



What Will the Federal Economic Recovery Act Mean for California's Schools?

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA aims to boost the economy through a \$787 billion package of spending and tax measures.¹ Nationally, more than \$100 billion is dedicated to education. California's schools, colleges, and universities can expect to receive approximately \$11.0 billion over three years that can be used to mitigate the impact of state budget reductions and address specified policy goals.²

The largest share of the ARRA's education dollars comes from an allocation called the State Fiscal Stabilization Fund, which aims to help states balance their budgets and mitigate the impact of cuts. Other ARRA funds targeting education include support for special education, schools that serve disproportionate numbers of students from disadvantaged backgrounds, school technology, statewide data systems, and teacher improvement programs. This *School Finance Facts* examines the largest sources of ARRA education funding, how they will help K-12 schools, and the extent to which the funds can be used to help close the state's budget gap and/or to backfill cuts made as part of recent and pending budget negotiations.

The ARRA's State Fiscal Stabilization Fund

The new State Fiscal Stabilization Fund (SFSF), aimed at helping to stabilize state budgets and mitigate the impact of budget cuts, is the largest pot of ARRA funding focused on education. The SFSF consists of two components: the Education Stabilization Fund (ESF), which accounts for \$39.8 billion (81.8 percent) of SFSF dollars, and the Government Services Fund (GSF), which accounts for \$8.2 billion (18.2 percent).³ The ARRA requires states to allocate all ESF dollars to K-12 schools and higher education in order to minimize and avoid reductions to education. The ARRA allows states to use GSF funds for public safety and other government services.

States must apply to the federal Department of Education (DOE) in order to receive SFSF funds, which are allocated based on state population. The DOE will release at least two-thirds (67 percent) of a state's allocation once its initial application is approved. States will receive the remaining one-third (33 percent) of their SFSF

allocations after the DOE approves a second application that requires states to demonstrate progress with respect to education reform. To receive funds from the ESF, a state must spend at least as much on K-12 and higher education in 2008-09, 2009-10, and 2010-11 as it did in 2005-06. According to the applications for SFSF dollars that Governor Schwarzenegger submitted to the DOE in April and May, California will meet these maintenance of effort (MOE) requirements; however, some advocates have questioned the state's K-12 MOE calculations, and it remains unclear whether recent proposals to cut K-12 and higher education spending will cause the state to fall short of the SFSF's MOE requirements.⁴

California is expected to receive a total of \$4.9 billion in ESF dollars and \$1.1 billion in GSF dollars. In May, California received its first SFSF payment – \$3.3 billion from the ESF and \$727 million from the GSF. The state plans to allocate \$2.6 billion of its ESF dollars to K-12 schools and \$268.5 million each to the University of California (UC) and the California State University (CSU).⁵ California plans to use

its \$1.1 billion GSF allocation to replace an equivalent amount of state General Fund dollars for the Department of Corrections and Rehabilitation (CDCR).⁶

The California Department of Education (CDE) recently reported that California's schools received preliminary payments totaling \$2.5 billion from the state's initial ESF allocation. These payments were based on the reductions made to each school district's 2008-09 general-purpose and categorical funds as part of the February budget agreement. K-12 school districts received \$1.6 billion to backfill reductions made to their 2008-09 general-purpose funds and \$887.5 million to backfill reductions made to their 2008-09 categorical funding.

Can SFSF Dollars Be Used To Help Close the State's Budget Gap?

The ARRA allows the state to use SFSF dollars to help close the state's budget gap in some ways, but not in others. For example, all of the GSF dollars – which state policymakers plan to use to support the CDCR – can be used

to replace state expenditures, which will provide \$1.1 billion in General Fund savings for California. However, the ARRA limits the extent to which the state can use ESF dollars to close a budget gap. California must use its ESF dollars to support public K-12 and higher education. In addition, the state must use its primary funding formula for K-12 education – the Proposition 98 minimum funding guarantee – to determine the amount of ESF dollars that the state will allocate to school districts. Since the Proposition 98 guarantee can only be met through state and local funds, amounts received from the ESF would be *in addition* to the state's level of support for programs covered under Proposition 98. In other words, ESF dollars cannot be used to help the state fulfill the minimum funding level guaranteed by Proposition 98.⁷

While California cannot use ESF dollars to replace state spending required by the Proposition 98 guarantee, ESF dollars *can* be used to mitigate the impact of the significant state spending reductions enacted in February and proposed as part of current efforts to balance the budget. Local schools can use ESF dollars to help pay for any activity authorized under the Elementary and Secondary Education Act, the Individuals With Disabilities Education Act (IDEA), the Adult Education and Family Literacy Act, and/or the Carl D. Perkins Career and Technical Education Act.⁸

ARRA Title I Funding

The ARRA significantly increases funding for the primary federal program aimed at improving the education of disadvantaged students, including students from low-income families and English language learners. The federal Title I program aims to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education. The ARRA increases funding for Title I Part A grants for K-12 school districts and School Improvement Grants by \$13.0 billion nationally, nearly doubling the \$15.0 billion regular allocation these two programs are estimated to receive in federal fiscal year (FFY) 2009. The increased federal funding, which will be available between May 2009 and September 2011, is aimed at supporting programs that improve the academic performance of disadvantaged students.

California is slated to receive \$1.5 billion in additional Title I dollars under the ARRA,

a significant boost in federal support. More than three out of four of these dollars – \$1.1 billion, a 68.8 percent increase relative to estimated FFY 2009 funding – will increase support for Title I Part A grants. The additional funding is intended to “help ensure that all students reach proficiency on State assessments in reading and mathematics by the 2013-14 school year, in particular by closing longstanding achievement gaps between economically disadvantaged students and other students.” The ARRA outlines specific activities, priorities, and projects eligible for support, such as strengthening teacher support programs. Schools received the first installment of these funds in May.⁹ In order to receive additional Title I funds, the state must submit information regarding how it plans to meet the ARRA's reporting requirements, which include a new, one-time report that local school districts must provide to the CDE detailing 2008-09 per pupil spending from state and local sources.

The ARRA also increases funding for Title I School Improvement Grants with the goal of enabling states to help implement school-improvement strategies for low-performing schools. Upon DOE approval of a state plan, California will receive \$346.3 million in ARRA funds for Title I School Improvement Grants – a more than sixfold (549.9 percent) increase compared to estimated FFY 2009 funding.

While the ARRA's additional Title I dollars provide funds to K-12 schools that serve students from low-income families, the extent to which these dollars will add to the level of support for these schools depends on the decisions of state policymakers. Proposition 98 guarantees a minimum level of state support for K-14 education; however, it does not require the state to provide a certain level of support for specific schools or school programs. As a result, the Legislature can choose which programs to cut and how to allocate funds among competing priorities. If policymakers target state budget cuts to programs and schools that stand to receive additional Title I funding from the ARRA, the total funding available to those programs and schools may not increase.

While the Legislature can reduce spending for certain programs covered by the Proposition 98 guarantee, federal guidelines set limits on the state's ability

to use funding provided by the ARRA to supplant, rather than supplement, state funds. In good economic times, Title I guidelines require states to use federal funding to supplement non-federal funds. However, these guidelines also provide states flexibility in the use of Title I dollars in bad budget years. For example, federal guidelines may allow states to replace state dollars for these programs with federal funds if they meet a number of conditions, including whether they can demonstrate that they would not provide funding for programs that support economically disadvantaged students absent the availability of federal funds.

ARRA Funding for Special Education

The ARRA also significantly increases federal support for the IDEA, also referred to as special education, with the goal of helping to ensure that students with disabilities receive an appropriate education. The ARRA adds \$11.7 billion – nearly doubling the estimated national level of FFY 2009 funding – for K-12 and pre-school programs under the IDEA.¹⁰ The CDE estimates that California's schools will receive \$1.3 billion in additional special education support from the ARRA – \$1.2 billion for K-12 education and \$41 million for pre-school programs. California received half of its ARRA IDEA dollars in April and will receive the second half by the end of September upon approval of a report the state must submit to the DOE. ARRA dollars will be distributed to local school districts based on existing formulas, and the funds must be used to ensure special education students receive a free and appropriate education.¹¹

Historically, funding for special education programs has not fully covered the cost of providing required services. As a result, many school districts use their general-purpose funds to help pay for special education. While additional ARRA dollars will temporarily help schools support their special education programs, the amounts available are unlikely to overcome this historical funding shortfall. Moreover, schools could decide to shift a part of their ARRA IDEA dollars to non-special education activities, as the ARRA permits.¹²

The extent to which schools will be able to use the ARRA's additional IDEA funding to help address the disparity between the costs of special education programs and the funds provided to support them

will depend, in part, on decisions made by state policymakers. While the ARRA prohibits the use of IDEA funds for state-level administrative activities, these funds can be used for state-supported programs that provide direct special education services, such as state special schools and residential costs for special education students, which would generate state General Fund savings.¹³ However, this would reduce the amount that is available for distribution to local school districts to mitigate the impact of state budget

reductions and address the historical funding gap between the cost of special education programs and the resources school districts receive to pay for those programs.

Additional Funds Will Help Schools Meet Pressing Needs

The ARRA also provides funds that can be used by schools to meet certain needs, such as purchase of education technology, teacher technology training, and purchase

of kitchen equipment for use in the school lunch program (Table 1). These funding streams will not directly substitute for state dollars or allow the state to generate savings. They will, however, allow schools to make additional investments that would not otherwise be possible during tough budget times.

Conclusion

The ARRA provides a significant level of funding to support California's schools,

Table 1: The ARRA Provides Additional Education Funding for California*

Program Area	Purpose	Total ARRA Allocation	Estimated Impact in California
Pell Grants	Provides additional funding to allow more students to qualify for Pell Grants and to increase the maximum Pell Grant to \$5,350 in 2009-10.	\$15.6 billion	\$1.6 billion
Child Care and Development Block Grant	Provides additional funding to provide child care for children in low-income working families.	\$2.0 billion	\$222.0 million
Head Start and Early Head Start	Provides additional funding for comprehensive child development services to low-income children and families.	\$1.4 billion	\$142.0 million
Education Technology	Provides additional funding to improve academic achievement by integrating technology with teacher training and curriculum development.	\$650.0 million	\$74.2 million
Individuals With Disabilities Education Act for Infants and Toddlers	Provides additional funding for states to operate early intervention programs for children under age three who have developmental delays or disabilities or are at high risk of disabilities, and their families.	\$500.0 million	\$53.2 million
Statewide Data Systems	Provides competitive grants to states for "the design, development, and implementation of statewide longitudinal data systems to accurately manage and analyze individual student data."	\$250.0 million	\$25.0 million
Work-Study	Provides additional funding to colleges to increase the number of students working on campuses and in public and nonprofit entities.	\$200.0 million	20.0 million
Teacher Incentive Fund	Provides competitive grants for performance-based compensation programs for teachers and principals in high-need schools.	\$200.0 million	20.0 million
National School Lunch Program Equipment	Provides additional funding for competitive grants to states to purchase equipment to improve the quality, safety, and/or energy efficiency of school lunch programs and/or expand participation in those programs. Priority for these grants will be given to schools in which at least half the students are eligible for free or reduced-priced meals.	\$100.0 million	\$10.0 million
Teacher Quality Enhancement	Provides additional funding for competitive grants to improve teacher preparation and recruitment for school districts that serve students from low-income families.	\$100.0 million	\$10.0 million
Impact Aid Construction	Provides additional funds for elementary and secondary school construction activities. Forty percent of these funds will be allocated by formula based on the number of students who live on American Indian land or are dependents of members of the military. The remainder of funds will be distributed based on competitive grants.	\$100.0 million	\$10.0 million
Homeless Children and Youth	Provides additional funding under the McKinney-Vento Homeless Assistance Act to states and school districts to address the educational needs of homeless students.	\$70.0 million	\$7.0 million
Student Aid Administration	Provides additional funds for administration of the Work-Study and Perkins and Direct student loan programs.	\$60.0 million	\$6.0 million
Tax Credit Bonds for Schools	Allows states or local entities to issue bonds to fund school improvements and modernization. Interest on these bonds will be paid by the federal government in the form of a tax credit. States will allocate approximately 40 percent of the bond funds to districts that are among the 100 largest districts in the nation or are among 25 districts designated by the US Secretary of Education.	\$22.0 billion	**
State Fiscal Stabilization Fund – Incentive Grants (also known as "Race to the Top")	Provides competitive grants to states to improve education quality. Grants will be awarded to states that demonstrate progress related to standards and assessments, collection and use of data, improvements in teacher quality, and support for low-performing schools.	\$4.4 billion	**
State Fiscal Stabilization Fund – Innovation Fund (also known as "Invest in What Works and Innovation")	Provides competitive grants to school districts and nonprofit organizations that have significantly closed the achievement gap so they can serve as models of best practices.	\$650.0 million	**

* Excludes SFSF, Title I, and IDEA funding previously discussed in this report.

** Estimate not currently available. Previously, the California Economic Recovery Portal estimated that California would receive 10 percent of the total ARRA allocation for each of these programs.

Note: These data were compiled on July 8, 2009.

Source: California Economic Recovery Portal

which will help mitigate the impact of state spending cuts. While the ARRA limits the extent to which ARRA's education dollars can be used to help close the state's budget shortfall, the Legislature may choose to use some ARRA dollars for this purpose. To receive additional ARRA dollars, however, California must submit reports to the DOE that include information regarding how the state and local schools use their ARRA allocations. These reports are designed to promote transparency and accountability at the local, state, and federal levels and will be reviewed by the DOE to determine whether California receives additional ARRA dollars.

ENDNOTES

¹ For an overview of the ARRA and a preliminary review of the funds that will flow to California under the measure, see California Budget Project, *What Does the American Recovery and Reinvestment Act of 2009 Mean for California?* (March 9, 2009).

² California's total estimated share of ARRA education funding was downloaded from the California Economic Recovery Portal, http://www.recovery.ca.gov/investment-category_education.shtml, on July 8, 2009. The California Economic Recovery Portal estimates are subject to change.

³ The ARRA also provides \$5 billion to states for competitive grants under the "Race to the Top" and "Invest in What Works and Innovation" programs.

⁴ For example, according to the initial SFSF application submitted by the Governor in April and approved by the DOE, the state spent \$34.9 billion on K-12 education in 2005-06 and planned to spend \$35.4 billion on K-12 education in 2008-09, exceeding the MOE requirement by more than \$500 million. In his May Revision, the Governor proposed \$34.3 billion in state General Fund support for K-12 education in 2008-09 – \$631 million below the MOE level in the state's initial SFSF application. However, in May, the Governor submitted a revised application that claimed the state had made an error in its initial application. The error caused more than \$2 billion to be counted toward 2005-06 support for K-12 education instead of toward 2006-07 support. In June, the DOE approved the Governor's revised SFSF application and accepted his claim that the state spent \$32.9 billion on K-12 education in 2005-06. A CBP analysis finds that the Governor's May Revision proposal for 2008-09 state General Fund support for K-12 education would be \$1.4 billion above the ARRA's MOE requirement as stated in the Governor's revised SFSF application. However, the analysis also finds that 2009-10 state General Fund support for K-12 education under the Governor's May Revision proposal would be \$434.1 million below the ARRA's MOE requirement as stated in the Governor's revised SFSF application. The Governor will likely submit a third version of the state's SFSF application; however, it is unclear what will happen to SFSF dollars already distributed to California school districts if the DOE determines that the state has failed to meet ARRA's MOE requirement. If California does not meet the MOE requirement, the Governor could apply to the DOE for a waiver to allow the state to reduce education spending below the level required by the ARRA's MOE provisions. The ARRA allows the DOE to grant states a waiver if the US Secretary of Education "determines that the State has provided for elementary, secondary, and public higher education, for the fiscal year under consideration, a percentage of the total revenues available to the State that is equal to or greater than the percentage provided for that purpose in the preceding fiscal year."

⁵ According to a report published in April by the Government Accountability Office, the remaining \$164 million from the first phase of the ESF allocation will be used to restore education funding after 2008-09. See Government Accountability Office, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential* (April 2009), pp. 81-82. California community colleges, which were excluded from the state's initial SFSF application, are likely to receive a share of SFSF dollars.

⁶ Personal communication with the Department of Finance (May 8, 2009) and Government Accountability Office, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential* (April 2009), p. 82.

⁷ For more information on Proposition 98, see California Budget Project, *School Finance in California and the Proposition 98 Guarantee* (April 2006). Alternatively, the Legislature could suspend the Proposition 98 guarantee, creating a state obligation to repay schools in future years – also known as a maintenance factor obligation.

⁸ Use of ESF dollars is subject to certain limits. If a school district uses ESF dollars for modernization, renovation, or repair of school facilities or construction of new facilities, it must comply with specific requirements relating to the use of American iron, steel, and manufactured goods in the project.

⁹ To receive the ARRA's Title I Part A grants under the Education Finance Incentive Grant formula, a state must meet MOE requirements of the Elementary and Secondary Education Act, section 1125A(e). A state is considered to have met this MOE requirement if for any fiscal year the US Secretary of Education finds that "either the combined fiscal effort per student or the aggregate expenditures within the State with respect to the provision of free public education for the fiscal year preceding the fiscal year for which the determination is made was not less than 90 percent of such combined fiscal effort or aggregate expenditures for the second fiscal year preceding the fiscal year for which the determination is made."

¹⁰ The ARRA funds are provided under IDEA Part B grants to states.

¹¹ The CDE distributed initial ARRA IDEA payments to Special Education Local Plan Agencies in June. Each agency received 20 percent of its total ARRA IDEA grant.

¹² The ARRA allows school districts to "reduce expenditures for special education by up to 50 percent of the amount of the increase in the [district's] IDEA allocation over the prior year, if the freed-up local funds are used for activities that could be supported" under the Elementary and Secondary Education Act. US Department of Education, *The American Recovery and Reinvestment Act: Saving and Creating Jobs and Reforming Education* (April 3, 2009), slide 31.

¹³ Legislative Analyst's Office, *Federal Stimulus Funding for K-12 Education* (March 26, 2009), p. 7.

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