

# School Finance Redesign Project

center on reinventing public education

## HOW THE FEDERAL GOVERNMENT SHAPES AND DISTORTS THE FINANCING OF K-12 SCHOOLS

**Christopher T. Cross**

*Cross & Jofus, LLC*

**Marguerite Roza**

*Center on Reinventing Public Education*

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Daniel J. Evans  
School of Public Affairs

UNIVERSITY of  
WASHINGTON

## **The School Finance Redesign Project**

The School Finance Redesign Project (SFRP) encompasses research, policy analysis, and public engagement activities that examine how K-12 finance can be redesigned to better support student performance. The project addresses the basic question, “How can resources help schools achieve the higher levels of student performance that state and national education standards now demand?”

Check in with us periodically to see what we’re learning and how that information may reshape education finance to make money matter for America’s schools. You can find us at [www.schoolfinanceredesign.org](http://www.schoolfinanceredesign.org).

Jacob Adams, Principal Investigator

## **The SFRP Working Paper Series**

The Working Paper Series presents analyses that are complete but have not undergone peer review. The papers are subject to change and should be cited as working papers. Their purpose is to promote discussion and to solicit reactions.

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## Introduction

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Observers of school finance and education policy in the U.S. often comment that since the federal government only contributes 7 to 9 percent of total K-12 education funding, that its presence is minimal. As we will document in this paper, that is far from reality. In fact, by the ways in which it allocates funds, by the ways in which it regulates and holds states and districts accountable, and by the very existence of a plethora of various federal categorical programs which often shape how dollars are allocated and students are provided with services, it clear that the federal government has played a very significant role in shaping the financing of public schools.

Despite what we will show has been a profound impact on resource allocation at the district level, by most reports federal grants have not made great progress in solving the problems that prompted them. Poverty continues to be the most defining characteristic in student performance, despite the now 40 year old federal Title I program that had and still has at its core the goal of reducing achievement gaps for poor students.

Clearly responsibility for these failings shouldn't land only on the federal government. States and districts, too, have tried to tackle these challenges with at best only sporadic triumphs. As this paper demonstrates, success has been limited by the interplay between the three well-intentioned public entities: federal, state, and local. As in any large bureaucratic system (as public education is certainly one), the actions and reactions of any one level exist largely in response to actions and reactions at other levels. For education, that means that the policies adopted by the federal government, states, and school districts have had more to do with efforts to respond to the paths chosen by the other than with evidence about how best to deploy resources to address the problems at hand. The result is that four decades of federal policies have served to structure resource allocation systems in such a way that the systems now serve as a barrier to addressing the very problems that prompted federal involvement in the first place.

## The Federal Government Wields Its Power Via Compliance

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Federal aid to public schools is a relatively new activity. Prior to passage of the Elementary and Secondary Education Act (ESEA) in 1965, almost the only money going to this sector of society was to school districts where there was a substantial federal presence; that usually meant that real property owned by the federal government was not on the local tax roles. Hence, Impact Aid was developed as a substitute for that lost local tax revenue. By its very nature, it came without strings; hence it could be used by a district in the same way that it used its own locally generated dollars. Because only a relatively small percentage of districts received these dollars and none of it went through the states, most districts and all of the states had little experience with federal funding prior to 1965.

ESEA changed all that. Created as part of Lyndon Johnson's War on Poverty, ESEA was aimed at alleviating the impacts of poverty on the education of children. In the signing of the law, most of the nation's school districts came within the federal orbit.

While most school districts honored the spirit of the law in those early days by providing services to support the education of poor children, there were those few who did things that made headlines, such as paying for a superintendent's car or the construction of a swimming pool. Inevitably, those few worst-case examples set the stage for the imposition of audit requirements and new regulations that soon created the mentality that documenting compliance was more important than documenting educational outcomes. Thus began the era of making policy based upon the worst-case scenario.

### **Tinkering and Tinkering With Compliance**

Almost from the very start, government auditors and outside organization watchdogs were vigilant in holding schools and districts accountable for how federal funds were being used, but seldom for results, since that was more complicated and adequate measures were not available. The HEW Audit Agency (The Department of Education was not created until 1980) had issued 55 reports on Title I during the four-year period of March 1967 through February 1971 and GAO a score of its own. In June 1972, GAO reported that 24 of the HEW Audit Agency findings were still unresolved, some of them for a period of 2-4 years and totaling \$37 million in questionable spending (General Accounting Office 1972).

In its own reports, GAO cited state after state for violating restrictions on use of funds. In March 1970, West Virginia was cited for three school districts that charged \$300,000 in salaries to Title I, even though they also performed other duties, for helping to build a cafeteria, and for purchasing \$40,000 in equipment without identifying a need for it (General Accounting Office 1970a).

In Ohio, GAO found that the state had approved the Cleveland Public School District using Title I funds for central kitchen facilities and for operating a summer arts program in which only 20 of 69 students were Title I eligible. They also found that Cincinnati had charged Title I with accrued sick leave for Title I employees but had made no corresponding charge for non-Title I staff from its own funds (General Accounting Office 1970b).

At the heart of many complaints were accusations that districts were using Title I funds to offset inequities in distributions of state and local dollars. Yet districts didn't track spending by schools and at this point the federal government's response was to impose regulations that specified exactly how districts could prove comparability. After tinkering some more, the law was modified such that in order to document comparability, districts need only to demonstrate the presence of a salary schedule, a staffing policy, and an even distribution of supply costs (No Child Left Behind Act of 2002, Section 1120 (a)). One clear implication was the federal endorsement of a district-wide salary scale based largely on experience. In addition, as should have been predicted, what ensued was a wave of confusion around how instructional aides were to be used in comparability counts demonstrating equal staffing (Brownstein and Edwards 2004). Once again, federal actions served more to react to local practice than to advance the original intent of their grants.

In these and other cases, GAO noted that the state educational agency had not provided adequate guidance and had approved some expenditures that were clearly not appropriate. The states were all urged to improve their management of federal program funds.

## **States and Districts Respond With Policies and Structures to Ensure Compliance**

These reports had the natural result of causing states and school districts to become compliance oriented. States recognized that their role in ensuring that federal dollars kept coming was to avoid violations in compliance, and, as such, states instituted policies that made compliance-oriented record keeping a priority. States mandated that districts account for all resources (including non-federal dollars) with accounting systems that detailed spending by those categories deemed relevant to federal compliance. Namely, accounting systems were designed around federal codes, including fund, object, and function. Many states then implemented accounting systems (financial accounting manuals and later financial software) and reporting schemes structured around compliance categories.

With these new state fiscal requirements, districts grew proficient in the latest procedures and became more compliant in managing funds from federal grants separately and independently from all other resources. Fiscal staff became experts in “fund accounting” and turned federal resources directly over to district departments created around the grants received. Grant administration became a job classification as some district employees grew proficient in what functions and objects were and weren’t allowed for each federal allocation.

## **Federal Funding Formulas Magnify Inequities**

The allocation of federal funds is often based, at least in part, on a state’s average per-pupil spending and almost every program guarantees a minimum amount per state.

As documented by US Department of Education budget tables, the variation in federal funding that results is extremely wide and often does not work in the best interests of the poorest children. For example, in the 2003-2004 school year, Wyoming, with fewer than 10,000 poor children, received \$2,957 per child, while Arizona, with 213,000 poor children, received \$881 per child. This is based on the fact that in its own state spending Wyoming spends about 50% more per pupil than Arizona, and the fact that each state is guaranteed a certain minimum level of funding. Therefore, Wyoming is a major beneficiary, as are Vermont and North Dakota. Conversely, states like Arkansas, Utah, Nevada, and Arizona, all with growing populations, especially of poor children, receive far less per student (Liu 2006).

What that means is that Wyoming, with 0.1 percent of the poor students, gets 0.3 percent of available Title I funds, while Arizona, with 2.5 percent of poor children, receives 1.7 percent of the Title I dollars.

Formulas that allocate funds strictly on the basis of the number of students are more fair, even though there is usually a 2-3 year lag in even that data.

## **More and More Categoricals**

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As was noted previously, when Title I was first created as a part of the 1965 Elementary and Secondary Education Act, there were almost no programs that served regular public schools. By the time of the first reauthorization of ESEA, the march for additional new programs had begun. Bilingual education was one of the early entries and in one form or another has been with us ever since. Others came in time—Metric Education, Javits Gifted and Talented, Women’s

Educational Equity, Civic Education, and Arts Education—each with its own sponsor, some with an appropriation, and all with an organized constituency determined to fight for its existence. In fact, the most recent Catalog of Federal Domestic Assistance programs lists 76 education programs, some of which are for colleges and universities (Office of Management and Budget 2006).

The existence of these programs often means the creation of little empires, especially at the state agency level, but often in school districts as well. State school superintendents have found that because staff in their agencies are paid with federal funds they may feel more beholden to their federal counterparts than to their own state leadership. While that can insulate federal programs from political interference, it also prevents the development of coordinated strategies that cut-across funding sources, but work in the best interest of children.

One of the earliest studies of the impact of multiple programs in schools was done by Jackie Kimbrough and Paul Hill at the RAND Corporation in 1981. In this landmark study, which certainly influenced later congressional actions, they found that in some schools “children were pulled out of (class) so frequently that the (primary) teacher had the total class only 1 ½ hours daily, and was unable to implement the state-mandated curriculum... In districts with migrant Hispanic populations, students were often involved in 6 or 7 pullouts daily” (Kimbrough and Hill 1981, vi-vii). They also noted that by the fifth grade the students had received no instruction in science or social studies.

Kimbrough and Hill also found that the administrative burdens were great, often resulting in less time for teaching. Cross-subsidization was achieved by how students were assigned, by changing the services offered and by diverting administrative and teaching staff from one program to another. In their recommendations, they favored making it easier for programs to work together.

Even with these cautions, categorical programs continued to proliferate, although in the months following the inauguration of Ronald Reagan, Congress did pass the Education Consolidation Act (ECIA). That law actually eliminated a number of categorical programs, such as Metric Education, and few new ones were enacted during the Reagan years, largely because education budgets were either cut or held flat and members of Congress were generally reluctant to have new programs enacted at the potential expense of those existing programs, such as Title I, which had widespread support.

By the end of Reagan’s second term, the pressures had begun to mount again, and soon there were more new federal categorical programs being enacted.

## **Congressional Ear-Marks: Another Disruption to the System**

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In more recent years a new and troublesome phenomena has emerged as a major disruption to attempts to create a rational system of financing education.

From the time the Federal Elementary and Secondary Education Act became law in 1965 until the mid-1990s, funds flowed to states and local programs entirely through the mechanisms established in the law: formulas for distribution or competitive grant programs based on a set of regulations and, in the case of competitive programs, review processes that rewarded the best ideas or assisted those with the greatest need.

Starting about ten years ago, ear-marks (also called set-asides) began to emerge in bills funding education programs. At first, only a few programs or institutions benefited, but by 2005 the number of set-asides in the bill appropriating funds for the U.S. Department of Education numbered in the hundreds and accounted for over \$700 million dollars.

A quick glance at a list of identified recipients shows the nature and extent of the problem. A program in a Kansas high school receives \$149,000 for equipment and technology, a school district in Wisconsin receives \$249,000 for after-school programs, a New Mexico school district gets \$99,000 to support teacher excellence, and a Florida district gets \$124,000 for a family literacy program (U.S. Department of Education Employee, pers. comm.).

There have been literally hundreds of such examples such that set-asides are now viewed as funds that circumvent any and all school finance mechanisms with little transparency on how these funds fit with others to affect spending among schools. They are granted on the basis of political favor rather than merit and are based neither on demonstrated need nor competition. Because of these complaints, there is now a temporary moratorium on set-asides in the education budget, but new rules may allow them to resume.

## **States Join in With Categoricals of Their Own**

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The action did not stop at the federal level. In recent decades, the state share of education spending has grown substantially (up from 36% in 1960 to 51% four decades later) (Consortium for Policy Research in Education 2007). In many states, a portion of these new funds were structured using the same strategies employed by the federal government. State lawmakers started creating new programs rather than simply providing general aid, as had been their historic role. New earmarked funds came with prescriptions for certain functions, student types, services, and programs.

Wisconsin now has 34 of its own categoricals each with a separate revenue code (Consortium for Policy Research in Education 2007), South Carolina now has 74 (Hassel and Roza 2007), while California has 124 (Timar 2004). In fact California had created so many special programs that in the 2006-2007 budget, it was estimated that they would account for almost one-third of state spending, covering everything from school feeding programs to counselors to art and music education, (almost 6 percent of the total education budget) (McCarthy 2006).

States were able to layer on a relatively large number of categoricals in part because of the budgeting and accounting systems now in place that were created to in response to federal funding streams. Districts knew how to handle these restricted allocations because of their experiences with federal rules. In the end, these relatively new allocations work to magnify the effects of the federal grants by piling on more restrictions on spending and fragmenting local programs even further.

## **Categorical Restrictions Are Increasingly Identified as Part of the Problem, Not the Solution**

Some of the concerns raised in Kimbrough and Hill (1981) persist. A 2004 study by Thomas Timar of UC Davis for PACE (Policy Analysis for California Education), demonstrates how 24 of the state's 124 separate categorical programs in California schools accounted for 88% of the

funding. That means that while 24 programs divide \$11.4 billion, the remaining \$1.6 billion is divided among 100 other programs, for an average of \$16 million dollars per program divided among almost 5 million school age children and 1,000 school districts. The math is staggering, the fragmentation makes no educational sense, but it does feed the egos and political reputations of political leaders, a major issue in a state with strict term limits and fewer opportunities for legislators to make their reputations.

In this excellent analysis, Timar goes on to note that these categorical programs are regressive and therefore distortive of the underlying state school finance system. As Timar notes, “School finance in California has shifted from a demand-driven to a supply-side system of funding...based *not on the real cost of providing education services* in any given district. Categorical funding should be tied to a system of planning and accountability...based on needs assessments, planning and evaluation” (Timar 2004, 1).

Other analyses highlight an array of built-in problems that come with categorical allocations. Evidence from different locales shows one or more of the following:

- Burdensome paperwork/compliance activities take a toll
- Resources are disconnected from school strategy (and inhibit spending coherence)
- A one-size fits all approach creates inefficiencies
- Accountability for categoricals runs counter to school-based accountability systems

Each categorical program has its own paperwork, justifying district eligibility and documenting expenditures. As documented in a 1996 RAND study, districts with more categorical funding allocate a disproportionate amount to administrative functions that are linked to those programs (Krop 1996, 81). As cited by the state’s bipartisan Agency on California State Government Organization and Economy, “teams of district personnel to fill out the paperwork are matched by teams of state workers to check it. In addition, most school districts of any size spend money on consultants for advice on how to maximize funding or pass audits” (Little Hoover Commission 1997, 48). The huge cost of this red tape and paper pushing could only be guessed: “While no one the Commission talked to could estimate the cost on all sides, most agreed it was in the multi-millions of dollars statewide” (ibid, 48).

A district leader in one large Wisconsin district acknowledged that the primary qualification for new grant administrator hires is “knowledge of compliance.” The trade-off, she admitted, was that these candidates knew little about how to best use resources to address student needs (Interview with District Leader, October 2006).

Various reports cite the role of categoricals in fragmenting local programs. Without a local strategy for integrating categorical programs with the basic educational program, process requirements of the categorical programs, rather than the needs of students, shape local responses. In a recent example, Georgia allocated a “graduation coach” to every high school. The new full time position is tasked with addressing dropout rates by working directly with the students most at risk of dropping out (Jacobson 2006). While this strategy represents one distinct approach to addressing truancy, others, such as small schools, magnet schools and redesigned schools rely on a different model, to which this kind of specialization represents an interference. And for the few schools that aren’t battling a dropout problem, the dedicated resources represent an inefficient use of funds.



A report on categoricals in South Carolina demonstrates how if a district wanted to use categorical funds to fund an innovative new school, the district could cobble together funds from 25 different categoricals earmarked for alternative schools, junior scholars, youth in government, homework centers, and other programs or services (Hassel and Roza 2007). For districts working toward building teacher knowledge and skills, there are 15 different state categoricals that can be combined for these purposes.

In another state, a high-performing elementary Catholic school entitled to \$7,000 in Title I funds doesn't take them. As the school's vice principal for academic affairs explains, "the federal regulations that come with the funds make them not worth it for us. The prescriptions specify what the money can and can't be used for and how we account for it makes the funds a poor fit for our overall program" (Interview with Vice Principal For Academic Affairs, December 2006). Schools like this one that rank in the 90<sup>th</sup> percentile on standardized scores have clearly figured out what works for their students, and for them Title I regulations are seen as an interference.

Creating separate programs for specific student needs creates confusion about who is responsible for improving student achievement. A large portion of personnel paid for by categorical grants report to central departments, not the schools in which they work.

### **The Federal Government Changes the Rules, Again**

As states and districts grew proficient in managing federal funds separately, the federal government changed directions toward promoting integration of resources. Partly in response to the rigidity of the earlier regulations and partly in recognition that poverty was becoming more concentrated and that in schools with large majorities of Title I eligible children it was often simply too difficult to separate non-Title I children and the services that they received from those for the general school population, Congress began in the late 1980s to permit school-wide Title I programs. While at first these were only allowed in schools where more than 75% of the students were low-income, by the time of the NCLB reauthorization in 2002, schools with as few as 40% low-income children were permitted school-wide projects.

In 1994, Congress approved Ed-Flex, a six state experiment under the Goals 2000: Educate America Act. The new program granted states the power to waive federal statutory and regulatory provisions governing federal allocations, providing states waived similar provisions of their own. Currently, ten states participate in this program.

In October of 1994, Congress granted states and school districts more flexibility in combining federal education dollars with other resources with the enactment of the Improving America's Schools Act of 1994. Congress had hoped that federal funds (including Title I funds used in school-wide programs) would be combined with state and local funds to upgrade the entire education program in eligible schools.

More recently, Congress initiated NCLB's teacher quality funds (Title II)—funds that are delivered with almost no strings attached. The federal government asked that districts use their best judgment about how to best achieve the goals outlined in NCLB toward increasing teacher quality and how to distribute funds across schools of high and low poverty.

These new provisions represented what seemed like a new direction for the federal government in that funds were to be used more flexibly at the school site to offer more comprehensive programs for all students in a school. The federal government, it seemed, was

looking for more innovation at the school site and trusted that decisions based locally on how best to serve students would result in better programs.

### **Barriers Created by Earlier Federal Regulations Prevent Progress Today**

Unfortunately, by that time, the compliance mentality and audit lessons of the previous 30+ years had become so ingrained in the fabric of state agencies that the new direction of Congress was having only a minimal effect on districts.

Twelve years after its inception, Ed-Flex hadn't exactly taken off. Currently, only ten states are covered, and four of them granted no new waivers to districts in 2005-06 (Hicks 2007). While state officials note that they enjoy the option of granting waivers, they point to existing constraints as the reason for why the program isn't utilized more.

Similar results have plagued federal efforts to encourage districts to combine funds for school-wides. Here too, constraints imposed by states and habits developed from past behaviors were cited as the main culprits. A March 2000, Inspector General (IG) report found that of 15 states reviewed by the IG's office, 10 did not allow school districts to combine all of their funds for school-wide projects and six of the 15 did not permit any combining of funds.

For most states, the barriers ran deep. As one state reported, its account structure dictated separation of resources first by fund, then activity, and then program. Resources were separated twice before being coded as a school-wide program. The state account structure, created as an accountability measure to ensure compliance with earlier federal programs, now stands in the way of consolidation (Office of the Inspector General 2000).

With little progress on consolidating, the federal government pushed states again. In January 2002, the No Child Left Behind Act (Section 1903 (a)(1)(c)) actually mandated that states modify or eliminate state fiscal and accounting barriers to consolidating funds in school-wide programs—a mandate that was largely ignored. In 2004, the Department of Education published a notice in the *Federal Register* to remind states of their duty to encourage schools to consolidate funds (Office of Elementary and Secondary Education 2004).

Despite these messages, an OIG report issued June 9, 2005 found that even a state like Illinois, which did not overtly prevent consolidation, offered no guidance on how to consolidate federal, state, and local funds, even though explicitly allowed in both Title I and several other federal programs. As a result, none of the 15 school districts in Illinois visited by the IG's office was doing any consolidation. Among comments received by the IG was the belief in four of the districts that it was necessary to separate funds to be consistent with audit or state requirements. Three districts saw no reason to consolidate; five said that they had always done it that way and would not change (Office of the Inspector General 2005).

Part of the problem was that the nature of the fiscal barriers varied from state to state. States and districts needed help in figuring out what exactly needed to be changed in order to consolidate funds. In eleven states, the 2005 OIG report found no official accounting barriers, but noted that state data systems and reporting requirements made it difficult to consolidate funds. Some states recognized that in order to consolidate funds, they would need new fund (or object) class codes for consolidated funds. Of the states earnestly working toward helping schools consolidate, one noted that it was “prohibitively expensive” for schools to set up the new accounting systems. Now that the federal government was interested in integration of services at

the school level, that very integration is made nearly impossible by the fiscal systems built around earlier federal regulations.

Further, regarding the federal priority of more evenly distributing teacher quality across schools, one of the key barriers is the existing teacher salary schedule in place in nearly every district. This salary schedule, it turns out, is part of the fabric of not only district and state structures, but also incorporated into federal law (through Title I comparability) as mentioned above.

Ironically, the efforts that started with the 1965 law to provide extra services and support to poor children, especially those in heavily impacted schools, have, over time, turned out to work against the interests of these same children. As the state of the art in serving targeted children has improved—moving, for example, from pull-out to regular classroom instruction—the very same compliance mentality that was created by rules and regulations to prevent the wrongful use of Title I funds now operates against the very interests of those same children where they would be better served by the provision of comprehensive services.

## **The Categorical Programs Dilemma**

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Despite the complaints now regularly associated with categoricals, the problems that motivated this form of funding persist, and the structures now in place to support them cannot easily be dismantled. These problems include: the need to bring additional funds to districts with unique student populations; the need to counter local forces that push for disproportionate funding to go to wealthier (less needy) schools; and the desire of lawmakers to encourage experimentation, fund pilot efforts, or encourage innovation.

### **The Need to Bring Additional Funds to Districts With Unique Student Populations**

Some districts have a handful of severely handicapped students or greater concentrations of poverty or limited English proficiency, making the task of accomplishing student performance goals not only more difficult, but more expensive as well. Many categorical grants are intended to offset district costs for increased services needed for these students.

### **The Need to Counter Local Forces That Push for Disproportionate Funding to Go to Wealthier (Less Needy) Schools**

Parents, teachers, and communities in different ways can at times work the system to the benefit of the less needy students. Parents with means tend to be more organized and vocal in advocating for resources at their schools. More experienced senior teachers often migrate to schools with fewer poverty students, resulting in higher turnover and less experienced teachers in the highest need schools. As Rose, Sonstelie, and Reinhard (2006) indicate, a larger share of California's unrestricted resources land on low-poverty elementary schools (see Table 1).

**Table 1: Unrestricted Spending Per Pupil in Elementary Schools Across Sampled California Districts**

<b>Category</b>	<b>Low Poverty</b>	<b>High Poverty</b>
Unrestricted Teacher Expenditures	\$2570	\$1973
Teachers per 1000 students	44.9	41.5
Average teacher salary	\$57242	\$47545
Unrestricted Other Expenditures	\$1839	\$1648
<b>Total Unrestricted</b>	<b>\$4409</b>	<b>\$3621</b>

Source: Rose, Sonstelie, and Reinhard (2006)

In this report, interviews with superintendents found that while these officials did support reducing the number of categorical, they did not support the next step of more unrestricted funds. They worry that local political pressures would “make it difficult for districts to allocate more resources to schools with high concentrations of struggling students” (ibid, 71).

In fact, some investigation of new federal allocations indicates that this concern is founded, as more flexible federal allocations can disproportionately benefit wealthier schools. In one Pennsylvania district, district officials allocate newly awarded flexible federal Title II teacher quality funds exclusively to wealthier schools, deliberately balanced against Title I funds that can only be delivered to the high-poverty schools (Roza, forthcoming).

Further, it is worth noting that when the federal government granted Title I schools increased flexibility through school-wides, the services to many Title I children were actually diluted, since where 400 eligible students in a 600 student school might have been receiving services earlier, now all 600 were to benefit in some way. (Of course, the trade-off here was that Title I students would no longer miss regular classes for some pull-out program and that services and record keeping would be simplified.)

And in looking through the waivers states granted through the federal Ed-Flex program, most of them serve to relax the minimum poverty enrollment necessary for Title I eligibility—thereby allowing federal funds to be diluted further across students in less needy schools (Hicks 2007).

### **The Desire of Lawmakers to Encourage Experimentation, Fund Pilot Efforts, or Encourage Innovation**

Some lawmakers have argued that schools are unlikely to try new approaches to serving students in the context of the existing finance structure and that set-asides are needed to jump start innovation to serve as a demonstration for others.

## **A Student Based Funding System With Fewer Strings Attached?**

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One solution proposed by many is to consolidate categoricals and drive funds out on the basis of student needs but avoid prescriptions for how the funds can be used (Hassel and Roza 2007). With requirements that funds be deployed to schools based on their mix of students, lawmakers could still counter local forces that push for a greater share of funds at schools with fewer needy students.

Of course, we may expect that efforts to allocate funds based on specific student needs may bring about another series of unintended consequences. For example, if schools, districts, and states receive extra funds for students with specific needs, what is the incentive to actually remedy that need if doing so means that funds will be reduced? As we have seen with the identification of children for special education under IDEA or the identification of students as English Language Learners, it has become very hard for a child to lose that label since doing so means less revenue (Greene and Forster 2002). Yet with the fiscal systems and habits now in place, allocating funds on the basis of students and ensuring that those funds do indeed reach their intended schools is the one thing the system now is not set up to do. In the previous decades, as was mentioned earlier, accounting systems were designed around fund, object, and function, but not *school* or *student type*.

As the experience of moving to school-wide Title I projects and of encouraging the consolidation of federal programs has demonstrated, actually achieving change is quite difficult. A culture exists that is oriented to maintaining the categorical separation of programs, which in turn encourages the identification of children by needs as defined by federal and/or state law.

Further, the federal government's own policies regarding set-asides have had the effect of working counter to the federal goals of fiscal transparency and augmented spending by student type. By delivering funds that are exempt from other compliance regulations, the federal government forces districts to compartmentalize funds and funding intent. While Congress has adopted new rules that would allow set-asides to resume with more transparency, the effect of this funding mechanism remains highly suspect. So long as a system exists that skirts established mechanisms for funding schools, set-asides will remain as a factor that distorts and warps established systems for funding education.

At the next reauthorization of the Elementary and Secondary Education Act, some groups are contemplating recommendations that would further work around, and thus accommodate, the perverse fiscal system that is now in place by advocating such things as modifying Title I to include a requirement that districts monitor total teacher salary differences, instead of a requirement for comparable per-pupil spending. Additionally, one of the most difficult changes to achieve politically in the reauthorization will be anything that significantly affects the Title I formula in ways that would move away from using actual state average per-pupil expenditures as a major factor in determining state allocations.

It is clear from our work in this area, that virtually any action will have unintended consequences. While every attempt should be made to anticipate these issues, what is essential is that Congress recognize this fact, authorize studies that will explore how laws are actually being implemented, and then be willing to act when presented with evidence.

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