



5 Key Principles to Guide Consideration of any ESEA Title I Formula Change

By Ulrich Boser and Catherine Brown July 7, 2015

Last year, the federal government spent more than \$14 billion to help educate low-income students as part of Title I, Part A, of the Elementary and Secondary Education Act, or ESEA.¹ For schools, particularly low-income schools, these federal investments make a huge difference. If Title I was used to only fund teachers, for instance, it would support the jobs of more than 200,000 educators.²

But while federal education dollars bring many benefits for students, they are distributed in a way that is deeply unfair both between and within states. This unfairness stems from the following flaws in the allocation formula.

- **It is overly complex and opaque.** Title I today is allocated based on four separate formulas with conflicting incentives. State and local legislators and education officials have almost no way to know how much their allocation will change from year to year due to changes in district or state policy, population, or distribution of students living in poverty. This lack of transparency severely limits the formula from serving as an incentive for policy change or from enabling states and districts to plan for the future.
- **It sends more money to wealthier states.** Wealthier states have historically invested more heavily in education, and those investments are favored by the current Title I formula. This results in a system that compounds existing inequities by giving more to the haves than to the have nots. Furthermore, the formula's emphasis on the number of children who live in poverty means that more affluent districts that serve only a handful of such children receive Title I dollars. This dilutes the pool, leaving fewer resources for those places with more concentrated poverty.
- **It shows clear bias against rural states and mid-sized cities.** As a result of this distortion, the so-called small state minimum, which gives more money to smaller states for no other reason than their small population, "states with small populations and low concentrations of poor children receive radically larger grants on a per-poor-child basis than states with larger populations, including those with substantial rural

poverty.” What’s more, the formula prioritizes larger districts. Detroit, for instance, gets much more per student than Flint, Michigan, and Los Angeles gets more than Sacramento, California, due to the formula’s heavy weighting of large communities over mid-sized and rural communities.³

To be clear, there is no perfect school funding formula. By definition, formulas distribute limited pots of money among diverse schools and districts, and most districts, if not all, could benefit from more resources. Formula decisions, in other words, force difficult trade-offs. Should the formula spread the funding to more students or leverage it most heavily among the neediest? Should it reward states and communities for investing in education, or should it compensate for the fact that they have not made such investments, which has real and often dire consequences for the students living in those communities? Should the formula fund communities with large concentrations of poor students or fund poor students in more socioeconomically diverse communities? These are difficult questions without easy answers.

The goal for every member of Congress—when considering modifying the Title I formula—should be to maximize public utility or the public good and to find the trade-off point where the greatest number of students receive the maximum boost to their life prospects.

The Center for American Progress proposes the following five principles to guide lawmakers as they consider these vital decisions.

1. Make the Title I formula more fair and transparent

Today, Title I, Part A, funds are distributed through four complex formulas: Basic Grants, Concentration Grants, Targeted Grants, and Education Incentive Finance Grants, or EIFG. These formulas have different eligibility requirements, weighting systems, and purposes. For example, the Education Finance Incentive formula rewards states that spend equally on poor and non-poor students alike. Other formulas do not.

This complexity makes it nearly impossible for policymakers, school system leaders, and the public to understand how money is distributed. It also makes it hard for the federal law to incentivize thoughtful actions at the state and local level since the reward system is so opaque. In order to fix this problem, the formulas should be condensed into a single, straightforward method of allocating funds. In short, dollars should go to schools in a fair and easy to understand manner based on a few simple factors that are predictable. This policy fix would enable local leaders to better understand the state and district’s Title I allocation, as well as develop more reliable projected education budgets.

In particular, the formula should take cost of living into account more precisely. In areas with high costs of living—such as Boston, Los Angeles, and Chicago—it can cost twice as much to pay teachers than it does in low-cost communities. But the current formulas do not expressly take that differential into account when allocating funds. Instead, the current formulas reward states for the amount that they have spent on education in the previous year, which serves as an inadequate proxy for cost of living.⁴

“Educational costs vary, sometimes significantly, from district to district and from state to state. Title I allocations should account for these variations not with invalid proxies for cost such as state per-pupil spending, but with state- and district-level cost factors grounded in empirical research and updated every few years,” wrote Goodwin Liu, a school finance expert and former professor of education law at University of California, Berkeley.⁵ “Congress could use estimates that are presently available, or it could commission new studies,” he continued.

Education researchers have developed a sound statistical way to account for differences in the cost of living across states and districts, and the approach, known as the Comparable Wage Index, or CWI, is widely used. Any change to the Title I formula should include a variable that accounts for the differences in cost of living across schools and districts and streamlines the formula itself. This set of policy fixes would go a long way to help state and district leaders better predict their annual allocations and more fully understand the impact of local policy decisions.

2. Ensure money supports students living in areas of concentrated poverty

Title I dollars are often spread too thinly. Wealthy and middle-class areas such as Palo Alto, California, Hastings-on-Hudson, New York, Arlington, Virginia, and Melrose, Massachusetts, all receive Title I dollars. So do districts serving only a dozen children from poor families, such as Robein, Illinois, and Milnor, North Dakota.⁶ In fact, a full 67 percent of schools nationwide receive Title I funds despite the fact that the program is designed to help needy students receive a better education.⁷

Title I dollars are dispersed widely in part because schools can receive the funding even if they only serve a few students in poverty. Under current law, Basic grants allocate federal dollars to districts solely based on the number of children living in poverty. So a district such as Cedar Bluffs, Nebraska, receives federal dollars for its 10 poor children even though those children live in a community where the child- poverty rate is less than 5 percent.⁸

This wide dispersion of Title I dollars is a problem. Significant amounts of research shows that it is not just poverty that limits a student's life outcomes; living in high-poverty areas and attending school among other poor students—in other words, concentrated poverty—have significant effects as well. It has also been shown that money has the greatest impact when it is invested in improving the education of low-income students who come to school with the greatest needs when compared to their more affluent peers.⁹ And although there are poor students in many—if not most—schools, schools serving more affluent populations have larger budgets overall. More affluent schools are better positioned to afford compensatory services for low-income students without the need for Title I support.

Moreover, the purpose of ESEA is to compensate for the fact that schools in higher-income areas typically have larger budgets than schools in low-income communities. By sending limited Title I funds to middle-class and affluent areas, the formula undermines its basic intent.

A better approach would be to exclude affluent districts from Title I eligibility, thus making more funds available for students living in concentrated poverty. Federal money would have a bigger impact if it were more targeted to schools with a greater percentage of students in need. This point is particularly important to keep in mind during any sort of formula debate. For lawmakers, there is good reason to spread the wealth, but the purpose of the program is to help create a level playing field for schools with large numbers of low-income students.

3. Leverage funds to incentivize evidence-based state funding formulas

The United States is one of just three Organisation for Economic Co-operation and Development, or OECD, countries that provides fewer resources for educating students living in poverty than their peers.¹⁰ Educational outcomes in the United States, which differ significantly by socioeconomic status, reflect this approach.¹¹ Title I reform could help rectify that problem by providing a greater incentive for states to create progressive funding structures.

Today, the EFIG formula, one of the four Title I formulas, factors in whether states fund Title I and non-Title I schools equitably. Unfortunately, this approach has the perverse effect of disincentivizing states from investing more significantly in schools serving low-income students. A funding formula truly aimed at closing the student-achievement gap should send a clear and unambiguous message to states that they should implement progressive funding systems—such as weighted-student funding systems that allocate resources on the basis of student need—which provide more money to students with greater needs.

The Title I formula should also include a fiscal effort factor. In other words, the formula should include a measure of whether states invest more state and local funds in education. This approach does not disadvantage poorer states because the measure evaluates on the amount of money that states invest relative to other fiscal priorities. As part of a reauthorized ESEA, both priorities—funding equity and effort—should be incorporated into the base formula or required in order for states to retain their administrative funds.

4. Eliminate bias against rural states and mid-sized cities

Consider Utah and North Dakota; both are rural states with low costs of living, and the cost to educate the students in the two states is about the same, according to the CWI, a statistical tool developed by researchers Lori Taylor and Bill Fowler.¹² Neither state spends much on education as a proportion of their state budgets, and both states have similar percentages of low-income students.¹³ But Utah has roughly 2 million more people than North Dakota.¹⁴ When it comes to Title I, that population difference translates into \$1,600 *more per student* in North Dakota—which is more than twice Utah’s Title I allocation of \$1,018 per student.¹⁵ Likewise, Wyoming receives \$1,800 per student, which is also more than its neighbor, Utah, receives despite the obvious similarities.

Why the funding disparity? Part of the reason is because both Idaho and Wyoming benefit from the so-called small state minimum, which provides some small states with additional funding solely on the basis of having small populations.¹⁶

Those who defend the small state minimum argue that states need a guaranteed minimum amount of funding in order to develop and maintain the infrastructure to ensure that the state education office can meet its obligation to provide oversight to school districts. This argument would be more compelling if it applied to rural states, which face unique challenges such as struggling to attract and retain teachers and wide geographic distances between schools. States such as Delaware, which are small geographically and benefit from the small state minimum, have a weaker claim on extra funds.

In addition, while the small state minimum unquestionably benefits some rural states such as Alaska and Wyoming, the formula overall is biased against states with moderate to large populations and significant rural poverty, such as Texas, California, and Colorado.

Similarly, the current law has a bias against mid-sized cities. Consider Sacramento, California, which has a child population of 52,000, much smaller than Los Angeles’ population of 740,000 children.¹⁷ Sacramento has the same child-poverty rate as Los Angeles—around 30 percent—but it receives around \$275 less per eligible child, which translates into a loss of \$14.3 million for the school district.¹⁸ Cities such as Detroit and

Houston also get more money per child than Flint, Michigan, and San Antonio, Texas—cities with similar percentages of poverty located in the same state of their much larger counterparts, but with smaller populations overall. The cause for the funding disparity is once again the formula.

The formula should be fixed to provide fair funding for moderate-sized cities, which face significant challenges of their own.

5. Ensure that states and districts do not lose funds in the transition from the old to the new formula

While the formula is unfair and has for generations shortchanged some states, districts, and schools, an abrupt funding cut could be devastating to any community that has come to rely on its Title I allocation.

Therefore, as part of any fix to the Title I funding formula, there must be a gradual transition plan that ensures that no state loses money. Specifically, there should be a hold-harmless provision, which would keep states at their current funding allocation level and dedicate new funding to states that have been shortchanged in prior years and are now on track to receive a fair allocation. Under this proposal, no state would suddenly lose resources, and more equitable funding levels will be reached gradually.

Districts should also be held harmless from the negative impact of a funding fix. There is a hold-harmless provision in current law, and it is something that clearly needs to be included in any sort of formula reform. Without such provisions, low-income children whose schools have long-received Title I money would lose funding, and districts that have long depended on federal funds would suddenly be short-changed, which would force them to lay off teachers and make other dramatic cuts. Any approach that causes schools to lose substantial funds abruptly is bad policy, and Congress should ensure that the switch from the old formulas to the new formula is smooth, predictable, and does no harm.

The Title I funding formula has been in the place for 15 years. There is a great need to rework the formula to make it clearer, to eliminate the bias against rural areas and wealthier states, and to clearly incentivize states and districts to invest in education overall and to invest more in providing educational opportunities for students from low-income backgrounds. A better funding formula is the foundation for ensuring that every student, particularly those growing up in poverty, has an equal shot at the American dream.

Ulrich Boser is a Senior Fellow at American Progress. Catherine Brown is the Vice President of Education Policy at American Progress.

Endnotes

- 1 U.S. Department of Education, "Funding Status," available at <http://www2.ed.gov/programs/titleiparta/funding.html> (last accessed July 2015).
- 2 Based on latest estimate of average teacher salary. See National Center for Education Statistics, "Table 211.60: Estimated average annual salary of teachers in public elementary and secondary schools, by state: Selected years, 1969-70 through 2012-13," April 2013, available at https://nces.ed.gov/programs/digest/d13/tables/dt13_211.60.asp.
- 3 For the quote on states with larger grants, see Raegen Miller, "Secret Recipes Revealed: Demystifying the Title I, Part A Funding Formulas" (Washington: Center for American Progress, 2009), available at <https://www.americanprogress.org/issues/education/report/2009/08/17/6544/secret-recipes-revealed-demystifying-the-title-i-part-a-funding-formulas/>; For examples of cities with more funding, see CAP analysis based on unpublished data from the U.S. Department of Education, Budget Service, on school district allocations estimates for fiscal year 2015, made available to the Congressional Research Service. Congressional Research Service, "Table 1. Estimated FY2015 Grants to Local Educational Agencies (LEAs) Under Title I-A of the Elementary and Secondary Education Act Assuming All Funds Are Allocated Using the Education Finance Incentive Grant Formula Only, and Updated Quintiles for Weighted Child Counts Are Used, the National Average Per Pupil Expenditure Is Used as the Expenditure Factor for all States, the Effort Factor Is Removed, a Cap Is Placed on Puerto Rico's Grant Amount, and a 20% Formula Child Rate Threshold Is Applied for the Upper Quintiles on the Number-Based Formula Child Weighting Scale," unpublished, June 15, 2015. To estimate per-child allocations for each district, we used the total counts of Title I formula children received by request from the U.S. Department of Education in January 2015.
- 4 Rob Hanna "ESEA Reauthorization: How ESE Title I, Part A, Funding Can Better Serve the Most Disadvantaged Students" (Washington, Center for American Progress, 2015), available at <https://www.americanprogress.org/issues/education/report/2015/01/26/105339/how-esea-title-i-part-a-funding-can-better-serve-the-most-disadvantaged-students/>.
- 5 Goodwin Lui "Interstate Inequality in Educational Opportunity" (New York: New York Law Review, 2006), available at <http://www.nyulawreview.org/sites/default/files/pdf/NYULawReview-81-6-Liu.pdf>.
- 6 CAP analysis based on unpublished Title I estimates from the U.S. Department of Education.
- 7 The authors calculated the percentage of Title I schools using National Center for Education Statistics, "Table 2: Number of operating public elementary and secondary schools, by school type, charter, magnet, Title I, and Title I schoolwide status, and state or jurisdiction: School year 2010-11," available at https://nces.ed.gov/pubs2012/pesschools10/tables/table_02.asp (last accessed July 2015).
- 8 CAP analysis based on unpublished estimates of Title I formula-eligible children from the U.S. Department of Education.
- 9 C. Kirabo Jackson, Rucker C. Johnson, and Claudia Persico, "The Effects of School Spending on Educational and Economic Outcomes: Evidence from School Finance Reforms" (Cambridge, MA: National Bureau of Economic Research, 2015), available at <http://www.nber.org/papers/w20847>.
- 10 Eduardo Porter "In Public Education, Edge Still Goes to Rich," *The New York Times*, November 5, 2013, available at http://www.nytimes.com/2013/11/06/business/a-rich-childs-edge-in-public-education.html?_r=0.
- 11 OECD, "Results from PISA 2012: United States" (2012), available at <http://www.oecd.org/unitedstates/PISA-2012-results-US.pdf>.
- 12 Reagan Miller and Cindy Brown "Bitter Pill, Better Formula" (Washington: Center for American Progress, 2010), available at <https://www.americanprogress.org/issues/education/report/2010/02/03/7294/bitter-pill-better-formula/>.
- 13 U.S. Census Bureau, Economy-Wide Statistics Division, 2013 *Survey of State Government Finances* (U.S. Department of Commerce, 2013), available at <https://www.census.gov/govs/state/>; CAP analysis based on unpublished estimates of Title I formula children from the U.S. Department of Education; U.S. Census Bureau, Population Division, "Table 1. Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2014 [NST-EST2014-01]," available at <http://www.census.gov/popest/data/state/totals/2014/index.html> (last accessed July 2015).
- 14 U.S. Census Bureau, Population Division, "Table 1. Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2014 [NST-EST2014-01]," available at <http://www.census.gov/popest/data/state/totals/2014/index.html> (last accessed July 2015).
- 15 CAP analysis based on estimates for fiscal year 2015 from the U.S. Department of Education. U.S. Department of Education, "Fiscal Years 2014-2016 State Tables for U.S. Department of Education," available at <http://www2.ed.gov/about/overview/budget/statetables/index.html>; U.S. Census Bureau, "Small Area Income and Poverty Estimates: State and County Data Files," available at <http://www.census.gov/did/www/saipe/data/statecounty/data/index.html> (last accessed July 2015).
- 16 William Sonnenberg and Stephen Provasnik, "Allocating Grants for Title I" (Washington: National Center for Education Statistics, 2007), available at <https://nces.ed.gov/surveys/annualreports/pdf/title120071030.pdf>.
- 17 CAP analysis based on unpublished data for fiscal year 2015 from the U.S. Department of Education.
- 18 Ibid.