likely be proportionately greater beneficiaries of "remaining" ARRA Stabilization Funds (SFSF); some states (e.g., Alaska, Delaware, Nebraska, Texas, Virginia, Wyoming, Rhode Island, South Carolina) could allocate remaining SFSF funds using these preliminary 2011 Title I district allocations (see related Funding Alert in next TechMIS issue).

Compared to this time last year, there has been a significant change which will affect purchasing cycle behaviors of many Title I program officials. Last year, under the Secretary's waiver process, an SEA could request a waiver to carry over from last year to this year more than 15 percent of Title I ARRA funds; more than 45 states have done so which, in certain states, has resulted in very large balances of unobligated Title I ARRA funds. In September, USED announced that SEAs could request a waiver to carry over more than 15 percent of this year's Title I regular funding to next year; all but one state are reportedly doing so or plan to do so. Many of the districts with existing unspent balances of this year's Title I ARRA funds will be spending this money as quickly as possible through September 30th. On the other hand, districts which carry over more than 15 percent of this year's Title I regular funds to next year will have large amounts of Title I regular funds to be obligated by September 30, 2012. Moreover, with larger amounts of Title I funds for FY 2011 "forward funded" (i.e., being allocated to districts after October 1st of this year), a major purchasing cycle in most districts can be expected beginning in late November-December, peaking in April-May of next year.

One major adjustment to final district allocations which will be made by each SEA is determining how much of each district's Title I allocation will be taken back by the SEA for the four percent set-aside for School Improvement Part A and then reallocated to districts with large numbers of schools in corrective action or restructuring. Once again, this four percent SEA set-aside should be between $500 and $650 million. Even though the School Improvement Grant Part G funds last year were used to serve 402 so-called Tier III schools, the vast majority of

eligible Tier III schools did not receive any Part G SIG funding; rather, it is highly likely that many of these eligible Tier III schools will be allocated some of the four percent set-aside funds. As observed in a recent USED/AIR report on SIG awards (an analysis will be included in next TechMIS issue), 12 states used SIG Part G funds for Tier III schools; only in two of these states, districts agreed to implement one of the four prescribed SIG models. Other intervention strategies and approaches will be allowed by SEAs in the vast majority of districts using SIG Part A four percent SEA set-aside funds; and in the past few years districts receiving Part A 4% set-aside funds have spent only about 20 percent on staff salaries compared with 60 percent on products and services.

Each SEA must also make adjustments for the number of Title I-eligible students in a district "attendance area" who go to local charter schools because Title I funding is supposed to "follow the child" to the charter schools for their own Title I programs. In a state like Arizona, where several districts have received increases in preliminary allocations, some of those increases must be reallocated to the 500 plus charter schools operating within the state for Title I-eligible students enrolled in charter schools in the districts' attendance areas. Other states with fifty or more charter schools -- which will have to make similar adjustments -- include Colorado, Wisconsin, Minnesota, New Jersey, Massachusetts, Georgia, Ohio, Tennessee, North Carolina, New York, Pennsylvania, Texas, California, Florida, Michigan, and Nevada.

In some states, the SEA will also make adjustments for entities other than LEAs that support or provide assistance to LEA Title I programs, such as county units in California. Other adjustments may have to be made in districts for which school attendance area boundary lines have changed since the census was taken.

And one of the last types of adjustments -- which can't be made until July-August -- is based on changes in final state per-pupil expenditures, which is currently taken into account in the Title I "incentive" formula. This determination is usually made by states at the end of the regular school year.

The Secretary's waiver process and other regulatory relief is having an impact on purchasing cycles for Title I as well as other Federal programs. In 2009, Secretary Duncan approved 315 waiver requests from SEAs in a number of areas (e.g., whether to include Title I ARRA funds in calculating the 20 percent SES set-aside). This year, one can anticipate more such waiver approvals and other "regulatory relief" requested by SEAs to get around some of the barriers created by NCLB (e.g., using AYP to identify schools and districts for improvement). Hence, Title I programs in certain states will have different purchasing cycles and decision-making timelines and processes. We will continue to identify these on a state-by-state basis, as appropriate, through subsequent analyses and reports to our TechMIS subscribers.