

# Education TURNKEY Electronic Distribution, Inc.

256 North Washington Street  
Falls Church, Virginia 22046-4549  
(703) 536-2310  
Fax (703) 536-3225

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## MEMORANDUM

**DATE:** November 14, 2012  
**TO:** TechMIS Subscribers  
**FROM:** Charles Blaschke, Blair Curry and Suzanne Thouvenelle  
**SUBJ:** Federal Funding Update

This Federal Funding Update should help TechMIS subscribers follow developments during this “lame duck” session.

# **Federal Funding Update: Sequestration, Fiscal Cliff, and FY 2013 Budget**

## *A Technology Monitoring and Information Service (TechMIS) Special Report*

*Prepared by:  
Education TURNKEY Systems, Inc.  
256 North Washington Street  
Falls Church, Virginia 22046-4549  
(703) 536-2310 / (703) 536-3225 FAX*

*November 14, 2012*

This Special Report focuses on three closely-related issues -- sequestration, the fiscal cliff, and the FY 2013 education budget. Our intent is to provide enough background on these issues -- and possible scenarios which could develop as Congress has now returned for a lame duck session -- for TechMIS subscribers to follow developments as they occur over the next month and a half. Prior TechMIS reports and Washington Updates have more detailed background information as referenced.

During the campaign, education generally was not a big stated issue, even though President Obama called education a “critical investment for the country” and occasionally pointed to Race to the Top. Particular education initiatives were also mentioned as examples of reform initiatives and, on several occasions the President indicated that he would expand initiatives such as college readiness and graduation rates and STEM-related teacher training and activities. As election time neared, the future of his education platform was cast under Federal funding budget issues (e.g., “sequestration would not occur”) versus increasing revenue through increased taxes/revenues paid by the wealthy (e.g., income taxes increases or reduction of tax breaks). After election results were tallied, the GOP’s position appeared to be changing somewhat from “no new taxes,” especially on the wealthy, to a greater emphasis on “overall tax reform.” One scenario is that the lame duck session will result in a “down payment” to reduce spending in certain areas, enough to postpone the automatic 8.2 percent across-the-board sequester on January 2<sup>nd</sup> and to develop a framework with targets for a combination of further budget cuts and tax reforms to be made early next year. Or, the President might not agree to a Republican position and decide not to extend the Bush-era tax cuts, which would mean taxes would increase for everyone, including the wealthy. After the impact is felt, his bargaining position may be stronger in the spring, which would result in less cuts in education, more significant tax reforms, closing the loopholes, etc., as well as tax increases on the wealthy, which would put Republicans in the position of having to choose between greater budget cuts in the defense sector or increasing taxes on the wealthy.

The impact on education funding is different from most other budget areas including defense, because education is not only “forward funded,” but also “advance funded.” Here some background information is provided/referenced.

In September, Congress and the Administration agreed on a Continuing Resolution (CR) through March 27, 2013, because of a deadlock between Congress and the Administration on the FY 2013 budget; hence, all education programs were funded under the CR at virtually the same levels as last year, with only a few new provisions included in the CR (e.g., the teacher alternative pathways was extended for one additional year). Because sequestration issues were running rampant in the Title I, IDEA, and other school communities over the FY 2012 allocations made in October, the Deputy Secretary of Education sent a letter on July 24<sup>th</sup> to Chief State School Officers and, in turn to districts, assuring them that sequestration, should it occur, would not impact the FY 2012 October allocations of IDEA, Title I, and all other education programs (with the exception of Impact Aid). Rather, if sequestration occurs, the impact would affect only the FY 2013 education budget beginning in July 2013. Districts were encouraged to continue following their districts' and states' current plans on allocating and spending FY 2012 funds. Many districts have threatened to put in reserve 8-10 percent of their Title I and IDEA funds and not allocate such funds to schools until after the sequestration issue was resolved. While the letter placated some anxieties, it would appear that many districts continue to hold in reserve some of the October Title I allocations, thus postponing purchases until the first quarter of 2013, unless the lame duck session resolves the sequestration. The districts which are most likely not to be affected by anxieties over sequestration are those which have received large absolute or percentage increases in Title I allocations for this year, as noted in our May 2<sup>nd</sup> TechMIS Special Report. Should sequestration occur, for programs such as Title I, for several months early in the next year or after July 2013, the types of districts affected, most are uncertain; however, over the last few years, when Title I has received budget cuts the districts that have been affected most are those receiving only the "basic" Title I grant rather than larger, urban districts with higher percent enrollments of poverty kids (i.e., those receiving "targeted," "incentive," and "concentration" formula grant funds).

Joel Packer, Executive Director Committee for Education Funding, stated in *Title I-derland* Round Table (November 7<sup>th</sup>), that the election results have improved the President's chances of reaching a budget deal that "...turns off the \$4 billion in sequester cuts facing education programs in January." However, the fate of education funding is tied to tax cuts for millionaires." As CEP notes, a comprehensive deficit reduction package during lame duck is not likely, but agreeing on a framework with details to be worked out by Congressional committees next year is likely.

The resolution of the fiscal cliff and sequestration issues are obviously related to the resolution of other uncertainties including:

- the priorities and positions of key House and Senate members, including the degree to which Speaker Boehner can maintain independence from the Tea Party conservatives;
- Senator Patty Murray taking the leadership role on the Senate Budget Committee and the role played by Senator Lamar Alexander replacing Senator Enzi on the Committee and the membership changes in key Senate and House education, budget, and related committees;
- the finalization of FY 2013 budget funding levels including some possible new "language" on State Waiver Guidance; and

- the results of the debt ceiling negotiations and additional spending cuts early next year, as well as continuing improvement in the economic growth, including the nature and extent of increased tax revenues.

However, one thing appears to be fairly certain – increased overall Federal education funding will be unlikely and opportunities for TechMIS subscribers and firms will be closely tied to programs and areas in which greater flexibilities are provided in the use of Title I, IDEA, and a limited number of competitive grant programs.

As always, call us if you have any questions as we will continue to follow developments in these areas as they occur.