

EDUCATION STIMULUS FUNDS:



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IN MARCH 2009, when this article was prepared, the United States economy was in a crisis not seen since the Great Depression of the 1930s. The stock market had dropped by more than 50 percent in less than a year, credit was frozen, consumer purchasing power was in decline and, in the previous six months, the country had lost 3 million jobs and was on a trajectory to lose another 3 million over the following six months. The economy was shutting down.

On March 10, 2009, in a speech to the U.S. Hispanic Chamber of Commerce, President Barack Obama stated, “. . . throughout our history, a generation of Americans bears the

ery and Reinvestment Act of 2009” (ARRA), commonly referred to as the stimulus package or plan. Designed to stimulate the economy and employment, ARRA is a crucial step in a massive effort to create and save 3 to 4 million jobs, jump-start the U.S. economy and begin the process of transforming the economy for the 21st century. A financial package of tax cuts and targeted priority investments totaling more than \$787 billion, the sheer size of the economic stimulus package underscores the depth of this economic crisis.

Enacted on Feb. 17, 2009, ARRA contains targeted efforts in energy (\$43 billion), healthcare (\$59 billion), infrastructure and science (\$111 billion), state and local fiscal relief (\$144 billion), education and training (\$115 billion), tax relief (\$288 billion) and other targeted programs (\$27 billion).

It is estimated by the U.S. Congressional Budget Office that Michigan’s

the future well-being of the state for policymakers to develop a budget that balances revenue and expenditures, yet is adequate and fair in meeting the needs of its citizens.

The Congressional Budget Office defines the goal of economic stimulus this way: “Fiscal stimulus aims to boost economic activity during periods of economic weaknesses by increasing short-term aggregate demand.” The theory is that if more goods and services are being bought, there is less chance that falling demand will lead businesses to lay off workers, resulting in deeper recession. ARRA is designed to boost employment and economic spending by infusing a number of spending and tax measures crafted to inject more aggregate demand into the sagging economy. The act includes both federal tax cuts and increased domestic spending in education, healthcare, infrastructure, energy and an expansion of unemployment benefits and other social welfare provisions to help economically disadvantaged families.

Not all economists and policymakers agree that the massive stimulus plan enacted by the American Recovery and Reinvestment Act will help jump-start the economy of the United States. Opponents of the act do not believe that allowing the government to “borrow and spend” is a way to improve economic performance. They contend that more government spending by presidents Hoover and Roosevelt did not pull the U.S. economy out of the Great Depression in the 1930s, nor did it solve Japan’s “lost decade” in the 1990s. Instead, opponents of the act recommend lower tax rates and reduction in the burdens of government as the best ways of using fiscal policy to boost growth.

Only time will tell if the massive ARRA stimulus package is a long-term savior or a short-term fix.

“Michigan is not just facing an economic crisis of major proportion . . . The state is also facing a historic once-in-a-lifetime opportunity to remake public education.”

responsibility of seeing this country through difficult times and protecting the dream of its founding for posterity. This is a responsibility that has fallen to our generation. Meeting it will require steering our nation’s economy through a crisis unlike anything that we have seen in our time. In the short term, that means jump-starting job creation and restarting lending and restoring confidence in our markets and our financial system. But it also means taking steps that not only advance our recovery but lay the foundation for lasting, shared prosperity.”

The president was referring to the recently enacted “American Recov-

share of the federal stimulus package is about \$18.2 billion. This much needed money will create and preserve jobs, stimulate local and state economies and fund services for Michigan’s most vulnerable populations. Safety net spending will not only relieve financial stress for poor families, helping them meet basic needs, but also stimulate the local economy.

The one-time stimulus funds are designed to be used in the short term to restore economic confidence and to buy time as Michigan policymakers consider ways to deal with the structured deficit in the state budget on a long-term basis. It is essential for

An Opportunity to Plan Ahead

Summary Highlights of ARRA Education Programs

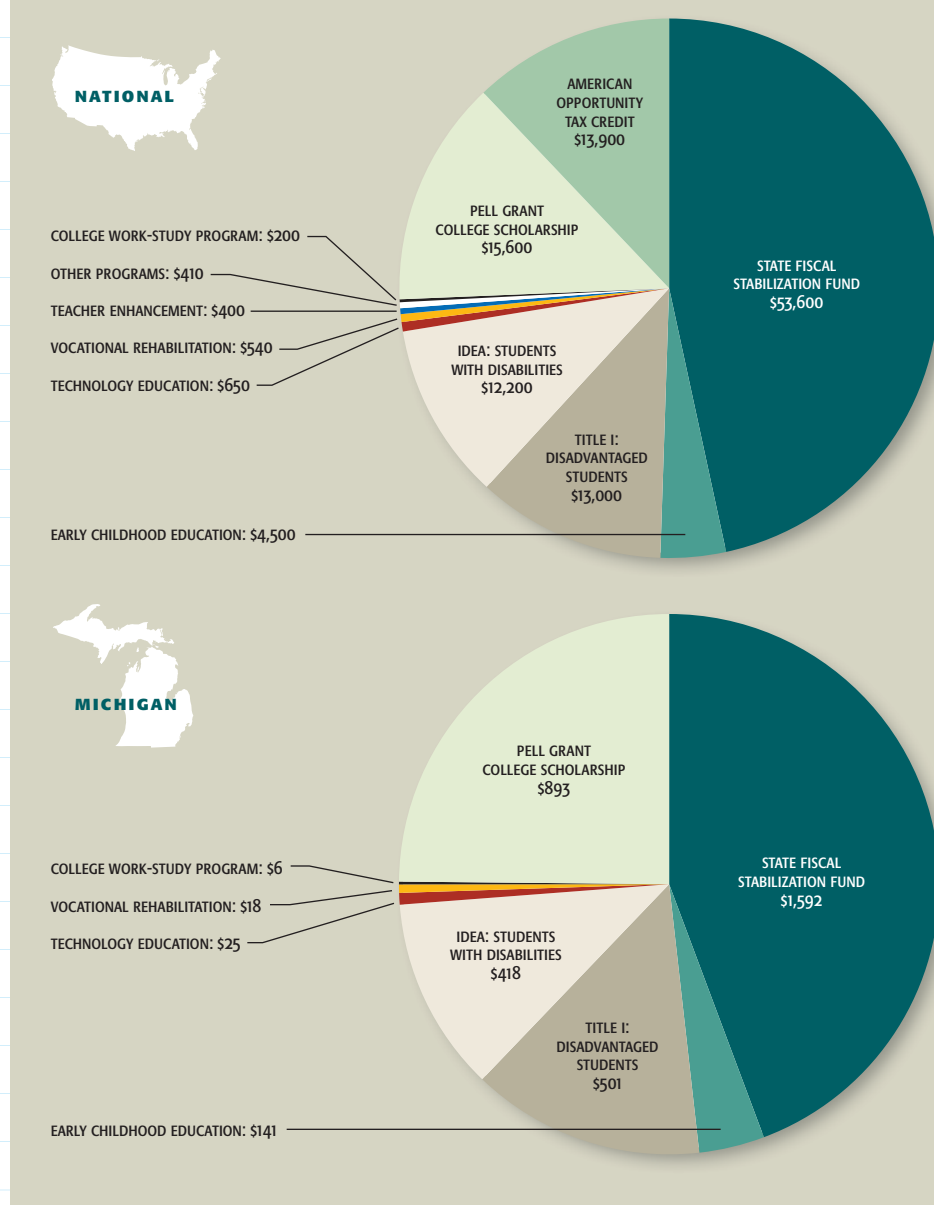
Within the education sector, ARRA will provide an immediate stimulus to the economy by saving or creating new jobs in early childhood, K–12 and higher education in states across America that are threatened by state and local budget cuts. The plan is to invest the education portion of these funds quickly in ways that meet the educational interests of the nation. The goal is to get half of the funds for education to the states within two months and the second half within six months of the enactment of the law.

Importantly, the ARRA education components lay the foundation for future federal education reform efforts by encouraging states to adopt college- and career-ready standards and assessments, and to invest heavily in teacher and principal quality initiatives that elevate the teaching profession and help recruit and retain effective teachers and principals for low performing schools and underserved communities. Primarily, the ARRA education funds are invested in the following categories:

1. The State Fiscal Stabilization Fund

The stimulus package creates a stabilization fund to help state and local government avert budget cuts amid growing state fiscal crises. This fund is the largest element of the ARRA education component—a \$39.5 billion grant earmarked for K–16 education and \$8.8 billion in flexible grants to help fund other key services including education. The remaining \$5 billion is for incentive grants on a competitive basis. The stabilization funds are available to the states immediately and must be spent within two years of receiving the grant. This fund must first be used to restore education funding to the fiscal year 2008 level for K–12 and higher education.

ARRA ESTIMATED EDUCATION-RELATED FUNDS (IN MILLIONS OF DOLLARS)



2. Early Childhood Education Programs

The ARRA allocations make it clear that the administration is making early childhood and pre-kindergarten education a priority. Specifically, the ARRA budget allocates about \$4.5 billion for Early and expanded Head Start and an *additional allocation* for infant care and parental support.

3. K–12th Grade Education

About \$27 billion is allocated for elementary and secondary programs to help disadvantaged students and improve teacher and school quality.

4. Postsecondary Education

Funding for postsecondary education totaling about \$30 billion is aimed at ▶

promoting access to college education for low-income students.

ARRA Impact on Michigan

The chart on the previous page shows the estimated amount of money the state of Michigan will receive from the ARRA stimulus package in education-related areas. Michigan will receive approximately \$2.5 billion. This does not include the federal Pell Grants for college tuition, estimated at \$893 million, or tuition tax credit and early childhood and infant funding.

Michigan's Economic Crisis

Michigan is facing one of the worst economic downturns in recent history. Hundreds of thousands of adults are struggling to pay for basic necessities such as housing, food, healthcare and energy costs. Unemployment in the state is about 11 percent, the highest in the nation. Due to the economic downturn, Gov. Jennifer Granholm proposed reducing state spending in the 2009–10 budget by \$670 million, including a \$59-per-pupil reduction in school aid and a 3 percent reduction in aid to the state's 15 public colleges and universities. The approximately \$1.6 billion that Michigan will receive from the State Fiscal Stabilization Fund should make up for any cuts proposed by the governor. However, using the stimulus to make up for base budget shortfalls creates funding dependency that cannot be sustained. When the stimulus funds run out in two years, state aid to schools and universities is likely to drop more significantly than the 2009 proposed levels. It would behoove the state, school districts and state colleges and universities to be looking *now* for effective ways to reduce expenditures.

Michigan is not just facing an

economic crisis of major proportion—it is also facing an education crisis.

Many school districts across the state are currently running financial deficits, mostly due to sharp increases in healthcare, retirement and energy costs coupled with declining enrollment and uncertain state funding. But Michigan is also facing a historic once-in-a-lifetime opportunity to remake public education, to enhance the quality of education for every student so that they are prepared for the changing economy and workplace of the 21st century.

What Michigan Should Do in K–12 Education

Michigan should expand access to high quality early childhood education, especially for economically disadvantaged children. High-quality early childhood education programs help children succeed in school and later in life.

Michigan should use ARRA K–12 education funding to target the academic needs of the most disadvantaged students and schools with the largest achievement gaps. This means that some districts should receive significantly more ARRA funding per student than others. The ARRA funding for education is intended by statute to impact students most in need, not to “spread the wealth” to everyone equally.

Michigan ARRA funding to school districts should require districts to set aside portions of the funds to establish and implement targeted programs addressing issues of school reform, reducing achievement gaps, improving graduation rates, improving the quality of teaching and administration and establishing summer programs for elementary and middle school children who are failing to reach appropriate proficiency levels in mathematics and English language arts.

Postsecondary Education and ARRA: An Action Plan

On February 24, 2009, President Barack Obama stated that, “By 2020, America will once again have the highest proportion of college graduates in the world. And to meet that goal, we are investing \$2.5 billion to identify and support innovative initiatives across the country that achieve results in helping students persist and graduate.”

ARRA provides unprecedented opportunities for states to use this significant infusion of funds to increase access to higher education while improving cost effectiveness and increasing degree productivity. Over the past few years, the Michigan economic crisis has constrained public funding to higher education, reducing postsecondary access and degree attainment by students from low income families. The problem stems from structural pressure on the state budget, growing dependency on tuition revenues that harm access and opportunity and the spiraling institutional costs of healthcare, energy and retirement that require unsustainable funding increases. ARRA will only postpone rather than resolve the budget problems for Michigan higher education.

Educational policy analysts recommend that states like Michigan that are most impacted by the economic crisis should use the ARRA funding opportunity to protect access and success in higher education while developing meaningful long-term plans for the future.

What Michigan Should Do in Higher Education

I offer the following plan of action to state policymakers and higher education planners to help them use the ARRA funds to better position our colleges

and universities to meet the changing demands of society and the workplace of the future:

☒ *Promote investment, not maintenance.*

Funding decisions should be guided by an investment mentality rather than a maintenance or retrenchment mentality. Every higher education institution has high-cost, low-performing programs in areas that do not contribute to state or national economic or workforce needs. The current economic crises present an opportunity for selective pruning of programs that are not cost effective.

☒ *Condition funds on accountability for meeting priorities.* Institutions accepting ARRA funds should be required to meet state and federal policy priorities as a condition for receiving these funds. Institutions should protect college affordability by limiting tuition increases to a minimum, and any increase should be accompanied by an appropriate increase in financial aid to qualified disadvantaged students.

☒ *Use ARRA funding as a bridge to a long-term fiscal plan.* Michigan should use the stimulus funds to best position the state and its colleges and universities for long-term fiscal sustainability. The state should ask all institutions of higher education to present a public plan for long-range financing that addresses increasing access to qualified students, closing achievement gaps and increasing graduation and degree-earning rates.

☒ *Avoid creating unsustainable funding dependencies.* The state should urge institutions of higher education to avoid spending ARRA one-time funds in areas that will create greater long-term dependencies that cannot be sustained. Any commitment requiring more than two years of funding needs to be accompanied by a revenue plan to

FEDERAL STIMULUS FUNDS FOR MICHIGAN SCHOOL DISTRICTS, SIX HIGHEST FUNDING AMOUNTS

ESTIMATED FIGURES IN MILLIONS OF DOLLARS

DISTRICT NAME	TITLE I	SPECIAL ED.	OTHER	STABILIZATION	TOTAL FUNDS
Detroit Public Schools	\$120,163	\$30,450	\$25,383	\$354,806	\$530,802
Grand Rapids Public Schools	11,018	8,174	2,327	32,533	54,052
Flint Community Schools	12,457	3,973	2,631	36,782	55,844
Lansing School District	7,391	10,974	1,561	21,822	41,748
Dearborn Public Schools	8,020	3,926	1,694	23,681	37,322
Saginaw Public Schools	6,752	2,884	1,426	19,936	30,998

Source: *Estimated Grants for K-12 Education* (2/26/09). Lansing, MI: Senate Fiscal Agency.

sustain funding beyond ARRA, perhaps by reallocating funds from high-cost, low-performing programs.

☒ *Use ARRA funds to improve educational quality.* The state should encourage the use of resources in ways that will meet the requirements of the law to create jobs while improving educational quality and contributing to state productivity in the future. Investments in program redesign and other curricular changes should aim to increase the number of graduate and undergraduate majors in high-growth industries such as engineering, healthcare, information technology and teacher preparation in the areas of mathematics, science, technology, literacy and special education, where the job demand exceeds the supply.

Conclusion

Education is the cornerstone of the nation's economy. By investing in high quality education, we reap unending benefits. It is through greater investment in education, infrastructure and science and technology that we can get our economy moving while promoting long-term economic growth. Investment to make college education more affordable to more students will improve the skills of the workforce in the

changing economy.

Future jobs in the technology, energy and healthcare sectors will go to workers who possess high levels of proficiency in mathematics, engineering, chemistry, physics, biology and geology. High school students well-grounded in mathematics, science and technology will be in the best position to successfully complete their higher education studies in fields related to science, technology and engineering, thus being able to compete for future high-paying jobs in the competitive global workplace.

The American Recovery and Reinvestment Act of 2009 represents an essential step in stabilizing Michigan's economy. The infrastructure portion will create jobs, the tax provisions will help Michigan families and the investment in education will pay dividends for the future. While the state still faces major challenges that must be addressed to end the recession, the ARRA stimulus package will give Michigan urgently needed momentum.

If, on the other hand, the federal stimulus funds are used to avoid necessary fiscal reforms at the state and local levels, Michigan could face an even larger budget deficit in two or three years. At that time, an influx of huge federal funds is not likely to come riding to the rescue.