

## **DEPARTMENT OF EDUCATION**

### **Statement by**

**Arne Duncan  
Secretary of Education**

### **on the**

### **Possible Impact of March 1 Sequestration Order on Education**

Madam Chairwoman and Members of the Committee:

Thank you for this opportunity to talk about the impact of a March 1 sequestration on education programs. The across-the-board nature of the cuts would focus an ill-advised reduction on our grant programs and the funds we need to administer them. In short, sequestration would have a negative impact on the education of our Nation's children and adults, reducing funding for teachers and other staff, cutting grants and work-study programs that help families pay for college, and potentially slicing payments to the contractors we rely on to administer our financial aid programs.

Education is the last place to be reducing our investment as the Nation continues to climb out of the recent recession and to prepare all of its citizens to meet the challenges created by global economic competitiveness in the 21<sup>st</sup> century. Indeed, I can assure you that our economic competitors are increasing, not decreasing, their investments in education, and we can ill afford to fall behind as a consequence of the indiscriminate, across-the-board cuts that would be required by sequestration.

### **Immediate Impact of Sequestration**

Some key programs would feel the impact of sequestration immediately. For example, many school districts qualifying for Impact Aid receive a high percentage of their overall funding from the Department and use the money during the current school year. Often the districts get the funds because they have large concentrations of children of military families or children living on Indian lands. These and other districts receive Impact Aid funds because the presence of Federal activities can both increase the number of students and decrease the local property tax base. Sequestration would eliminate roughly \$60 million for Impact Aid Basic Support Payments for schools that are counting on those funds to meet the basic needs of students and to pay teacher salaries this spring, potentially forcing districts to make wrenching, mid-year adjustments. Many districts are already dealing with reductions of instructional and non-instructional staff and delaying needed building maintenance for buildings that are in serious disrepair.

An example of the fiscal impact on these programs is that the Killeen Independent School District in Texas, which has 23,000 federally connected children, including 18,000 military dependents, would lose an estimated \$2.6 million in Impact Aid funds. Similarly, the Gallup-

McKinley County Public Schools in Gallup, New Mexico, would lose nearly \$2 million of the funds the district receives from the Impact Aid program to help meet the educational needs of 7,500 federally connected children, including 6,700 who live on Indian lands. This impact is severe, given that Impact Aid funds make up 35 percent of the district's total budget.

In the Vocational Rehabilitation State Grants program, funds are used to provide services to individuals with disabilities to help them become employed. The grants fund operations during the current fiscal year, and the Department provides about 80 percent of these operational funds. Thus, sequestration would immediately eliminate \$160 million from funds supporting activities that help these individuals prepare for, obtain, or retain employment. In particular, counselor caseloads would likely increase, as would wait times for individuals to receive essential vocational rehabilitation services, hurting the effort to lower the unemployment rate for these individuals, which already is significantly higher than that of the general population.

### **Impact on State and Local Educational Agencies**

For Federal education programs that are forward-funded, the impact of sequestration would not reduce funding until the 2013-2014 school year, but local districts will be making decisions in April and May of this year about which jobs to cut and which teacher contracts to renew. Districts will have to plan on less funding. Fewer teachers and staff could mean larger class sizes, fewer courses or subject areas, less tutoring for struggling students, reductions in counseling, and more difficulty in retaining recently hired teachers. And, local economies will suffer from the higher unemployment and the uncertainty of the staff.

Survey data last year showed that 80 percent of school districts would not be able to make up the losses from sequestration, a finding that should not be surprising given that State and local budgets are only just beginning to recover from the recent financial crisis and economic recession. Any inroads they have made to rebuild or restructure programs as the economy recovers and local tax revenues increase would be undermined by a significant loss in Federal education funds.

### **Impact on Programs Serving the Neediest Students**

In particular, sequestration would hit hard at Federal, State, and local efforts to improve educational opportunities for the Nation's neediest students and their families. Title I Grants to LEAs serve nearly 23 million students in high-poverty schools and Special Education State Grants help SEAs and LEAs provide a free appropriate public education (FAPE) to roughly 6.5 million special needs students. Sequestration would reduce Title I funding by some \$725 million, potentially eliminating support to an estimated 2,700 schools serving 1.2 million disadvantaged students, while also putting at risk the jobs of approximately 10,000 teachers and aides serving these students. Formula grants to States under Part B of the Individuals with Disabilities Education Act could be reduced by as much as \$598 million, which would require States and districts to cover the cost of approximately 7,200 teachers, aides, and other staff who are needed to provide a FAPE for students with disabilities, placing additional burden on cash-strapped States and districts.

## **Impact on Student Aid**

The law specifically exempts Pell Grants from sequestration. The law also includes a special rule on student loans that specifies a small increase in the origination fee for loans made after the sequester order. This origination fee change would require adjustments in systems and records for those getting loans late in school year 2012-2013 and early in school year 2013-2014.

Cutting mandatory administrative funds for Student Aid programs will affect the servicing of student loans by Not-For-Profit (NFP) contract servicers. Sequestration could require each NFP servicer payment to be reduced. The impact of reducing payments to the NFP student loan servicers would be significant and could adversely impact as many as 29 million student loan borrowers. NFPs may have to lay off or furlough many of their contract employees in States such as Pennsylvania, Wisconsin, Missouri, Tennessee, Iowa, and Utah. Some smaller NFPs may run operational risks and even be forced to close, disrupting service and potentially causing problems with payment processing for all student and parent borrowers they service.

The Department also uses For-Profit contractors to administer functions like FAFSA processing, Pell Grant disbursements, loan originations, collections, and related tasks. The Department's ability to collect defaulted student debt and provide high-quality services to borrowers once they are out of school would likely be hampered by sequestration, due to possible cuts in contracts with private-sector entities. If we do not collect on loans, fewer funds will be repaid to the Treasury, and our deficit will increase. That is the opposite of what sequestration is supposed to achieve. It is another illustration of why sequestration is a bad policy. To underscore the magnitude of the risk in this area, during the 2011-2012 award year, the Department delivered or supported the delivery of approximately \$172 billion in grant, work-study, and loan assistance to almost 15 million postsecondary students attending more than 6,000 postsecondary institutions.

The administrative cuts would hamper our aid delivery. Award funding would also be cut in campus-based college programs like Federal Work-Study and Supplemental Educational Opportunity Grants. Federal Work-Study would be cut by \$49 million, eliminating 33,000 students from participation. Supplemental Educational Opportunity Grants would be cut by \$37 million, with a resultant reduction of 71,000 recipients.

## **Departmental Management Impact**

The sequester also would likely require the Department to furlough many of its own employees for multiple days. The full repercussions are unknown, but extended furloughs would significantly harm the Department's ability to prevent fraud, waste, and abuse in the very large, complex student financial assistance programs. Furloughing employees also would hurt all the Department's other activities, including making grant awards on a timely basis.

## **Investing in the Future**

Sequestration is a bad policy. It cuts all programs by the same percentage, no matter the purpose or the performance. We need to replace sequestration with balanced deficit reduction

that includes revenues. And we need to make smart spending investments within the discretionary caps established by the Budget Control Act of 2011. That's what has been done at the Department of Education. From 2010-2012, 49 programs have been eliminated. Those programs didn't work, had achieved their purpose, or could be done more effectively. The elimination of those programs saves \$1.2 billion annually. Those savings have been largely reinvested in programs with a greater chance for success in improving education. We also saved \$68 billion by reforming the student loan programs in 2010; unnecessary payments to third parties were eliminated. Much of those savings were reinvested in Pell Grants, and some reduced the deficit. These are examples of selective cuts and investments where Congress made choices based on performance and evaluations and cost-savings. That is a much better approach than the mindless across-the-board sequestration.

It's also important to note that even without sequestration, domestic discretionary spending has already been declining. Non-security discretionary spending is now on a path to reach its lowest level as a share of GDP since the Eisenhower Administration. In addition, State and local spending has been cut due to the financial crisis. At a time when we are just starting to see signs of renewed economic growth, as well as the positive impact of historic education reforms in programs like Race to the Top and School Improvement Grants that will contribute to future growth and prosperity, it just makes no sense at all to undermine this progress through the sequestration of Federal education funds.

### **Long-Term Impact**

The long-term impact of sequestration could be even more damaging. By reducing education funding now and in the coming years, it would jeopardize our Nation's ability to develop and support an educated, skilled workforce that can compete in the global economy. In addition to what you are hearing today from the Department of Defense, cutting education funding also could hurt our military preparedness, because we won't have enough high school graduates for our uniformed services. Already, nearly 25 percent of American students who do not graduate from high school will not be able to serve in the military, and 30 percent of high school graduates still lack the basic math, science and English competency skills to pass the military's entrance exam. Sequestration would only make this situation worse.

I have given you many reasons why sequestration is a step in the wrong direction. I will stop now and be glad to answer your questions.