

**The Effects of the Federal Stimulus Package on K-12 Education**

Christopher M. Loofe

University of Nebraska – Omaha

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### **Abstract**

This research brief examines the historical role the federal government has played in the financing of public education. As states and school districts faced financial pressure due to the poor performance of the U.S. economy in 2008, the Obama Administration crafted the federal stimulus package. These funds created or saved jobs, saved educational programs, improved facilities, and assisted the fiscal distress felt in nearly every school district across the country. This brief also provides insight into the American Recovery and Reinvestment Act (ARRA) by outlining how the funds were allocated to states, as well as examines the impact ARRA had nationally, regionally and locally. This brief suggests that the federal stimulus package did what it was intended to do-stimulate a down trodden economy. However, what remains to be seen, are the lingering effects after the ARRA money is exhausted and what policy changes state and local leaders need make.

## **Research Topic**

What effects has the Federal Stimulus Package had on K-12 education?

## **Introduction**

### **Historical Role of the Federal Government**

Support to education can be traced back to the late 1700's and into the early 1800's when the federal government promoted common education in communities that were not able to or were unwilling to establish programs. According to Jennings (2011) and Walter and Sweetland (2003) the Northwest Ordinance of 1787 provided land resources for schools and state-level budgeting for schools. This early support for education was designed to aid in the delivery of general education. The role of the federal government in education has grown since the Northwest Ordinance. Gordon (2008) indicates that the federal role in education has grown for reasons not directly related to a state's economic disparity, but rather for reasons more closely related to the political issues of the day.

Public schools in the United States began as institutions that served their local communities. Initially, these schools were funded primarily by private donations; however, by the 19<sup>th</sup> century, the primary source of funding was through local taxes (Biddle & Berliner, 2002). Ultimately, the imbalances in property wealth amid individual communities and their ability to raise revenue lead to states playing a much larger role in funding education. As states relied more heavily on sales and property taxes, they were able to equalize their school districts ability to raise local revenue, although to what extent varied from state to state (Picus & Odden, 2011).

There has been considerable federal legislation and legal action as a result of the ways schools are funded. In 1972, President Nixon proposed legislation to increase federal funding for poor school districts. President Nixon pledged that children attending the poorest schools be provided an education equal to that of the wealthier schools. Although this legislation died in the Senate, states began to think about their current educational financial structures (Walters, Robinson & Lamber, 2011). A year later, the 1973 U.S. Supreme Court decision in *San Antonio School District vs. Rodriguez*, ruled that education

was not a fundamental right guaranteed by the U.S. Constitution (Darby & Levy, 2011; Moser & Rubenstein, 2002; Walters et al, 2011). The *Rodriguez* decision returned all school funding litigation to the state courts and allowed for states to determine what is equitable or adequate.

A common characterization of education finance over time is that much of the power has shifted from local districts to states while the federal role has been relatively small. However, in recent years, the federal government's role in financing education has increased significantly. Arguments can be made in favor of or against strong federal support of education finance. The reality in the United States is that local governing bodies have control of their districts. There is great resistance to reducing local control because it is directly tied to local funding. Gordon (2008) indicates that local school districts have a better handle on the needs of their community and can deliver high quality, low cost services to their students. However, an argument for a stronger federal presence is to ensure equity in resources across the states. The U.S. Department of Education and federal courts play an important role in influencing state and local education decisions. The challenge is to determine the appropriate capacity the U.S. Department of Education and the federal government should have on the decision making capabilities of the states and local school districts.

### **Revenues, Expenditures and Financial Concerns**

Decision makers in school districts focus on one issue – education of their children, while state legislatures consider how to best finance education, along with a myriad of other social issues. Burbridge (2002) indicates that factors such as a state's political context, voter preference on education and economic context directly affect state spending on education. These factors along with the state's tax efforts influence local school district spending. In the United States, about 44% of the revenue for K-12 education comes from property tax and other local resources, about 48% is allocated from states taxes and 8%-10% comes directly from federal aid (Bowman 2011; Jennings 2011; Picus & Odden, 2011). According to Jennings (2011), approximately \$17 billion was provided by the federal government to fund

K-12 education. Another form of federal support to education is the exclusion of federal taxes on interest earned on bonds. Local school districts use these tax free bonds to finance construction and remodeling of schools. The exclusion of federal taxes on the interest of school bonds makes them more attractive to school districts and investors (Jennings, 2011).

The U.S. Department of Education's National Center for Education Statistics (2009), reports that public school districts in the United States spend \$590 billion annually on K-12 education. Of that \$590 billion, approximately 69% of school district expenditures were spent on salaries, 11% on operations, 5% on support services and 3% on outstanding debt. The remaining 12% was spent on miscellaneous items. Nationally, this averages out to spending close to \$10,000 on every public school student (Bowman, 2011). Additionally, Bowman (2011) indicates that per pupil spending ranged from \$14,824 in New Jersey to \$6,060 in Utah. As school districts face falling revenues as a result of economic down turn, they must examine the possibility of making cuts, postponing orders and cutting programs. Although many school districts and states are fiscally stable, as their major sources of revenue is created from state and local taxes and their major expenses are predictable salaries and benefits, capital expenditures and debt, sometimes financial uncertainty is unavoidable.

In 2008 and 2009, the economy was the dominate cause of most school districts finical distress. As the economy began to unwind in the later part of 2008 and into early 2009, just as President Obama's Administration took office, it was clear that the United States was staring at what some called the "Great Depression Part II" (Fossen 2010; McDonnell & Weatherford, 2011). The Obama Administration wasted little time enacting an economic stimulus package which also addressed his education reform agenda. President Obama's educational policy agenda during his campaign addressed education reform by targeting three areas of concern. First, he wanted to use a discretionary funding source with little congressional scrutiny. Next, he sought flexibility to shape his education reform goals without interfering with other policies initiatives, and he needed to shape the reform agenda without detailed negotiations from legislation (McDonnell & Weatherford, 2011). What the Obama Administration developed was the

\$787 billion American Recovery and Reinvestment Act (ARRA) which included more than \$100 billion for aid to public education (McDonnell & Weatherford, 2011; McNeill, 2009c, 2011; Picus & Odden, 2011). ARRA money was designed to stabilize state and local district finances and employment, as well as develop new and innovative ways to implement education reform. Under the guidance of the U.S. Department of Education, the federal government provided states with the ability to fund schools with a nationwide program for continuous school improvement. Moreover, the majority of the funds were intended to help states and localities manage the deterioration of revenue by providing resources to diminish the rate of layoffs, increased class sizes and programmatic cuts. The assumption was that these downward trends would eventually be reversed and that most states and school districts would return to a situation reminiscent of pre-recessionary conditions (McDonnell & Weatherford, 2011).

### **Summary of Findings**

#### **Funding Allocations**

The majority of the funds, approximately \$100 billion, designated for education in ARRA were targeted for traditional stabilization purposes, and two competitive grant programs called Race to the Top, and Investing in Innovation, or I3, were created. Trussel and Patrick (2012) and McDonnell and Weatherford (2011) noted that Congress appropriated \$48.6 billion in a State Fiscal Stabilization Fund (SFSF), including \$39.5 billion available to local school districts for averting staff reductions and cuts to school programs and \$8.8 billion for facility upgrades and repair. ARRA also included additional funding for the Title I program for disadvantaged children and the Individuals with Disabilities Act. The larger pot of SFSF money was targeted to assist state support for public schools and help make up for lost revenues. The goal was to restore the total level of public education funding for fiscal years 2009, 2010 and 2011 to fiscal year 2008 or 2009 levels. The smaller pot of money was made available to governors to use for any governmental service, including public education facility upgrades and repairs (McDonnell & Weatherford, 2011; McNeill, 2011; Rentner & Usher, 2012).

To receive SFSF funds, states agreed to four reform-related assurances, which required them to (a) make progress toward implementing rigorous college and career ready standards and high quality assessments; (b) establish and use longitudinal data systems to track student's progress from prekindergarten through college and foster continuous improvement; (c) increase teacher effectiveness and address inequities in the distribution of high qualified teachers; and (d) provide targeted, intensive support and effective interventions to turn around low-performing schools identified by the No Child Left Behind Act (Ed.gov, n.d.; Rentner & Usher, 2012). These assurances signaled the Obama Administration's substantive policy interests regarding education. Furthermore, this administration's desire to distribute funding quickly indicated that these four assurances were essentially aspirational goals with seemingly limited federal interest.

The incentive programs, Race to the Top and I3 grants, as authorized by Congress appropriated approximately \$6.1 billion for initiatives intended to strengthen the K-12 infrastructure through expanded statewide data systems and improved educational technology, enhanced teacher quality and stimulation of innovation (McDonnell & Weatherford, 2011). The use of Race to the Top funds created many issues and concerns for states. The challenge to most states that were applying for the incentive dollars was that applications were to be judged on 19 criteria with one absolute requirement that the state could not have any laws on their books barring the use of student achievement data in evaluating teachers and principals (McDonnell & Weatherford, 2011; McNeil, 2011). States wanting to conform to this single requirement created unprecedented changes in their laws. With absolutely zero assurances that they would receive any Race to the Top funding, 17 states changed their laws to allow student test scores to be taken in to account in evaluating teachers, 13 removed caps on the number of charter schools that can be established in their state, 48 agreed to consider adopting common academic standards. After two rounds of competition among 47 applicants, 11 states and the District of Columbia were awarded over \$4 billion in funding. The willingness of state leaders to change laws to conform to the requirements established in Race to the

Top indicated a robust desire to acquire additional funding under tight fiscal conditions (Ash, 2009; Fossen, 2010; McDonnell & Weatherford, 2011; McNeil, 2011).

Improving achievement has been the goal for No Child Left Behind, (NCLB), however Obama's Race to the Top program included rewards and penalties for states that do not address the reform goals established by President Obama. Bowman (2011) and McDonnell and Weatherford (2011) indicate that by attaching stringent conditions focused on the core elements of teaching and learning as a means for receiving stimulus funds, the Obama administration challenged states and districts to move from merely coping with their issues to developing reform agenda and putting those ideas into action. By doing so, states and local districts must continually strive to convince their teachers and community that educational reform requires sustained support and continuing resources of time, money and expertise.

Given the increased importance of state funding for education, stark declines in state revenues in during the economic gownd turn led to significant reductions in education budgets in most states. According to Picus and Odden (2011), state budget shortfalls for fiscal year 2011-2012 totaled \$140 billion. Prior to this, state budget shortfalls totaled more than \$460 billion - of which only about \$158 billion was replaced by ARRA. In other words, states were forced to find approximately \$300 billion worth of cuts and reductions to balance their budgets. School districts in many states, when faced with limited or declining revenues, are able to turn to increased property taxes to offset the differences. However, in recent years, this option has been less available and therefore, with the overall weak economy, increased property valuations has done little to offer relief from funding deficiencies (Bowman, 2011; Picus & Odden, 2011; Rentner & Usher, 2012). As new sources of revenue are unlikely to remedy the fiscal losses districts are incurring, states and school districts must find ways to reduce spending and minimize the negative impact these shortcomings have on learning. ARRA money that carried states and school districts over the last few years is gone.



## **Impact of ARRA**

Prior to fiscal year 2011, almost half of the states and a large majority of the nation's school districts experienced cuts in K-12 education funding. ARRA grants helped to stabilize school district's budgets during this major economic downturn. Additionally, ARRA money saved educators' jobs. Recovery.gov (2013a&b) reports that during the 2009-10 school year, ARRA grants used by the state of Nebraska saved 2,360 jobs, while in Iowa during the same time over 6,088 jobs were saved. Across the United States in fiscal year 2010-2011, an estimated 85% of districts with funding decreases cut teacher and other education staff, even with the use of SFSF funding support (Rentner & Usher, 2012).

State officials and school leaders were asked to be creative in using the ARRA money provided and to remember the focus is on reform. The overall goal of ARRA was to stimulate the economy and to invest in education. The U.S. Department of Education (2009) and McNeill (2009b) reported that the distribution of ARRA funds would be guided by four major principles. First, states should spend the money quickly and create jobs. Recovery.gov reports that during the 2009-10 school year, ARRA grants used by the state of Nebraska saved 2,360 jobs, while in Iowa during the same time over 6,088 jobs were saved. Second, states and local districts should strive to improve student achievement through school improvement and reform. SFSF funding required progress be made in the four reform areas mandated by Elementary and Secondary Education Act of 2007 where (a) schools must make progress toward rigorous college and career ready standards, (b) establish PK-college and career data tracking systems, (c) make improvements in teacher effectiveness and distribution of quality teachers and (d) provide intensive support and interventions for lowest performing schools. Next, states and local districts had to ensure transparency, reporting and accountability to prevent fraud and abuse of the use of federal stimulus dollars. Authorization of SFSF funds meant that states would report, amongst other items, (1) the use of funds provided under the SFSF program; (2) the estimated number of jobs created or saved with program funds; (3) estimated tax increase that were averted as a result of program funding; and (4) the state's progress in areas covered by the application assurances. Lastly, states and schools were to invest one-time

ARRA funds thoughtfully to minimize the “funding cliff”. School leaders were instructed to not invest these funds in ways that would result in ongoing continuous commitment once the funding expired. Arne Duncan, Secretary of Education, cautioned states and local districts to spend the grant money in ways that would lessen ongoing costs once the funding expired. The overall success of this goal is dependent upon the commitment and responsibility of students, parents, teachers, administrators, school boards, state school officials, governors, local officials and politicians (Ed.gov, n.d.; Fossen, 2010; McNeil, 2009a, 2009b, 2011; Rentner & Usher, 2012; U.S. Dept. of Education; 2009).

An overview of how Nebraska used their ARRA money provides a better understanding from a local perspective. According to Recovery.gov (2013b), the state of Nebraska received a total 1,029 awards worth over \$447.1 million for education. Fossen (2010), and the Nebraska Department of Education (2009), indicate that the state of Nebraska made the decision to spread out their allotment of \$234 million in SFSF funds over two fiscal years. Furthermore, the state decided to use the \$234 million to replace its planned increases in state aid. By doing so, the state of Nebraska freed up other funds that were able to support other programs and services supplanted by the state.

Nebraska state legislators and local education decision makers crafted the plan to freeze the state’s contribution to K-12 education for two years. The plan called for the state to appropriate the funds to replace the federal money plus continue funding the state aid funding formula. As the plan unfolded the economy worsened and it became apparent that the state’s revenues were continuing to decline. The state called a special session of the legislature and amended their appropriation and reduced their contribution by more than \$29 million. Projected expenses for the state of Nebraska indicate a deficit of about \$670 million after ARRA money was awarded and used. Currently, the state of Nebraska has exhausted all of its SFSF awards and is awaiting the legislature’s decision on state aid to see how much money will be allocated towards education for the 2013-2014 school year. Any potential reductions to state aid, reduced or limited property value growth along with increasing district expenditures may cause school districts in the state of Nebraska to consider alternative funding options for education.

The State of Iowa, according to Recovery.gov (2013a) provided for 940 awards totaling more than \$673.3 million in ARRA money to be used towards education. The state of Iowa in its application for initial funding under the SFSF program, indicated they would enhance the quality of state assessments as well as take the necessary step to improve state academic content standards and student academic achievement standards consistent with the ESEA (U.S. Dept. of Education, 2009). Additionally, Recovery.gov (2013a) reports that the state of Iowa saved an average of 6,088 jobs for two years as a result of ARRA money assisting state funding for education.

Moreover, Iowa, in its application for funding, provided alternative reform assurances. The state proposed to align high school standards with expectations of college and the work place. By doing so the state is ensuring that students will have the necessary financial, civic, technology, health and employability literacy skills that will transition to the workplace or to post-secondary education. In addition, the state of Iowa proposed to align their high school graduation requirements with college and career ready expectations as well as proposed to develop college and career ready assessment systems, (U.S. Dept. of Education, 2009). The ability to measure how effective these assurances have been for the students of Iowa is difficult to assess. One could consider this a potential topic for additional research.

## **Conclusions and Application to MOEC**

### **Conclusions**

In 1983, The U.S. Department of Education released the famous report, “A Nation at Risk,” that called for a major investment in public education. The Department of Education argued that the academic performance of U.S. students was being surpassed by students from other countries and that the deteriorating quality of our educational system was the major factor. However, for education to affect global richness school districts must take reform seriously and implement change; and, before schools can focus on reform, districts must have a foundation of economic accountability and stability.

Fiscal accountability and stability begins with the members of the community in which their children attend school. Parents and active citizens should demand prudent district and state policies that can help districts provide immediate cost savings. Additionally, states should have plans in place which monitor district's fiscal well-being and intervene when the district is approaching or entering fiscal crisis. By having a plan in place, districts may head off serious financial crisis or reduce the duration and its long term negative effects. Lastly, both state and federal governments should help stabilize district's revenues by providing them with an annual set percentage of state and federal funds they can count on. It is essential that community members, parents and concerned citizens stress to local and state leaders their concerns regarding the district's fiscal environment.

### **Application to MOEC**

An independent summary review of the individual school districts located within the Metropolitan Omaha Educational Consortium, (MOEC), may provide local superintendents, school districts and the community with important information regarding the overall effectiveness of the American Recovery and Reinvestment Act. Additional research is needed as a result of ARRA funds recently exhausted.

Moreover, MOEC's Executive Steering Committee would presumably be very interested in additional research focusing on this topic. It is recommended that the task force for Business Operations, along with local business, community and college level leaders begin the process of identifying: (1) potential financial stressors to school districts; (2) potential strategies to mitigate financial distress; and (3) potential suggestions for ways in which school districts can reduce spending while maintaining a strong emphasis on improving student performance. MOEC would use data driven research to formulate strategic decisions regarding school district funding concerns. Ideally, this data would enable school districts within MOEC to find ways to reduce spending when revenues are declining and when state aid is reduced. Since schools located within MOEC are unlikely to see significant increases in funding in the

future, local school districts wishing to limit the risk of significant reductions in instructional expenditures must increase the diversity of their revenue sources.

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#### **AUTHOR'S INFORMATION**

Christopher M. Loofe has a Master's Degree in K-12 Special Education from the University of Nebraska-Omaha and an Endorsement in Educational Administration from Wayne State College. He has taught and held administrative positions in Nebraska, Iowa and Maryland. He is currently employed by Millard Public Schools as an Assistant Principal for Activities and Athletics at Millard West High School in Omaha, NE.