



\$SCHOOLS IN CRISIS: MAKING ENDS MEET

Ranking the States: Federal Education Stimulus Money and the Prospects for Reform

Marguerite Roza

May 18, 2009

The \$100 billion in federal education stimulus money will affect each state differently, depending upon that state's fiscal condition.

In the most cash-strapped states, funding from the American Recovery and Reinvestment Act (ARRA)¹ can't come soon enough to help reduce the severe reductions in state budgets and lessen the ongoing cuts at the district level. California is one such state, where ARRA funding isn't enough to negate the need for layoffs. But in truth, not all states are so cash-strapped.

Some, like Wyoming, face no budget shortfalls. For these states, ARRA education funds can work more like a sudden windfall, bringing unexpected extra monies that conceivably can be used in entirely new ways to improve the system.

Then, of course, there are some states in between, where the new federal monies are just enough to make the budget whole, or even leave a little extra.

This stimulus funding will affect states differently in large part because allocations aren't based on the states' current proportionate budget shortfalls, but rather on other variables. Allocations of State Stabilization Funds, for instance, were determined by state population of specific age groups. Other allocations, including the added Title I funds, were driven by poverty census data, and incorporated indicators of state effort on education. So with each state's stimulus funds dependent on factors that have nothing to do with the proportional size of the state's budget gap, it makes sense there is little or no relationship between the two.

This brief compares current state revenue projections with estimated ARRA education funds to rank states according to their proportionate vulnerability to cuts.

¹ ARRA will deliver funds for various education purposes through several different formulas. Information on ARRA allocations is available at <http://www.ed.gov/policy/gen/leg/recovery/implementation.html>.

The results are important on two fronts:

First, the data can be used to inform strategies for reform in different states. States anticipating ongoing cuts may take on different strategies than those where federal funds will work to boost spending to new levels.

Second, the data suggest that to assess the effects of the stimulus on reform, we may need to ask very different questions in different states. For instance, where states are cutting funds, we might ask about the nature of the cuts made and how schools are different as a result. For states where stimulus funds augment total spending, we need to understand those new investments and the extent to which they are likely to produce long-term benefits.

Modeling the effect of stimulus funds on state education spending

To create the projections of changes in state K-12 education spending, amidst both state revenue gaps and the addition of ARRA funds, this analysis relies on 1) the most current state projections of budget shortfalls (reported by the Center for Budget and Policy Priorities²), 2) ARRA allocations for education by state,³ and 3) 2009 state education budgets.⁴

Rather than try to capture ongoing actions by state legislatures to balance their budgets, this analysis projects spending as if revenue gaps are first applied proportionately to education during 2008-09 and 2009-10, and then as if 70% of all education ARRA funds are applied to K-12 education during the 2008-09 and 2009-10 school years.⁵

The methods used here invoke some important caveats in understanding this analysis:

- The analysis does not reflect subsequent actual budgetary decisions made by the policymakers in different states.⁶
- The analysis compares the projected total 2008-09 and 2009-10 spending relative to what would have happened if states had held spending constant at the originally budgeted 2008-09 amounts.⁷

² Where states have yet to release a 2010 revenue projection, but do post 2009 gaps, national average proportional changes in revenues were applied to the state's 2009 revenue gaps. These states included Alabama, Kentucky, Missouri, New Mexico, Oregon, and Pennsylvania.

³ Preliminary estimates by state for "grand totals" printed and disseminated by the Department of Education (ed.gov) dated 19-Feb-09.

⁴ State K-12 education budget data are drawn from *Rankings and Estimates: 2008*, NEA.

⁵ Note that the projection that 70% of ARRA funds would be expended on K-12 education by the end of the 2010 school year is a somewhat arbitrary assumption. How states ultimately apply their ARRA funds across years is somewhat of an unknown. Further, states can and will likely use some of their ARRA funds for higher education or other state priorities (either directly or by shifting money disproportionately away from education). Here again, this analysis makes no allowances for these possibilities.

⁶ Clearly, some states may "protect" education from proportionate cuts or may increase taxes. No actual behaviors on the part of states are factored into this analysis.

⁷ Clearly, holding spending constant feels like a budget cut for many state education systems where recent yearly trends have brought steady increases in spending. So even where the projected change in spending is 0%, the state may indeed be experiencing shock at the loss of expected growth. Similarly,

- This analysis projects changes in *state* education spending only when ARRA funds are added in (and thereby doesn't include *local* spending).⁸

Given these assumptions, the analysis should be understood as a relative ranking of the vulnerability of states to cuts in state education spending, given current revenue projections and published ARRA allocations.

How do states compare?

Given the model described above, this analysis ranks states according to the projected percentage change in state education spending. As **Figure 1** indicates, projections of state K-12 education spending drop below 2008-09 budgeted levels in 21 states. The more negative the percentage, the more vulnerable the state to reducing spending on K-12 education.

On the other end of the spectrum, in some states, ARRA funds can work to augment spending relative to 2008-09 budgeted levels. South Dakota appears most poised to benefit from an uptick in spending, with revenue projections pointing to an 18.9% increase over 2008-09 budgets.

States in the middle, near zero, are states where projected spending is held to 2008-09 budgeted levels through 2010. Note, however, that holding spending constant (or even small spending increases) can effectively imply budget cuts for districts, as state education budgets typically plan for spending growth year after year.

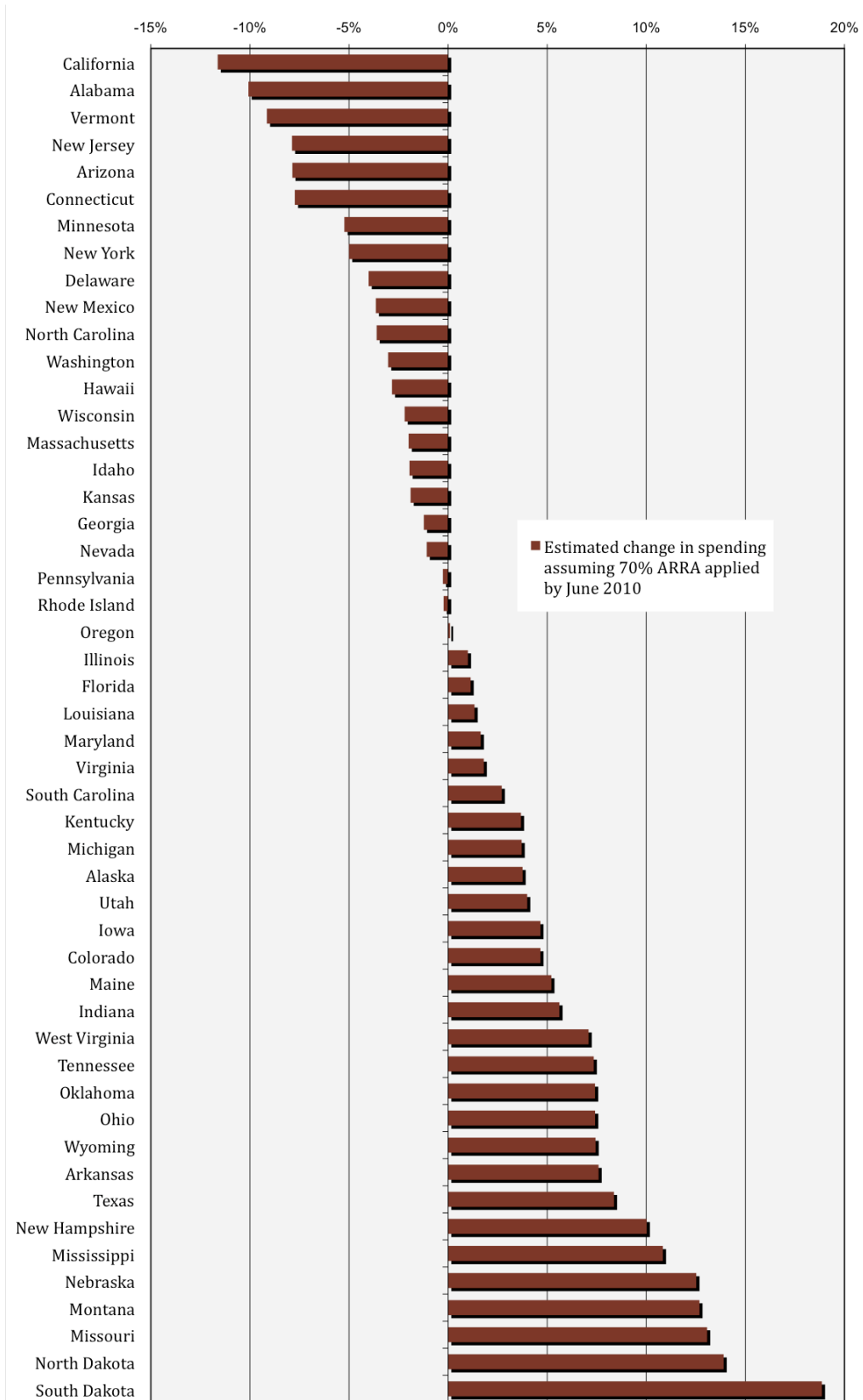
For instance, even without adding new reforms, costs can increase to cover obligated salary raises, health or pension obligations, rising utilities, etc. As such, the zero percent doesn't serve as a fully accurate division between states forced to make budget cuts and those where budget cuts aren't needed.

What could this mean for state spending per pupil? The numbers presented here tell only part of the story for districts, as these projections capture only cuts to *state* education spending. We can, however, model the effect of the state projections on total spending, assuming local and federal funds (excluding ARRA funds) remain constant. The **Appendix** lists those effects by states.

making comparisons to budgeted 08-09 allocations does not reflect cuts some states with early revenue gaps made prior to developing those budgets.

⁸ In states where the state share of education spending is relatively small, ARRA funds can be a larger portion of state education budgets. This analysis does not include the effect of the recession on local funds (which on average yield 44% of total revenues). The result is that where the state share of education spending is relatively small, the offset made by ARRA funds will appear proportionately larger.

Figure 1: Projected percentage change in state spending on K-12 education from 2009 budgeted to 2010 projected (including ARRA revenues)



What do these projections mean for states?

As stated above, these figures are not *predictions* of spending, but rather *projections*. In some states, policymakers may be intervening to alter the course of these projections, for example, by applying cuts in ways that “protect” education or by considering new taxes.

The data are relevant, however, because they work to explain the fiscal context in different states during this unprecedented federal investment in K–12 education. States at one end of the spectrum have very different fiscal conditions than those on the other end. Clearly, one interpretation of these data is that those expecting substantial reforms as a result of the federal investment may need to temper their expectations on a state-by-state basis.

An alternative view

There is an alternative interpretation, however. Rather than assume that reform will only happen in states flush with cash, one might anticipate that it is the *nature* of the reform that will differ according to a state’s fiscal context.

Clearly, states with new money may be best positioned to take on reforms that require new investments, like acquiring new data systems. Those with the biggest budget gaps, however, may be better positioned to consider reforms that increase efficiencies.

It is possible that in those states where funds are tightest, policymakers are most able to make the case for reallocation. For instance, policymakers facing gaps may be able to use those gaps to redesign long-term fiscal commitments, to change employment terms, or to otherwise unlock constrained resources so that they can be put toward better use. By confronting trade-offs and considering more efficient processes to best serve students, resource-constrained states may indeed see important reforms that could, over the long term, yield increases in the system’s productivity.

In sum, these projections are important, not only in that they help inform expectations for each state, but also because they may be used to inform the reform strategy.

Appendix: Projected effects of state revenue gaps and ARRA funds on K–12 education spending.⁹

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
State	Projected 2010 K-12 State Ed Expenditures Per Pupil without ARRA	Added Yearly Spending per pupil on K-12 Projected with ARRA Funds (applying 70% across the 08-09 and 09-10 school years)	Projected percentage change in state K-12 spending (with ARRA funds) as compared with 2008-09 budgeted expenditures	Total projected per pupil K-12 spending assuming local plus non-ARRA federal funds remain unchanged from 08-09 budgeted	Projected change in total spending from 08-09 budgeted to 2010 (resulting from projected changes in state revenues plus ARRA funds)
California	\$4,818	\$478	-11.6%	\$8,846	-7.3%
Alabama	\$4,712	\$522	-10.1%	\$8,726	-6.3%
Vermont	\$11,426	\$610	-9.1%	\$14,104	-7.9%
New Jersey	\$4,778	\$484	-7.9%	\$15,640	-2.8%
Arizona	\$2,174	\$422	-7.9%	\$5,157	-4.1%
Connecticut	\$4,382	\$466	-7.7%	\$13,458	-2.9%
Minnesota	\$7,414	\$485	-5.2%	\$10,560	-4.0%
New York	\$6,284	\$630	-5.0%	\$15,738	-2.3%
Delaware	\$7,680	\$580	-4.0%	\$13,205	-2.5%
New Mexico	\$6,290	\$539	-3.6%	\$9,696	-2.6%
North Carolina	\$5,016	\$497	-3.6%	\$8,661	-2.3%
Washington	\$5,429	\$473	-3.0%	\$9,477	-1.9%
Hawaii	\$9,664	\$537	-2.8%	\$11,525	-2.5%
Wisconsin	\$4,965	\$510	-2.2%	\$10,853	-1.1%
Massachusetts	\$6,382	\$545	-2.0%	\$14,583	-1.0%
Idaho	\$4,494	\$438	-2.0%	\$7,320	-1.3%
Kansas	\$5,451	\$478	-1.9%	\$9,890	-1.1%
Georgia	\$3,700	\$472	-1.2%	\$9,702	-0.5%
Nevada	\$1,960	\$423	-1.1%	\$7,297	-0.4%
Pennsylvania	\$4,038	\$546	-0.3%	\$12,020	-0.1%
Rhode Island	\$3,864	\$544	-0.2%	\$12,333	-0.1%
Oregon	\$4,537	\$503	0.1%	\$9,898	0.0%
Illinois	\$2,542	\$505	1.0%	\$11,459	0.3%
Florida	\$2,555	\$514	1.1%	\$8,581	0.4%
Louisiana	\$3,727	\$599	1.3%	\$10,296	0.6%
Maryland	\$4,651	\$519	1.6%	\$12,673	0.7%
Virginia	\$4,221	\$478	1.8%	\$11,423	0.7%
South Carolina	\$3,183	\$515	2.7%	\$9,054	1.1%
Kentucky	\$4,510	\$537	3.7%	\$9,762	1.9%
Michigan	\$6,269	\$497	3.7%	\$11,115	2.2%
Alaska	\$6,612	\$490	3.8%	\$11,037	2.4%
Utah	\$2,728	\$469	4.0%	\$6,035	2.1%
Iowa	\$3,775	\$480	4.7%	\$8,915	2.2%
Colorado	\$3,853	\$451	4.7%	\$9,800	2.0%
Maine	\$4,932	\$542	5.2%	\$13,784	2.0%
Indiana	\$4,884	\$489	5.6%	\$9,976	2.9%
West Virginia	\$6,345	\$522	7.1%	\$11,231	4.2%
Tennessee	\$3,604	\$558	7.3%	\$8,788	3.4%
Oklahoma	\$3,706	\$467	7.4%	\$8,119	3.7%
Ohio	\$3,555	\$492	7.4%	\$9,295	3.1%
Wyoming	\$7,884	\$587	7.4%	\$15,519	3.9%
Arkansas	\$5,680	\$531	7.6%	\$10,783	4.2%
Texas	\$3,596	\$455	8.4%	\$8,620	3.8%
New Hampshire	\$4,548	\$496	10.0%	\$12,556	3.8%
Mississippi	\$3,895	\$535	10.8%	\$7,917	5.8%
Nebraska	\$3,376	\$506	12.5%	\$9,683	4.7%
Montana	\$4,477	\$568	12.7%	\$9,935	6.1%
Missouri	\$2,605	\$518	13.1%	\$9,130	4.1%
North Dakota	\$2,717	\$634	13.9%	\$9,460	4.5%
South Dakota	\$2,713	\$593	18.9%	\$9,187	6.1%

⁹ This analysis assumes that local spending remains unchanged from 2008-09 budgeted through 2010 with no increases or decreases. Using these assumptions, the **Appendix** projects the total per-pupil spending per state and the effect of any changes in state revenues and ARRA allocations on that total. Two factors are relevant in understanding the relationship between projected changes in state spending and changes in projected totals. First, states differ in their share of the total K-12 expenditure for their districts. Secondly, total per-pupil spending varies across states, and so the states with the highest percentage increases in spending (at the bottom on **Figure 1**) are not necessarily the states with the highest per-pupil spending.



Marguerite Roza is a senior scholar at the Center on Reinventing Public Education, and a research associate professor at the University of Washington College of Education.

Funding for this work was provided by the Bill & Melinda Gates Foundation. We thank the foundation for its support, but acknowledge that the findings and conclusions contained here are those of the author alone and do not necessarily reflect the opinions of the foundation.

For more information and research on Finance & Productivity, or to see other work by the author, please visit: www.crpe.org