



A Shell Game: Federal Funds to Improve Schools

Major Findings

- The No Child Left Behind Act (NCLB) requires states to reserve 4% of their Title I, Part A funds for fiscal years 2004 and beyond to provide additional help to schools identified for improvement under the Act. But in many states, these funds are insufficient to do the job because of inadequate NCLB appropriations and because of a “hold harmless” provision in the law that prevents school districts from losing Title I funds as a result of the reservation for improvement.
- Complying with the school improvement reservation has become a shell game. To meet the reservation without violating the hold harmless, states must take money away from school districts that were slated to receive increased Title I allocations because of their larger numbers of low-income children. Then states must give the reserved funds to other districts that may or may not have as much poverty. So the very districts that were supposed to get more Title I money due to greater poverty are actually receiving smaller or no increases due to the improvement reservation.
- In 2005-06, at least 10 states could not reserve the full 4% for school improvement required by law. In another 5 states, the 4% reservation used up almost all of the funding increases that school districts in the state were expecting to receive.
- This problem will grow worse in 2006-07 because Title I appropriations have decreased. But the problem could be solved if Congress would appropriate funds for school improvement through a special authorization in the Title I law enacted for this purpose, and provide adequate total appropriations for NCLB.

Introduction

Improving low-performing schools is the central purpose of the amendments made by the No Child Left Behind Act to the federal Title I program, which supports extra educational services for low-achieving children in low-income areas. The amendments made through NCLB provide a means for identifying schools that are not performing

well—not making adequate yearly progress, or AYP, is the terminology. NCLB also lays out a series of steps to be taken when schools do not make AYP for two or more consecutive years. These schools are called schools in need of improvement.

This report by the Center on Education Policy (CEP) describes how funds are made available specifically for improvement activities in identified schools. The heart of the report is an analysis of how this process for financing school improvement affects the funding available to school districts and states for all other Title I activities. The report does not address what states are doing to further school improvement. More information about state administration of school improvement funds can be found in *School Improvement Under No Child Left Behind* by Phyllis McClure (Center for American Progress: March 2005), available at <http://www.americanprogress.org/site/pp.asp?c=biJRJ8OVF&b=476775>.

Funding Authorizations for School Improvement

Recognizing that schools identified for improvement may need additional resources to raise student achievement, NCLB includes two provisions, described below, that provide specific funding to assist these schools.

Separate School Improvement Program

Section 1003(g) of the Act authorizes a separate program specifically for school improvement. These funds are supposed to be allocated to states, which then make grants to local school districts to support changes needed to help schools identified for improvement. In recognition of the cost of these changes, the law stipulates that grants to districts under this program must be at least \$50,000 and can range up to \$500,000 for each participating school. But this program has never received any appropriations. The Bush Administration has never requested funds for school improvement through this authorization, and Congress has never enacted any appropriations, although the Senate has sometimes included funds for this program in its appropriation bills. So Title I funds for improvement must come from a mandatory state reservation described below.

State Reservation for School Improvement

The other NCLB provision that channels funds to schools in improvement is found in section 1003(a) of the Act. This provision requires states to reserve 2% of their Title I, Part A allocations for fiscal years (FYs) 2002 and 2003, and 4% of their allocations for FYs 2004 through 2007, for school improvement. (Part A provides grants to local school districts for basic Title I programs and constitutes the bulk of the Title I appropriation.) To comply with this mandatory reservation, states must deduct these funds from the amounts they receive from the U.S. Department of Education for Title I allocations to school districts. (See the CEP publication, *Title I Funds: Who's Gaining, Who's Losing, and Why*, for more information on how Title I funds are distributed to school districts and states). This reservation is limited, however, by a “hold harmless” provision that prevents

the state from taking funds from any district if the mandatory reservation would result in that district receiving fewer Title I funds than it had the previous year.

Other School Improvement Funding

NCLB also provides other funds that may be used to improve identified schools, among many other purposes. For instance, the Comprehensive School Reform Demonstration (CSRD) program and state funds for Innovative Programs (Title V) fall into this category. However, the fiscal year 2006 appropriation effectively eliminated funds for CSRD, reducing its funding level from \$205 million in FY 2005 to \$8 million in 2006. State funds for Innovative Programs were reduced by 50%, from \$198 million in 2005 to \$99 million in 2006.

Determining the State Reservation

Each state's total Title I allocation is arrived at by adding up the amounts allocated to school districts in that state under the four types of Title I formulas in the law. (See *Title I Funds: Who's Gaining, Who's Losing, and Why* for more information on the Title I formulas.) Therefore, the mandatory state reservation of funds for school improvement is not really a reservation of state Title I funds at all, but a deduction from funds allocated to school districts. To make this reservation, states must reduce Title I allocations to individual districts. The state simply moves money from some districts in the state to other districts, and the receiving districts must use these additional funds to improve achievement in identified schools or districts. (NCLB also includes provisions for identifying entire school districts for improvement.)

If Title I appropriations were increasing, reserving these funds would not be a major problem, since districts slated for funding increases would still receive more Title I money, just not as much as they otherwise would have. But Title I appropriations are not increasing, and other factors have occurred that make the structure of the state reservation a serious problem. These factors include the following:

- Beginning with school year 2005-06, the mandatory reservation rose from 2% to 4% of the state allocation.
- For school year 2005-06, the increase in Title I funds above the 2004-05 level was more than offset by the increase in the number of children from families in poverty between the two years. The national total of Title I funds available for school year 2005-06 was 3% above the total available for school year 2004-05. But the number of low-income students increased by 6% during this same period.
- For school year 2006-07, the situation is much worse. The Title I appropriation for grants to school districts is about \$26 million less than it was for school year 2005-06. It is possible that no state will have sufficient funds to meet the mandatory reservation.

Impact of the State Reservation

To determine the impact of the school improvement reservation for school year 2005-06, the Center on Education Policy analyzed data on school district Title I allocations from the U.S. Department of Education.

First, we calculated how much the required 4% reservation would amount to for each state, based on the total 2005-06 allocations from the U.S. Department of Education to school districts in that state. The resulting figure is the amount that states should have reserved for school improvement.

Next, using the Department's 2005-06 district allocations for each state, we totaled the additional dollars going to those districts that were scheduled to receive increased Title I funding before the reservation was applied. These totals are the amounts actually available in each state for school improvement. Because of the hold harmless provision, districts that did not receive increases did not contribute any Title I funds to the school improvement reservation. The figure resulting from this calculation is the amount that states actually could reserve for school improvement after applying the hold harmless.

We then compared the amount that states should have reserved for school improvement (the full 4%) with the amount that states actually could reserve. This comparison enabled us to assess how the required reservation interacts with the small increase in Title I funds for school year 2005-06 and the hold harmless provision.

(Note: The data we used do not reflect changes in allocations made by the states, such as withholding funds for state administration, nor do they take into account changes in school district boundaries that occurred after federal census data were collected. So the resulting figures are very close estimates rather than final numbers.)

We reached three major findings as a result of this analysis:

- Because of the relatively small increase in funding for the Title I, Part A program for school year 2005-06 and the aforementioned hold harmless provision, some states could not set aside the full 4% for school improvement required by law. For school year 2005-06, we calculate that 10 states fall into this category.
- To ensure that Title I dollars actually go to the districts where students from low-income families currently reside, the Title I law requires the U.S. Department of Education to base Title I allocations on annually updated census data regarding the number of students from low-income families by school district. Districts with increases in low-income children are supposed to receive additional funds under the Title I formulas to provide extra services to educationally disadvantaged

students. However, the application of the school improvement reservation significantly reduces or eliminates these increases.

- Even in states that received more than enough of a Title I increase to meet the reservation requirement, the burden of supporting the school improvement reservation often falls on districts with the largest enrollments of children from low-income families.

So complying with the reservation is essentially a shell game, in which states take funds away from districts with the greatest concentrations of low-income children and give them to other districts that have schools identified for improvement—which may or may not be the poorest districts.

State School Improvement Reservations for FY 2005

For school year 2005-06, at least 10 states do not have sufficient available funds to fulfill the 4% reservation for school improvement. These states, with the percentages available for the reservation, are listed in table 1.

Table 1. States With Insufficient Title I, Part A Funds Available to Reserve 4% for School Improvement, FY 2005

State	Estimated Percentage of State Title I Allocation Available for Reservation
Oregon	0.1 %
New Mexico	0.1 %
Ohio	0.7 %
Connecticut	1.1 %
New York	1.5 %
Massachusetts	1.7 %
Wyoming	3.97%
Tennessee	3.1 %
Oklahoma	3.3 %
Iowa	3.99%

Table reads: In 2005-06, an estimated one-tenth of one percent of Oregon’s state Title I allocation was available to be reserved for school improvement.

Note: The District of Columbia and Puerto Rico also do not have sufficient funds but are not included in the table since, except for some charter schools, these are single school districts and essentially will return their reserved funds to themselves.

Source: Center on Education Policy, January 2006 analysis of U.S. Department of Education data from June 2005 on FY 2005 Title I, Part A allocations to school districts.

As illustrated in table 1, two states, Oregon and New Mexico, have only a negligible amount of funds available for school improvement for school year 2005-06. New Mexico has about \$130,000 and Oregon about \$169,000 to support school improvement activities, clearly insufficient to meet the needs of schools identified for improvement in those states. For example, according to an August 4, 2005, news release from the Oregon Department of Education, 44 Title I schools in the state were preliminarily identified as needing improvement. If the state were to divide the available school improvement funds among all those schools, each would receive about \$3,834—an amount unlikely to buy enough extra services to turn around a low-performing school. And if that state were to make a minimum grant size of \$50,000 (the minimum grant amount from the unfunded school improvement program), only 3 of the 44 schools could receive extra funds to help them improve.

In addition to the states listed in table 1, several other states will be able to meet the 4% reservation only by using up almost all of the increased funding their districts were slated to receive. These states are shown in table 2.

Table 2. States That Will Use Almost All Their Title I, Part A District Funding Increases to Meet the 4% Reservation Requirement, FY 2005

State	4% Reservation Requirement (Estimated)	Estimated Amount of Title I Funds Available	Estimated % of Available Funds Used for Reservation
California	\$71,000,000	\$74,800,000	95%
Delaware	\$ 1,350,000	\$ 1,700,000	79%
Kansas	\$ 3,200,000	\$ 3,600,000	89%
New Jersey	\$10,900,000	\$12,000,000	91%
Wisconsin	\$ 6,500,000	\$ 7,200,000	90%

Table reads: In 2005-06, California may use \$71 million of the \$74.8 million available for Title I funding increases, or 95%, to fulfill the requirement to reserve 4% of its funds for school improvement.

Source: Center on Education Policy, January 2006 analysis of U.S. Department of Education data from June 2005 on the FY 2005 Title I, Part A allocations to school districts.

Impact on School Districts

Because the funds reserved for school improvement must be deducted from those districts that were slated to receive increased Title I funding for school year 2005-06, the gains those districts would have received due to rising proportions of low-income children are reduced or totally eliminated. In the states shown in table 2, nearly all the increased funding is needed to meet the 4% reservation. So districts in those states will receive just a tiny fraction of the Title I, Part A funding increases that they expected to receive under the law's allocation formula. For individual districts, the amount reserved by the state from their allocations may well exceed 4%, since that limitation applies to the state total,

not to school districts. States may reserve all the increased funds districts were allocated if that amount is needed to reach the 4% requirement.

This appears to go against the intent of No Child Left Behind to target greater resources on districts with growing numbers of students from low-income families. While districts in these states that are losing their Title I increase may “get back” some of the reserved funds in the form of school improvement grants, these grants will generally be less than the formula increases they would have received and must be used for other purposes. And the districts that lose funds to the reservation requirement are often among the neediest in the country. Districts with large formula increases in the states listed above include the New York City Public Schools, Boston Public Schools, Memphis City Public Schools, Columbus Public Schools (Ohio), Los Angeles Unified School District, Long Beach Unified School District (California), Wichita Public Schools (Kansas), Paterson Public Schools (New Jersey), and Elizabeth Public Schools (New Jersey). Almost all of the increases these districts were slated to receive will be lost to the reservation for school improvement.

The impact of the school improvement reservation is not limited to districts in states with insufficient or barely sufficient funds to meet the 4% requirement. Because only some districts in each state receive increases and all state school improvement funds must be taken from those districts, the burden falls unequally on them. For instance, Pennsylvania has sufficient funds to meet the 4% reservation because some districts in the state received significant increases in Title I, Part A funds. But 60% of the increase the state received was scheduled to go the Philadelphia school district. Hence, a large portion of the 4% reservation for school improvement will come from Philadelphia. Similarly, in Colorado, a disproportionately large share of the funds for school improvement will come from the Denver public schools.

Impact on State Education Agencies

Under NCLB, states are required to carry out certain school improvement activities, including the creation of a statewide system of support to provide technical assistance to local school districts. As part of this system, the state must establish school support teams and give priority first to districts with schools in corrective action and second to districts with schools in need of improvement. In addition, states have responsibilities related to identifying and assisting school districts in need of improvement.

To partially pay for these activities—in particular, the establishment and operation of the school support teams—states may retain 5% of the funds they reserved for school improvement, with the remaining 95% going to school districts. As with local districts and schools, when the amount of funds available for the school improvement reservation is less than 4%, the states themselves have fewer funds available for their required activities. In the Oregon example cited above, the state could retain only \$8,400 from the school improvement reservation, woefully inadequate to support its school improvement activities.

As we reported in *From the Capital to the Classroom: Year 3 of the No Child Left Behind Act*, states' capacity to carry out their responsibilities under NCLB is severely limited. In a 2004 state survey conducted for our annual NCLB study, only one state reported it had sufficient staff to implement NCLB. Nine states said they currently had sufficient staff but expressed concern about their capacity to meet future implementation requirements. The shortage in school improvement funds can only further hamper states as they strive to implement NCLB well.

What Lies Ahead for School Year 2006-07?

For school year 2006-07, the situation will become even more critical. The decrease in Title I funds included in the final appropriations bill will mean that most states will be unable to reserve the required 4%. Most districts that are slated for funding increases because they enroll growing numbers of low-income students will see the additional money go instead toward the limited school improvement activities that the states will be able to support.

Recommendation

Although the current funding constraints in Title I highlight the problem of supporting school improvement through a state-level reservation of funds, the problem lies not just with the level of appropriations. The reservation method seems flawed on its face, regardless of how much is appropriated for Title I. As required by law, funds will always have to be taken from districts that are slated for increases due to rising numbers of low-income students—even though Congress intended these districts to be the beneficiaries when it required the Census Bureau to annually update its data on low-income children by school district.

The solution is for Congress to provide appropriations for the school improvement program under section 1003(g) of the Title I law. One approach would be to repeal the state reservation requirement and appropriate for section 1003(g) an extra amount equal to 4% of the Part A funds. This would provide funds to meet the costs of school improvement without reducing or eliminating any increases in formula allocations that school districts receive for Title I, Part A. In addition, funding school improvement through this separate authority would ensure that all states, even those with little or no increase in Title I funds, would have funds for school improvement activities.

Finally, the Center's ongoing study of NCLB implementation suggests that school improvement is just one of many areas hampered by underfunding of NCLB. It is short-sighted of Congress and the Administration to expect school districts and states to comply with the law's many demands and meet its ambitious goals without adequate funding.

Credits

This publication was researched and written by Thomas W. Fagan, a consultant to CEP, with assistance from Diane Stark Rentner, CEP's director of national programs. Nancy Kober, a consultant to CEP, edited the report.

Based in Washington, D.C., and founded in January 1995 by Jack Jennings, the Center on Education Policy is a national independent advocate for public education and for more effective public schools. The Center works to help Americans better understand the role of public education in a democracy and the need to improve the academic quality of public schools. We do not represent any special interests. Instead, we help citizens make sense of the conflicting opinions and perceptions about public education and create the conditions that will lead to better public schools.

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