STABILIZATION FUND APPLICATION COVER LETTER
DRAFT – MARCH 12, 2009

Dear Governor:

On February 17, 2009, President Barack Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). This sweeping economic recovery package provides the largest Federal investment in education in our Nation's history. It is an investment that not only will provide needed aid to States and school districts to keep teachers in the classroom, prevent the cutting of valuable education programs, and help mitigate college tuition increases, but also provide resources that States and districts may use to implement important education reforms.

A major part of the ARRA is the new State Fiscal Stabilization Fund (Stabilization) program. The program provides approximately $48.6 billion to States in exchange for a commitment to advance essential education reforms by (1) making progress toward rigorous college- and career-ready standards and high quality assessments that are valid and reliable for all students, including English language learners and students with disabilities; (2) establishing pre-K to college and career data systems that track progress and foster continuous improvement; (3) making improvements in teacher effectiveness and in the equitable distribution of qualified teachers for all students, particularly students who are most in need; and (4) providing intensive support and effective interventions for the lowest-performing schools.

Under the Stabilization program, the U.S. Department of Education (ED) will award grants to Governors on the basis of each State's relative shares of individuals aged 5 to 24 and of total population. This formula grant program has two distinct portions – the Education Stabilization Fund and the Government Services Fund. By statute, we will award 81.8 percent of each State's total Stabilization allocation under the Education Stabilization Fund (CFDA No. 84.394) and the remaining 18.2 percent under the Government Services Fund (CFDA No. 84.397). The Education Stabilization Fund provides resources to help restore State support for public elementary, secondary, and postsecondary education, and, as applicable, early childhood education programs and services. The Government Services Fund provides support for public safety and other government services, which may include assistance for public elementary, secondary, and higher education.

In order to provide immediate assistance to help alleviate the substantial budget shortfalls that States are facing, ED will make awards to State in two phases. In phase one, ED will provide 67 percent of a State's total Stabilization allocation (i.e., 67 percent of both its Education Stabilization Fund allocation and its Government Services Fund allocation) within two weeks of receipt of an approvable application. ED has developed a very streamlined phase one application and anticipates that States will be able to readily provide the limited information required. Appendix A of the application package contains a chart that provides the amount of each State's total Stabilization allocation, with a breakdown of the total amounts to be awarded under both the Education Stabilization Fund and the Government Services Fund. In the near future, ED will provide details on the information that States must submit to receive their phase two allocations.

If a State demonstrates that the amount of funds it will receive in phase one is insufficient to prevent the immediate layoff of personnel by school districts, public institutions of higher education, or State or local agencies, ED will award the State up to 90 percent of its total Stabilization allocation in phase one. In such cases, the remaining portion of the State's allocation will be provided after ED approves the State's phase two submission.

The President has made clear that every dollar spent under the ARRA will be subject to stringent accountability and transparency. A government-wide Recovery Accountability and Transparency Board will coordinate and conduct oversight of program funds to prevent fraud, waste, and abuse. The Board will maintain a public website – www.recovery.gov — that will be the main vehicle for providing each and every citizen with the ability to monitor the progress of the economic recovery and the use of funds under the Act. As part of this transparency, ED will post each State's application for initial Stabilization funding, as well as the phase two information that the State later submits, on this website.

States and other entities must maintain records that track separately the funds received under each grant award and report quarterly on both financial information and on program outcomes and results. In addition, for each year of the Stabilization program, States must report to ED on, among other things: (1) the use of funds provided under program; (2) the estimated number of jobs created or saved with program funds; (3) estimated tax increases that were averted as a result of program funds; and (4) the extent of progress on application assurances.

We recognize that the challenges that States are facing are various serious. But I also wish to stress, once again, that enactment of the ARRA, and more specifically the very major amount of funding we will be providing through the Stabilization program, as well as the increases provided for Title I, IDEA and other education programs, gives you an unprecedented opportunity to undertake comprehensive educational reforms that can result in better programs and improved educational outcomes. For example, it provides monetary resources that States and districts may use to strengthen and expand early childhood education or take aggressive action to reduce high school dropout rates and improve the quality of teaching for all students. In the coming months, we will be providing guidance and technical assistance to support you in these efforts.

We are committed to assisting you in whatever way possible. I look forward to working with you to advance needed reforms in education while helping to alleviate some of the serious fiscal issues that you are facing.

Sincerely,

Arne Duncan