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STIMULUS SHELL GAME?: U.S. Department of Education's Inspector General Warns that Some States are Using Education Stimulus Dollars to Free Up Money for Non-Education Items

An internal memorandum from the U.S. Department of Education's inspector general warns that some states are using stimulus funds to replace money they have cut from their education budgets rather than boosting their investments in education. The memo acknowledges that although this practice may be allowable under the terms of the American Recovery and Reinvestment Act (ARRA), such a reduction "may adversely impact the achievement of the education reforms."

The program in question is the State Fiscal Stabilization Fund (SFSF), which received \$53.6 billion under ARRA. Of the total, \$48.6 billion was designed to go to states "in exchange for a commitment to advance essential education reforms to benefit students from early learning through postsecondary education," according to the [description of the program on the department's website](#). The website also says that SFSF funds will "help stabilize state and local government budgets in order to minimize and avoid reductions in education and other essential public services." The final \$5 billion of the SFSF will be awarded by the department on a competitive basis through the "Race to the Top" and "Investing in What Works and Innovation" programs.

In order to receive the first portion of its SFSF allocation, a state has to agree to a number of assurances, including a "maintenance of effort" (MOE) requirement that says a state will provide at least as much money for elementary and secondary education, as well as public institutions of higher education, as it did in Fiscal Year (FY) 2006. However, according to the memorandum from the inspector general, some states' budget proposals would reduce state support for public education back to the FY 2006 levels and replace the missing funds with their SFSF allocation to free up states' resources for non-education budget items—in plainer terms, these states are cutting the amount of state funds they devote to education and are using federal funds to make up the difference. Depending on the level of state resources, such a move could reduce the percentage of the revenue that a state spends on public education.

In the memo, the inspector general cites examples from three states—Connecticut, Massachusetts, and Pennsylvania—to demonstrate how SFSF is affecting decisions on state education budgets. In Connecticut, the governor's budget proposal, released on February 4, 2009, called for flat funding for the state's primary K–12 funding formula at \$1.889 billion for FY 2009, 2010, and 2011. But when the governor submitted Connecticut's SFSF application to

the U.S. Department of Education on June 2, 2009, she reduced state funding for public education to the FY 2006 level of \$1.62 billion—the minimum amount of funding necessary to meet the MOE requirement in ARRA. As noted in the table below, such a change in education funding would represent a reduction of more than 14 percent, compared to a less than 1 percent reduction in the rest of the state’s budget.

Proposed Connecticut Budget Reductions for State Education and Total Appropriations

Proposed Appropriations	FY 2010		FY 2011	
	State Education	Total Appropriations	State Education	Total Appropriations
Before ARRA	\$1,889,182,288	\$18,846,580,428	\$1,889,182,288	\$19,532,652,321
After ARRA	\$1,619,662,393	\$18,793,965,968	\$1,619,662,393	\$19,419,771,867
Budget Change	\$269,519,895	\$52,614,460	\$269,519,895	\$112,880,454
Percentage Change	-14.27%	-0.28%	-14.27%	-0.58%

In Pennsylvania, at the time of the memorandum, the governor and state legislature were engaged in budget discussions. Under the governor’s plan, Pennsylvania would use its SFSF allocation to increase the state’s basic education subsidy by \$418 million in FY 2010 and \$735 million in FY 2011. On the other hand, the legislature proposed reducing education funding and using SFSF funds to maintain the FY 2010 and FY 2011 basic education subsidy at the FY 2009 level.

In Massachusetts, the governor’s original budget proposal for FY 2009 included a \$223.2 million increase to the state’s primary K–12 funding formula, Chapter 70 education aid. In October 2008, the governor announced reductions in the state’s budget to cover revenue shortfalls, but Chapter 70 was unaffected. In January 2009, the governor proposed further reductions, but again, Chapter 70 was unaffected. But in May 2009, after the enactment of ARRA, the governor announced a plan to reduce funding for Chapter 70 by \$412 million and use \$412 million of the state’s SFSF allocation to fill the hole.

In order to address these budget shell games, the inspector general makes two recommendations to the U.S. Department of Education. First, it suggests that the department “implement a process to track state support for elementary and secondary education, as well as for public institutions of higher education, as defined in state SFSF applications, to determine the extent to which State funding on public education is being reduced.” Second, it recommends that the department “establish and implement a process to ensure that states have met the MOE requirements and assurances prior to awarding additional SFSF funding.”

In response to the memorandum, the Office of Elementary and Secondary Education at the U.S. Department of Education stated that the department “became aware” that the MOE provision could potentially result in states reducing the amount of education funding in FY 2009 through FY 2011. In an attempt to discourage these reductions, the department proposed that states be required to show whether and to what extent the percentage of the state’s total revenues were used to support public education for FY 2009 as compared to FY 2008.

As reported in an [Associated Press article on the memorandum](#), U.S. Secretary of Education **Arne Duncan** said that some states’ actions seem to be contrary to the purpose of ARRA. “From

the very beginning, we have made it clear that this education stimulus funding is intended to supplement local education dollars, not replace them,” Duncan said. “When the spending reports are made public in October, states will be held accountable by the public and the department on how they used education funding.” Duncan has also said that those states may hurt their chances at receiving funds from the \$5 billion “Race to the Top” and “Investing in What Works and Innovation” programs.

The Associated Press article points out that lawmakers in Congress “decided not to prohibit states from using the stabilization money to replace precious state aid for schools,” it reads. “They required states to maintain spending on K–12 schools and colleges but only at 2006 levels, which allowed most states to make significant cuts to education.”

Read the inspector general’s memorandum at

<http://www.ed.gov/about/offices/list/oig/auditreports/AlertMemorandums/103j0011.pdf>.



ECONOMIC SCARRING: Report Examines Long-Term Impacts of an Economic Recession on Education, Opportunity, Investments, and Entrepreneurial Activity

A new report from the Economic Policy Institute (EPI) argues that an economic recession can lead to long-lasting damage to individuals’ economic situations and the economy more broadly, which it dubs “scarring.” The report, *Economic Scarring: The Long-Term Impacts of the Recession*, examines the long-run consequences of recessions in four areas—educational attainment, individual and family opportunities, private investments and technology, and entrepreneurial activity. It argues that any evaluation of the American Recovery and Reinvestment Act (ARRA) must include the benefits of avoiding these long-term consequences, in addition to the short-term boost to gross domestic product and jobs and the interest costs of adding to the national debt.

“A recession ... should not be thought of as a one-time event that stresses individuals and families for a couple of years,” the report reads. “Rather, economic downturns will impact the future prospects of all family members, including children, and will have consequences for years to come.”

In its analysis of ARRA, *Economic Scarring* notes that the impact of the stimulus package will likely reach well beyond short-term job creation to stimulate the broader economy and lead to greater economic output, greater national income, and a consequent boost in federal revenue. It also says that ARRA’s investments in transportation infrastructure, energy efficiency, and education will “yield economic dividends in years to come.”

The majority of the report focuses on the costs that accompany recessions. “It is often said that deficits can cause transfers of wealth from future generations of taxpayers to the present,” it reads. “While true, this cost must also be compared with the economic consequences of recessions that are also passed to future generations.” Some of these economic consequences include obvious liabilities such as higher unemployment and lower wages and incomes, as well as less visible ones such as reductions in educational attainment, decreased private capital investments, and less economic opportunity.

The report cites several examples of how a recession can negatively impact educational attainment. Specifically, it points out how lower family incomes and tight budgets can lead to decisions at both ends of the educational spectrum, with fewer children enrolling in early education programs and decisions to delay or abandon plans for continuing education after high school. It cites a 2009 study in which 20 percent of eighteen- to twenty-nine-year-olds have left or delayed college. “This delay or reduction in college attendance is costly,” the report argues. “Not only does college attendance yield higher earnings, lower unemployment, and other benefits to the individual, it also conveys myriad social benefits as well, including better health outcomes, lower incarceration rates, [and] greater volunteerism rates.”

A recession can also impact a family’s ability to provide their children with adequate nutrition and health services from prenatal care to dental and optometric care, the report finds. It also points out that 13 million U.S. households, including 12.7 million children, faced difficulty providing enough food for all family members in 2007, adding that these numbers will “almost certainly increase” throughout 2009 as unemployment rises and incomes fall.

Greater educational attainment also leads to better educational outcomes for offspring; higher-income parents are more likely to have children who complete college. “As such, the economic downturn will have an impact lasting not just for years, but for generations.”

In addition to education, *Economic Scarring* argues that the loss of investment, research and development, and skills generally can “undercut” the United States’ global competitive advantages. It stresses that “righting the ship as quickly and completely as possible” is essential to limiting long-term damage. “The American Recovery and Reinvestment Act has and will add to the fiscal deficit, but those costs—in terms of added interest payments—should be viewed as necessary to provide a short-term boost that allows us to avoid even greater long-term damage to families and to the economy.”

The complete report is available at http://epi.3cdn.net/25f9881466fb1c55cd_i9m6bnlcc.pdf.



PRIORITIZING THE NATION’S DROPOUT FACTORIES: Alliance Brief Calls For “Legislative Triage” To Address Nation’s Lowest-Performing High Schools

With the nation in the midst of a dropout crisis that [costs more than \\$335 billion in lost wages for each class of dropouts](#), *Prioritizing the Nation’s Dropout Factories: The Need for Federal Policy that Targets the Lowest-Performing High Schools*, a new brief from the Alliance for Excellent Education calls on federal policymakers to perform “legislative triage” by devoting attention to the lowest-performing high schools and immediately improving or replacing the most severely “injured” schools.

“When emergency medical personnel arrive at an accident scene, they immediately deliver treatment to the most severely injured, said **Bob Wise, president of the Alliance for Excellent Education and former governor of West Virginia**. “Similarly, the nation must focus its attention on the lowest-performing schools with the largest number of ‘victims’ in the national dropout crisis. The fact that these schools are so widespread and contribute so greatly to the

national dropout crisis dictates making them an essential focus of any federal effort to improve the graduation rate.”

According to data from the [Everyone Graduates Center at Johns Hopkins University](#) that is cited in the brief, these low-performing high schools are pervasive and exist in every state and over 80 percent of congressional districts. In these “dropout factories,” as they have been dubbed, graduation rates routinely fall below 60 percent. Over one half of these schools have student bodies larger than one thousand, but dropout factories are also medium- and small-sized schools; 20 percent of dropout factories are schools with less than four hundred students. And contrary to a common misconception, not all dropout factories are located in urban areas; half of the nation’s dropout factories are located outside of city limits in suburbs, small towns, or rural areas.

However, dropout factories have one unifying characteristic—they disproportionately serve minority students, who are up to five times more likely to attend a dropout factory than white students. In fact, 70 percent of African American students and 60 percent of Hispanic students who dropped out from the Class of 2007 attended dropout factories.

In total, dropout factories represent slightly more than 10 percent of the nation’s high schools, yet they produce more than half of the nation’s dropouts. According to data from Johns Hopkins University and calculations by the Alliance, there are nearly two thousand dropout factories in the United States, which educate 15.7 percent of all high school students. In some states, however, more than one third of all students attend dropout factories, as indicated in the table below.

States with the Highest Percentages of Students Attending Dropout Factories

State	Number of Dropout Factories	Percentage of High Schools that are Dropout Factories	Percentage of High School Students who Attend Dropout Factories
Florida	182	38.5%	40.6%
Georgia	127	35.7%	33.8%
Nevada	32	39.5%	51.5%
New Mexico	36	31.6%	33.2%
South Carolina	95	48.7%	42.9%

If federal policymakers were to make strategic efforts to transform these schools, they could significantly reduce the nation’s dropout rate, the brief argues. It calls on federal lawmakers to take every available opportunity to address this issue and specifically cites three upcoming opportunities to address this national problem:

- 1) **The American Recovery and Reinvestment Act of 2009:** Federal policymakers should distribute stimulus funds in a way that would enable and support states’ and districts’ efforts to address schools with abysmally low graduation rates.
- 2) **The Reauthorization of the Elementary and Secondary Education Act (ESEA):** Federal policymakers should make reauthorizing ESEA a priority and ensure that it targets needed resources and attention toward the improvement of dropout factories in a way that the current version does not.
- 3) **The Budget and Appropriations Process:** Federal policymakers should ensure a steady and significant stream of federal funding targeted toward improving these schools.

The complete brief, which includes a state-by-state breakdown of dropout factories and the percentage of high schools students who attend them, is available at <http://www.all4ed.org/files/PrioritizingDropoutFactories.pdf>.



ARE ACHIEVEMENT GAPS CLOSING AND IS ACHIEVEMENT RISING FOR ALL?: Report Finds State Progress is Evident but Lacking at the High School Level

Although achievement gaps between subgroups have narrowed in most states at the elementary, middle, and high school levels, the least amount of progress has been made at the high school level. So says *Are Achievement Gaps Closing and Is Achievement Rising for All?*, a new report from the Center on Education Policy (CEP), which was released on October 1. The report, the third in a multi-year study, evaluates how minority and low-income students have progressed on the state tests mandated under the No Child Left Behind Act (NCLB) as compared to their white and non-low-income peers.

“The good news from this study is that, overall states have made progress in closing achievement gaps”, said **Jack Jennings, president and chief executive officer of CEP**. “However, now is not the time to let up. There is still much work to be done.”

In its analysis, CEP examined fourth-grade state tests results at three achievement levels (basic and above basic, proficient and above proficient, and advanced) for six student subgroups (African American, Hispanic, Asian, Native American, white, and low-income). It found more gains than declines at all three achievement levels. For example, 86 percent of states with available data saw a gain in the percentage of African American fourth graders who scored at proficient or above in reading, compared to 14 percent that saw a decline. Among low-income fourth graders, thirty-three of the forty-three states with available data (77 percent) saw an increase in the percentage of students scoring proficient or above.

In math, the results for student subgroups were even more positive. For example, 95 percent of states with available data saw an increase in the percentage of Latino fourth graders who scored proficient or better while 89 percent of states enjoyed the same result for their African American students.

CEP also examined the gaps between subgroups in the percentages of students who scored at or above the proficient level at three grade levels (grade four, grade eight in most states, and a high school grade). Between 2002 and 2008, the report finds that the achievement gaps for minority and low-income students have narrowed across all grade levels and subjects in 74 percent of the categories studied, while the achievement gap widened in 23 percent of the categories.

At both the elementary and middle school levels, the number of states that narrowed the achievement gap was much larger than the number of states that experienced a widening of the gap. In middle school reading, for example, thirty of thirty-five states with available data saw a narrowing of the achievement gap between African American and white students, as indicated in the table below.

Middle School Achievement Gaps in Reading

Trend	African American and White	Latino and White	Native American and White	Low-Income and Non-Low-Income	Total Trend Lines
States in which gap narrowed	30	28	14	30	102
States with no change in gap	0	2	2	4	8
States in which gap widened	5	6	5	8	24
States with sufficient trend data	35	36	21	42	134

The results at the high school level are less compelling, but, as the report notes, these findings were complicated by the large number of states that lacked sufficient high school level data to submit. One reason is the fact that some states use end-of-course exams at the high school level. “For instance, [states] may administer multiple math exams in Algebra I, Algebra II, and geometry that individual students take at different grades after they complete the appropriate course,” the report notes. “When [CEP] asked state officials to select the most appropriate test to capture high school performance trends, some were unwilling or unable to do so.”

Where gaps have narrowed, they have typically done so because the achievement of lower-performing subgroups has gone up rather than because the achievement of higher-performing subgroups has gone down, the report finds. Additionally, it finds that gaps narrowed more often for the Latino and African American subgroups than for other subgroups.

Even with this progress, however, the gaps between subgroups often remained large—upwards of twenty percentage points in many cases, according to the report. Generally, CEP found the largest gaps in high school math and the smallest in elementary school math. Overall, the average gaps in percentages of students achieving proficiency across states were largest for African American students. “In high school math, for example, the mean (average) percentage proficient was 45 percent for the African American subgroup and 74 percent for the white subgroup, resulting in a black-white gap of 29 percentage points,” the report notes. “The high school math gaps were 22 to 23 percentage points for Latinos, Native Americans, and low-income students.”

CEP expressed concern at the 23 percent of state trend lines that showed a widening of the achievement gaps. Specifically, it noted that the percentage proficient gap between low-income and non-low-income students in high school math increased in ten out of thirty-three states with sufficient data. However, it was unable to determine any patterns among states with widening gaps. “For the most part, instances of gaps widening were scattered throughout the states rather than concentrated in certain states,” the report reads. “Usually, most of [the] gaps in a state narrowed except for one or two instances.”

The complete report is available at <http://tinyurl.com/yzsx3k2>.

Straight A's: Public Education Policy and Progress is a biweekly newsletter that focuses on education news and events both in Washington, DC and around the country. The format makes information on federal education policy accessible to everyone from elected officials and policymakers to parents and community leaders. The Alliance for Excellent Education is a nonprofit organization working to make it possible for America's six million at-risk middle and high school students to achieve high standards and graduate prepared for college and success in life.