Title I Fiscal Requirements and School District Management: The Consequences of Intergovernmental Distrust

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Overview

While the general public often views school boards or mayors as having direct responsibility for school performance, other levels of government exert vast amounts of influence through regulations and funding requirements. The federal government, for example, generally contributes a relatively small share of school and district revenues (less than 10%), but regulations detailing how such funds are spent exert a tremendous impact on school district management behavior and operations.

One of the most visible federal grants to local school districts is Title I, Part A (Title I) of the Elementary and Secondary Education Act (ESEA). Title I directs funding to districts based on the number and concentration of students living in poverty within the district's borders. Allocation formulas to states and districts also take into account the concentration of poverty, statewide average per pupil expenditures, and local costs, among other factors.[1] The original intent of the law was to provide "compensatory" educational funding to meet the additional needs of students living in poverty. As time has passed, Title I funding has come to be a critical funding stream for high poverty schools and districts.

While much of the current debate around the reauthorization of ESEA has focused on provisions of the law related to accountability, highly-qualified teachers, public school choice, and supplemental education services, this article seeks to understand the management impact of Title I fiscal regulations. In other words, how do Title I fiscal regulations shape critical management functions such as budgeting, planning, and strategy within school districts? First, we describe the key fiscal requirements and guidelines governing Title I distributions and the reasoning behind each requirement. Next, we explore the unintended consequences these fiscal requirements can have for the strategic use of resources at both the district and the school level. We then examine the resulting budgeting and compliance regimes that have emerged in many high-poverty districts as a response to Title I and other categorical program requirements. Finally, the authors will make recommendations for how Title I fiscal and reporting requirements could be modified to improve school district management functions and, ultimately, to better meet the original intent of the law.

The Challenge of Intergovernmental Trust

Title I funds are intended to provide additional educational services to the neediest students in an LEA. Initially, how the LEA spent Title I dollars was left open to states and districts. Unfortunately, soon after Congress passed ESEA, it was predictably (re)discovered that money is fungible and not all LEAs were necessarily focused on using their allocated Title I dollars to help their neediest students.[2]

As a result, beginning in the late 1960s, the federal government has instituted regulations that attempt to solve three fundamental problems:

(1) How can the Federal Government ensure that Title I monies are targeted at the students the program is designed to serve? [3]
(2) How can the Federal Government ensure that Title I monies are being spent effectively?
(3) How can the Federal Government ensure that Title I monies are being spent in an appropriate time frame and not being spent fraudulently?

To address the first question, the federal Department of Education (ED) has instituted a series of fiscal requirements for all LEAs receiving Title I funds. These requirements and guidelines are described below.

Maintenance of Effort (MOE)

Early federal regulators of Title I were understandably concerned that an influx of federal dollars would lead to local and/or state taxpayers decreasing the amount of school funding they provided. To prevent such decreases in local aid, the 1978 educational amendments to ESEA called for more rigorous *maintenance of effort* rules.[4] Section 9521 of ESEA provides that an LEA will receive its full allocation of Title I funds only if the SEA finds that:

> Either the combined fiscal effort per student or the aggregate expenditures of the agency and the State with respect to the provision of free public education by the agency for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding fiscal year.[5]

If a district fails to meet its MOE requirement and its pre-Title I expenditures decrease by more than ten percent, the SEA must decrease the LEA's allocations by the exact proportion by which the LEA failed to maintain ninety percent effort.

For many years the MOE requirement was almost irrelevant as state and local spending on education continued to increase each year. However, the onset of the "Great Recession" in the late 2000s has renewed the importance of MOE as state and local districts face substantial reductions in local funding.

Comparability

While MOE attempts to prevent LEAs from simply substituting federal funds for local taxing efforts, the requirement does little to ensure that Title I funds are targeted at the intended schools and students. Ensuring appropriate targeting is accomplished through Title I's *comparability* requirements. To prevent schools receiving Title I funds from being used to substitute for basic funding from the district, LEAs are required to prove that they are providing comparable services and funding to schools receiving Title I funds *before* the addition of those funds. The comparability provision aims to ensure that districts distribute Title I money as an additional, supplemental funding stream, on top of an allocation that is, in all other respects, equal.

An LEA may establish comparability in one of the following ways:

- By adopting a district-wide salary schedule and then showing equivalence in staffing ratios across schools;
- By showing equivalent student/instructional staff salary ratios;
- By showing equivalent per pupil expenditures; or
- By showing a resource allocation plan that is based on student characteristics (poverty, LEP status, etc.)[6]

While these criteria for comparability may appear to provide flexibility in practice, State Education Agencies (SEAs) can decide which of these methods districts and other LEAs are allowed to use thereby limiting flexibility significantly. The majority of districts and states use the first method -- adopting a district-wide salary schedule and then showing equivalence in staffing ratios across schools—the method that also happens to be the easiest to implement.

As it would likely be impossible for all schools in a district to have *exactly* the same teacher-student ratio or student-spending ratio, states are also responsible for determining the appropriate range within which LEA can claim that Title I and non-Title I schools are receiving comparable resources. The commonly used range for resources is within plus or minus ten percent relative to an average for the district.[7]

The challenge of the comparability regulation lies in its lack of detail and in its vague parameters. Others have written extensively on how the many loopholes, lax enforcement, and weak guidelines of comparability have led to the requirement insufficiently preventing deep inequities within school districts. We explore the impact of comparability on management in greater detail below.[8]

Supplement Not Supplant (SNS)

Title I also requires LEAs and schools to use the additional moneys received to *supplement, not supplant* (SNS) funds from non-federal sources that would have been used in the absence of Title I funds. States are charged with determining "what services an LEA would have provided in the absence of Title I funds to students in Title I schools,"[9] and then ensuring LEAs are not using Title I funds to buy these services. As an example, if a district provides schools with a reading specialist in year one using local funds, the district may not use Title I funds in year two to support the same position. In many ways, *supplement not supplant* is conceptually similar to the *maintenance of effort* requirement, but on a micro level. In the former, the units of analysis are the services provided by the individual school while, in the latter, the unit of analysis is overall district expenditures and tax effort. While MOE helps dictate state and district revenue decisions, SNS impacts district and school-level spending decisions on instructional programs.

Intra-District Allocations

Intra-district Title I allocation requirements add an additional level of complexity to district resource management. On one hand, the federal guidelines place significant, and sometimes surprising, limitations on how local districts can allocate their funds to schools. At the same time, however, the guidelines also allow districts great latitude in choosing how they define poverty rates and how they group schools such that it is still possible for lower poverty schools to receive, in aggregate, more Title I funds than their higher-poverty peers.[10]

One example of a prescriptive intra-district allocation guideline is what many state and district officials colloquially call the "thirty-five percent rule." This rule requires districts to differentiate between schools where the percent of children in poverty is above or below thirty-five percent. If a district serves any schools with attendance area poverty rates below thirty-five percent, the district must either allocate all of its Title I distribution to schools with poverty rates above thirty-five percent or rank its schools by poverty rates and allocate at least 125% of the LEA's total per pupil Title I to schools based upon numbers of students in poverty, in decreasing order of school poverty rankings. The rationale for such a guideline is to ensure that greater federal funding goes to schools with higher concentrations of poverty. However, this rule simultaneously guarantees that schools with low percentages of low-income students will not receive any Title I dollars, even though some of their students helped to "generate" the Title I allocation to the LEA.[11]

Other Regulations that Impact District Management Processes

The fiscal regulations detailed above attempt to ensure that LEAs do not divert Title I monies from their target. Historically, the rules were devised by federal regulators who did not always trust local governments to target federal funds as intended. However, the fiscal regulations do little to ensure that once allocated, LEAs use their monies *effectively* to meet the program goals of ESEA. To address such a concern, lawmakers have added a number of set-asides or reservations for this purpose. For instance, LEAs must set aside one percent of their allocation for parent involvement. Twenty percent of Title I funds must be set aside for choice-related transportation and supplemental services for students in Program Improvement schools. An additional ten percent of funds must be set aside for professional development for LEAs in need of improvement. These reservations are intended to ensure that at least some of the Title I funds are used for what the federal government believes are effective strategies for improving achievement.[12] This paper will not further explore whether these reservations are, in fact, good strategies that can be universally applied, but will instead look at the fiscal and management challenges such a system of reservations can create.

Finally, the Federal Government wants to ensure that the monies granted are spent in a timely manner and are not subject to waste, fraud, and abuse. ESEA spells out specific carryover rules, requiring that no more than fifteen percent of Title I funds allocated to a district for any fiscal year may be carried over into the next fiscal year. In addition, U.S. Office of Management and Budget circulars require "time and effort" documentation that show how each Title I employee spent his or her compensated time. District employees whose compensation is charged solely to Title I grants must complete semi-annual certification while employees who are partially funded by Title I and another programs (split-funded) must submit monthly reports.[13]

All of the regulations described above are reasonable responses to the fear that lower levels of government (i.e., schools and school districts) will not carry out the goals of the Title I program as intended. Requiring districts to target the money appropriately, not to substitute the new money for old, and not to waste money are all sensible precautions. Unfortunately, the same fiscal regulations intended to ensure the "good behavior" of districts also serve to distort district management and budgeting processes, information flow about how schools and districts are using money, and the development of robust management information systems. It is to these issues that we now turn.

Management Imperatives of Title I Fiscal Regulations

For many school districts and individual schools, Title I fiscal requirements have created a series of management imperatives that are orthogonal or even contrary to the original intent of ESEA.

The first management imperative, implicit in the maintenance of effort (MOE) requirement, is that *one cannot create substantial efficiencies in the delivery of K-12 education*. While the Secretary of Education may waive the MOE requirement, the only legitimate reasons for a waiver are fiscal crises and natural (or other) disasters. Dramatic improvements in efficiency (e.g., through increased distance learning) are not to be considered. Maintenance of effort thus helps reinforce what until recent years has been a one-way ratchet for education spending. The MOE requirement probably made sense in the early years of Title I – where a large infusion of new federal dollars could simply have been swapped in for local dollars. But those times are a distant memory. Now Title I dollars are so ingrained in most district budgets that any swapping of these dollars for local dollars would entail a reduction of services unless there were offsetting efficiencies.

As state and local revenues have begun to decline, the MOE requirement has become more central to local discussions on Title I. The federal government has perhaps compounded the challenge of MOE through the recent State Fiscal Stabilization Fund in ARRA and the EduJobs Act.[14] In both of these programs, the substantial amount of federal monies delivered to LEAs is allowed to count towards MOE. While this allowance does not pose a problem for the years these programs are in effect, when the funds do dry up next year, the result may be an even greater MOE gap than had existed in the first place.

While local budget directors may feel constrained by MOE, there is little empirical evidence that the requirement itself has teeth. For most districts, Title I provides under five percent of its total revenue, if not less. Even for the highest poverty districts, where Title I funding can approximate as much as ten percent of total revenue, the MOE does not pose a real threat to funding. If such a district did completely substitute Title I funding for general fund moneys, it would still be within the ninety percent allowed for by the current MOE guidelines. Furthermore, if a district somehow cut twenty percent of its per student operating costs in a single year, its Title I allocation would be reduced by eleven percent in the subsequent year. Though this seems like an important slice of a district's budget, it is really only amounts to one-half to one percent of total revenue. While upon explanation, the math seems simple, for many local budget directors, the term "maintenance of effort" still plays a disproportionately important role in key decision-making on educational services.[15]

The second management imperative, created by the Supplement, not Supplant (SNS) requirement, is that Districts should emphasize the appearance of compliance over the creation of transparent, rational budgeting and reporting processes that consider all sources of funding. At its core, SNS demands auditors to explore a series of complex counterfactuals based on the key question: what would the district have done if Title I funds had been unavailable? This is akin to asking the questions: "Would I exist if my mother had never met my father?" or "What if Gore instead of Bush had been declared victor in 2000?" These are interesting discussions, but impossible to resolve with certainty. As a result, states tend to enforce SNS compliance by looking for programs or positions funded by general dollars in Year I whose funding sources are switched to Title I in Year II. If an LEA does switch funding sources, it must have records to show that there was both a lack of sufficient state and local funds and the decision to eliminate was taken without considering the availability of federal funds.[16] Needless to say, demonstrating such counterfactuals is a challenge. The district could always have cut a different item, have not given raises, or have found additional sources of revenue. One should also be worried about a district leadership that only remembers it has federal funds after the cuts have been made!

As Melissa Junge and Sheara Krvaric note in their accompanying paper, the SNS requirement as currently written prevents districts and schools from doing a number of sensible things that would improve the achievement of targeted students. The managerial result of this is what one of the authors has called the *dance of supplantation*, a complicated minuet in which district managers and principals attempt to use Title I and other categorical funding strategically to free up less restricted sources of funding.[17] This dance has a few common moves:

First, there is *level-shifting* in which a district may eliminate a program and positions (reading coaches, for example), but then individual schools may buy these positions on their own from their distribution of Title I funds. Such a move would generally be allowable (at least if the district gives schools the freedom to choose not to buy these positions) because the decision-makers for the cost reductions are at a different level of the system than the decision makers for the "new" spending.

A second dance move is the *start-stop-start* strategy. If a program based on state and local funds can no longer be afforded, eliminate the program in year two and then restart a similar (but differently named) program in year three. This can separate the local funding from federal funding decision sufficiently to pass SNS muster and to satisfy state or federal auditors.

Given such restrictions, there are strong disincentives for district leaders to budget and manage federal funds and unrestricted state and local funds in a unified process. The more siloed the budgeting process is for different sources of funds, the better, at least from a compliance standpoint. Furthermore, if a school or district leader is actually hoping to leverage Title I funds to shore up a program that has not previously been funded through Title I, the leader needs to learn how not to say what one means – at least not in public.

As a result, in addition to creating unnecessary restrictions on the strategic targeting of resources, the SNS requirement has also helped create disjointed and sometimes dishonest budget processes driven by the need for compliance rather than for strategy. Unfortunately, the bad news does not end there. SNS also has degraded management's and the public's ability to understand how resources are actually being used in any given district. With programs constantly changing title and level, with management coming from different offices depending on funding source, and with spending being tracked primarily by funding source, the analyst will have, by design, a difficult, if not impossible, time understanding how resource streams fit together and how they track across years.

A third management imperative that has emerged from current Title I regulations is that *school districts should use inflexible per pupil formulas to assign staff to schools.* The simplest way for a district to demonstrate comparability across schools is to: a) embrace a single, district-wide salary schedule based upon experience, course credits, and other credentials only marginally related to student achievement and b) to assign core staff positions (teachers, administrators, counselors) to schools based upon numbers of students at the school. This is often called *norm-based budgeting*.

In a norm-based system, teachers, administrators, and other general fund resources are assigned based on the number of students. For instance, the district may assign elementary schools one teacher per twenty-five students and one assistant principal per every 500 students. Supplies are allocated on a per student basis as well. In such a system, all teachers are treated as equivalent, regardless of experience or salary. A position is a position, no matter who occupies it – or how much he or she costs. This makes the system extremely simple from both the school and the district point of view.

Unfortunately, the problems with norm-based staffing models run quite deep. First, there is a well-known equity problem. Since individual schools' budgets are not benefitted or penalized according to the relative costs of their staff, school leaders are incented to get the best (and potentially higher paid) teachers into their school without worrying about their salary. Since the single salary schedule typically prevents principals from offering incentives to join a school, many of the strongest teachers migrate to low-poverty schools.[18] As Marguerite Roza and others have pointed out, the result of such an incentive structure has been large differences in actual dollars spent at different schools on staff, even though the same schools are still deemed comparable.[19]

Inequity in school spending is not the only negative consequence of norm-based budgeting. From a management perspective norm-based distribution of staff serves to separate school leadership from the majority of expenditures actually incurred by the school (teacher and staff salaries). Under norm-based budgeting administrators at the school level are not free to decide whether better staffing configurations exist to meet student needs. For example, a strategic principal might consider his or her data and believe that in lieu of an assistant principal, a better use of the funding would be an extra math coach or a guidance counselor. However, norms prevent principals from exercising this kind of discretion to match school need with school resources.

While norms may seem to be a simple and stable way to distribute staff, in reality they can actually introduce a large amount of instability into schools. Staff allocations are typically finalized based on the number of students enrolled on a particular date in the fall (norm day). Schools that find themselves under-enrolled relative to their predicted enrollment will automatically lose teachers, resulting in the elimination of classes and the redistribution of students across teachers. Schools that are over-enrolled relative to predicted levels will receive additional teachers and, as a consequence, also reshuffle classrooms partway through the term. None of this mid-semester shuffling is likely helpful for either students or teachers.

Norming, set-asides, and the regulations governing the distribution of funds to schools within an LEA implicitly serve a fourth management imperative: *individual students can and should be disconnected from the categorical revenues they generate.* Title I regulations disconnect “revenue generators” from recipients in two ways. First, the guidance is quite clear that at least some of the students who contribute at least indirectly to the allocation of Title I funds to a district will not ultimately be the beneficiaries of these funds (i.e., typically those students at schools with less than 35% poverty). Second, while students in poverty generate allocations of Title I (both to districts and within districts), Title I funds are to be spent on students at risk of failing to meet state standards (or members of several other groups – none defined by poverty).

The intra-district allocation rules also create instances where equivalents are treated differently depending on arbitrary geographic boundaries and governance structures. For instance, if a school with thirty percent of its students in poverty were part of a larger district, that school would likely not receive Title I funds. Instead, the funds its attendance area generated would be redistributed to higher poverty schools in the district. However, if the same school was a charter school (and thus its own LEA), it would receive Title I funding despite having the same students and teachers. Thus, the incentive structure is built to drive higher income regions of large districts to separate off from lower income regions in order to capture more Title I dollars in the high income schools. Unless changing governance structures is a goal of Title I, such an incentive structure makes little sense.

Student-based budgeting (SBB), a process in which schools are assigned dollars based on the number of students enrolled and those students’ characteristics, is one increasingly popular alternative to norm-based budgeting.[20] Schools may demonstrate comparability through SBB if the SEA approves such a method. While SBB presents a promising model, the analytics, time, and money required to transition from a norm-based system to a student-based budgeting system are prohibitive in most districts. Moreover, student-based budgeting does not provide readily available data organized for compliance--another rationale many districts use to maintain the *status quo.*

Budgeting as Sudoku

Over time, Title I fiscal regulations have led to sub-optimal management processes and the creation of a time-consuming, expensive compliance regimes in many school districts. We note that, in and of itself, the Title I program is not the only contributing factor leading to the establishment of this compliance regime. The interaction of multiple, often overlapping, categorical programs from both the federal and state governments contribute to the need for significant staff time to be spent on grant reporting and, indeed, structure how the very process of budgeting at both the school and district level is undertaken. The current reservations requirements in Title I funding (e.g., SES, parental involvement) make this process even more complex, with districts and schools needing to track these funds separately and contend with carryover separately.

A typical example of how schools deal with categorical restrictions can be found in budget preparation documents used in the Los Angeles Unified School District (See Figure I). Listed across the top are the various funding sources for the school's budget; listed on the side are various "items" the school can buy with its monies (including staff, materials, professional services, etc.). Grayed out are items that a particular funding source will not allow. The school leader or leadership team must determine how to distribute people and positions across funds such that they can pay for the positions they actually need while simultaneously use all available resources[21]. While this is an excellent opportunity for leaders who like to solve logic puzzles, it is not, perhaps, the simplest approach to creating a strategic plan.

Even assuming that school leaders are able to complete this budgeting process effectively, such a budgeting system can create a nightmare for system leaders trying to determine how schools are actually spending their money. In any given school, a single position (a school nurse, for example) may be paid for partly out of district general funds, partly out of Title I funds, and partly out of other categorical funds. Indeed, one common use of Title I funds is to "top off" partial Full Time Employees (FTEs) provided by other programs. Trying to make sense of how exactly Title I funds are being used without simultaneously looking at all other funds coming into the school is largely impossible. However, trying to understand how all the resources coming into the school are being used simultaneously is not easy either given the number of splits by sources of revenue. As a result of the complexity of funding and reporting requirements, a clear connection between the dollars spent at a given school and the resources actually on the ground are difficult to determine without actually visiting a school, taking an inventory of adult staff at the school, and using that data to back into FTEs and salary costs.

The timelines for budgeting and spending Title I funds add an additional challenge to the budgeting process (See Figure II). In one district we interviewed, the state requires the district to account for its yearly Title I spending by early June so that the state could account for all districts by June 30th, the end of its fiscal year. In turn, the district requires all schools to account for their Title I spending by early May, in order to prepare the required reports for the state. Thus, schools need to have processed all of their encumbrances well before the end of the school year. This itself might not be such a problem, except that schools do not receive notification and clearance on their final Title I budgets until well after the school year begins (typically late October or early November). As a result, schools may find themselves with only half of a year (November-May) to encumber their entire year allocation – at the end of which any surplus will be reabsorbed by the district to be rolled over and reallocated to other schools and programs for the next year. Such an abbreviated time frame for Title I expenditure, driven entirely by state and federal fiscal year and accounting requirements, can significantly detract from the efficacy of a Title I program at the school site.

The Compliance Regime

Taken together, the fiscal requirements and budgeting processes described above require significant staff time to ensure compliance--staff time that is largely paid for by Title I. Even in times of budget cuts there is little motivation for a district to reduce compliance personnel. After all, these are the people that ensure both that schools and the district do not lose any funds to which they are entitled and that the various mysterious (to practitioners) funding rules are not violated. With little transparency into (and exposure to) the underlying budgets of schools, educators come to rely on the directives of the compliance administrators as critical guardians of much needed funds. Appendix II provide one district's calendar of activities for Title I program staff in the central office and illustrates the "around-the-clock" nature of compliance work.

The key mission of compliance regime workers on both a state and district level is to ensure that proper paperwork and reporting mechanisms are followed. Conflict can, and often does, arise when other district and school employees with more programmatic goals find their efforts in tension with compliance goals. Those in charge of ensuring compliance may tend to over interpret federal regulations. As regulations get passed down through the system, from Washington to state education agencies to local education agencies to schools, they can become more and more rigid. Over time, perceived restrictions on Title I (and other categorical funding streams) can become real restrictions. In one district we interviewed, a school leader was dismayed to learn that the state's grant application template was much thinner than the template that had been handed to her by her district office. In this case, the district had added additional requirements of its own on top of the federal and state requirements. No one in the compliance regime has incentives to test these restrictions; those responsible for compliance, however, face real and negative consequences for not being in compliance with the law and the governmental level above them. The system is set up to ensure that the risk – reward ratio is zero.

A core function of the compliance regime is the creation of documentation and paperwork. For instance, one activity required by Title I and other categorical grants is school improvement planning. As part of oversight and accountability mechanisms, all Title I recipients must submit school improvement plans with accompanying goals, benchmarks, and metrics. In many districts, paperwork and planning requirements have become so extensive that full-time Title I coordinators located in each school spend the majority of their days on creating improvement plans on behalf of school level principals and teachers (defeating, of course, the purpose of the strategic planning exercise) and paperwork completion. In some large schools, school principals themselves are not even involved in the creation of the improvement plan for their own school.[22] The result is a piecemeal mosaic of planning documents that often collect dust in binders in compliance offices rather than serving as actionable strategic plans for school and district leadership.

A final outcome of the compliance regime is that most school budgeting platforms are built for compliance rather than for management purposes. Typical school budgets divide up expenditures based on revenue streams and objects (salaries, purchased services, etc.), rather than the real function of each expenditure. Many salaries and services are budgeted at the district level, even though services occur in schools (e.g., nursing, psychological counseling). Services are simply allocated to schools on an equal basis (or, possibly, on a per pupil basis) regardless of the relative amount of services each school consumes. As a result, it is generally difficult if not impossible to determine how much money is actually being spent at a given school without significant investigative work.[23] If would be extremely difficult and time-consuming to explore the actual costs and benefits of specific programs for specific students.

Suggestions for Reauthorization

No changes to the fiscal regulations of Title I will fully address the inherent tension of ensuring that Title I monies are spent in accordance with the intent of the program, maximizing the transparency of data available to both management and regulators, and allowing a school leader the freedom to strategically manage his or her resources. There will always exist a need for oversight mechanisms to ensure that money is appropriately being spent on activities focused on high-need students. Some level of auditing and regulation will always be required in order to prevent fraud and abuse. In addition, talented superintendents and managers will find ways to work strategically within the current Title I fiscal requirements. That said, we do recommend some changes to the Title I regulations that we believe will mitigate some of the unintended consequences for management described above.

First, we recommend either dropping the “supplement, not supplant” requirement entirely or substantially loosening its provisions as discussed in the conference paper by Junge and Kvaric (2011). The “supplement, not supplant” requirement as currently instituted involves uncertain counterfactual judgments that make for fuzzy rules and bad faith. It is, in practice, very hard to distinguish between what is a core school function and what is supplemental as well as between what is and what would have been. This requirement has resulted in too much time and mental effort spent on the dance of supplantation rather than on strategic, data-based budgeting to improve student outcomes. As discussed above, school districts’ financial management systems themselves have been corrupted by the need to avoid supplantation issues. In these constrained fiscal times, we should be granting schools maximum freedom to allocate money in a way that works.

Second, we recommend that states enforce comparability based upon actual dollars spent— not upon positions—and this means not ignoring salary differentials based on teachers’ experience. The reauthorization of Title I could require that districts and states develop systems to track spending to schools or students in a much more robust way than is currently typically the case. Before instituting this change in comparability, though, lawmakers should understand that most districts’ current finance systems are not designed to do this easily. Moving from a system designed to ensure compliance with current categorical regulations to being able to attach expenditures to schools, students, and programmatic functions that are consistent over time is not a trivial exercise and will require substantial time (to create and implement the system) and cost (to install a new financial management software infrastructure). Districts are unlikely to have either available funding or the needed political capital to implement new information technology systems just because it will help them manage more effectively. Regulators should think of allocating at least some money to incent appropriate system development if the comparability requirement is expanded.

We also end with a warning about implementing new comparability requirements. Comparability requirements can easily be made too strict and become counterproductive for school district management. If too narrow of a funding band is allowed for comparability purposes, we would expect that states, districts, and schools would begin to focus on which dollars “count” in the comparability calculations as base funding and spend excessive amounts of effort equalizing teacher salaries instead of, say, teacher effectiveness. We would also expect that districts would create the minimal management information system (MIS) system needed to meet the requirements of demonstrating comparability – but no more. This is especially the case if “knowing more” could allow compliance lawsuits. Regulators need to think carefully about the relative benefits of greater transparency in spending versus a stricter approach to ensuring comparability. One way to address this challenge might be to allow variances in per student school spending of up to ten percent or fifteen per student, but to require that schools and districts publish actual spending numbers by school for the public.

Third, new regulations should provide states with incentives to encourage and possibly even require that schools consolidate funds into schoolwide programs and that school districts consolidate all improvement planning processes into one streamlined “single plan” document. States can provide districts with common templates for an online planning platform that link financial systems with data warehouses. Each district should not have to reinvent the wheel for school improvement planning processes. Achieving such a change will most likely necessitate political, rather than technical, effort as state legislators may be reluctant to see their categorical programs merged into a larger, undifferentiated pool. For state education leaders, lobbying for consolidation is a worthwhile endeavor.

State officials interviewed for this paper acknowledged many of the challenges discussed above and expressed a clear willingness to be part of the solution to help alleviate the compliance burden districts face. Since many of the fiscal requirements and guidance speak directly to LEAs, we would recommend that those reviewing the guidance think carefully about which level of government is best suited for which compliance tasks. For example, many of the technical comparability requirements might be better suited to be directly calculated by an automated SEA system rather than rely on local and district monitoring. In many cases, the SEA's important role as regulator might productively reduce district time spent on compliance monitoring and paperwork. We encourage a careful analysis of "who does what" among all levels of government (ED, SEA, LEA, schools).

Finally, there is a clear need to find the right balance between sufficient flexibility in using Title I funds to meet strategic needs and maintaining a modicum of accountability for results. With the *Race to the Top* grant program, the current Obama/Duncan administration has begun to chip away at the notion that federal funding is a given and that localities are entitled to it. If money is a "carrot" to induce behavior, the federal government needs to wield an equally strong "stick" to spur change. The federal government might consider piloting a block grant of Title I funding with substantially fewer restrictions (including restrictions on comparability) in exchange for greater accountability. A district may elect to either continue with traditional Title I regulations or be allowed to use Title I dollars with greater flexibility if they agree to be held to a higher level of accountability for student outcomes.

None of the above recommendations will eliminate the problem of intergovernmental trust and the challenges enumerated at the beginning of this paper. However, revisions to the fiscal requirements of Title I will allow system leaders of good will both a better ongoing understanding of the resources available to be used and the freedom to use them well. Our hope is that the greater transparency required of districts from new and better financial reporting systems will also serve to temper the actions of those not of good will. The alternative is misdirected resources, but a world-class Sudoku team.

Figure 1. Sample Budget Worksheet-Los Angeles Unified School District

Los Angeles Unified School District

FEDERAL AND STATE EDUCATION PROGRAMS BRANCH - BUDGET AT A GLANCE

	Direct Services to Students Resources	7S046 Title I	7E046 Title I Parent Involvement	70A56 Title I Program Improvement	7M083 EIA-EDY	70M83 EIA-EDY Supplemental	7S539 EIA-SCE	7N539 EIA-SCE Supplemental	7S176 Title III	7S536 EIA-LEP	7N536 EIA-LEP Supplemental	14310 (carryover allowed) QEIA	7V094 Title I Stimulus	709V4 Title I Stimulus Parent Involvement	70V94[2] Title I Stimulus Program Improvement	7N178 Title II (Grades 4-6)	71N78 Title II (Grades 9-12)
	Allocation																
	95% of allocation																
	5% of allocation																
	90% of allocation																
	10% of allocation																
Professional Development (PD)	Prof. Development (Registration Fees)																
	Independent Contracts[3]																
	Contracted Instructional Services[3]																
	Staff Conference Attendance																
	Staff Training Rate																
	Day-to-Day Subs																
	Mileage																
	PD Teacher Regular																
	PD Teacher X/Z																
	Instructional Coach+																
	Problem Solving/Data Coordinator																
	Limited Contract Teacher (Intervention)[9]																
Response-to-Intervention (RTI)	Teacher X/Z (Tutoring)																
	Instructional Aide																
	Education Aide III																
	Teacher, Non-Register Carrying																
	Instructional Materials Account[3]																
	Teacher Assistant																
	Teacher Assistant Relief																
	Educational Resource Aide																
	Intervention Support Coordinator																
	Bridge Coordinator																
	Special Education Assistant[1]																
	Special Education Trainee[1]																
School Organization/ Support Services	Counselor, School[3+]																
	Counselor, PSA																
	Psychologist, School																
	Nurse																
	Counselor Assistant[1]																

1 - Need prior approval for 7S536 and 7N536 from M. Campbell, Language Acquisition Branch (LAB)
2 - Schools in PI Years 3 and above status during the 2010-2011 school year and based on August 2010 AYP data will not have to set aside the required 10% for professional development
3 - Only 5% of total QEIA allocation may be initially budgeted for Instructional Materials, and 5% may be spent on General Supplies
4 - Need approval from D. Ernst, PSEP and M. Campbell, LAB. Cannot be budgeted during Budget Development
5 - Need prior approval from Mr. Cortines, Superintendent
6 - See Program and Budget Handbook
7 - Limit of 4 Campus Aides may be purchased using QEIA funds
8 - Limit of 1 Office Technician and/or Microcomputer Support Assistant may be purchased using QEIA funds
9 - When funded with Title II, services must be performed during the regular six-hour school day.
+ - District Priority
- Budget lines may be opened after norm day if QEIA accountabilities are met. This does not apply to QEIA alternative program schools. Lines cannot be budgeted during budget development. Submit budget adjustments to M. Carter, Federal and State Education Programs

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Figure 2. Title I Allocation and Spending Process

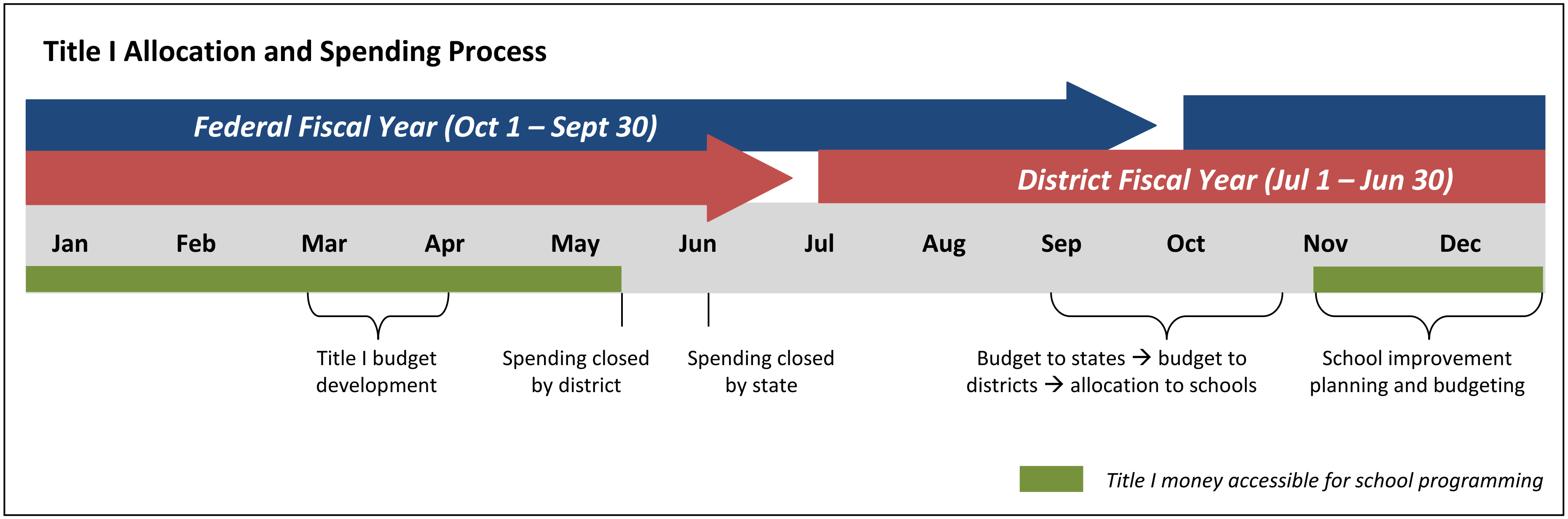

Figure 3: Sample Compliance Activities

NCLB Program Coordination Events and Due Dates (For Planning Purposes Only)			
MONTH	DAY	EVENT OR ITEM DUE	PERSON/OFFICE RESPONSIBLE
August			
SEA Required		Title I Performance Report and SES/Choice Reports due to SEA	NCLB CO/Student Registration
NCLB Required		SES Mailing with Provider List, Eligible schools, enrollment form	NCLB CO
NCLB Required		"Back to School" Celebration (SES Provider participation/advertising)	NCLB CO/FACE
September			
NCLB Required		Begin implementing SIP	Schools
NCLB Required		Annual School Level Title I Parent Meetings	Schools (district Ppt. template)
NCLB Required		Parental Involvement Policy/Plan review, revisions, dissemination to parents, faculty and community partners	FACE oversight, School responsibility
		Monthly SES Provider Meeting	NCLB CO
		Open houses/Back to School Nights – SES Providers attend	Schools/NCLB CO
		Monthly NCLB Meeting	Dir. Fed. Progs.
NCLB Required		Begin Non-HQT Mailings	HR
NCLB Required		AMAO Notifications (Title III)	Special Pops/ Dir. ELL
NCLB Required		ELL programming for students identified as needing services	Special Pops/Dir. ELL; Student Registration
NCLB Required		Parental Notifications of school performance standards (*school report card*)	Office of Research, Planning, & Accountability (RPA)
		SES management systems contract	NCLB Compliance Officer

October			
NCLB Required		SIP Review/Revisions	Schools
NCLB Required		School-Parent Compacts	FACE oversight/collaboration with Schools
District Req'd		SES Provider Training	NCLB CO
		SES student enrollment forms due	NCLB CO
NCLB Required		Initiate SES enrollment process; second enrollment window	NCLB CO
SEAReq'd		Corrective Action Plan quarterly report	Dir. Fed. Progs.
		Monthly NCLB compliance meeting	Dir. Fed. Progs.
		ARRA Quarterly Reporting	Finance/Fed Progs
November			
		School-level Title I Budget – amendment due	Finance/Level Directors
NCLB Required		Highly Qualified Teacher Compliance Report Due	HR
		Monthly SES Provider Meeting; Provider Contracts	NCLB CO
		Monthly NCLB compliance meeting	Dir. Fed. Progs.
December			
		CRP Amendment Window	CAO/Finance/Fed Progs/T&L Divisions
		Monthly SES Provider meeting	NCLB CO
		Monthly NCLB compliance meeting	Dir. Fed. Progs.
		Survey of children in local facilities for Neglected/Delinquent Youth due	SAO
		SIG Applications	Fed Progs (Dir. T&L; CAO)
District Req'd		FY 11 School Level Title I Budgets	Coord Grant Oversight/Dir Fed Progs/Lev. Dirs.
January			
		SES tutoring services begin (ES & MS)	NCLB CO

		Monthly SES Provider meeting	NCLB CO
District Req'd		Monthly NCLB compliance meeting	Dir. Fed. Progs.
District Req'd/NCLB		Early Choice Mailing	NCLB CO/Student Registration
		SEA release raw NECAP performance data	RPA
Federal Req.		ARRA Quarterly Reporting	Finance/Fed Progs
February			
		Begin T&L Budget process for FY11	CAO/Finance/Fed Progs
		Monthly NCLB compliance meeting	Dir. Fed. Progs.
		T&L preliminary budgets due	CAO/Fed Progs/T&L Divisions
		Early Choice transfer applications due	FACE/Student Registration
March			
		SEA issues preliminary state test performance reports	
		Begin updating accountability files (sanction status charts, etc.)	Fed Programs
		Begin preparing for School Improvement Planning (Dir. T&L; Fed. Progs)	Dir. T&L; Dir. Fed. Progrs; K-8 Supervisor
		Early Choice enrollment process	Registration/RPA
		POP Revisions	Schools
	3/18	Monthly NCLB compliance meeting	Dir. Fed. Progs.
April			
NCLB Required		Mailing to parents of students in INI schools (sanction status, reason for identification, measures to address the problem, how parents can be involved)	FACE/Fed Progs/RPA
		ARRA Quarterly Reporting	Finance/Fed Progs
		Monthly NCLB compliance meeting	Dir. Fed. Progs.
May			
		Begin working on FY11 CRP	Fed Progs/T&L/Coord. Grant Oversight

		Closing down of SES and final billing	NCLB CO
		T&L Budget revisions	CAO/Fed Progs/T&L Divisions
NCLB Required		Choice Mailing & enrollment window	NCLB CO/FACE/Student Registration/Dir. Fed. Progs
		Monthly NCLB compliance meeting	Dir. Fed. Progs.
		DNA Application	Fed Progs/CAO/Dir. T&L
June			
		CRP Due	Finance/Fed Progs/T&L Divisions
		SES final invoices due	
NCLB Required		Update Choice and SES information on website	NCLB CO
July			
		CRP Revisions	Finance/Fed Progs/ T&L Divisions
		ARRA Quarterly Reporting	Finance/Fed Progs

Endnotes

[1] For a discussion of the complex formulas behind the allocation of Title I funds, see Raegen T. Miller, "Secret Recipes Revealed: Demystifying the Title I, Part A Formulas," (Washington: Center for American Progress, 2009) available at http://www.americanprogress.org/issues/2009/08/pdf/title_one.pdf.

[2] For a brief discussion of some of the problems that led to the evolution of the current major fiscal regulation, see Phyllis McClure, "The History of Educational Comparability in Title I of the Elementary and Secondary Education Act of 1965, (Washington: Center for American Progress, 2008), available at http://www.americanprogress.org/issues/2008/06/pdf/comparability_part1.pdf.

[3] While Title I monies are distributed based on poverty levels, Title I is to be used to improve the academic achievement of "at-risk students".

[4] Early debates on Title I vacillated between those who supported more open and flexible uses of the grant program and "cateogorical" advocates who lobbied for more stringent, targeted oversight by the federal government and SEAs. In 1978, with the Educational Amendments to ESEA, the categorical camp won the day. For a full analysis of the impact of early MOE regulations see Aaron Gurwitz and Linda Darling-Hammond, "Maintenance of Effort Provision: An Instrument of Federalism in Education," Prepared for the U.S. Department of Education (Santa Monica: Rand Corporation, 1981), available at http://www.rand.org/content/dam/rand/pubs/reports/2009/R2684.pdf.

[5] Non-Regulatory Guidance: Title 1 Fiscal Issues – Maintenance of Effort, Comparability, Supplement, Not Supplant, Carryover, Consolidating Funds in Schoolwide Programs, Grantback Requirements, (Washington: U.S. Department of Education, Revised February 2008), available at:http://www2.ed.gov/programs/titleiparta/fiscalguide.pdf.

[6] Ibid, p. 16.

[7] There is considerable variability in how districts may determine the appropriate "average" for comparison. See ibid.

[8] Ross Weiner, "Ensuring Equal Opportunity in Public Education: How Local School District Funding Practices Hurt Disadvantaged Students and What Federal Policy Can Do About It," (Washington: Center for American Progress, June 2008), available at: http://www.americanprogress.org/issues/2008/06/pdf/comparability_part2.pdf

[9] Non-Regulatory Guidance: Title 1 Fiscal Issues – Maintenance of Effort, Comparability, Supplement, Not Supplant, Carryover, Consolidating Funds in Schoolwide Programs, Grantback Requirements, p.38.

[10] Non-Regulatory Guidance: Local Education Agency Identification and Selection of School Attendance Areas and Schools and Allocation of Title I Funds to those Areas and Schools, (Washington: U.S. Department of Education, 2003)

[11] For a concise overview of the district allocation guidelines, see the Massachusetts Department of Elementary and Secondary Education's website available at: http://www.doe.mass.edu/titlei/fiscal/?section=all

[12] See October 12, 2004 Policy Letter from the U.S. Department of Education to States regarding use of Title I funds available at: http://www2.ed.gov/policy/elsec/guid/stateletters/uofcssos.html

[13] Time and effort reporting guidelines are specified in the U.S. Office of Management and Budget (OMB) Circulars A-87 and A-133.

[14] *Guidance on State Maintenance of Effort Requirements in the State Fiscal and Stabilization Fund Program*, (Washington: U.S. Department of Education, 2010) available at: http://www2.ed.gov/policy/gen/leg/recovery/statutory/moe-guidance.pdf

[15] Nora Gordon, "Do Federal Grants Boost School Spending? Evidence from Title I," *Journal of Public Economics*, Volume 88 (2004), pp. 1791-1792, available at http://www.ssc.wisc.edu/~scholz/Teaching_742/Gordon.pdf

[16] Title I Fiscal Issues, Part C.

[17] Jon Fullerton, "Mounting Debt," *Education Next,* Winter 2004.

[18] Raegen T. Miller, "Comparable, Schmomparable: Evidence of Inequity in the Allocation of Funds for Teachers Salary Within California's Public School Districts," (Washington: Center for American Progress, May, 2010), available at: http://www.americanprogress.org/issues/2010/05/comparable_schmomparable.html

[19] Marguerite Roza, "What if We Closed the Title I Comparability Loophole?" (Washington: Center for American Progress, June 2008) available at: http://www.americanprogress.org/issues/2008/06/comparability_part3.html.

[20] For a fuller discussion of Student-Based Budgeting see, Matt Hill, "Ensuring Equal Opportunity in Public Education: How Local School District Funding Practices Hurt Disadvantaged Students and What Federal Policy Can Do About It," (Washington: The Center for American Progress: 2008), available at: http://www.americanprogress.org/issues/2008/06/pdf/comparability_part4.pdf

[21] Unused resources are typically "swept up" by districts at the end of the year.

[22] Interview with local school district official, February 2011.

[23] For a vivid description of this problem, see Marguerite Roza, *Educational Economics, Where Do School Funds Go?* (Washington, DC: The Urban Institute Press, 2010), Chapter 4.