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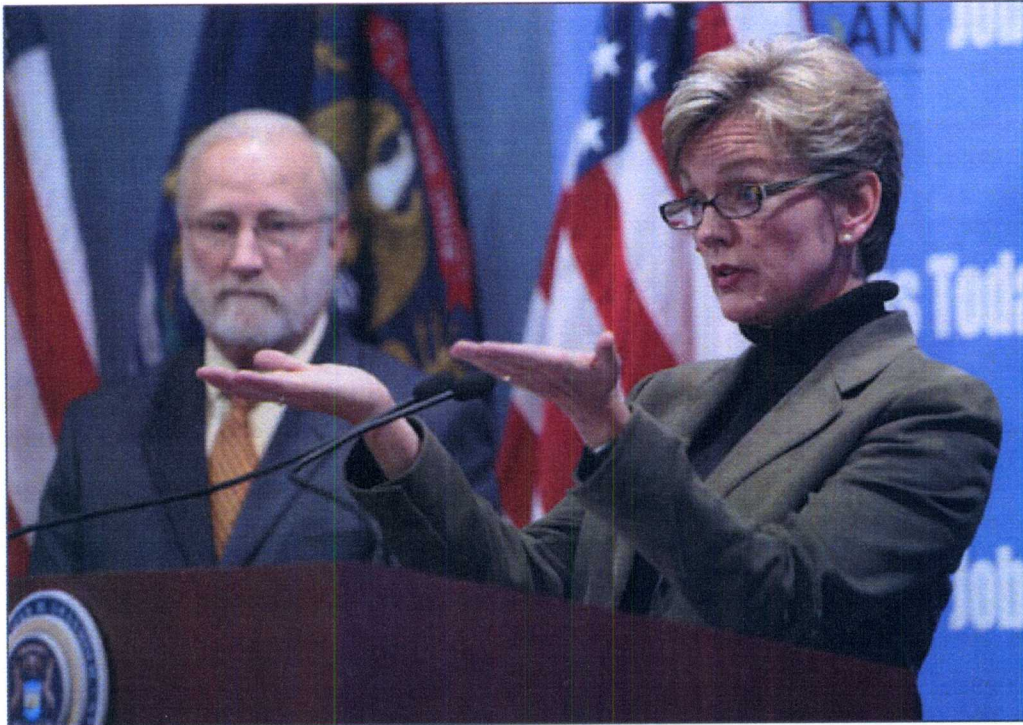
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Schools and the Stimulus

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'Funding Cliff' Looms Large for States



Michigan Gov. Jennifer Granholm talks about school funding cuts along with state budget director Bob Emerson, left, during a press conference in Lansing, Mich., Oct. 22. Gov. Granholm said that school funding would be slashed by \$127 per student and would take effect in 30 days unless revenue is found to avoid the cuts.

—Al Goldis/AP

Eventual End of Stimulus Aid Could Leave Big Budget Holes

By [Erik W. Robelen](#)

Amid a still-shaky economy, a troubling reality is starting to set in for states and school districts: The budget situation may get a lot worse when the federal economic-stimulus spigot runs dry.

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The hope of the Obama administration and Democrats in Congress has been that the \$787 billion in the American Recovery and Reinvestment Act—including some \$100 billion for education—would soften the pain of the recession and help drive a recovery.

But as helpful as many state and local officials have found the one-time stimulus aid in coping with current and anticipated revenue shortfalls, it creates some awfully big holes to fill when the money begins to run out late next year in what's widely known as the "funding cliff."

Experts also caution that the recovery of state and local coffers is likely to significantly lag

behind any progress in the national economy generally. For one thing, state budgets are largely supported by individual income and sales taxes, which will likely be slower to catch up.

"States are bracing themselves for prolonged fiscal difficulties," said Todd Haggerty, a research analyst at the Denver-based National Conference of State Legislatures. "When you couple the absence of federal ARRA funds with still-declining revenues, it puts states in a difficult situation."

An **October report issued by the White House**  in cooperation with the U.S.

Department of Education highlighted the extent to which ARRA money in the \$48.6 billion State Fiscal Stabilization Fund has already "restored" significant shares of K-12 education funding in states.

But a close look by *Education Week* at data submitted to the department by the states about how they planned to spend the money shows that 36 states will have to fill a collective gap of at least \$16.5 billion to return to fiscal 2008 state spending levels for K-12 education.

And that does not reflect the more recent revenue shortfalls many states have since encountered.

The Education Department has urged states and districts to be careful to "minimize the funding cliff" when the stimulus aid ends by using the money for purposes "that do not result in unsustainable continuing commitments."

But some analysts say that idea runs counter to the stimulus law's emphasis on using the money to save and create jobs. Indeed, the White House announced Oct. 19 that states had already reported saving or creating at least 250,000 education jobs with the federal aid.

"Saving and creating jobs implies expenditures on salaries, and salaries are inherently ongoing expenses," said Jennifer S. Cohen, a policy analyst at the New America Foundation, a Washington think tank. "They create funding cliffs, because once the money runs out, you'll have to continue funding them."



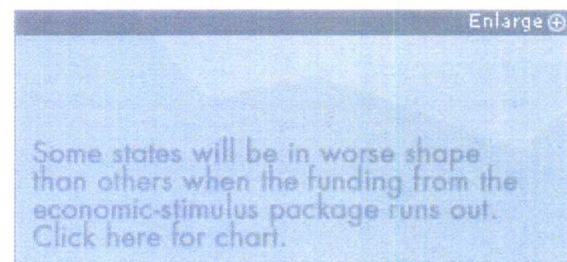
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Largest Funding Cliffs

Some states will be in worse shape than others when the funding from the economic-stimulus package runs out. These states have the largest percentage gaps between how much they contributed in state funding to K-12 education in fiscal 2008, compared with how much they are contributing for fiscal 2010. Although the gaps have been filled to a great extent by federal State Fiscal Stabilization Fund monies, that money runs out in the next two years.



SOURCE: *Education Week*; White House Domestic Policy Council; U.S. Department of Education; State Fiscal Stabilization Fund applications

Spending Pace Varies

The pace at which states are allocating money under the state-stabilization fund varies widely, Ms. Cohen noted.

"States that are in worse fiscal trouble are front-loading the spending," she said, citing Arizona, California, and Illinois among those that planned to use all of the money to shore up their budgets for the current fiscal year and for the prior year.

In Alaska, meanwhile, none of that stabilization aid is expected to go out until fiscal 2011.

Illinois used about \$1 billion in state-stabilization aid to bolster its budget for the fiscal year that ended June 30, and plans to use the remainder, approximately \$1 billion, for the current budget year, fiscal 2010, according to Matthew E. Vanover, a spokesman for the state board of education.

"Certainly, there is some major concern at this point in time because next fiscal year, beginning July 1, in order to just remain the same, we have to come up with an additional \$1 billion for education," he said. That's out of a total of more than \$7 billion in state aid for schools, he said.

Benjamin S. Schwarm, an associate executive director of the Illinois Association of School Boards, said: "The question is, what happens after this, when you don't have that [money] coming in. ... Everybody around here keeps referring to it as the 'cliff,' and I don't think it's good."

By contrast, in South Carolina, the legislature opted not to release any of the state-stabilization money for last fiscal year. The state is allocating about half its expected total of \$359 million in such funds this fiscal year, and the second half the following year, said Betsy Carpentier, a deputy superintendent in the state education department.

At the same time, she said, virtually all of the additional dollars districts are getting in other parts of the stimulus package—such as from the Title I program for disadvantaged students and under the Individuals with Disabilities Education Act—are going out this fiscal year. In all, South Carolina districts are receiving \$335 million in preK-12 stimulus support beyond the state-stabilization aid, Ms. Carpentier said.

Deborah L. Elmore, a spokeswoman for the South Carolina School Boards Association, said that while the stimulus aid has helped, it has taken the state only so far, given that South Carolina has suffered recent rounds of midyear budget cuts.

"It helped to keep the hole in the bottom from being a lot wider," she said. "Unless the economy turns around, we're left with falling through the bottom again."

Maryland state schools Superintendent Nancy S. Grasmick said that, in her state, the stabilization money is being used both for this fiscal year and the following one.

"I think we've tried to structure something that would prevent us from really experiencing this cliff that we know will ultimately occur when the money runs out," she said. Ms. Grasmick said she and Gov. Martin O'Malley, a Democrat, have told districts, "Please do not

