

Conflicting Missions and Unclear Results:

LESSONS FROM THE EDUCATION STIMULUS FUNDS

Sara Mead, Anand Vaishnav, William Porter, and Andrew J. Rotherham



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On February 17, 2009, President Barack Obama signed into law the American Recovery and Reinvestment Act (ARRA), commonly known as the “stimulus.” Enacted in the midst of a deep recession brought on by global financial collapse, ARRA provided more than \$800 billion in federal spending and tax cuts intended to stimulate the economy while laying the roots of future long-term growth. A substantial portion of that funding, more than \$100 billion, was dedicated to education. This unprecedented one-time spending boost is larger than the entire annual budget of the U.S. Department of Education.

Also unprecedented were the ambitious education reform goals that accompanied ARRA’s education spending. ARRA’s architects sought not just to save teacher jobs and patch holes in state and local budgets but also to advance education reform in four key areas: implementing college- and career-ready standards and high-quality assessments, creating pre-K-20 longitudinal data systems, increasing teacher effectiveness, and turning around chronically low-performing schools. The resulting legislation introduced a new federal approach to education reform—one that emphasizes the four reform priorities mentioned above and that uses incentives, rather than mandates, to drive state and local reforms. But in doing so, the legislation incorporated the competing goals of short-term stimulus and long-term reform. This tension has shaped how ARRA played out in practice.

Less than two years have gone by since ARRA was passed (and one year remains for districts to spend down ARRA funds), so it is still too early to fully assess ARRA's economic and reform impacts. But key themes and lessons are beginning to emerge, with implications for future state and federal stimulus and education reform efforts.

Recognizing that the unprecedented flow of ARRA funding into education created both potential pitfalls and opportunities, the William & Flora Hewlett Foundation supported the efforts of 10 national and state-based organizations to disseminate information and analysis on ARRA and help states and local school districts make good use of ARRA funds. Half of the grantees—the Center on Education Policy, the Council of the Great City Schools (CGCS), Editorial Projects in Education, the New American Foundation, and the University of Washington's Center on Reinventing Public Education—have focused on helping to document exactly how ARRA funds have been distributed to and used by states and districts. The other grantees—the American Institutes for Research (AIR), the Aspen Institute, the California County Superintendents Educational Services Association (CCSESA), Education Resource

SIDEBAR 1

Grantees of the William and Flora Hewlett Foundation

In 2009, the William and Flora Hewlett Foundation awarded about \$3 million in grants to enable 10 organizations to undertake work designed to support wise use of American Recovery and Reinvestment Act (ARRA) funds. Some of these organizations received funding to assist a subset of school districts in strategic uses of American Recovery and Reinvestment Act (ARRA) dollars and overall budget planning. Others received funding to impart to policymakers and the public an understanding of the impact of stimulus dollars. Here are the 10 grantees:

The American Institutes for Research (AIR) works with the California Collaborative on District Reform on the strategic use of stimulus funds specifically concerning turnaround schools.

The Aspen Institute supports an existing network of superintendents and sets up a new network of chief financial officers

to improve the alignment of resources with strategic goals.

The California County Superintendents Educational Services Association (CCSESA) works with a subset of districts to generate templates, tools, and strategic advice to guide the local implementation of stimulus dollars.

Strategies (ERS), and the Policy Innovators in Education Network—have focused on providing direct assistance to states and districts in making choices about the use of ARRA funds. (See Sidebar 1 for a list of grantees.)

These organizations have acquired a deep and unique understanding of the impacts of ARRA on the ground, both in school systems that received extra help and counsel to use ARRA funds wisely and in those that did not. This paper draws on and synthesizes this understanding to independently identify key themes and lessons emerging from state and district experiences with ARRA. Through an analysis of Hewlett grantees' publications and work as well as interviews with both Hewlett grantees and district leaders, the authors of this paper have identified these emerging lessons and their broader implications for education policy and practice. Although the work of the Hewlett grantees plays a key role in informing this analysis, the conclusions presented here are those of the authors alone and do not necessarily represent the views of the Hewlett Foundation or its grantees.

The Center on Education Policy (CEP) produces reports to help national policymakers understand how states are implementing stimulus dollars in education.

The Center on Reinventing Public Education (CRPE) produces fiscal analyses and research briefs that serve as tools to guide stimulus spending and districts' strategic budgeting.

The Council of the Great City Schools (CGCS) provides technical assistance to large urban school districts on effective ways of spending federal stimulus dollars and surveys member districts on stimulus use.

Editorial Projects in Education (EPE) supports coverage in *Education Week*

and www.edweek.org of the impact of the stimulus package on education.

Education Resource Strategies (ERS) provides technical assistance and support to urban school districts in spending stimulus money and reallocating resources to maximize student performance.

The New America Foundation (NAF) supports the Federal Education Budget Project, which provides in-depth information about federal education spending.

The Policy Innovators in Education Network (PIE Network) supports the initiative to strengthen education advocacy organizations in leveraging ARRA for education reform.

Several key themes emerge from states' and districts' experiences implementing ARRA:

- » Districts used ARRA funds primarily to maintain spending levels in the face of state and local budget cuts. But some districts also used ARRA funds concurrently to move forward with reforms, particularly in the area of human resources.
- » Mixed messages from senior officials at the Department of Education, multiple competing priorities, and delays in receiving official guidance from the Department of Education and states created confusion at the district level about the purpose of ARRA funds and how they should be used to preserve jobs and advance reform.
- » In many districts, inertia and existing processes, rather than reform priorities, drove allocation and distribution of ARRA resources.
- » In districts that did use ARRA for a more strategic end, local leadership, greater capacity, and idiosyncratic local factors, rather than federal policy decisions, were the causes.
- » Budget pressures on states and districts are proving to be even greater and longer-lasting than initially expected and are a long-term and systemic problem rather than a temporary one.

These emerging themes have implications for education policy and practice, not only in the event of additional stimulus funding but for any policy efforts to use federal dollars to drive reform in elementary and secondary schools:

- » Federal policymakers should not expect federal funds that are not attached to clear reform requirements to generate reform. Policymakers can combine stimulus and reform but must acknowledge the trade-offs, structure the funding accordingly, and communicate their priorities and goals clearly to recipients of funds.
- » Federal policies that prevent districts from using stimulus funds for practices known to be ineffective may be more effective than policies that encourage spending those funds on new reform activities.
- » Federal policies and spending should be crafted with the goal of helping districts make hard choices to address unsustainable cost structures rather than simply postpone the tough decisions.
- » Where possible, federal education policies should help districts become fundamentally more strategic and effective and should not focus narrowly on specific reforms.
- » Policymakers at all levels—federal, state, and local—must support strategies that build data, analytic, and research capacity to help districts use resources more strategically, especially in the current fiscal climate. Lack of district capacity is an enormous obstacle to implementing change.
- » Advocacy organizations can play a valuable role in providing political cover for districts and states that make tough choices.

SHORT-TERM STIMULUS, LONG-TERM INVESTMENT

In late 2008, a global financial crisis plunged the United States and world economies into the worst recession since the Great Depression. Economists, Congressional leaders, and the incoming Obama administration agreed on the need for federal fiscal stimulus to restore economic growth. But some national opinion and policy leaders, including Obama administration officials, also argued that the nation could not afford a stimulus that was merely stimulus. Beyond pumping federal dollars into the economy to stimulate demand and create jobs, stimulus spending offered an opportunity to make strategic investments in key national needs and thus create a solid foundation for sustained economic growth coming out of the recession. President Obama's inaugural address summed up this line of thinking:

The state of our economy calls for action, bold and swift. And we will act, not only to create new jobs, but to lay a new foundation for growth. We will build the roads and bridges, the electric grids and digital lines that feed our commerce and bind us together. We'll restore science to its rightful place, and wield technology's wonders to raise health care's quality and lower its cost. We will harness the sun and the winds and the soil to fuel our cars and run our factories. And we will transform our schools and colleges and universities to meet the demands of a new age.¹

As this quote illustrates, education was central to the concept of the stimulus as both short-term relief and investment in long-term economic growth, and this is one reason that ARRA included substantial and unprecedented funding for education. Owing to record state budget deficits and falling home prices that lowered local property tax revenues, school districts across the country faced the threat of major cuts in education spending. The hope was that federal stimulus for education could maintain education services and counter the retractionary economic impacts of state and local cuts while serving as an investment in the nation's human capital and future economic growth. Some policymakers and education reformers saw an even greater opportunity: By attaching education reform requirements to stimulus funds, federal policymakers could accelerate state and local progress on education reform. The ARRA legislation ultimately reflected this strategy of using short-term relief to produce long-term benefits.

EDUCATION FUNDING AND REFORM IN ARRA

ARRA included more than \$100 billion in funding for education. Some of that funding was dedicated to college financial aid or to early childhood education programs. But the aid package included more than \$70 billion in funding for public elementary and secondary schools and institutions of higher education. This amount is greater than the entire annual budget of the U.S. Department of Education (\$62.3 billion in 2009 for both pre-K-12 and postsecondary education programs).² Table 1 provides a breakdown of ARRA funds for key education programs.

TABLE 1

American Recovery and Reinvestment Act (ARRA) Funding for Education

STATE FISCAL STABILIZATION FUND

Education Stabilization Fund	\$39.75 billion
Government Services Fund	\$8.85 billion
Race to the Top	\$4.35 billion
Investing in Innovation	\$650 million

ONE-TIME INCREASES IN EXISTING FEDERAL EDUCATION PROGRAMS

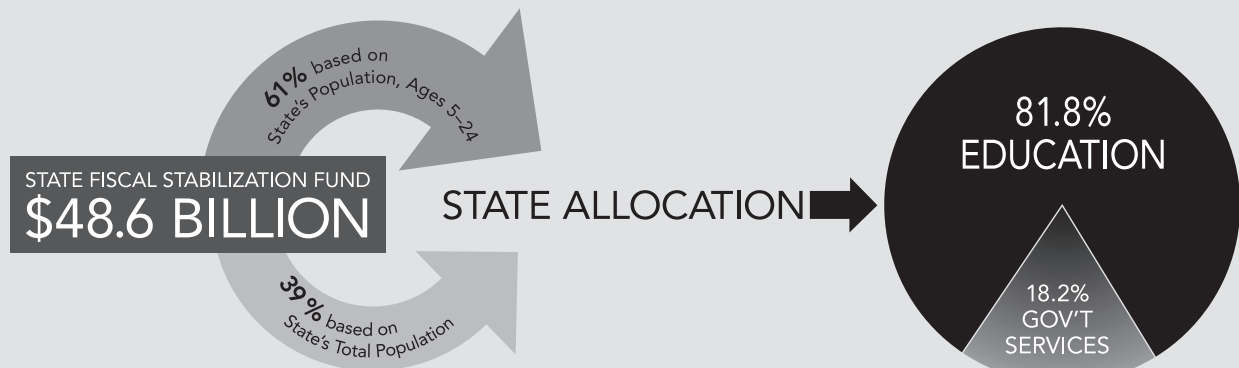
Title I Grants to Local Educational Agencies	\$10 billion
Title I School Improvement Grants	\$3 billion
Individuals with Disabilities Education Act (IDEA) grants to states	\$11.7 billion
IDEA Infants and Families	\$500 million
McKinney-Vento Homeless Education	\$70 million
Education Technology State Grants	\$650 million
Statewide Longitudinal Data Systems grants	\$250 million
Teacher Incentive Fund	\$200 million
Impact Aid Construction	\$100 million
Teacher Quality Partnerships	\$100 million

Source: New America Foundation, Federal Education Budget Project, <http://febp.newamerica.net/background-analysis/american-recovery-and-reinvestment-act>.

The largest portion of ARRA funding for education is the \$48.6 billion State Fiscal Stabilization Fund (SFSF), which was intended to fill gaps that the economic crisis brought about in state funding for public education and other services. Funds are distributed to states according to a formula based on population (Figure 1). States must use 81.8 percent (\$39.75 billion) of SFSF funds to support public elementary and secondary schools and postsecondary institutions. States may use the remaining 18.2 percent (\$8.85 billion) to maintain government services, such as education, public safety, or other services. States may choose how to divide the \$39.75 billion in Education Stabilization Funds between K-12 and postsecondary education (most states allocated the majority of funding for K-12). Funds allocated to elementary and secondary education are distributed directly to local educational agencies according to formulas specified in ARRA. States do not control how this money is spent.*

FIGURE 1

Allocation of State Fiscal Stabilization Fund (SFSF) Dollars



* The formula for allocating Education Stabilization Funds (ESF) to school districts is complex. States must use ESF to bring funding distributed to local education agencies under the state's school funding formula up to 2008 or 2009 funding levels (whichever is higher). States may also use ESF to increase funds received by districts from the state's school funding formula to above 2008 or 2009 levels; but this is allowed only if, prior to October 1, 2008, the state passed legislation that required an increase in state education funding to improve adequacy and equity in school funding. Any funds remaining after states distribute funds to districts under these provisions are distributed to districts according to the Title I funding formula.

The SFSF reflects the “stimulus” element of ARRA and was designed to move money rapidly out of federal coffers in order to create jobs and stimulate demand. To speed the distribution of SFSF funds, the Department of Education adopted a streamlined process that allowed states to receive up to 67 percent of funds (and in exceptional cases as much as 90 percent) within two weeks of submitting an application and assurances to the Department.

But the ARRA legislation also grafted a reform component onto SFSF’s stimulus. To receive SFSF funds, states must commit to take actions to advance education reform in four “assurance” areas spelled out in the law:

- » increasing teacher effectiveness and addressing inequities in the distribution of highly qualified teachers,
- » creating longitudinal data systems to track students’ progress from pre-K through college and careers,
- » implementing rigorous college- and career-ready standards and high-quality assessments, and
- » turning around low-performing schools.

These “four assurances” reflect the Obama administration’s core education reform priorities, which the administration saw an early chance to incorporate into federal policy through the stimulus. Under the law, each state’s SFSF application must detail the state’s strategies to advance reform in each of these areas. States received their second payment of SFSF funding only after the Department approved their plans.

ARRA also included two smaller new education-funding programs. Race to the Top (RTT) provides \$4.35 billion for competitive grants to support state progress in the four assurance areas identified in SFSF. The Investing in Innovation fund provides \$650 million for competitive grants to allow local education agencies or nonprofit organizations to expand and develop innovative practices that improve student achievement and reduce achievement gaps.

In addition, ARRA distributes \$16.6 billion to states and school districts through one-time increases in existing federal education programs, including Title I and the Individuals with Disabilities Education Act (IDEA).

The somewhat unwieldy design of ARRA’s education component, which allocates funding through more than a dozen different programs, reflects the effort to combine stimulus and reform as well as the power politics surrounding the issue of whether funds would

be controlled at the state or local level. The three largest funding streams in ARRA—the Education Stabilization Fund component of SFSF, Title I, and IDEA—all distribute funds directly to local educational agencies via set formulas. Other ARRA-funded programs, including Investing in Innovation and the Teacher Incentive Fund, distribute funds directly from the federal government to local and nonprofit groups on a competitive basis. The ARRA programs that give states the greatest discretion in how funds are used—RTT, School Improvement Grants, and Statewide Longitudinal Data Systems grants—are all tied closely to reform priorities.

ARRA'S IMPACTS ON DISTRICTS

ARRA funds were intended to counter the retractionary economic impact of state and local budget cuts while accelerating state and local education reform efforts. Indeed, these funds were sufficient to make up for K-12 funding shortfalls in the majority of states.³ But in many cases, the funds simply helped districts tread water, as several states reduced education budgets by roughly the same amounts they received in ARRA allocations. Connecticut, for example, factored its \$542 million in SFSF funds into existing state grants, enabling it to supplant state dollars with stimulus funds.⁴ Massachusetts cut \$412 million from its state aid to K-12 schools and filled the hole with its SFSF allocation.⁵ This approach was taken in states nationwide;⁶ as a result, more than two thirds of districts around the country experienced a decline in funding from non-ARRA sources in 2009-10. In 43 percent of those districts, SFSF funds made up for less than half of the decrease.⁷ Among the largest urban districts, 75 percent reported that ARRA funds were insufficient to make up for state and local funding cuts.⁸ No wonder that—even with ARRA funds—45 percent of districts laid off staff in fiscal year 2009.⁹

As a result, most districts have used ARRA funding—particularly SFSF funds—primarily to “backfill” state and local budget cuts and preserve existing programs, services, and educator jobs. Over 60 percent of districts that received SFSF funds report using them to save or create teaching jobs—collectively the most common use of funds.¹⁰ ARRA funds enabled Boston, for example, to save 215 educator and support staff jobs. Long Beach, which, like many other California districts, used ARRA funds to backfill an 18 percent state budget cut, saved 350 instructional staff positions (out of an estimated 47,000 California education jobs saved with ARRA funding).¹¹

But state and local revenue losses are not the only reason ARRA funds primarily supported “more of the same.” The attention to budget backfill has obscured important complexities and lessons about how districts think about allocating resources for education in the face of dueling imperatives for both reform and budget-cutting.

In addition to documenting how most districts and states have used ARRA funds (as described above), Hewlett Foundation grantees contributed to an understanding of how a few districts bucked the trend and used ARRA funding more strategically to address reform priorities and long-term needs. Rather than just backfilling state and local budget cuts, some exceptional districts used ARRA funds to advance reforms, make critical one-time investments in infrastructure and capacity, hire or retain staff critical to reform goals, or better align resource allocations with district reform goals.

Since both reform and budgetary constraints are likely to be key forces shaping education policy and practice for the near future, it is critical that reformers and policymakers understand why ARRA funds had limited reform impacts in most districts and why some districts were able to act more strategically than others. A careful look at the experiences of districts and the work of the Hewlett grantees throws some important themes into relief.

Conflicting Messages Cause Confusion

Districts experienced considerable confusion about the purpose of ARRA funds and how they should be used. This confusion undermined the ability of districts to make optimal decisions regarding the strategic use of ARRA resources.

It is no surprise that districts were confused. Rhetoric from the highest levels of the administration sent contradictory messages about the purpose and use of ARRA funds. Education Secretary Arne Duncan stated in a speech,

Congress and the Obama administration are investing a large share of the stimulus funding to stabilize our states so we can protect kids, save teaching jobs—and also drive reforms. ... We’re not just facing an economic crisis in America. We’re facing an education crisis. A University of Washington report says up to 600,000 education jobs are at risk. But we’re also facing a historic opportunity to remake public education—a once-in-a-lifetime chance to lift the quality of education for every child in America. I call it the perfect storm for reform.¹²

These mixed messages continued in the Department’s official SFSF guidance, which included additional priorities that further confused districts. The Department’s guidance to districts spelled out four “guiding principles” for use of ARRA funds.¹³ As shown in Figure 2 (which was taken from Department guidance materials), districts were directed not only to use ARRA funds to simultaneously save jobs and advance reform but also to “ensure transparency and accountability in the use of funds” and “thoughtfully invest one-time funds” to avoid the “spending cliff” when ARRA funds run out.

FIGURE 2

Guiding Principles for use of ARRA funds

-  Spend Quickly to Save and Create Jobs
-  Ensure Transparency and Accountability
-  Thoughtfully Invest One-time Funds
-  Advance Effective Reforms

Exacerbating the confusion, the U.S. Department of Education and state departments of education were slow to release guidance on the use of ARRA funds. In one case, guidance arrived eight months after an award had been granted. As states and districts finalized their budgets for the upcoming school year, these delays and the associated uncertainties complicated efforts to plan and to use stimulus dollars in strategic ways.¹⁴

Districts struggled to reconcile the competing emphases on saving jobs, advancing reform, and avoiding funding cliffs. But in many cases, the cliffs have not been avoided at all. By using ARRA funds to save jobs and offset budget cuts, many districts have merely postponed the pain of those cuts. Moreover, the one-time nature of ARRA funds may have made districts less willing to use these dollars to support ongoing reform. In fact, fully half of district leaders surveyed said that the conflict between balancing long-term spending priorities and the short-term nature of ARRA funds created a “major problem” in their use of these funds.¹⁵

“As a finance person, you don’t like to spend money on ongoing expenses when you only have a two-year resource commitment,” said Matthew Stanski, chief financial officer (CFO)

of the 130,000-student Prince George's County Public Schools in Maryland. "But at the same time, the guidance is telling you to save jobs and help student achievement. It was something I struggled with. It's something we're going to have to deal with in 2012."

The increased reporting requirements and emphasis on transparency and accountability in the use of ARRA funds created a sense of scrutiny that made doing something new or different seem more risky to already risk-averse district officials and thus may have made some of them less willing to use ARRA funds in new ways to advance reform.¹⁶

The Power of Inertia

In the absence of clear guidance pushing them to do otherwise, districts tended to allocate new ARRA funds in largely the same way as existing funds.

In theory, the combination of ARRA and budget cuts offered districts an opportunity to strategically realign their budgets by using the cuts to eliminate ineffective or low-priority expenditures and then using ARRA funds to invest in higher-priority or proven strategies aligned with district goals. Karen Hawley Miles, president and executive director of ERS, one of the Hewlett grantees working with districts to help them use ARRA funds strategically, encouraged districts to use the stimulus to maintain not just any job, but the *right* jobs. This means that districts should use the budget cuts and stimulus as an opportunity to look at current staffing patterns and expenditures and realign staffing to better match district priorities.¹⁷ Very few districts did this, however. The above data suggest that most used ARRA funds simply to maintain their current staff, programs, and funding levels—the predictable result of bureaucratic inertia and risk aversion. Maintaining the status quo usually seems easier and less risky, at least in the short term, than trying to change resource allocation patterns.

The decision to distribute a significant portion of ARRA funds through Title I and IDEA may have contributed to this inertia, as can be seen from the tendency of these funds to flow into the same patterns and activities as existing Title I and IDEA funds. Although there is, in fact, considerable flexibility in how Title I funds can be used, many districts are unaware of this flexibility or how to access necessary waivers and so were reluctant to use Title I funds in new or different ways. In some cases, states discouraged districts from taking advantage of flexibilities in Title I and other funding streams. Missouri, for example, insisted that districts distribute Title I ARRA funds down to the local school level rather than use them for district-wide reforms, even though federal law does not require this.¹⁸ In other cases, state and federal authorities responded to districts' waiver requests months after receiving them, too late for districts to use waivers to implement reforms.¹⁹

Leaving Reform to Chance

Data showing that most districts used their ARRA funds to maintain the status quo have dominated policy debates about ARRA's impacts. But this result, though problematic, should not obscure the compelling examples of districts that did, in fact, do things differently. Boston, Mass.; Charlotte-Mecklenburg, N.C.; Long Beach, Calif., Prince George's County, Md.; and Rochester, N.Y., are among those that were strategic in the cuts they made, using ARRA funds to save priority investments and advance reform goals.

Boston, for example, made one-time investments in new formative assessments and a new literacy strategy designed to improve literacy and language acquisition for English language learner students. Charlotte-Mecklenburg used the combination of budget cuts and ARRA to advance a fundamental overhaul of its approach to human resource development. Charlotte-Mecklenburg was able, among other things, to base layoff decisions on performance rather than seniority and made strategic increases in class size in order to maintain funding for academic coaches who work with new or struggling teachers. (See Sidebar 2 for more information on Charlotte-Mecklenburg.) Florida's Hillsborough County (which includes Tampa) used a portion of its Title I stimulus dollars for a teacher incentive pay program, and Seattle is using stimulus funding to support a new STEM (Science, Technology, Engineering, Math) high school program and to reform English language learner programs.²⁰

How some of these districts managed this approach—when many others did not—is instructive. Where reforms occurred, they were heavily dependent on the presence of strong superintendents and other district leaders who saw an opportunity to use the combination of the budget shortfall and ARRA funds to advance a particular reform vision. The availability of outside technical assistance—as provided by Hewlett grantees ERS, the Aspen Institute's CFO Network, and the CCSESA—also made a significant difference in the ability of districts to strategically use ARRA funds in the realignment of district resources. As Susan Burr, executive director of the CCSESA, notes, to approach budget challenges from the perspective of “what should we save?” rather than “what should we cut?” is “a new way of thinking for some” districts, and one that they need support and assistance to adjust to.

Idiosyncratic local elements also played a role. For example, in Charlotte-Mecklenburg, the availability of ARRA funding happened to coincide with a five-year strategic planning process, creating unique opportunities for district leaders to use ARRA funding to facilitate reallocation of district resources to strategic reform goals.

But in every district where these factors came together to support reform, they did so despite the competing goals of ARRA rather than because of them. Just as often, coincidences and idiosyncratic features served to undermine reform efforts—as in several districts that were initially slated to work with ERS and the Aspen Institute’s CFO Network on budget cutting and ARRA funding decisions but that dropped out because of superintendent and CFO turnover.

SIDEBAR 2

Using resources strategically in Charlotte-Mecklenburg (N.C.) and Prince George’s County (Md.)

The past few years have not been easy on the nation’s school district chief financial officers (CFOs). Collectively, they have sliced billions of dollars from their budgets, faced skeptical members of school boards, and struggled with spending choices that range from bad to worse.

But there is a silver lining. Amidst the recent financial crises comes the opportunity to do things differently: to prioritize and reallocate resources, to have a serious conversation about spending choices, and to plumb financial and academic data to determine what programs get the most bang for the buck in helping students learn.

Two school districts—Charlotte-Mecklenburg, N.C., and Prince George’s County, Md.—used the opportunity of outside research capacity, American Recovery and Reinvestment Act (ARRA) dollars, and tough budget circumstances to break new ground on reforms that previously had been confined to research briefs and policy papers.

Both Charlotte-Mecklenburg (133,000 students) and Prince George’s (128,000 students) were part of a cohort of districts assisted by the Watertown, Mass.-based Education Resource Strategies (ERS), a nonprofit that helps school systems analyze their

budgets and reallocate resources on strategic budget priorities. With support from the William and Flora Hewlett Foundation, ERS was able to work with at least 11 districts on spending plans and strategy. In partnership with the Aspen Institute, which convened a network of district CFOs, ERS provided comparative data and tools that these officials used to conduct deep analyses of their school systems’ spending as well as the alignment—and misalignment—of that spending with strategic goals.

This work sought to help CFOs answer this question: In lean budget times—when programs and positions must be cut—how can existing resources be restructured so that they align with district priorities and support improvements in student achievement?

Charlotte-Mecklenburg and Prince George’s examined a number of sacred cows in their school systems. Both eliminated tuition reimbursement for master’s degrees, using research that shows that teacher effectiveness is not linked to teachers’ having additional degrees or credentials. Charlotte-Mecklenburg also made performance in the classroom, not seniority, the basis for teacher layoffs.

Both districts also made strategic increases in class sizes. Although class size reduction is popular with

In the absence of much stronger reform imperatives and in the presence of conflicting guidance and priorities, reform was left largely to chance. It is not surprising that most districts followed the pull of inertia and used ARRA funds to sustain status quo practices rather than consider the bigger opportunity (and imperative) of using these funds as a bridge to investments in important reforms. But the districts that did otherwise offer lessons for policymakers and models for practitioners.

families and teachers, research has shown that smaller class sizes produce the greatest gains in early elementary school and have little to no effect in the upper grades. Moreover, research indicates that marginal reductions in class sizes of between 20 and 30 students have no discernable impact on student learning. On the basis of this research, Prince George's decided that maintaining class size reductions system-wide was less effective than raising teacher quality through professional development and coaching. The district kept class size the same in pre-kindergarten and kindergarten but raised classes by two students in grades 1 through 12. The move saved \$26 million and eliminated 350 teaching positions. (Because the loss of positions was accomplished through attrition, there were no layoffs.)

Matthew Stanski, CFO for Prince George's, said that this research helped him make the case for a politically tough reform to his district's board of education.

"The data really shows that money spent on building capacity is much better and has greater impact on student achievement than keeping class sizes where they were," Stanski said. "That's how we framed the argument. We didn't cut coaching or professional development, because we felt it was necessary to build the capacity of current teaching staff. Instead

of having 24 students, you have 26 now, but you can be a more effective teacher. There are resources still available for you to grow professionally and become a more effective teacher."

Similarly, Charlotte-Mecklenburg kept class sizes at their normal levels for grades kindergarten through 3 but increased classes by one student in grades 4 through 12, saving \$6.2 million, according to CFO Sheila Shirley.

But these changes will take each district only so far. With ARRA dollars drying up, the so-called "edujobs" funds running out after 2012, and no relief appearing on the horizon, Stanski, Shirley, and their colleagues will have even tougher reductions and strategic conversations ahead of them. One tactic is sharing the research with their school-board members so they can be equipped to address questions in their communities about why certain programs got the axe. Sharing examples of best practice across districts—something the Aspen Institute's CFO Network facilitates—also can help.

"The whole conversation started as a resource reallocation discussion," Shirley said. "But it became a little more of, 'What can we live without? What will do the least harm?'"

Ongoing Budget Pressures

The overall data on districts' use of ARRA funds, as well as the examples of individual districts, make clear that the budget pressures currently facing states and districts are even greater than policymakers and economists expected at the time ARRA was passed. As noted earlier, ARRA funds, though substantial, did not make up for state and local funding cuts in many districts.

Moreover, even as the economy begins to improve, the budget pressures on states and school districts will not immediately ease. Part of the reason for this is that economic recovery is proceeding at an unusually slow pace. But the budget challenges facing states and districts run deeper than simply a temporary need to sustain funding levels through an economic downturn. Many states and districts are facing a long-term fiscal crunch, with built-in costs for salaries, benefits, and other expenditures projected to escalate faster than tax revenues are likely to grow even after full economic recovery. Rising home values and property tax values through much of the past decade allowed state and district leaders to postpone these hard fiscal realities to another day, but as a result of the collapse of the housing bubble and the consequent budget crunch, that day is now at hand. Districts must overhaul their spending patterns and cost structures in the face of these new fiscal realities.²¹

Some districts have taken advantage of ARRA funds to help smooth the transition to new trajectories. Boston, for example, is exploring a multi-year budgeting cycle that enables the district to better forecast enrollment and budget cuts and is working to reduce the number of small and under-enrolled schools. By “right-sizing” to eliminate this excess capacity, Boston leaders expect to free up millions of dollars that can be used to improve student learning. Charlotte-Mecklenburg has also worked to better align allocations of time, people, and money with reform priorities, enabling the district to sustain funding for critical reforms—such as its Strategic Staffing Initiative to turn around low-performing schools—and at the same time cut the overall budget (Sidebar 2).

But these are all anecdotal examples. The data suggest that many more districts have not yet recognized or found the will to address these new realities. ARRA funds have enabled districts to put off this difficult task for a few more years. But when ARRA funds run out at the end of fiscal year 2010, districts will be left facing the same fiscal challenges and in some instances even greater ones. Even those districts that have used stimulus funds to smooth the transition to a more sustainable trajectory will continue to face challenges when those funds go away.

KEY LESSONS AND POLICY IMPLICATIONS

District experiences with ARRA funds, and the lessons learned by Hewlett grantees, have implications for district, state, and federal practitioners and policymakers. The national economic recovery is proceeding at a snail's pace, unemployment is high, and state budget shortfalls seem likely to persist. In this climate, even districts that have taken strategic steps to alter long-term cost trajectories and realign spending to district priorities have real concerns about their future fiscal situation. These forces are likely to maintain pressure for further federal spending to save jobs and provide fiscal relief to states. Any such efforts should be informed by lessons from ARRA. More broadly, experience with ARRA also offers lessons for states and local governments as they struggle to advance and stay the course on education reform even amid tight fiscal circumstances.

Stimulus and Reform: Can Policymakers Have Their Cake and Eat It Too?

As noted above, the ARRA legislation—both as a whole and in its education provisions—reflects an uneasy marriage of two disparate policy objectives: quick stimulus and long-term investment.

In many cases, the administration and Congressional authors of ARRA tried to “have their cake and eat it too” by attaching reform provisions to spending that had a primarily stimulative purpose. For example, ARRA's four assurances were grafted onto the SFSE. But with the exception of RTT activities, these provisions yielded relatively little reform activity, and the competing goals of providing stimulus, advancing reform, and avoiding long-term funding commitments created significant confusion, making it difficult for districts to move forward with reform. This tension is not unique to ARRA's education programs. It is inherent in any federal initiative—including ARRA's transportation, energy, and other provisions designed to support investments in reform or long-term economic growth—that seeks to use short-term stimulus to drive long-term reform.

In contrast to the SFSE, other ARRA funding programs that were more directly focused on reform seem to have produced a more significant set of reform results. RTT funds—which amount to \$4.35 billion, only one tenth the total of SFSE funds—spurred significant state-level reform activity. For example, new policies in at least 17 states require student achievement to be a significant factor in educator evaluations. To have a shot at a portion of RTT funds, states also lifted or modified caps on public charter school creation, eliminated prohibitions on linking student test score data to individual teachers, and adopted a more aggressive approach to turn around low-performing schools, among other reforms. A \$350 million pool of RTT

funds that the Department of Education set aside for enhanced assessments also spurred the creation of two multi-state assessment consortia. The key difference: RTT focused exclusively on reform instead of combining reform and stimulus goals and defined in clear terms the specific areas in which states needed to make progress in order to be competitive for RTT funds—a sharp contrast to the mixed messages and vaguely defined reform goals in the SFSE.

Notwithstanding the longer timelines associated with the competition for RTT funds, RTT demonstrates that federal funds can simultaneously provide stimulus and support reform. After all, federal spending of any kind ultimately ends up somewhere and consequently has a stimulative effect. The “multiplier effects” for spending on domestic programs such as education—in other words, the amount of economic activity they can be expected to leverage—are largely the same regardless of program specifics. Still, there are real trade-offs to be made (for example, between getting funds out the door quickly and taking time to focus them on strategic investments). And these trade-offs shape the design of federal policy and the spending choices of recipients. In times of economic crisis, policymakers may choose to prioritize job creation over reform, but they should acknowledge the trade-offs they are making and should not claim that job-focused spending will also lead to significant reforms. If federal policymakers want to prioritize reform, they should design stimulus programs accordingly, with explicit requirements for how funds are to be used to advance reform. Otherwise, given the inevitability of inertia, inadequate capacity, and politics, reform results can hardly be expected.

SIDEBAR 3

Strategic Budgeting Practices

Current state budget pressures are highlighting the need for school districts to become much more strategic and deliberate about their spending choices and the trade-offs involved. That means re-examining programs to ensure that all dollars are clearly aligned with district goals and taking a hard look at efforts that tie up resources but do not effectively deliver against those goals.

Across-the-board class size reductions. Research shows that smaller class sizes matter most in early elementary grades (when classes get down to 15 to 17 students) and that the benefits level off as students get older. Districts should consider alternative strategies beyond class size for providing students

with greater individual attention (for example, targeted tutoring and flexible small groups). Districts may find that money spent reducing class size by one or two students in the upper grades could be better invested in teaching quality, which is shown to have a much greater effect on student performance.

Salary increments and tuition reimbursements for master’s degrees. Many districts both pay for teachers to take graduate-level courses and provide them with subsequent salary increases. But much research shows that having a master’s degree or additional coursework (except in some subject-specific cases) does not systematically improve teacher effectiveness. Districts should consider

What Not to Do

The education reform approach in ARRA—encouraging districts to use ARRA to make investments or undertake reforms in the four assurance reform areas—is a largely positive one. But the reverse approach—emphasizing how not to use ARRA funds—might actually generate greater reform impacts.

This is because, as noted above, districts used ARRA funds primarily to maintain current spending patterns, programs, and staff positions. But many district resource and budget decisions are either ineffective or poorly aligned with their stated goals.²² For example, in times of budget cuts, districts typically lay off teachers according to the principle of “last hired, first fired”—a strategy that largely ignores performance, which after the first years does not have a strong correlation with experience. Less experienced teachers are also less costly to employ, and so ultimately districts end up laying off more teachers under current policy than under one that bases layoffs on actual job performance.²³ Similarly, many districts pay a portion of teachers’ tuition for master’s degree programs, even though research shows no evidence that having a master’s degree (as far as most subjects and disciplines are concerned) improves teacher effectiveness. In making budget cuts, both Charlotte-Mecklenburg and Prince George’s County stopped reimbursing tuition for master’s degree coursework, and these cuts allowed them, with the assistance of ARRA funds, to maintain spending on other district priorities. But, as noted above, these reforms happened because of strong local leadership and access to external expertise and support and not because of any clear-cut guidance in ARRA.

repurposing these funds to reward teachers in hard-to-staff assignments or in leadership roles.

Under-enrolled schools. Schools that have excess capacity due to persistent enrollment decline are expensive because fixed costs are spread over fewer and fewer students. Districts needing to free resources should consider closing or combining these schools. Although closing a school is always difficult, communities need to decide whether the additional investment in keeping under-enrolled schools open could be better spent elsewhere.

Fragmented professional development. Costs for “PD” are typically spread throughout school district

budgets and often accompany disparate projects. Districts should examine exactly how all of their PD dollars are spent, evaluate whether the training addresses strategic district needs, stop doing what is untargeted or less effective, and redeploy to the most effective delivery model (job-embedded versus stand-alone sessions) to improve instruction. Once existing dollars are identified and used well, some districts find that they may need to invest more.

Sources: Education Resource Strategies, the Center on Reinventing Public Education, and the National Council on Teacher Quality.

Federal policymakers could have a more systematic reform impact by prohibiting districts from using stimulus funds for practices and activities that research has demonstrated to be ineffective. Existing evidence about education policy and practice often provides more information about what does not work than what does. A strategy that prohibits the use of funding for activities shown to be ineffective may have a greater probability of success than one that encourages spending on reform strategies that may or may not work. This approach also leverages the force of inertia for rather than against reform since once districts stop spending money on ineffective programs and practices, those new funding patterns are likely to remain in place (See Sidebar 3).

Hard Choices Trump Blunt Instruments

The ongoing budget pressures facing states and districts will inevitably require fundamental overhauls of current spending patterns and cost structures. By and large, districts have been unwilling or unable to undertake this work, relying instead on short-term fixes and stop-gap measures: across-the-board spending cuts, staff furloughs, reductions in school days, increases in class sizes, elimination of arts and physical education, and so forth. Such measures may seem politically easier than a more fundamental resource reallocation, but they are not sufficient to meet the budget challenges that most states and districts now face. Many states and districts have reached the limits of easy fixes. They have cut the obvious fat from their budgets and cannot continue to make across-the-board or marginal cuts without doing real harm to students and schools. Soon they will be forced to make hard choices about their budgets.

For most districts, ARRA has postponed the coming reckoning, but these federal funds cannot prevent the reckoning altogether. Districts that have done the hard work of realigning spending patterns in response to state budget cuts are better prepared to face this long-term challenge than those that did not, but difficult times are still ahead. Districts that used ARRA to postpone making tough choices may ultimately find themselves in even worse shape.

As long as the economy remains weak and unemployment stays high, federal policymakers may continue to provide infusions of federal funds to push back the ARRA funding cliff. Just this summer, Congress provided \$10 billion in emergency spending to prevent educator layoffs. Anecdotal reports suggest that many districts will use these funds primarily to sustain ARRA-funded investments and postpone facing the ARRA funding cliff for another year or two.

“We’re going to get significant money out of this new teacher jobs bill. We’re going to have to be very thoughtful about the way we use funds,” said Sheila Shirley, CFO of the 133,000-student Charlotte-Mecklenburg Schools. “It says you can spend through September

of 2012, so you have a little bit of time. But it's still one-time funding. Realistically, we need to use that to backfill for next year when the stabilization fund goes away.”

Although there are solid economic reasons to provide federal funding to counteract the effects of state budget cuts, policymakers should structure this spending to help districts prepare for the hard choices that eventually must be faced rather than simply postpone these choices. As the experience with ARRA illustrates, simply telling districts that funds are temporary does not work. Federal, state, and local policymakers can learn from the examples of districts that have used ARRA funds to smooth the path to new funding trajectories.

Helping Districts Become More Strategic and Efficient

It is hardly surprising that relatively few districts used ARRA to help them become more strategic in how they allocate resources; that is not really what ARRA was intended to do. Indeed, ARRA's four assurances—enacting college- and career-ready standards and assessments, creating data systems, increasing the number of effective teachers, and turning around low-performing schools—say nothing about the strategic use of resources or helping districts get their long-term fiscal outlook in order. There are certainly synergies between some of these assurance areas and the fiscal and budget work that districts need to do, as the examples of Charlotte-Mecklenburg and Prince George's County illustrate. But districts can also pursue the four assurances in ways that ignore or even exacerbate their long-term fiscal situations.

The federal approach to education reform has tended to focus on specific reform ideas—such as standards, accountability, or identification and equitable distribution of effective teachers—while ignoring the underlying district structural and budget context in which reforms must be implemented. But as the federal role and investment in education evolve, policymakers must consider how federal policies interact with and shape the underlying district context. Unless districts take action to address their unsustainable cost structures, the current and impending budget pressures will swamp reform efforts. Increasingly, district officials will need to focus their attentions on budget balancing rather than on reform, will have difficulty finding resources to fund reforms, and will be forced to cut funding for promising reform initiatives.

Federal policymakers must also consider how proposed reforms affect district systems as a whole. Reforms to address specific challenges, such as teacher effectiveness or low-performing schools, need to be embedded in system-wide strategies rather than in isolated solutions. For example, ARRA's four assurances include a focus on turning around low-performing schools, and the legislation provides \$3 billion specifically for this purpose. The guidance accompanying this funding emphasizes school turnaround strategies that replace teachers and principals in

the school. But some districts may try to improve a low-performing school by bringing in higher-performing teachers from elsewhere in the district and shipping the ineffective ones to other schools in the same district. This might improve the performance of the original low-performing school but create new problems elsewhere. Thus, efforts to improve low-performing schools need to be embedded in district-wide strategies to develop and foster teaching talent while helping ineffective teachers and principals to find other vocations.²⁴

Too often, federal policies encourage districts to look at or address reforms in isolation rather than to address the interconnectedness and “butterfly effects” of reforms throughout a district. But effective policies must also help districts themselves to become more efficient and strategic in how they operate and use resources.

SIDEBAR 4

Building Capacity for Strategic Reform

The experience of districts and Hewlett grantees in implementing ARRA clearly indicates the need for greater data, analytic, and resource capacity to enable districts to use resources more strategically. Policymakers and philanthropy should consider a variety of strategies to enhance district capacity.

Build the capacity of existing district staff.

Training and support can improve the capacity of district CFOs and other budget and data staff. With Hewlett funding, ERS and the Aspen Institute convened a district CFO network, which provided professional development to CFOs and a venue for mutual problem solving and sharing of best practices. Just as importantly, this network helped connect CFOs with their chief academic officers to better coordinate decision-making about district priorities and budgeting—something that surprisingly has happened rarely in the past.

Recruit new leaders with analytic & strategic capacity.

The typical trajectory to district leadership and business positions does not hone the analytic and strategic skills that districts will need in order to respond strategically to fiscal pressures. New pathways are needed to bring individuals with these skills into school district management roles. For example, the

Broad Residency, funded by the Eli and Edythe Broad Foundation, recruits professionals with business and analytic skills to work in district central offices. But the magnitude of need requires expanded strategies to recruit and place in districts talented individuals who have honed their analytic and management skills in business, nonprofit leadership, government, and other roles—what one education analyst calls “middle management for America.” Making the case for recruiting new individuals even as districts are making layoffs may be difficult, but building this capacity is essential to enable districts to address the broader challenge of responding strategically to budget cuts and retaining the right positions and people.

Expand the scale of intermediary organizations.

Hewlett grantees such as ERS, the CCSESA, and the AIR have helped fill gaps in district capacity. But existing organizations and available philanthropic funding for this work cannot serve all of the districts

Filling the Capacity Gap

The Hewlett grantees that worked directly with school districts on ARRA implementation found that most districts lack staff, data, and analytic capacity to respond strategically to the fiscal pressures they currently face.

Some education analysts have hypothesized that the recession and related state budget cuts would provide a catalyst to force districts to address unsustainable cost structures.²⁵ This appears to have been wishful thinking. Even with ARRA funding, many districts experienced significant budget cuts over the past two years. But only a handful made those cuts strategically, preserving priority investments and advancing key reform goals while eliminating inefficiencies.

that need this assistance. Philanthropic organizations and the federal government could invest in supporting intermediary organizations to work with more districts.

Address gaps in state capacity.

States played little role in supporting districts to use ARRA resources strategically and, in fact, were often a counterproductive force, providing inaccurate or late guidance that constrained district reform efforts. The fiscal pressures facing states are comparable to or greater than those facing districts and offer similar opportunities to strategically reallocate resources, but many state education agencies lack the capacity to do this work. Because states have primary responsibility for public education, it is essential to build capacity and reform expertise within state education agencies and thus to enable states to respond strategically to budget cuts and to serve as partners, rather than as obstacles, to districts in implementing reform and reallocating resources.

Expand the supply of useful data.

A major obstacle districts faced in making strategic decisions about the use of ARRA funds was a lack of high-quality data. Often, the data school districts collect and report for budget reporting are not the

type of data they need to make strategic decisions. Lack of comparable data across categories and school districts is also a challenge. States could help by creating common definitions for all school districts to calculate and report certain key data, such as per-pupil expenditures disaggregated by programs, schools, and grade levels, and by encouraging districts to take on this kind of analysis and enabling them to access comparable examples from other districts.

Provide accessible and relevant research.

The experience of districts like Charlotte-Mecklenburg and Prince George's County demonstrates the power of good, accessible research to inform district decision-making. But there is little high-quality research available on many key questions facing district policymakers and practitioners, and research findings are not always well communicated. Districts need access to high-quality research that addresses such questions, particularly regarding the cost-effectiveness of different interventions and strategies for improving student achievement. Researchers should make their findings clear and easily accessible to policymakers, practitioners, and the public.

Most took the path of least resistance, making across-the-board cuts and layoffs, deferring maintenance, and so forth. This reflects a lack of political will on the part of school boards and district leadership but is also a result of a lack of district capacity to do the analytic work needed to fundamentally overhaul existing cost structures.

Hewlett grantees such as ERS, the CGCS, and the CCSESA helped fill this capacity gap by providing districts with data and analysis that enabled them to make data-based, strategic decisions about how to use ARRA funds. But the work of these grantees also highlighted the extent to which districts currently lack the internal capacity, quality data, and tools they need to do this work themselves.

Enhancing budget, data, and analytic capacity at the district level is critical to enabling districts to respond to the current fiscal climate in ways that advance reform rather than undermine it. Sidebar 4 outlines several strategies that could help enhance districts' capacity.

Supporting Sound Policies: The Role of Advocacy

Ongoing fiscal pressures create significant policy challenges—as well as some opportunities—for state and district policymakers. State and district policymakers alone should not have to shoulder the burden of explaining to a nervous public why making tough changes in harsh economic times is smart for the long term. Advocacy organizations have a much greater capacity to conduct fiscal analyses, create communications materials, and launch campaigns. Nonprofits such as the Massachusetts Business Alliance for Education and the Tennessee State Collaborative on Reforming Education helped build a case for policy change in successful RTT applications from their respective states and remain involved as thought partners or critical friends. These organizations can marshal resources, write case studies, and help states and districts craft messages. The presence and effectiveness of such organizations will be critical factors in improving the odds that reforms are sustained and continue to advance through the coming years of fiscal austerity.

CONCLUSION

The ARRA has played an important role in closing district budget gaps created by state and local revenue losses, sustaining education spending, and saving jobs. But that success in closing state and local budget gaps is only temporary; districts will face even greater pain once funds go away. And ARRA's largest funding streams—the SFSE, Title I, and IDEA—have had only limited reform impact.

Some policymakers and observers may be disappointed with the limited reform progress that ARRA's major investments have produced to date. But rather than dismissing ARRA as unsuccessful in promoting reform, policymakers and analysts should take advantage of the opportunity to learn from district experience with ARRA and to use those lessons to inform future federal and state policies and help districts and states make the most of constrained fiscal climates while continuing to advance reform.

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