Have States Disproportionately Cut Education Budgets During ARRA?

Early Findings

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At the time of enactment of the American Recovery and Reinvestment Act (ARRA), state revenue gaps were posing a threat to state education spending. In February 2009, ARRA provided some $100 billion in federal education funds, including the $54 billion State Fiscal Stabilization Fund (SFSF) intended to stabilize state budgets and avert cuts to education. Many questions have been raised as to how the infusion of new funds will ultimately affect education spending. Where some have anticipated a proportionate bump in education spending over what might have been spent absent SFSF, others expected that the SFSF monies would replace existing state education funds. This analysis reports on 23 state budget plans to explore how state education spending has changed or will change during the period that the SFSF is applied.

Gauging the interplay of ARRA and state education funds

The SFSF portion of ARRA is different from most federal allocations in that the "one-time" law permits states to use the money to fill holes in state budgets over a multi-year period from fiscal year (FY) 2009 to 2011.[1] Whereas most federal allocations prohibit states from swapping out state funds for federal funds,[2] and require that the federal funds be accounted for separately from state funds, such requirements do not apply to SFSF monies. Rather, the funds can be treated as "non-federal funds," such that they may be combined with state funds and ultimately be deployed as state funds in state education finance formulas. Practically speaking, then, states can replace what might otherwise have been spent in state funds with SFSF dollars.[3]

[1] Each state receiving SFSF funds has submitted a planned schedule for SFSF fund use over the time period.

[2] Many federal allocations come with a provision that prevents the use of federal funds to "supplant" state or local spending.

[3] The law does require states to continue to fund K–12 and higher education at a level at least equal to the 2005–06 levels.

Given that we cannot know for sure how much states would have spent absent SFSF, and in order to investigate the impact of the SFSF, this analysis examines changes in education spending *as a portion of the state budget* in the year SFSF is applied. The logic here is that changes in states' budgets get passed on proportionately to all major state priorities, such that the share of the budget spent on education stays stable, even amidst changing revenue projections and tax increases. If states made larger proportionate cuts to education than to other state priorities during the time when SFSF monies were applied (thereby causing the portion of the budget spent on education to decline), we might conclude that these disproportionately larger cuts were made possible because of the availability of the federal monies.

With so many states facing volatile revenues projections, any analysis of current state budgets is, by definition, merely a snapshot of a fast-moving target. As state revenues have plummeted during the recession, reactive budgetary measures of all stripes have been employed in an attempt to balance revenues and expenditures: spending cuts, layoffs, tax increases, and draining of rainy day funds.[4] With most spending plans still in flux, this analysis sought the most current budget plans, often sourcing documents prepared either by state budget offices or fiscal analysis agencies of state legislatures, and in some cases filling in the missing pieces with responses to email or phone requests.[5]

In each state, education spending as a share of the state budget was computed both for the year prior to the use of SFSF monies and for the first year SFSF monies were applied.[6] Computations relied on budgeted state allocations for K–12 education (less SFSF or other federal funds), and comparable figures for total state budgeted allocations in each of the years FY08 through FY10.[7] Data were gathered from August through October 2009,[8] and sufficient budgetary figures were ultimately obtained for 23 states.[9]

Education as a share of state budgets fell in 13 of 23 states examined

At the outset of the recession, some analysts had assumed that education might be more protected than other state priorities when it came to cutting budgets.[10] This is certainly

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[4] In fact, state spending plans reported in their applications (and summarized in the November 2, 2009, Department of Education report) are no longer valid in many states as states have since modified their spending plans in light of recent revenue projections.

[5] One temptation might have been to use budgeted figures reported on the state applications for SFSF funds, but these applications were submitted in advance of revised budgets in most states, and often report only base formula spending on education (vs. total K–12 education spending).

[6] Of the 23 states reported here, 9 states began applying SFSF funds FY09 with the remaining not applying SFSF funds until FY10.

[7] For each state, an attempt was made to use all non-federal funds, including the general fund as well as designated funds that support education.

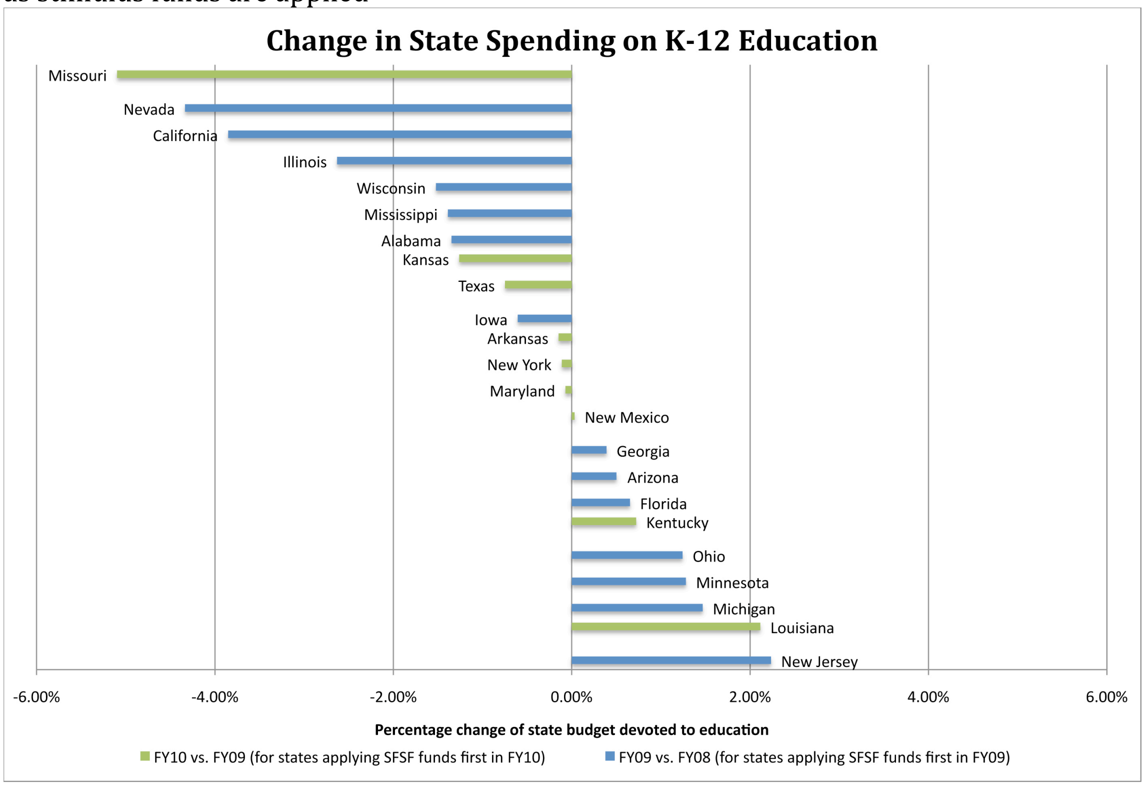
[8] Changes to state budgets made after this window are not reflected here.

[9] For many states, insufficient figures precluded such analysis, sometimes because the state published only 2-year budgets, or because SFSF funds could not be extracted, or because education spending could not be isolated, etc.

[10] Aside from the fact that K–12 education enjoys more popular support, in some states, it is also protected via voter initiatives, court orders, or state constitutions.

not so across the board. The results in Figure 1 show that, in 13 of 23 states studied, K–12 education represents a shrinking portion of the state budget. Appendix 1 lists the totals and percentage figures used for each state. Missouri topped the list with the greatest proportionate decline, where K–12 education fell from 41 percent of the state's budget to 35.9 percent as SFSF dollars were brought into the mix (a drop of 5.1 percentage points). In contrast, in 10 states, education as a share of the state budget remained stable or actually grew. For instance, in New Jersey and Louisiana, K–12 education consumed 2 percent more of the state budget than in the prior year.

Figure 1: Portion of states budgets for K–12 education shrinks in 13 of 23 states as stimulus funds are applied



Pooling the changes in state shares for the states studied here, the average change was negative (-.32 percent), indicating that for these states, education lost ground among competing state priorities.

Note that growth in the share of the state budget for K–12 education does not necessarily imply a growth in the dollar amount of state education spending (nor does the opposite imply a decline). Rather, depending on the magnitude of changes to the state's total revenues, total spending could fall while state share rose (and vice versa).

A key question, of course, is whether or not SFSF served to enable states to disproportionately cut K–12 education. On this point, the data don't make a causal link, but rather describe what happened over the time period that SFSF monies were first applied.

Will SFSF help or hurt state education budgets in the long run?

ARRA's 2009 State Fiscal Stabilization Fund was the first federal grant of its kind, and as such we cannot yet fully understand the implications of this kind of allocation on K–12 education spending. A key concern emerging in this analysis is the notion that while SFSF was intended to "protect" state education spending (and did likely result in short-term stabilization), the long-term effect could be the opposite. For states where education's share of the state budget shrank during SFSF, we might anticipate that restoring education's previous share could be difficult. For instance, in Missouri, where education's part of the budget dropped from 41 percent to 35.9 percent, the question is whether or not subsequent budgets can be passed that disproportionately move funds out of other priorities (say prisons or foster care) and back into K–12 education. With forecasts in many states showing tight revenues for years to come, the politics of these decisions will likely be challenging.

Of importance may be the way that states have incorporated SFSF dollars into their budgets. In collecting the data for this analysis, it became clear that states vary in the way they applied SFSF dollars into their spending plans.[11] Some states credited SFSF monies directly to their general fund (treating them as state revenues) without any earmarks for education.[12] In other states, SFSF monies were identified as federal funds applied more directly to education. In states where budgets are built incrementally on the previous year's allocation to each priority area, this accounting distinction may ultimately be important.

For state policymakers, the trends reported here provide an early warning signal on an issue that may ultimately lurk just around the corner. As mentioned before, state spending plans are still in flux, so thinking ahead on the interplay between stimulus funds and state budgets could enable policymakers to make more proactive decisions now to avert unintended consequences later.

For federal policymakers, paying close attention to the short- and long-term patterns in state education spending will be important in understanding the interplay of this new kind of federal allocation with state spending. Further, getting more details about the way in which the SFSF monies are incorporated into state revenue and budget streams could yield insights that might ultimately inform better guidelines for this kind of federal allocation.

[11] The data collection did not begin with a focus on how SFSF monies were accounted for in state budgets, so data on this dimension were not systematically collected on all states.

[12] In making sure the state's education spending was sufficient to meet the federal stimulus requirements, the state was in compliance.

Appendix: State Expenditures for Education and Application of State Fiscal Stabilization Fund

States that First Applied State Fiscal Stabilization Fund in FY 2009

State	FY08 State Expenditures for K-12 Education	FY09 State Expenditures for K-12 Education	Relevant State Funding FY08	Relevant State Funding FY09	Education Spending as % of Total State Spending FY08	Education Spending as % of Total State Spending FY09	Change in % of State Budget Devoted to Education FY09 vs. FY08
Nevada	$1,248,715	$1,297,201	$5,241,537	$6,656,322	23.8%	19.5%	**-4.3%**
California	$42,233,000	$33,890,000	$103,333,000	$91,547,000	40.9%	37.0%	**-3.9%**
Illinois	$6,994,873	$6,405,424	$27,162,717	$27,703,467	25.8%	23.1%	**-2.6%**
Wisconsin	$5,975,597	$5,690,704	$13,526,319	$13,340,944	44.2%	42.7%	**-1.5%**
Mississippi	$2,592,219	$2,612,876	$9,214,146	$9,769,502	28.1%	26.7%	**-1.4%**
Alabama	$4,150,061	$3,592,836	$8,612,383	$7,670,564	48.2%	46.8%	**-1.3%**
Iowa	$2,694,388	$2,779,242	$7,367,815	$7,727,816	36.6%	36.0%	**-0.6%**
Georgia	$7,986,292	$7,533,191	$28,065,263	$26,114,904	28.5%	28.8%	**0.4%**
Arizona	$4,647,257	$4,279,321	$12,698,568	$11,535,118	36.6%	37.1%	**0.5%**
Florida	$9,709,212	$8,557,260	$27,707,500	$23,973,400	35.0%	35.7%	**0.7%**
Ohio	$8,646,600	$8,833,300	$21,929,200	$21,718,200	39.4%	40.7%	**1.2%**
Minnesota	$6,820,422	$6,957,053	$17,005,008	$16,809,256	40.1%	41.4%	**1.3%**
Michigan	$11,421,776	$11,097,798	$28,415,110	$26,636,279	40.2%	41.7%	**1.5%**
New Jersey	$10,850,527	$11,479,502	$33,111,825	$32,795,366	32.8%	35.0%	**2.2%**

States that First Applied State Fiscal Stabilization Fund in FY 2010

State	FY09 State Expenditures for K-12 Education	FY10 State Expenditures for K-12 Education	Relevant State Funding FY09	Relevant State Funding FY10	Education Spending as % of Total State Spending FY09	Education Spending as % of Total State Spending FY10	Change in % of State Budget Devoted to Education FY10 vs. FY09
Missouri	$6,490,079	$5,491,665	$15,845,000	$15,313,000	41.0%	35.9%	**-5.1%**
Kansas	$3,211,692	$2,885,361	$6,051,500	$5,569,000	53.1%	51.8%	**-1.3%**
Texas	$20,822,198	$18,365,523	$59,737,258	$53,845,003	34.9%	34.1%	**-0.7%**
Arkansas	$2,704,248	$3,110,158	$13,136,627	$15,217,611	20.6%	20.4%	**-0.1%**
New York	$20,711,000	$20,776,000	$78,168,000	$78,742,000	26.5%	26.4%	**-0.1%**
Maryland	$5,436,000	$5,230,000	$14,314,100	$13,797,300	38.0%	37.9%	**-0.1%**
New Mexico	$2,483,236	$2,325,584	$5,847,166	$5,471,846	42.5%	42.5%	**0.0%**
Kentucky	$3,841,600	$3,641,089	$8,962,143	$8,353,636	42.9%	43.6%	**0.7%**
Louisiana	$3,708,225	$3,466,421	$12,913,164	$11,243,525	28.7%	30.8%	**2.1%**

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