

The Education Jobs Fund and its Impact on Massachusetts Schools

OVERVIEW

On Tuesday, August 10, 2010, the US House interrupted its summer recess to pass a jobs and economic stimulus package, passed a week prior by the Senate. This law provides \$26 billion to help states and school districts protect important public services in the midst of the ongoing fiscal crisis. President Obama signed the package into law later that day. Of this \$26 billion total, to be spent in Fiscal Year (FY) 2011, \$16 billion provides a six-month extension of provisions in the American Recovery and Reinvestment Act (ARRA) that help states by paying a larger than usual share of Medicaid costs (FMAP), and \$10 billion creates a new Education Jobs Fund for the preservation and creation of education jobs. Since it represents a large portion of this most recent stimulus legislation, it is likely that the Education Jobs Fund will be the only source of increased Chapter 70 education aid. Education Jobs Fund money can be distributed through the Chapter 70 education aid formula at the discretion of the Governor, unlike the distribution of extended FMAP money which requires legislative action, so it is likely that these funds will go out more quickly. This *Facts At a Glance* describes major provisions of the Education Jobs Fund and outlines several options for spending Massachusetts's projected \$204 million share of the money. For more information on how FMAP money affected elementary and secondary education grant programs in the Legislature's pre-veto budget, please see *MassBudget's* recent publication, "FMAP and an Education Jobs Fund: State Fiscal Relief to Strengthen the National Economy, Reduce State Budget Cuts, and Create Jobs," available [here](#).

WHAT IS THE EDUCATION JOBS FUND?

The Education Jobs Fund is part of the federal government's ongoing effort to stimulate the economy and create jobs by providing fiscal relief to state governments that have been hit hard by the ongoing recession that began in 2008.¹ Passed as a component of HR 1586, the bill that also extended enhanced FMAP support to states, the Education Jobs Fund creates a \$10 billion grant fund to be spent during the FY 2011 school year for the retention and creation of education jobs in elementary and secondary schools.² Massachusetts's share of funding is approximately \$204 million³ and is based upon a combined measure of the state's school-aged population and overall resident population. Education Jobs Fund money comes in addition to \$75.3 million in State Fiscal Stabilization Fund (SFSF) money already allocated for FY 2011 to local school districts.

¹ Report of the "Business Cycle Dating Committee, National Bureau of Economic Research": www.nber.org/cycles/dec2008.html

² The legislation is contained in Senate Amendment 4575 to House Resolution 1586, which is available on the Library of Congress's website at: www.thomas.gov/cgi-bin/query/R?r111:FLD001:S56588

³ For more information on the U.S. Department of Education's projections see: www.ed.gov/sites/default/files/edjobsfund-allocations.pdf

The federal Department of Education estimates that the full \$10 billion allocation should fund an estimated 161,000 jobs nationwide, with 2,900 of them coming in Massachusetts.⁴

Due to the urgency of distributing money for the FY 2011 school year that begins this September, the federal Department of Education (DOE) will be conducting a streamlined application process. Rather than subjecting Education Jobs Fund money to the usual appropriations process that involves state legislatures, this money will be distributed as grants at the discretion of governors, similar to the distribution of SFSF money. Governors have 30 days to submit applications for money, with the DOE aiming to make final grant decisions within two weeks of receiving applications.

States must distribute funds to elementary and secondary school districts either through existing school funding formulae – the Chapter 70 education aid formula in Massachusetts – or based upon the federal Title I formula, which distributes aid according to individual schools' low-income student populations. Major provisions of the Education Jobs Fund include requiring that states:

- **Demonstrate reasonable maintenance of effort.**

Since the Education Jobs Fund is designed to stimulate education jobs funding amidst the ongoing fiscal crisis, states are expressly prohibited from reducing their commitment to education and required to continue reasonable support for both K-12 education and public higher education separately. The primary method for demonstrating maintenance of effort for each of these spending categories is by either: 1) maintaining FY 2011 education spending at FY 2009 levels; or 2) maintaining FY 2011 education spending levels at a percentage of total revenues available to the state that is at least as high as this percentage in FY 2010. Maintenance of effort must continue for both FY2011 *and* FY2012.

It does not seem as though Massachusetts will satisfy the maintenance of effort requirement based upon the first criterion because even though spending on Chapter 70 education aid is budgeted to be roughly \$314 million higher in FY 2011 than in FY 2009, spending on higher education is budgeted to be roughly \$106 million *lower* in FY 2011 than in FY 2009. Massachusetts may, however, be able to demonstrate reasonable maintenance of effort based upon the second criterion requiring the respective proportions of K-12 education and higher education spending to be higher for FY 2011 than for FY 2010. It is difficult to anticipate precisely the calculations that the federal Department of Education will make in determining Massachusetts's final grant application because some technical issues are still unclear, particularly with regard to determining anticipated FY 2011 state revenues.

If Massachusetts does not satisfy either of the above tests, there are two provisional maintenance of effort tests available for states whose tax collections for calendar year 2009 are less than their tax collection for calendar year 2006. Tax collections in Massachusetts were lower in 2009 than in 2006, so this provision provides another opportunity for the state to satisfy the maintenance of effort requirement.

- **Guarantee that funding directly supports the retention and creation of education jobs.**

Education Jobs Fund money must go directly towards the salaries of educational staff and cannot fund administrative staff at the district level. Furthermore, this money cannot be used to replenish rainy day funds, nor can it fund capital projects, materials, or debt payments.⁵ Details are still being

⁴ Ibid.

⁵ For more detailed guidance from the federal Department of Education please see:

<http://www2.ed.gov/programs/educationjobsfund/governors-ed-jobs-guidance-final-8-13-10.doc>

determined for how states will demonstrate that all funds are used on education jobs, but the legislative language identifies the existing SFSF reporting system as the structure for reporting the expenditure of Education Jobs Fund money.

OPTIONS FOR DISTRIBUTING EDUCATION JOBS FUND MONEY

On Tuesday, August 10, 2010, the day that President Obama signed this new stimulus legislation, Governor Patrick indicated to reporters that he'd like to use Massachusetts's share of roughly \$200 million in Education Jobs Fund money to boost Chapter 70 education aid by \$125 million and restore \$75 million in cuts to higher education. While Education Jobs Fund money is designed for use in K-12 education, not higher education, Governor Patrick does retain discretion over \$96 million in SFSF money for FY 2011 – \$21 million currently allocated for higher education and \$75 million for K-12. He may be able to reallocate the \$75 million currently allocated to K-12 education (Chapter 70) into higher education and backfill that cut with the new Education Jobs Fund money in addition to distributing \$125 million to reverse other cuts.

When adjusted for inflation, the state's community colleges, state universities, and UMass campuses have been cut by approximately 15 percent over the course of the fiscal crisis. Not counting potential FMAP increases, an additional \$75 million allocated directly to the state's higher education campuses would represent an increase of roughly 9 percent over currently budgeted amounts for FY 2011.

Although Governor Patrick has indicated an intention to distribute \$125 million of the Education Jobs Fund directly through the Chapter 70 formula, he has several options for how to do so. Chapter 70 education aid has been cut in a variety of ways over the last two years, not just through across-the-board cuts, and therefore, decisions about which of these cuts to restore will benefit some school districts more than others. Recently, *MassBudget* published a paper entitled "Fiscal Fallout: The Great Recession, Policy Choices, and State Budget Cuts" that details the extent of cuts to state programs since the onset of the fiscal crisis in the fall of 2008 – the full report is available [here](#). The paper's section on cuts to Chapter 70 education aid calculates the size of each respective cut and provides some direction for thinking about how Education Jobs Money could be distributed. Following is a description of some of these cuts:

Skipping a high-inflation quarter in calculating the FY 2010 foundation budget: \$88 million cut

Each year the state adjusts the foundation budget to account for cost increases between the first two quarters of the previous two years, but the FY 2010 budget was calculated using a different time period, resulting in a lower inflation rate. Using this lower inflation adjustment kept funding levels artificially low, and was tantamount to a direct cut in Chapter 70 aid. Since cost growth is compounding, using the low inflation rate for FY 2010 means that foundation budgets will continue to lag behind actual inflation in subsequent years until a retroactive inflation correction is made. Correcting the foundation budget to reflect actual inflation would have the effect of directing more total money to schools because it would increase the total spending required to keep districts at higher foundation levels.⁶

⁶ For more information on calculating inflation in the foundation budget, see: <http://massbudget.org/doc/613>

Increasing local contributions for some districts in FY 2010: \$47 million cut

In its simplest form, Chapter 70 state aid is determined first by calculating a local community's ability to contribute—its “required contribution”—and then filling the gap between this amount and the foundation budget. Historically, communities have been able to contribute above their required amount and still receive a full state aid payment equal to the difference between their original required amount and foundation.

In the FY 2010 budget, however, the state cut its aid payments to a category of communities that had been spending above their required local contributions but below their new target contributions, as established through the 2007 reforms. This resulted in a cut of approximately \$47 million in Chapter 70 aid.⁷

Across-the-board district cuts in FY 2010 and FY 2011: \$152 million cut

The FY 2010 budget cut district Chapter 70 aid by up to 2 percent from FY 2009 levels, with specific cuts affecting individual districts differently. If the full 2 percent cut would have brought districts below their foundation level, the cut was reduced in order to maintain all districts at their foundation budget amounts. Thus, some districts received a smaller reduction while others received the full 2 percent cut.

Similarly, the FY 2011 budget cut district aid across-the-board up to a higher 4 percent, with specific cuts impacting individual districts differently. If the full 4 percent cut would have brought districts below their foundation level, the cut was reduced in order to maintain all districts at their foundation budget amounts. Again, some districts received a smaller reduction while others received a full 4 percent cut. Together, these across-the-board district cuts in FY 2010 and FY 2011 reduced Chapter 70 education aid by approximately \$152 million.

Distributing Education Jobs Fund money by restoring across-the-board cuts may not lead to increased total education spending in districts that are already spending above foundation levels. Districts whose net school spending is above foundation may be able to respond to this new support by reducing their local contribution, as long as they stay at foundation, and reallocating revenues elsewhere in the city or town budget.

Finish phase-in of some or all 2007 reforms⁸

The FY 2007 budget ushered in a series of reforms to the Chapter 70 formula designed primarily to address concerns about fairness in how the state determined local contributions and state aid. These reforms began in FY 2007 and were planned to be implemented over a five year period. FY 2011 was slated to be the first year in which these reforms were fully phased-in, but due to the fiscal crisis and the fact that the reform plan was never written into law, both the FY 2010 and FY 2011 budgets reduced state education aid in part by slowing this phase-in process.

⁷ Aid was cut by an amount that still ensured total spending of at least foundation levels. Affected communities, whose initial local contribution was above their required contribution, had up to 95 percent of their local contribution level from FY 2008 converted into required spending. This enabled the state to reduce its Chapter 70 aid since higher required local contributions ensure that districts stay at foundation even with lower state aid. In most communities, the actual local spending on education exceeds the required minimum spending level, sometimes by quite a large amount. This new provision was included to capture much of this actual spending as required spending, thereby bringing a number of low-effort communities substantially closer to their target share in one year. Fiscal Year 2008 was used as the base year because it is the most recent year for which the Department of Elementary and Secondary Education had complete spending data at the district level.

⁸ For more information on the 2007 reforms please see “Public School Funding in Massachusetts: Where We Are, What Has Changed, and Options Ahead,” available at: <http://massbudget.org/doc/507>

Fully implementing these reforms while also restoring each of the cuts described above would require approximately \$530 million in additional funding for FY 2011, more than twice as much as Massachusetts's \$204 million share of the Education Jobs Fund. The Governor could, however, speed the phase in of some of the reforms and not others. One reform that has been partially phased-in, for example, updates data determining the allocation of education funding, and when implemented reduces required local contributions and increases state aid. Other reforms guarantee annual per-pupil aid increases of \$50 and provide a new type of aid to communities that are growing particularly quickly.