Allocating Federal Dollars to Promote Equity and Adequacy

This section presents five proposals for federal education dollars in three separate categories: Title I, special education, and an interstate federal foundation program. Why are these the focus? Title I and special education dollars are the largest federal expenditures on K-12 education, and it therefore makes sense to start there when thinking about federal education money. Additionally, the 1999 Committee on Education Finance identified greater spending in these two areas as an important undertaking for the federal government as part of breaking the nexus between student background and student achievement and ensuring greater equity in resource distribution. As Title I is currently up for reauthorization as a part of No Child Left Behind, a focus on the federal government’s role under Title I is especially timely. Accordingly, three of the five recommendations that follow focus on reconfiguring the allocation of Title I money, and the fourth recommendation calls for increased funding for special education.

The fifth and final recommendation proposes the creation of an interstate federal foundation program. The Committee on Education Finance suggested a similar program in 1999, and, in light of debates around NCLB funding and growing knowledge about interstate spending disparities, the idea deserves renewed attention. The current reauthorization of NCLB also provides an opportunity for the merits of such a program to be considered.

The first three recommendations do not rely on any increase in federal funds (although an increase would certainly be compatible with all of them). Instead, these recommendations focus on targeting Title I funds to best promote equity among states, districts, and schools. The last two recommendations do call for increased federal spending to promote equity and adequacy nationwide. Of course, although a discussion of substantive education initiatives lies beyond the scope of this paper, these recommendations should all be read with the proviso that such funding must be spent wisely, as other research and policy papers detail.

Title I

As used in this discussion, Title I refers to Title I, Part A of the Elementary and Secondary Education Act, which allocates federal funding to states and districts for poor schoolchildren. Title I is the largest source of federal dollars for education, providing about a third of the 8 percent of school district budgets that is the federal government’s nationwide share. Funds are allocated according to poverty-based formulas calculated district by district, although these funds flow through the state rather than being distributed directly to districts by the federal government itself. Title I funds are intended to be additional funds, not to take the place of money that state and local governments would otherwise have spent on education. To this end, Title I requires that its funds “supplement, not supplant” state and local dollars. States and localities must also demonstrate “maintenance of effort” in their own education spending from year to year. Title I additionally requires that services provided in schools receiving Title I aid be comparable to services in other schools, an important gesture towards school equity.

The use of Title I funds has been controversial, and some have called for an end to the funding stream on the grounds that it has failed to produce the results of equitable education and high achievement for which it was designed. Others have argued that increased direction in the use of funds has resulted in better outcomes; the transition in 1994, and even more so in 2001, to require education programs and practices based on scientifically-proven research is one answer to this problem. Another response is that even with the increased funding of the last few years, the funding level of Title I remains inadequate to achieve its lofty goals. As the research discussed
below makes clear, reconfiguring the allocation of Title I funds at the state level, the district level, and the school level should help ensure that the funds have the greatest impact.

Recommendation #1: Title I Allocations

“Eliminate the state expenditure factor in the Title I formula and allocate Title I funds instead according to a state’s share of poor children, with a geographic cost adjustment.”

While most attention to equity issues in education funding has been at the state level, it has become increasingly clear that interstate inequities loom much larger than intra-state inequities. Recent work by Goodwin Liu demonstrates that the formula under which Title I is allocated contributes to this interstate inequity even as it works to reduce inequity within states. Therefore, the Title I formula should be revised to eliminate reliance on how much each state spends on education, focusing instead on each state’s share of poor children, with an adjustment that takes into account geographic differences in the cost of education.

1. The Problem

As Liu explains, the formula for allocating Title I money is based largely on two factors: the number and concentration of poor children in each state and the average per-pupil expenditure in each state. Because low-spending states tend to have disproportionate numbers of poor children, the first of these factors benefits them. But the second factor, based on state expenditure, means that the higher-spending states get a larger share of Title I money, even though they already spend more than the lower-spending states. This allocation thereby replicates and increases already existing interstate inequity. Even though the state expenditure factor is limited to a range between 80 percent and 120 percent of the national per-pupil expenditure – meaning that distribution of Title I funds does not penalize states for spending less than 80 percent or reward them for spending more than 120 percent of the national average – the underlying use of state expenditure produces great inequities in the distribution of Title I money.

A few examples help to clarify this distributional inequity. In 2001, Texas had 11.9 percent of the nation’s poor children but, because of its relatively lower per-pupil expenditure, received only 8.5 percent of that year’s Title I allocation nationwide. In contrast, New York had 7.6 percent of the nation’s poor children but, because of its much higher per-pupil expenditure, received 10.1 percent of the Title I budget. Another way of looking at this contrast is by Title I allocation per child. Again, using 2001 figures, New York received $1,548 in Title I funds per poor child, while Texas received only $838. Nor is this the starkest difference – Title I allocations per poor child in 2001 ranged from a high of $2,495 in Wyoming to a low of $734 in Utah. Applying a geographic cost adjustment somewhat minimizes these differences, but the interstate disparities remain considerable.

But are these differences justifiable? Can the state expenditure factor be seen as a useful reward for higher spending? Liu convincingly argues to the contrary. First, he explains, Title I aid is not big enough to create an incentive for states and localities to spend more. If, for example, Mississippi had raised its per-pupil spending by $100 in
the 2000-2001 school year, it would have had to spend $50 million of its own money on this effort yet would have received only approximately $3 million more – a mere 6 percent – in Title I aid. Such a small federal contribution towards greater state spending is unlikely to have much of an effect.

Second, the state expenditure factor turns out to be a better indicator of a state’s fiscal capacity than it is of state effort. Broadly defining fiscal capacity as “a state’s potential ability to raise revenue from its own sources . . . without regard to current public or private resource use decisions,” Liu applies the federal government’s most commonly used measure for fiscal capacity – each state’s Total Taxable Resources – to compare each state’s ability to finance education. To measure state effort in education financing, he ranks each state according to the hypothetical tax rate that, when applied to the state fiscal capacity, produces the amount of state and local education revenue each state makes available. Comparing fiscal capacity and effort, he concludes that both measures help explain interstate disparities in per-pupil spending to some extent, but that the relationship between revenue and capacity is much stronger than the relationship between revenue and effort. In other words, state ability to raise education revenue helps explain interstate disparities in education revenue more than state effort does. If this is so, then the state expenditure factor of Title I is not explained as a reward for state effort, as some states can raise much more revenue with comparatively little effort, while others demonstrate high effort but cannot raise as much revenue. Instead, the state expenditure factor merely allows federal money to increase inequitable spending from state to state.

2. The Solution

The state expenditure factor should be eliminated from the formula for calculating the allocation of Title I money to each state. Instead, allocation of Title I money should reflect the proportion of each state’s share of poor children. As Liu points out, such a reform would bring Title I in line with the federal formulas for special education, instruction in English as a second language, and child nutrition, none of which rely on state spending to calculate the federal share. In addition, the calculation of the number of eligible children has become more precise since 2001, when NCLB required the use of annually updated census data instead of poverty data updated only once every decade, making this figure a more reliable indicator of current need. With little to recommend it, and with equity arguments against it, the state expenditure factor should be removed.

On top of the proportional allocation, the Title I formula should apply a geographic cost adjustment. One such measure is the Chambers Geographic Cost-of-Education Index, created for the National Center on Education Statistics, although other alternatives exist, each with pros and cons that will have to be considered. The cost adjustment would help ensure that the power of each federal dollar would be consistent from region to region. It would also help cushion the loss of federal funds for high-spending states, since those states tend to have higher costs. As Liu notes, such an adjustment would help make the change in formula more politically palatable, as it would be focused on equity all around: not only to low-spending states, most of whose spending is attributable to capacity rather than effort, but also to high-spending states, whose higher costs would be accounted for in the allocation.

This recommendation does not address other aspects of the Title I formula that contribute to interstate inequity. For example, the hold-harmless provision limits the amount of money that can be decreased from a district’s annual allocation due to a decrease in poverty from one year to another, and the small-state minimum means that states with low populations receive more funding per child than they would otherwise receive. These two provisions have political teeth, if questionable equitable justifications, and should be a part of the negotiation around the change in the Title I formula.
The Education Trust adopted Liu’s recommendation in its 2006 annual review of nationwide funding gaps, and a recent Heritage Foundation report similarly called for a proportional distribution of Title I funding with a regional adjustment. Because Title I contributes such a small percentage of overall per-pupil spending, implementing this recommendation would have but a small effect on overall interstate inequity. But it is a step in the right direction.

Recommendation #2: School Improvement Program

“Fund the School Improvement Program under a separate provision of Title I instead of allowing states to transfer general Title I moneys from needy districts to less needy districts, and tie school improvement funds at least in part to the numbers of schools in need of improvement in each state.”

Once Title I funds are allocated to the states, it is important to ensure that they are most sensibly allocated at the district level. Yet recent reports from the Center on Education Policy (CEP) indicate that most of the school districts that are slated to receive increases in Title I funding this year must relinquish that funding increase to the state, which may then transfer it to less needy districts and schools, because of a provision in Title I that requires states to set aside a certain fixed percentage of their Title I funds for school improvement programs throughout the state. Funding the School Improvement Program through a separate provision of Title I, instead of as a required reservation of regular Title I grants, would fix this problem. Moreover, as an analysis by the Center for American Progress demonstrates, states have wildly different amounts available to fund school improvement programs because states receive school improvement funds on the basis of the set-aside, rather than on the basis of the numbers of schools actually in need of improvement. Tying the funding to numbers of schools in need of improvement, at least in part, would introduce parity into the system.

1. The Problem

Under NCLB, a school that fails to make “adequate yearly progress” for two years in a row under that state’s NCLB-mandated plan to provide challenging academic standards becomes identified as a “school in need of improvement” and therefore eligible for funds under the School Improvement Program. This funding is particularly important because becoming a school in need of improvement is merely the first step in a series of interventions and sanctions that can culminate, for those schools failing to make adequate yearly progress for five consecutive years, in a state take-over. It would thus seem sensible to ensure both that schools have adequate funding to avoid becoming a school in need of improvement in the first place and also that the School Improvement Program have adequate funding to turn schools around before they proceed past the needs-improvement stage. Yet the way the School Improvement Program is funded ensures neither.

The primary way that this program is funded is through a mandatory set-aside of regularly allocated Title I funds: starting in 2004, states have had to reserve 4 percent of all Title I funds and distribute them to schools in need of improvement. To limit the adverse effects of such a set-aside, a hold-harmless provision prevents the state from reserving funds from a district under the School Improvement Program if it would result in the district’s receiving
less Title I funding than the district received the previous year.221

The mandatory reservation coupled with the hold-harmless provision would not be a problem if Title I funds were increasing. But in 2005-2006, the 3 percent increase in Title I funding was offset by the 6 percent increase in the number of students eligible to receive such funding, and in 2006-2007, Title I funding actually decreased slightly.222 Moreover, the few districts that received a Title I increase high enough to support the 4 percent set-aside are the districts with the largest numbers of low-income children, so the school improvement funds are being taken from the neediest districts and transferred elsewhere.223 The CEP calls this a “shell game,” where federal funding is simply shifted around without good reason to the detriment of low-income districts.224

According to CEP’s analysis, ten states received so little increase in Title I funding in the 2005-2006 school year that they could not meet the full 4 percent set-aside, protected as they are by the hold-harmless provision.225 Five other states were able to meet the set-aside only by using most of their Title I increase on the school improvement program.226 Further, the amount available under the school improvement program under these funding conditions is minimal. In 2005 in Oregon, for example, the entire amount available to support the school improvement program was only about $169,000, yet forty-four Title I schools were identified as being in need of improvement.227 Divided equally among those schools, the set-aside would translate into $3,834 – hardly enough to do anything meaningful in the way of school improvement. Not only did essentially all of the Title I increase that these states were slated to receive end up going to the school improvement program, but the amount available for school improvement money was itself negligible as well.

For the 2006-2007 school year, the situation worsened: after the hold-harmless provision took effect, thirty-six states with districts that were supposed to gain Title I funds had less than 4 percent available for the school improvement fund.228 Therefore, none of the districts in these states that should have received an increase in Title I funds due to an increase in low-income children were actually slated to receive it. Four other states could reach the set-aside only by using almost all of their supposed increase.229 Although Department of Education statistics show that about 38 percent of districts were to receive funding increases in the 2006-2007 year, only about 10 percent of districts were to receive funding increases after the four percent set-aside is accounted for.230 And since funding increases are only available because the numbers of eligible children have gone up, the real effect is negative.

An examination of the impact of the set-aside on individual districts reveals an even greater problem. Those districts that receive an increase in Title I funds do so because of increased numbers of eligible children.231 Yet the 4 percent set-aside is calculated after adding up each state’s combined district allocation, and the school improvement funds must be used to support school improvement activities in any school identified as in need of improvement, regardless of whether the school is in a district with large numbers of at-risk children.232 For example, 60 percent of Pennsylvania’s expected Title I increase for the 2006-2007 school year was because of the increase in Philadelphia’s eligible children.233 But despite its growing number of poor children, Philadelphia will have to give up much of that increase to support state-wide programs, making the burden of the 4 percent set-aside fall disproportionately on Philadelphia.234 Philadelphia and the other large districts in this category may, of course, get some of the funds back through school improvement programs, but that funding will generally be less than their formula increases and must be spent on different purposes.235 Because of the set-aside, needy schools are effectively losing regularly-allocated federal dollars – on which they could have counted to fund ongoing programs to improve learning – in order to fund the school improvement program, through which they may receive fewer dollars in the form of one-year grants covering non-recurrent costs.236

As for the impact of the set-aside provision on the state, NCLB authorizes the state to use 5 percent of the 4 percent set-aside to fund school improvement activities at a state-wide level.237 But the minimal amount of money available means that there is very little funding left for these activities. With the $169,000 that was available
for the school improvement fund in Oregon in 2005-2006, for example, the state could retain only $8,450, a negligibly small sum for any state-wide school improvement effort.\(^{238}\)

A separate problem in the way the school improvement fund is structured is that it bears no connection to the numbers of schools identified as needing improvement in any given state. Contrast the situations in Minnesota and Georgia in 2004-2005, as examined by the Center for American Progress in a recent study of the NCLB school improvement structure.\(^{239}\) In 2004-2005, Minnesota’s school improvement fund was only $628,335, instead of the $4.2 million that would have been available had the state been able to retain the full 4 percent, as the state lost Title I funds.\(^{240}\) In the meantime, an additional ten schools in Minnesota gained the status of being in need of improvement.\(^{241}\) During this same year, Georgia’s school improvement fund more than doubled because of an increase in overall Title I funds – yet ninety fewer schools were identified as being in need of improvement than in the previous year.\(^{242}\) It is difficult to see how a system intending to encourage school improvement nationwide can rationally support such disparate treatment.

2. The Solution

The 4 percent set-aside should be repealed. Instead, a different school improvement program that has been authorized but never fully implemented should be funded. This separate School Improvement Program envisions that states will apply for funds to distribute to districts as grants of between $50,000 and $500,000, renewable for up to two years.\(^{243}\) While the original authorization for this provision was $500 million for fiscal year 2002 and “such sums as may be necessary for each of the 5 succeeding fiscal years,” no moneys were actually appropriated for the first six years of the program’s existence.\(^{244}\) The first funding under this provision came in the continuing resolution for fiscal year 2007 at $125 million.\(^{245}\) Continuing this positive trend, the president’s fiscal year 2008 request includes $500 million under this provision, which both the House and Senate Appropriations Committees have approved.\(^{246}\)

While providing funding under this program is an important step forward, the level proposed is not sufficient. At the $125 million of the fiscal year 2007 continuing resolution, the program could fund 2,500 schools with $50,000 grants or only 250 schools with $500,000 grants. At the $500 million on the table for fiscal year 2008, the program could fund 10,000 schools with $50,000 grants or only 1,000 schools with $500,000 grants. Yet in 2004-2005, the number of schools designated as in need of improvement was 11,000.\(^{247}\) Funding 11,000 schools with the $50,000 minimum grant envisioned by the program would require $550 million, and funding this number of schools at the $500,000 maximum grant envisioned would require $5.5 billion. Moreover, the calculation that 11,000 schools were in need of improvement was almost double the number of such schools two years earlier, and that figure is now three years out of date.\(^{248}\)

To be sure, the current funding proposals assume that the separate school improvement fund will complement the 4 percent set-aside. Yet for the reasons discussed above, that set-aside is problematic, resulting in the neediest districts giving up the most money and not necessarily getting all of it back. The growing attention to funding the School Improvement Program is praiseworthy, then, but not yet sufficient.

In addition, NCLB stipulates that funding for school improvement will be allotted in proportion with each state’s Title I money, without regard for the number of schools identified within each state as being in need of improvement.\(^{249}\) Yet as demonstrated by the comparison between Georgia, with increasing school improvement funds and decreasing numbers of schools in need of improvement, and Minnesota, in which just the opposite is true, this allocation is not wisely targeting school improvement funds according to need. Because of this disparity, state officials interviewed for the Center for American Progress study suggested that school improvement funds be
allocated at least in part with respect to the numbers of schools in need of improvement.

Of course, any plan to change the allocation of school improvement funds along these lines will need to consider a variety of issues, including the way that different states’ varying standards of accountability might impact the numbers of schools designated in need of improvement in each state, as well as the extent to which providing greater federal funds to states with increasing numbers of schools designated as being in need of improvement might create a harmful incentive structure. Such empirical questions need analysis; it is important not to design a system that rewards either low standards or failure. Yet the current system of allocating school improvement funds in proportion to each state’s share of Title I funds is itself problematic, given the great imbalance in funds available in each state compared with the numbers of schools in need of improvement in each state. At the very least, tying the allocation of state-by-state school improvement funds in some way to the numbers of schools in need of improvement in each state is an issue for future study.

**Recommendation #3: Comparability Calculations**

“Require districts to ensure comparability among schools by calculating budgets based on the cost of actual teacher salaries and actual resources at each school before Title I funds are distributed.”

It is not only at the state and district level that Title I funds must be sensibly allocated. Within each district, Title I funds should reduce inequity from school to school. To that end, Title I funds are explicitly designed to be supplemental, an additional layer on top of state and local funds. Additionally, districts receiving Title I funds are required to demonstrate that they provide comparable services to Title I and non-Title I schools, an important gesture towards equalization. But recent work by Marguerite Roza and Paul Hill demonstrates that common district budgeting practices – calculating budgets by incorporating the average, instead of the actual, cost of teachers in any given school and insufficiently accounting for resources at the school level – mask intra-district inequities and effectively transfer funds from poorer to richer schools. Title I should be revised to require school districts both to determine comparability of services from school to school by using actual teacher salaries and to make up any gap with real state and local dollars before Title I funds can be disbursed.

1. The Problem

As Roza and Hill explain, most individual schools have little control over their own spending. Instead, budgets are calculated at the district level, and districts generally determine what each school should receive in the way of staff members and other goods and services – a practice called “resourcing” – rather than determining what such services will cost at any given school. Per-pupil spending at the district level is thus calculated based on district-wide averages instead of actual per-pupil spending at any given school.

In one study, Roza and Hill examined the practice of resourcing in four districts: Baltimore City Schools, Baltimore County Schools, Cincinnati public schools, and Seattle public schools. In each of these districts, as with most districts around the country, average teacher salaries are used to design the budget and allocate each school’s
While some teachers make $25,000 and others make $65,000, districts calculate the budget with an average, say of $45,000. As Roza and Hill explain, such a practice of using averages would not be problematic if teacher salaries were evenly distributed among schools. However, they found that salaries varied substantially among the schools in these districts, with more experienced (and therefore more expensive) teachers concentrated in some schools and less experienced (and therefore less expensive) teachers concentrated in others. The schools with the lower-paid teachers were mostly in high-poverty areas serving larger numbers of at-risk children, so effectively schools in more need were getting shortchanged.

In Baltimore City, for example, the district budget is calculated using an average salary of $47,000, but one elementary school’s teachers averaged $37,618 while another school’s teachers averaged over $57,000. When the district budget is allocated, however, schools are given only the amount of the actual salaries, not the amount based on the salary average. Roza and Hill calculate that the average Baltimore City school could lose or gain 5.9 percent of its school budget as a result of such spending according to salary averaging – a gain or loss of about $100,000. At the extremes among the schools in the study, one school in Baltimore City spent over half a million dollars over the average teacher salary allocation, while another lost $379,489. In one school in the Cincinnati school district, the budget accounted for $959,730 that was not actually spent on salaries, since the teachers at that school had a much lower average salary than the district-wide average used in the budget calculation. That million dollars was effectively lost to the school.

The Education Trust-West performed the Roza-Hill analysis on California schools and found that forty-two of the fifty largest districts in California spent less on teachers in schools with mostly low-income and minority students than on teachers in schools serving more affluent and fewer minority students. On average, these districts spent $2,576 less per teacher in schools serving low-income students and $3,014 less per teacher in schools serving minority students. This study translated this gap into a per student reality: assuming that a high school student attending a primarily low-income school is taught by six teachers a day, California would spend $81,312 less on her teachers over the course of her high school career than on the teachers in a more affluent school across town. Assuming this student was in the lowest-income schools from kindergarten until the time she graduated from high school, the state would pay $141,714 less on her teachers than on teachers in more affluent schools. This study also compared two different elementary schools in the same district and found that had the high-poverty, high-minority school spent as much on its teachers as the low-poverty, low-minority school did, its school budget would have been increased by $450,000. As the study explained, this money could have been spent on attracting and retaining the more experienced and educated teachers that its counterpart had; on hiring nine additional teachers with five years experience each; or on providing incentives, professional development, and coaching for each of its teachers.

The practice of accounting for teacher salaries is particularly important when thinking about equalizing per-pupil spending because more than 50 percent of total current education spending goes towards instructional salaries and benefits. Equalizing spending on teacher salaries across schools would thus seem to have an important equalizing effect on per-pupil spending. Indeed, this is precisely what Roza, Hill, and Larry Miller found in another study of the four largest school districts in Texas and Denver, Colorado. For four of those five districts, leveling salaries across schools would reduce the per-pupil spending gap between schools by anywhere from 26 to 82 percent. In the fifth district, which operated under court orders specifying how funds were to be allocated at the school level, and whose high-poverty schools already benefited from disproportionate spending pursuant to these orders, salary leveling would have provided 27 percent more spending to these schools.

Roza, Hill, and Miller further explored the question of how Title I funds were spent to pay for teachers and paraprofessionals, to determine whether districts using salary averaging to account for Title I expenditures were actually spending all of their Title I funds on schools to which the funds were directed. While not all of the
salary and Title I expenditure data were available in the four districts they studied, they made the reasonable assumption that staff paid with Title I funds have the same level of seniority as other staff in the same schools.273 Under this assumption, they found that Title I funds ranging from $76,000 in one district to over $600,000 in another district were not actually going to pay for teacher salaries in the schools for which they were intended, but were instead effectively going to fund more experienced teachers in non-Title I schools.274 In other words, because salary averaging made it seem as if the salaries in Title I schools were higher than they actually were, it looked on the page that Title I funds were paying a certain amount for staff members in Title I schools, when in reality, the amount needed to pay those staff members was lower, leaving an invisible excess of Title I funds to be spent at wealthier schools in the district.

The bottom line of these findings is as important as it is surprising: spending that looks equalized on paper is in reality anything but.

2. The Solution

There is much that states and districts can do without federal intervention to address this obviously inequitable situation. Most simply, Roza and Hill recommend that districts use real salaries in their budgeting.275 In addition, they propose that states require collective bargaining contracts to hold students harmless against spending distortions and remain faithful to the idea of horizontal equity among students in a school district.276 They also suggest that states fund students, rather than teachers, goods, or services.277

Because this budgeting practice is so deeply entrenched, however, and because Title I explicitly facilitates it, the federal government has an important role to play in alleviating the inequitable results of the practice. Most importantly for our purposes, then, Roza, Hill, and Miller recommend that Title I should require districts to calculate spending based on real-dollar cost using actual salaries, not average salaries.278 This could be accomplished simply by striking a provision in the law that requires the opposite. Currently, Title I provides that no district may receive Title I funds unless that district is first using state and local funds to provide services in Title I schools that “are at least comparable” to services in non-Title I schools.279 In order to demonstrate that the district is providing such comparable services, districts must provide written assurance to the state that they have in place a district-wide salary schedule, a policy to ensure equivalence among staff at a school, and a policy to ensure equivalence among curriculum material and instructional supplies.280 While this sounds like an important step towards ensuring equity among all schools in a district, Title I goes on to state that in determining per-pupil expenditures using state and local funds, and in determining instructional salaries per pupil using state and local funds, “staff salary differentials for years of employment shall not be included in such determinations” (emphasis added).281 In other words, on its face Title I seems to mandate, not simply permit, the use of salary averages in determining comparability across schools in a district.

This provision should be deleted. Instead, it should be replaced with one that requires comparability to be determined by using real salary figures that take into account salary differentials based on years of experience. In the 2001 reauthorization cycle, such a proposal was offered by a bipartisan coalition including Rep. George Miller (D-California), Sen. Joseph Lieberman (D-Connecticut), Rep. John A. Boehner (R-Ohio), the Bush Administration, and the Democratic Leadership Council. Because of pressure from union groups – and somewhat more surprisingly from civil rights groups – the proposal did not go far.282 While this history will no doubt affect the likelihood of implementation in the current reauthorization cycle, a number of advocacy organizations have taken up the issue of salary averages over the last few years, so the issue might have some political traction that
In addition to revising this provision of the comparability requirement, Title I should strengthen the comparability requirement to mandate the equitable distribution of resources at the school level before Title I funds are distributed. As Roza, Hill, and Miller explain, this could be accomplished in either of two ways: districts could distribute teachers more equitably across schools, or districts could make up for the shortfall in schools with lower-paid teachers by providing more real dollars to permit these schools to purchase supplemental services and goods. Union opposition in the 2001 reauthorization to the use of real dollars in calculating staff comparability was likely due to a fear of the former proposition: distributing teachers more equitably across school districts would go against long-standing contractual provisions granting teachers with seniority their choice of schools. Therefore, it does not seem sensible for Title I to mandate the equitable distribution of teachers. But providing that Title I funds may not be awarded until state and local funds are first distributed equitably across schools – where equitable distribution is calculated based on real dollars – would strengthen the provision that already requires that Title I funds supplement, not supplant, state and local funds.

Finally, a new provision in Title I should prohibit the distribution of Title I funds to pay for salaries that have been budgeted and accounted for by salary averages, as Roza, Hill, and Miller recommend. In contrast to the previous two proposals, which focus on the allocation of state and local funds before Title I moneys are added, this proposal deals directly with the use of Title I funds themselves. As the last study discussed above found, where salary averages are used in budgeting for the use of Title I money to pay for salaries, some of that money never reaches the students for whom it is intended. Requiring that Title I money be accurately accounted for and appropriately spent is only logical.

Recommendation #4: Special Education

Unlike Title I, which is part of the Elementary and Secondary Education Act (ESEA), special education is funded through the Individuals with Disabilities Education Act (IDEA). The IDEA is reauthorized on a different schedule from the ESEA, but the last IDEA reauthorization, in 2004, made important changes to the program to parallel changes wrought by NCLB, in particular focusing on standards and accountability for special education students. IDEA will next come up for reauthorization in 2011.

In contrast to Title I, which is a funding stream, the IDEA is a civil rights law created to ensure that children with disabilities are fully included in American public education. To that end, the IDEA creates the right to a free, appropriate public education for all children with disabilities – the only absolute right to education in all of federal education law. The IDEA also imposes certain obligations on states to identify all children in need of special education services, requires that schools work with teachers and parents to create individualized education plans for each child receiving such services, mandates that children receiving such services be mainstreamed with their peers in regular education to the greatest extent possible, and designs certain procedural safeguards to protect these rights.

The IDEA legislation has four parts. Part A outlines the purposes of the Act and provides definitions for terms used therein. Part B is the central part of the Act, setting forth the requirements described above, making them applicable to students aged 3 to 21, and providing most of the funding through grants to states. Part C provides categorical grants to states to focus on serving infants and toddlers with disabilities. Part D provides discretionary grants to support state personnel, technical assistance, and the like.
After Title I, the IDEA constitutes the federal government’s largest expenditure on education, mostly through Part B grants. The formula for calculating a state’s share of Part B grants sets as a baseline the state’s allocation for fiscal year 1999 and then allocates 85 percent of the rest of money according to the state’s share of total population of children in the eligible age range and 15 percent of the rest of the money according to the state’s poverty measures of children in that age range. The actual allocation formula, however, is different from the formula for calculating a state’s maximum allowable allocation under IDEA Part B. The maximum allowable allocation multiplies the number of children receiving special education services in a state times 40 percent of the average per-pupil expenditure across the United States – not, in contrast to the current Title I formula, 40 percent of the average per-pupil expenditure in that state. Starting in fiscal year 2007, the maximum allowable allocation also includes an additional adjustment for the rate of change of a state’s population and poverty measures. The contrast between the actual allocation formula and the maximum allowable allocation has been the subject of controversy almost since the law was passed, and it is the subject of the next recommendation.

“Increase funding for IDEA Part B grants such that the federal government provides the full 40 percent of the additional costs of educating students with disabilities that has been its goal since 1975.”

When the IDEA was first passed as the Education for All Handicapped Children Act in 1975, the stated goal was that the federal government would provide 40 percent of the excess cost of educating children with disabilities, calculated under the presumption that it cost about twice as much to educate a child with disabilities as a child without disabilities. Yet for most of the last thirty years, the federal share of special education funding has hovered around 8 percent. Recent increases in federal special education funding in the last six years have led to a high of 18 percent as the federal share, but even this increase is a far cry from the 40 percent originally intended. Providing federal funding at the 40 percent level would fulfill the federal government’s commitment to educating children with disabilities and, in this time of heightened expectations on state governments to provide high standards in both general and special education, would permit the states to increase education spending on the schools as a whole.

1. The Problem

A recent study found that in the years between 1977 and 2000, total spending on special education increased from 16.6 to 21.4 percent of total education spending, a 30 percent increase. During the same period, the percentage of eligible students increased from 8.5 to 13 percent of total student enrollment, an increase of over 50 percent. In the meantime, the ratio of spending on special education students to spending on regular education students declined from 2.17 to 1.9. The large increase in spending, then, is primarily a result of additional numbers of students identified as needing special education.

Notwithstanding concerns about overidentification, as discussed below, this increase in students was one of the legislation’s goals. But the increase in spending has placed a huge burden on states and local school districts. Moreover, spending is not distributed evenly across districts. A recent study found that districts with the lowest median family income spent $10,798 to educate an average student with a disability, compared with $13,112 spent by districts with the middle median family income and $12,965 spent by districts with the highest median family income. The gaps continue under a cost-adjusted analysis, under which the lowest-income districts spend
$11,599 per special education student compared with $13,257 spent by middle-income districts and $12,465 spent by highest-income districts. There is also some evidence that this spending distribution is connected to test scores of children with disabilities. One study in Massachusetts found that special education students’ failure rates on state tests were much higher in low-income districts than in wealthier districts.

While there is an ongoing debate about whether the federal government’s providing 40 percent share of the excess costs of educating children with disabilities was a goal or a promise, bipartisan efforts to reach 40 percent have recently taken place. For example, Senators Tom Harkin (D-Iowa) and Chuck Hagel (R-Nebraska) offered an amendment to the bill that became NCLB to authorize full funding of the IDEA at this 40 percent level and to appropriate specific amounts. This amendment passed the Senate but did not make it into the final bill because of the conclusion that IDEA funding discussions should take place in the context of IDEA reauthorization. When IDEA was reauthorized in 2004, for the first time specific funding authorization levels through 2011 were included, which the House committee report explained was “a clear and genuine pattern to reach the 40 percent goal within the next seven years.”

However, appropriations have not kept pace with this plan, with an approximate gap of $1.8 billion in fiscal year 2005, $4.1 billion in fiscal year 2006, and an estimated gap of $6.25 billion in fiscal year 2007. To be sure, there has been a large increase in federal spending under the IDEA since 2001 – a 68.5 percent increase, now covering approximately 18 percent of the excess costs of educating special education students, up from 14 percent in 2001. But the shortfall is significant. While it is disputed whether spending on special education actually takes away from general education spending, it is clear that states and districts face large and ever-increasing obligations for special education.

2. The Solution

The currently authorized amounts, designed to increase incrementally to reach a federal share of 40 percent by 2011 under best estimates of projected costs and numbers of eligible students, are as follows:

- $12,358,376,571 for fiscal year 2005;
- $14,648,647,143 for fiscal year 2006;
- $16,938,917,714 for fiscal year 2007;
- $19,229,188,286 for fiscal year 2008;
- $21,519,458,857 for fiscal year 2009;
- $23,809,729,429 for fiscal year 2010; and
- $26,100,000,000 for fiscal year 2011.

Appropriating the full amount of authorized dollars would get the federal government back on track to fulfilling this goal.

Additional federal funding could reduce interdistrict inequities and free up state and local spending to be directed to other educational programs. Like Title I, IDEA contains maintenance-of-effort and supplement-not-supplant provisions to prevent states and districts from using federal funding to cut back on their own spending, but the 2004 reauthorization permits states and localities to shift special education funding to other ESEA activities as the share of federal funding increases. In other words, the new provisions seem to acknowledge that states and districts bear a heavy burden financing special education and to allow some supplantation as long as states and districts shift this spending to other education needs. Given the added financial burdens states and districts face in implementing NCLB, and given the higher expectations on special education students as part of the last IDEA
reauthorization, additional federal support in special education is especially timely.

While each recommendation for Title I above finds some support among advocacy organizations, none has the unified constituency that the recommendation for full funding of the IDEA does. Fifty-five organizations from different perspectives – including teachers’ unions, the National School Board Association, the National Conference on State Legislatures, the National League of Cities, the National PTA, and a variety of special education advocacy organizations – have signed onto a proposal to make full funding of the IDEA mandatory according to the path laid out in the 2004 reauthorization. In addition, both parties in Congress have at various times called for full funding of the IDEA, although it has been observed that such calls have often been made in partisan opposition to other education initiatives offered by a president of the other political party.

Despite the large coalition in support of full funding, however, the idea is not without controversy. Two particularly thought-provoking sets of challenges have been raised. The first asks whether we are overspending on special education services, overidentifying children, particularly children of color, as being in need of such services, and allocating resources fairly among children with disabilities. The second asks whether the movement for full funding of special education can be justified in a world of limited education spending, advocating instead for the federal government to direct more of its efforts towards the poor, who lack the well-organized lobby of the disabled.

While these are serious questions with no easy answers, some general responses are possible. As to the former set of empirical questions, one recent article reviewed the literature on the effect of fiscal incentives on special education identification rates and placement. This article concluded that, while there is evidence that fiscal policies have some effect on such practices, there is little evidence of any uniform effect, and other “mitigating factors” often have “even more profound effects on the extent to which children are identified for special education, assigned a primary category of disability, and placed in an instructional setting,” including “local conventions regarding what is appropriate, varying state definitions for disability categories, the varying needs of children, and the availability of certain types of placements.” This research suggests that keeping the federal share of special education funding comparatively low will not do much to assuage concerns about overidentification.

As to the latter set of philosophical questions, poverty and special education are not entirely unrelated, as environmental factors associated with poverty – such as early exposure to harmful toxins, low birthweight, and poor nutrition – are also associated with developmental issues requiring special education services. There is also evidence that schools in high-poverty districts provide lower quality special education services than schools in low-poverty districts, a disparity that increased special education funding could address.

To the extent that large-scale federal IDEA requirements continue to strain state and local budgets, Congress continues to restate its goal of providing 40 percent of the excess costs of educating students with disabilities, and the failure to appropriate this funding continues to engender resentment and distrust of federal educational authorities at the state and local level, more federal resources are needed. The additional special education funding that is widely viewed as the federal government’s fair share should be on the table.

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**Recommendation #5: Interstate Federal Foundation Program**

Most state school finance systems are based on a foundation funding program, in which the state provides each district with a base level of funding per student and then adjusts this foundation amount by student characteristics such as poverty and disability and by geographic characteristics such as the cost of services. In 1999, the
Committee on Education Finance proposed that the federal government create a new federal foundation program modeled on these state programs to minimize interstate variations in education spending and to ensure that a national commitment to high educational standards is met by a national commitment to adequate education funding.323 Several other prominent experts in school finance have also begun to advocate for a foundation program as the only way to ensure educational adequacy and equity on a national level.324 This recommendation sets forth a framework and justification for such a program.

“Implement an interstate federal foundation program to lessen inequality in spending across states and to ensure adequate funding for states to reach the proficiency standards required by NCLB.”

Wide variations in per-pupil spending from state to state raise questions about the interstate equity of finance systems as well as the adequacy of spending in low-spending states. Especially in light of increased expectations in the wake of NCLB, a greater federal effort towards ensuring equitable and adequate funding arrangements is appropriate. A federal foundation program would be a helpful vehicle for this effort.

1. The Problem

Because the Rodriguez decision left decisions about school finance equity to the states, most efforts towards reducing resource disparities between poor and rich districts have been implemented at the state level. As should be clear by now, this does not mean that interstate disparities are insignificant. To the contrary, between-state inequity is much larger than within-state inequity; spending differences across states account for two-thirds of the variations in per-pupil spending, while intra-state spending differences account for only one-third.325 There is a limit, then, to the effect that intra-state equalization reforms can have. Moreover, between-state spending differences are significant and have changed very little over the last several decades. Per-pupil spending in the lowest-spending states is on average only half of per-pupil spending in the highest-spending states, and the highest-spending districts in the lowest-spending states still provide less than the lowest-spending districts in the highest-spending states.326 Even adjusting for geographic differences in purchasing power and student poverty measures, the variation in spending is striking.327

These variations take on growing importance in a time of heightened expectations of school systems. As described above, while fights in Congress about the extent to which funding for NCLB is adequate take on a partisan tone, at the state level there is a fairly unified feeling across political lines that no state has adequate resources to achieve the high goals of NCLB. A widely-cited review by William Mathis of all of the studies addressing the cost to the states of complying with NCLB suggests that the additional administrative costs (such as addressing systems for measuring adequate yearly progress and for imposing mechanisms to ensure highly qualified teachers) result in an average increase of $11.3 billion, while the costs of teaching all students to proficiency add an estimated $137.8 billion.328 Subtracting from these new costs the added federal dollars, mostly in the form of increased Title I funding at approximately $4 billion, reveals an obviously significant shortfall.329

To be sure, these figures have not gone unquestioned. Eric Hanushek, in particular, has critiqued the methodologies and assumptions behind the so-called “costing-out studies” underlying Mathis’s review.330 Even one of the nation’s greatest proponents of increased education funding, Michael Rebell, agrees that the costing-out studies have
shortcomings, but he argues that these shortcomings can be fixed. Rebell also acknowledges that no one actually believes that NCLB’s goal of 100 percent proficiency by 2014 is realistic and that this goal nonetheless drives many of the costing-out studies. He notes that a slightly lowered but still ambitious goal of 90 percent proficiency would profoundly lower cost expectations.

But current federal funding is insufficient to meet even these lower cost expectations driven by lower proficiency goals. Indeed, a recent study of funding and proficiency rates in Kansas and Missouri found that federal aid comes nowhere close to providing the funding increases needed for those states to achieve their intermediate proficiency goals for 2007, 2009, and 2011 under NCLB. The study emphasized what some observers have been saying since NCLB was passed: minimal funding increases combined with sanctions for failing to meet proficiency provide an incentive for states to set low thresholds for proficiency. Thus, without providing more funding, NCLB works against its own goals.

Moreover, because of their varying fiscal capacities, states shoulder unequal burdens in attempting to meet the shortfall prompted by NCLB. One measurement of each state’s cost-adjusted Total Taxable Resources per weighted pupil – including a geographic cost-adjustment factor and adjusting for varying needs of different types of students – found that in 2001 the average fiscal capacity of the top 20 percent of states was more than 50 percent greater than the average fiscal capacity of the bottom 20 percent of states; the top 20 percent had cost-adjusted Total Taxable Resources per weighed pupil of $238,000, compared to $151,000 for the bottom 20 percent. Another measurement of interest in a comparison of available state resources for education is average personal income per student. This measurement, too, reveals great differences among the states. For example, in 1996, the average cost-adjusted personal income per enrolled student in New Jersey was $247,000, compared to only $62,000 in Mississippi. Under either measure of comparison, if Mississippi wanted to raise its education spending significantly, it would be hard-pressed to match the financing capabilities of a richer state like New Jersey.

2. The Solution

A federal foundation program with additional funding to support some of the added costs of NCLB would address both concerns about inadequate resources as well as states’ different abilities to increase education funding. As envisioned by the Committee on Education Finance, the program would first determine some level of per-pupil spending that it deemed adequate for a state or district with the typical student. The program would then adjust this per-pupil spending for geographic cost variations and variations by student need. Next, the program would call for each state to apply a minimum tax effort to its own resources and would provide federal funding to make up the difference between what each state is able to raise and what the federal government deems an adequate funding level. This structure would target more federal funding to high-need states. Finally, the program would ensure that states equitably distribute resources to districts and schools, again varying by geographic cost differences, student need, and local spending power. Of course, there would have to be some provision limiting the supplantation of state and local spending with the influx of federal dollars.

Goodwin Liu has recently called for such a program to be implemented, with one significant modification. Instead of providing federal funding simply to fill the gap between what a state can raise and what the federal government deems adequate, Liu’s version of a federal foundation program would ensure that all states would receive some funding under the program by providing federal funding according to a system of graduated matching rates. Like the “federal medical assistance percentage” used by Medicaid, in which the federal government varies the percentage at which it matches state spending on health care based on a formula that takes into account relative state per capita income, Liu proposes a “federal educational assistance percentage,” in which the federal
government would vary the percentage at which it would match state spending based on a formula that takes into account relative state fiscal capacity. The federal matching rate would be higher for states with low fiscal capacity and lower for states with high fiscal capacity. That every state would benefit under such a proposal would help gain the widespread political support necessary to implement it.

The Committee on Education Finance did not provide any estimates for the cost of a federal foundation program, saying that much analysis would be required to determine all the inputs and requirements. Liu, too, agrees that the particulars of such a program – including how to weight for different pupil characteristics, how to account for geographic cost adjustments, what minimum state effort would be required, what the contours of the federal matching rate would be, and what the foundation level itself should consist of – would require careful consideration. Still, Liu estimates both the cost and the equalizing effect of one version of such a program based on the following parameters:

1. a congressionally-determined minimum adequate cost-adjusted revenue per weighted student of $6,500;
2. the lesser of either a minimum state effort of 3.25 percent on a state’s total taxable resources or whatever level of effort is necessary to reach the $6,500 foundation level, for all states with less than that amount of nonfederal per-pupil revenue; and
3. a federal matching rate that is inversely proportional to the ratio of the state’s fiscal capacity to the national average, with a minimum federal matching rate of 4 percent.

Applying these parameters to data from the 2002-2003 school year, Liu estimates that the program would have reduced interstate inequality by 32 percent and would have cost $43.5 billion, about $30 billion more than is currently spent under Title I. Removing the 4 percent minimum matching rate would have reduced interstate inequality even more (by 37 percent) and would have cost less (only $37.2 billion), although only thirty states would have benefited from the program. Strikingly, Liu notes that actual federal education revenue during this time period was $36.8 billion and yet narrowed interstate inequity by only 12 percent.

Such a program would be an ambitious move, representing a large influx of federal money in a new and complicated financing scheme. Yet especially given the vast reach of substantive and structural requirements on the states under NCLB, a program to provide more federal funds is eminently reasonable. One that addresses the inequalities in education funding among states and accounts for variations in state-level resources is even more sensible.

Implementing a federal foundation program, however, would be controversial. One major concern is that states would substitute federal resources for their own resources, thereby leaving actual education spending unchanged. There is some evidence that, under the current system, such offsets do take place over time. This concern mitigates towards a strengthened maintenance-of-effort provision, limiting the ability of states and districts to game the system. For example, the current maintenance-of-effort provision requires states and districts to maintain at least 90 percent of their funding from year to year, meaning that up to 10 percent of state and local resources can be cut without running afoul of the law. Increasing the required percentage well above 90 percent would help alleviate this concern.

Another concern, hearkening back to the question of whether money matters, is that increasing funds without targeting them wisely is unlikely to produce any real results. This is true; recall the natural experiment in Texas described above, where increased money plus systemic change resulted in improved test scores, while increased money alone did nothing. Rather than posing a problem, however, the proposed infusion of federal dollars would provide an opportunity for the federal government to promote educational reform in any of a number of ways, from reducing class sizes to implementing comprehensive, whole-school reform models to providing bonuses...
to highly effective teachers working in schools with low-income students. This federal money should also work to leverage state and local education reform.

Still another concern is that such a significant increase in federal education spending is not feasible in a time of federal budget deficits. A recent study on the costs and benefits of providing an excellent education in America provides one answer to this concern. Henry Levin, Clive Belfield, Peter Muennig, and Cecilia Rouse studied the costs of education interventions designed to increase the number of high school graduates and compared them to the benefits society would reap from the extra tax revenues and reduced public costs that would accrue from such an increase in high school graduates. They found that reducing the 700,000 dropouts in the current cohort of 20-year-olds in half would provide a lifetime savings to the government of $45 billion from this cohort alone, with the same amount of lifetime saving for each subsequent cohort. An increase in federal education spending of $30 billion each year seems much less extravagant when compared to these potential benefits.

States might raise another type of concern about the federal foundation program. Even though states have asked for more federal money to support NCLB, they might nonetheless balk at the idea of the federal government imposing on them a minimal tax effort in order to receive that money. This program might also be politically complicated to implement because richer, higher-spending states would receive less federal funding than poorer, lower-spending states. Defining the matching rate fairly in connection with the minimal tax effort would do much to alleviate the first concern, while ensuring that the program provides some funding to all states (and permitting wealthier states to spend more, regardless of the equity effect) would address the second. Designed correctly, such a program could both obtain political support from and provide appropriate incentives to all states.

A final concern might be that the program does not go far enough. A reduction of inequality by a third, as Liu envisions, is impressive but is still only a third, and many states would continue to spend far beyond the foundation level per student. The best response to this concern may simply be that the program would provide much more assistance while reducing much more inequity than has ever been the case. Overall, then, a federal foundation program could improve both equity and adequacy in school finance systems around the country. It is worth serious consideration.

Despite admirable efforts over the last several decades to improve the equity and adequacy of school finance systems across the country, there is still more work to be done. These five recommendations for restructuring and increasing federal support for education would go a long way towards fulfilling these twin goals.

The American public both recognizes that schools are underfunded and wants the federal government to take on a larger share of the financial burden. In the 2006 Phi Delta Kappa-Gallup poll of the public’s attitudes toward the public schools, “lack of financial support / funding / money” was the most frequent answer to the question of the biggest problem facing public schools in the respondents’ communities today, garnering 24 percent of the responses. Further, in a May 2006 poll conducted by the National School Boards Association, the mean guess for what percentage of the federal budget was spent on K-12 public education was 20 percent, with the mean opinion on what that percentage should be at 36 percent. The reality is closer to 2 percent. Clearly, a greater federal effort towards school financing is an issue that many voters could support.

Given the federal government’s historic commitment to helping educationally disadvantaged groups, as well as its newer focus on high expectations for all students, its role in the effort to decrease inequity and increase adequacy