

POLICY BRIEF 2016-01

Increasing Targeting, Flexibility, and Transparency  
in Title I of the Elementary and Secondary  
Education Act to Help Disadvantaged Students

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# Increasing Targeting, Flexibility, and Transparency in Title I of the Elementary and Secondary Education Act to Help Disadvantaged Students

*Title I* of the Elementary and Secondary Education Act (ESEA) of 1965 is the U.S. Department of Education's (ED's) largest program, providing funding to school districts that have high concentrations of child poverty. In a new Hamilton Project policy proposal, Nora Gordon discusses the targeting, flexibility, and transparency in the current Title I program. Local Title I administrators, who are charged with using these funds to help low-income students, receive inconsistent guidance on permissible uses of Title I funds and face an unpredictable audit process. In addition, due to provisions such as the small state minimum and hold harmless requirements, Title I funding allocations are also difficult to predict and do not target the school districts most in need of the funds.

To address this problem, Gordon proposes a series of reforms that ED and Congress would carry out to improve Title I. Under Gordon's proposal, ED would encourage more-effective local use of funds by improving and disseminating Title I guidance, helping states use existing flexibility for compliance with guidelines, and taking steps to improve the audit process. Congress would also simplify Title I allocations by streamlining the formulas and removing restrictive provisions. Together, these reforms would refocus Title I funds on their original antipoverty intent and improve school districts' ability to predict annual Title I funding levels—in turn allowing districts to utilize the funds for more effective and innovative programs.

## The Challenge

Although most educational spending comes from state and local sources, the federal government sends some funds to states in order to fill gaps and address critical problems. In 1960, Title I of the Elementary and Secondary Education Act (ESEA) was adopted to provide funding to school districts that serve low-income students in order to increase school spending and improve student outcomes and school quality. However, local use of the funds is perceived as highly restricted. In addition, federal allocation of the funds follows a complex and opaque set of formulas.

### District Use of Title I Funds

In addition to generating revenue locally, school districts receive funds from a variety of state and federal programs, including Title I. Districts may exercise significant control in how schools may spend their Title I funds. In order to prevent abuse of the funds, Congress added a requirement that states use the funds for *additional* spending rather than merely to replace existing spending ("supplement, not supplant" requirement) in 1970. In practice, up until the most recent reauthorization of ESEA as the Every Student Succeeds Act (ESSA), this meant districts could not use Title I funds to buy things that were bought for other schools with other funds, bought in previous years with other funds, or mandated by state or local law. School districts generally hire Title I directors to coordinate use of Title I funds and navigate the complex state and federal rules on permissible uses of the funds.

Despite multiple lengthy federal guidance documents on permissible uses of funds, permissible activities depend on local circumstances which means local officials have many unanswered questions. State education agency (SEA) and local education agency (LEA) officials also have the option to further restrict how schools may spend Title I funds. As an example of the difficulty of deciphering federal guidance, LRP Publications offers a

host of Title I products, including a \$250 CD with a ninety-minute audio presentation, "Title I Compliance: Strategies to Boost Internal Controls and Minimize Audit Risk," and summarizes audit results for its paid subscribers.

The audit process is key to understanding Title I. Though rare in practice, LEAs and SEAs are subject to loss of funds if audits reveal significant fiscal compliance issues; this is particularly problematic for Title I directors because of inconsistency in audit quality. This uncertainty can lead school districts to prioritize spending funds on interventions that are not likely to raise an audit flag, such as professional development and after-school programs that are clearly supplemental. Such interventions also may be chosen because they are less expensive when bought in small quantities than larger-scale reform efforts that have strong evidence of success, such as public prekindergarten and comprehensive school reform. In sum, Title I directors report feeling limited in the amount and flexibility of the funds they are allocated.

In ESSA, Congress replaced the supplemental spending rule with a revenue-based supplemental funds test. This new test allows districts to show that Title I revenue is not supplanting the revenue that the school would have previously received and gives districts more latitude over the types of purchases they make with their Title I funds. However, in order to show that Title I spending does not replace (or supplant) local revenue, districts must possess sufficient data infrastructure to allocate resources and document compliance.

### Federal Distribution of Title I Funds

At the federal level, Congress appropriates Title I funds annually using four different formulas. Districts receive funds per eligible child through a complex consideration of the following criteria:

- Number and/or share of low-income children in the district,
- Average spending per pupil in the state,
- Size of the state (small state minimum),
- Historical Title I allocations at the state and district levels (hold harmless rule),
- Ratio of education spending to per-capita income in the state, and
- Within-state variation in local school spending.

### Lack of Transparency in Funding Allocation

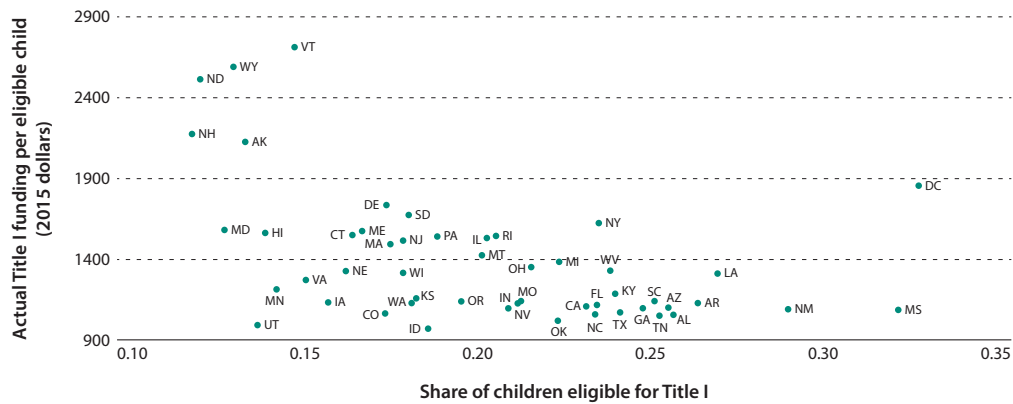
Some rules, such as hold harmless and the small state minimum, ensure minimum grant levels to certain states based off of previous funding levels and a basic level of funding to account for disparities in state size. However, the total appropriation for the Title I program generally does not provide sufficient funding to give each district its full allocation based on the formulas; for example, the Basic Grant formula (one of the four Title I formulas) would have required an appropriation of about \$50 billion for FY2015, but in contrast, only \$6.5 billion was appropriated. When this happens, a "ratable reduction" process brings the sum of the allocated grants down to the amount appropriated by Congress, meaning that any one district's allocation is also an opaque function of every other district's allocation, particularly when allocations are additionally constrained by the small state minimum and hold harmless requirements. As figure 1 demonstrates, this results in a wide variation in Title I funds per eligible child across states with similar poverty rates. In addition, the result of this process means that, on average, states with higher shares of students eligible for Title I funding such as Mississippi and Louisiana receive less funding per student than states with lower shares of eligible students like Vermont and North Dakota.

## A New Approach

In order to target Title I funds in a more-progressive and more-transparent manner, Gordon proposes two groups of reforms: (1) encouraging more-effective use of Title I funds at the district level, and (2) simplifying the formulas for Title I grant allocations at the federal level. Taken together,

FIGURE 1.

## Share of Children Eligible for Title I vs. Title I Grant per Eligible Child



Source: Department of Education (2015).

these components would promote local spending decisions that are both efficient and true to the original antipoverty intent of the Title I program.

### Encouraging More-Effective Use of Title I Funds

First, Gordon proposes that ED implement a series of reforms to encourage more-effective use of Title I funds. As states acquire the data infrastructure necessary to report fiscal compliance with the new supplemental funds rule and as they prepare other reports required under ESSA, they will still face informational and technical barriers to directing Title I funds to new uses. In order to encourage more-effective use of Title I funds, Gordon’s proposal would (1) direct ED to implement reforms to improve and disseminate information, (2) call on ED to help states and districts use existing flexibility for fiscal compliance, and (3) refocus attention on single-audit quality.

#### Implement reforms to improve and disseminate information

District-level Title I administrators report that they rely primarily on informal communications with their state education agencies (SEAs) for information about permissible uses of Title I funds. Meanwhile, state Title I administrators and auditors rely on federal information in statute and nonregulatory policy guidance. A 2003 Government Accountability Office study found that this guidance did not resolve the confusion of program officials attempting to apply the provisions to their programs. Despite recent federal efforts to clarify the law with presentations and newer guidance, the continued presence of a robust private market for guidance suggests this confusion remains today, preventing districts from pursuing bolder and more-innovative solutions. In order to allow school districts to adopt more-flexible uses of Title I funds, ED should begin with the following:

- Create one federal policy guidance document that is current, concise, comprehensive, and comprehensible;
- Raise awareness about new guidance at the SEA, LEA, and school levels, including among non-Title I personnel;
- Enforce the requirement that states specify any additional reporting requirements; and
- Create an online searchable database of all official correspondence on ESSA Title I compliance issues.

The period following the passage of ESSA is a prime opportunity to improve guidance, as LEAs and SEAs will be seeking guidance on changes from ESSA (e.g., the new supplemental funds test and new requirements for reporting spending at the school level).

### Help states and districts use existing flexibility for fiscal compliance

In addition to clarifying federal guidance, Gordon proposes that ED simplify the process for reporting information in order to encourage new uses of funds that could better meet the needs of the low-income students in each district. This would be best achieved by starting fresh in determining the content and format of federal reporting requirements and offering competitive pilot grants for technical assistance to SEAs and LEAs to convert to simpler and more-flexible forms of fiscal compliance with federal guidelines. The cost of this technical assistance would vary greatly based on state circumstances; an initial pool of \$10 million would provide

#### BOX 1.

### How the Small State Minimum Affects All States

Even if Congress fully funded Title I, the hold harmless and small state minimum requirements would yield inequities in funding per eligible child. But because Congress does not appropriate funds equal to the sum of formula-driven allocations to local education agencies (LEAs), the law specifies that each LEA’s grant shall be ratably reduced until the sum of the allocations is equal to the total appropriation. When ratably-reduced allocations violate the small state minimum or hold harmless requirements, increasing those allocations to permissible levels requires decreasing other LEAs’ allocations still more.

Allocating funds is thus an iterative process, making it difficult to project district-level allocations under even simple unweighted formulas. The ratably reduction process changes the impact of the politically entrenched small state minimum and hold harmless requirements, obscuring how the formulas work and the effects of changes within the existing framework. The small state minimum hurts the majority of states, though because the small state rule affects a relatively small number of students, this impact is relatively modest. Individual agency appropriations are “held harmless,” preventing states and districts with populations of eligible children that are increasing relative to the national average from receiving timely commensurate increases in funding.

a substantial start. LEA grants could be federally administered and funded through the Development Grant mechanism of the Investing in Innovation Fund (i3) program, with outside matching.

It is necessary to start fresh in determining federal reporting requirements because states and districts currently face enormous federal reporting burdens: they are required to report hundreds of data elements in multiple formats to different divisions of ED to meet the requirements of different laws. This may not only cost staff time, but may also distort grant allocation decisions: the LEA and SEA Title I administrators who serve as gatekeepers on innovation may discourage or prohibit districts from using the law's flexibility because of how new uses of funds might prove difficult to report in existing frameworks.

The competitive pilot grants would emphasize the supplemental funds test, fiscal consolidation, and direct cost allocation in helping SEAs and LEAs convert to simpler and more-flexible forms of fiscal compliance. The goal would be to set up integrated data systems for internal LEA needs (e.g., personnel, budget, and student information systems) that seamlessly automate federal and state monitoring and compliance documentation into internal record-keeping processes.

### *Focus on improving the quality of the Federal “single audit” process*

School districts and state education agencies—like all public agencies and non-profit organizations receiving significant amounts of federal funding—are subject to an annual “single audit” (its name emphasizes that it is one audit of federal funds across all programs). In extreme cases, negative audit findings mean that agencies must repay federal funds they have already spent. In her proposal, Gordon explains how current audit processes are unreliable and consequently distort resource allocation decisions.

The President’s Council on Integrity and Efficiency’s (PCIE) 2007 Report on National Single Audit Sampling Project deemed only about half of single audits acceptable in quality. Though the report prompted Congressional concern and a subsequent GAO study, there has been no follow-up analog study to examine efficacy of any policy changes. Gordon proposes that PCIE or another group undertake an implementation study of the 2007 recommendations, as well as a new sampling project to measure single-audit quality several years into the transition to the newly consolidated government grant requirements known as the Uniform Grant Guidance.

### **Fix the Title I Formulas**

Under current law, allocation of Title I funds follows a combination of four formulas—Basic Grants; Targeted Grants; Concentration Grants; and Education Finance Incentive Grants—which are frequently criticized for lacking transparency and progressivity. In response, Gordon proposes simplifying two of these formulas (Basic Grants and Targeted Grants) and eliminating the other two formulas (Concentration Grants and Education Finance Incentive Grants) through a three-pronged approach:

- **Retain:**
  - Basic Grants;
- **Eliminate:**
  - Concentration Grants;
  - Education Finance Incentive Grants;
  - The “small state minimum” provision from remaining formulas;
  - The “hold harmless” provision from remaining formulas after a four-year period to phase in the changes; and
  - State-level spending per pupil from remaining formulas;
- **Expand:**
  - Targeted Grants using only a district’s poverty rate for allocation.

Gordon acknowledges that reforming any funding formula is politically challenging, but points to language in ESSA that recognizes issues in the current formulas and that mandates ED’s Institute of Education Sciences to

## Roadmap

- Congress will direct the U.S. Department of Education (ED) to enact reforms to encourage more-effective use of Title I funds.
  - ED will implement reforms to improve and disseminate information.
    - ED will partner with the Office of Management and Budget to create one federal policy guidance document.
    - ED will conduct outreach to raise awareness about new guidance at the state education agency, local education agency, and school levels.
    - ED will enforce the requirement that states specify any additional reporting requirements for receiving Title I funds.
    - ED’s Office of Elementary and Secondary Education will create a public, online, searchable database of all significant official correspondence on ESSA Title I compliance issues.
  - ED will help states and districts use existing flexibility for fiscal compliance.
    - ED will start fresh in determining content and format of federal reporting requirements.
    - ED will offer competitive pilot grants for technical assistance to state and local education agencies to change fiscal data systems to align with compliance needs.
  - The federal government more broadly will focus on the quality of organization-wide audits of federal spending known as the “single audit” or OMB A-133 audit.
    - The President’s Council on Integrity and Efficiency (PCIE) will undertake a new sampling project analogous to its 2007 “Report on National Single Audit Sampling Project.”
- Congress will change the Title I formula to make it more transparent and efficient. This legislation will
  - Retain Title I Basic Grants,
  - Eliminate Title I Concentration Grants,
  - Eliminate Education Finance Incentive Grants,
  - Expand Targeted Grants using poverty rates for allocation,
  - Remove state-level spending per pupil from all remaining formulas,
  - Eliminate the “small state minimum” provision, and
  - Eliminate the “hold harmless” provision after a four-year period to phase in the changes.

study the distributional implications of the formulas. Since issues like the small state minimum will be politically difficult for some representatives, Gordon suggests that Congress appoint a commission to recommend a new formula and then vote on the commission’s recommendation without the option to amend it.

## Learn More about This Proposal

This policy brief is based on The Hamilton Project policy proposal “Increasing Targeting, Flexibility, and Transparency in Title I of the Elementary and Secondary Education Act to Help Disadvantaged Students,” which was authored by

NORA GORDON  
Georgetown University

## Benefits

Building off the momentum from the Every Student Succeeds Act (ESSA), Gordon argues that local school districts need better guidance from both the federal and state governments. Under Gordon’s proposal, ED would provide more-comprehensive guidance, start fresh in determining reasonable reporting requirements for grants, and begin to offer technical assistance to agencies interested in updating their systems to use newer modes of fiscal compliance. Additionally, Gordon emphasizes the importance of studying and improving single-audit quality. Using these measures, school districts would be able to use Title I funds in more-efficient and more-innovative ways, without requiring any additional Title I funding. School districts, LEAs, and SEAs would also benefit from staff time not spent on navigating a complex maze of guidance.

Gordon also argues that her proposed Title I allocation formula would better target districts with greater shares of low-income children, as opposed to the current system that allocates fewer funds across more states and districts. Figure 2 demonstrates how the proposed formula would allow

Title I allocations per-eligible-pupil to increase with poverty rates, unlike the current allocation structure that has per-pupil funding on average declining with poverty rates (see figure 1). Gordon explains that the proposed formula would also provide a more transparent framework for forecasting future allocations and examining their distributional effects. The variance in per-eligible-pupil allocations would decline across each poverty rate, with average allocations increasing along with the poverty rate.

## Conclusion

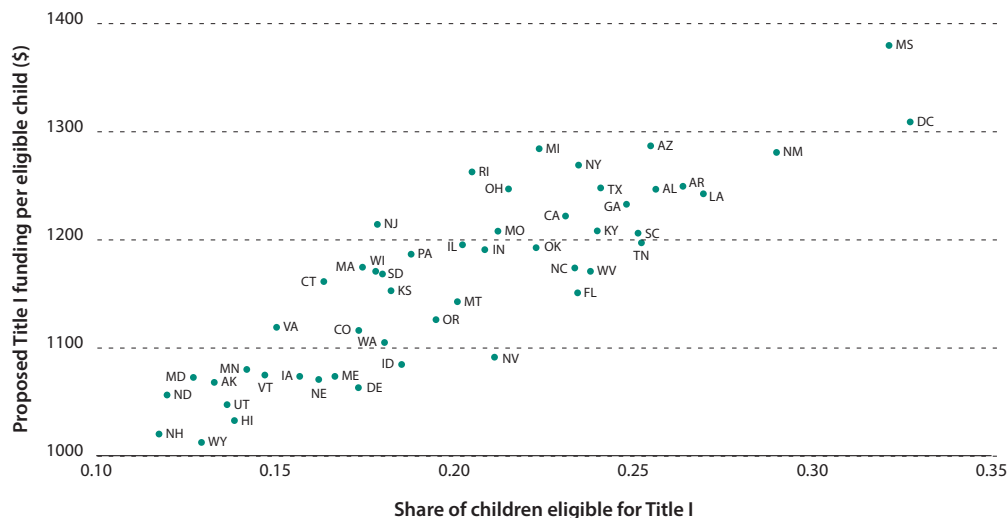
Title I of the Elementary and Secondary Education Act (ESEA) is the U.S. Department of Education’s (ED’s) largest program for elementary and secondary schools, providing funding to school districts that have high concentrations of child poverty. However, evidence suggests that program design and implementation issues significantly limit Title I’s effectiveness. When school districts receive these federal funds, they also receive unclear and, at times, conflicting guidance about permissible uses of the funds from their State Education Agencies (SEAs). Existing guidance and reporting requirements are difficult to navigate and can stifle innovative and effective uses of the funds, while complex aspects of the allocation formula spread the funds too thinly to allow substantial investments.

In order to improve the effectiveness and transparency of the Title I revenue stream, Gordon proposes that ED implement reforms to improve and disseminate clear and comprehensive guidance. ED would also help states and districts use existing flexibility by simplifying federal reporting requirements and providing incentives to improve fiscal compliance systems. In order to encourage districts to use funds in innovative ways without fear of failing an audit, Gordon suggests that the President’s Council on Integrity and Efficiency’s (PCIE) revisit audit quality issues.

For Title I allocation decisions at the federal level, Gordon proposes that Congress simplify the existing set of four formulas by retaining the basic formula, expanding a targeted formula based on a district’s concentration of poverty, and eliminating the remaining two formulas. By also eliminating the small state minimum and hold harmless requirements, the proposal would make the Title I program more progressive and target funds to the children who need them most.

FIGURE 2.

## Share of Children Eligible for Title I vs. Proposed Title I Funding per Eligible Child



Source: Department of Education (2015); author’s calculations.

# Questions and Concerns

## **1. One of the formula complexities this proposes to eliminate is the inclusion of state-level per-pupil spending. Isn't including this component important to adjust for differences in costs of living across states?**

Current policy does help address varying state needs based on cost of living, but too imperfectly and at too high a cost in progressivity and transparency. Not all variation in per-pupil spending comes from cost of living: some comes from states and localities choosing to spend low levels, or lack of a strong tax base. Penalizing these states directs federal funds away from the very students that most need state and local support for education. Furthermore, state per-pupil spending is negatively correlated with poverty, meaning that states with the most need have the least money to spend. Finally, we have no reason to believe that these aspects of the formula have motivated greater state and local spending over the ESEA's lifespan.

## **2. How will districts plan their budgets without the hold harmless provision which assured them their allocation could never decrease?**

Without hold harmless, districts will be subject to greater changes in their Title I funds over time (once formula changes are phased in). But under the hold harmless provisions, because total spending is a fixed pot, when districts with

decreases in poverty are held harmless it means that districts experiencing increases in poverty do not receive additional Title I funds to offset their increased needs. Aspects of the Every Student Succeeds Act (ESSA) can additionally soften the blow of removing the hold harmless provision. Districts will be better positioned to adapt to these changes if they are consolidating funds and can substitute in other revenue streams to support spending they may have traditionally viewed as belonging to Title I. Because of changes under ESSA, districts also will no longer need to worry that supporting "Title I" spending with state or local revenue at one point in time will rule out using federal funds for that spending in the future.

## **3. Why not transform the whole program into a block grant?**

ESSA offers increased flexibility on what goods and services districts may buy, but they still must direct these purchases to the neediest students in their poorest schools, in the spirit of the law's civil rights origins. It actually requires more-stringent proof of equitable allocations of state and local revenue within districts than No Child Left Behind (NCLB) did. Title I of the 1960s functioned more like a block grant in practice, and was less effective in its antipoverty mission because of it. If Congress wants to change resource levels in poor schools rather than simply redistribute income across state lines, block grants are not the way to do it.

## Highlights

Nora Gordon of Georgetown University proposes a series of reforms to the Title I program to promote more-effective local spending decisions, ensure that Title I funds are targeted to low-income children, and make the allocation process more transparent. The proposal includes reforms in guidance and reporting requirements from the U.S. Department of Education and an overhaul of the Title I formula by Congress.

## The Proposal

**Encourage More-Effective Use of Title I Funds.** The U.S. Department of Education would implement reforms to improve and disseminate information and help states and districts use existing flexibility for fiscal compliance. The President's Council on Integrity and Efficiency would evaluate the quality of audits of federal funds.

**Fix the Title I Formula.** Congress would simplify the Title I formula by eliminating some of the current formula components including Concentration Grants, Education Finance Incentive Grants, state-level spending per pupil considerations, the small state minimum, and the hold harmless provision. Congress would retain Basic Grants and expand Targeted Grants using poverty rates for allocation.

## Benefits

Enactment of this proposal would improve the transparency of Title I funding, allow school districts more flexibility in using Title I funds, and target Title I funds to more-concentrated and more-effective uses. The proposal seeks to build off the momentum from the 2015 reauthorization of the Elementary and Secondary Education Act to make Title I more transparent, progressive, and consistent without requiring any additional Title I allocations.



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