



Categorical Funds

The Intersection of School Finance and Governance

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How a state chooses to design its system of funding schools is ultimately a question of education governance, determining who—state policymakers, school districts, or school principals—gets to make the decisions about how and where funding is spent. States have two primary ways of funding schools: the foundation, or base funding that is intended to cover the basic costs of education (teacher salaries, textbooks, materials, and more); and categorical funding targeted to specific purposes (reducing class sizes, programs for English language learners, special education, and more).

Education researchers Amy M. Hightower, Hajime Mitani, and Christopher B. Swanson define categorical funding as “state aid intended to provide financial support for specific educational programs, operational functions, or financial activities.”¹ With categorical funds, priorities are set by the state to enact what state officials view as the most desirable programs. By its very nature, categorical funding is narrowly directed, and as such, district flexibility is limited.

On the other hand, if states provide funding just as a base grant to districts, districts then have the flexibility to use their budgets to meet the specific needs of their students as they see fit. Thus, control over how money is spent translates into control over policy decisions.

States have taken varying approaches to categorical grants, some relying on them heavily and others rarely or not at all. This issue brief provides a national landscape on the use of categorical funds by states, the number of categorical programs in each state, how the use of categorical funding has changed since 2008 when states were last surveyed on their use, and views on their effectiveness from state finance personnel. In addition, this issue brief includes case studies of four states and their use of categorical funding. We use a combination of prior research on state education finance, existing data from state and national organizations, and newly collected primary data—a state-level survey and district-level interviews—to inform our findings.

Potential pitfalls of categorical funding

Like most issues related to education, categorical funding has its supporters and opponents. Proponents argue that allocating money to special programs—for example, interventions for struggling students and programs for gifted and talented students—helps schools and districts meet state performance goals and ensures the money is spent on established policy goals. But opponents of categorical funding argue that it provides “one-size-fits-all” solutions to a state’s complex and varied educational needs, rather than presenting school districts and/or schools with an array of options.

There are other criticisms of categorical funding. Despite a stated aim to use categorical grants to provide targeted support in order to create a more equitable resource allocation system, the reverse has been found at times. In California, for example, the heavy use of categorical funding led districts to offset the categorical funds targeted for high-need students by allocating a larger portion of unrestricted funds for students with lower needs, supplanting the purpose of the categorical funds.²

In addition, categorical funding does not necessarily lead to improved student outcomes.³ Opponents argue that categorical funding limits local districts’ flexibility and stifles innovative approaches to improve student achievement.⁴ Critics also point out that decisions on how to use limited funds efficiently is determined better at the local level rather than at the state level.⁵

Categorical programs may also inadvertently group students inappropriately, reducing a school’s or district’s ability to cater to the unique needs of different student populations. In one study of English language learners, or ELLs, it was found that the ELL categorical-funding allocation did not take into account the diversity of student needs within the ELL population, which may require different resources depending on factors such as home language, number of years in the United States, and parental background.⁶

In addition to these criticisms, categorical programs are also not always a steady source of funding. The use of categorical funding in state education budgets fluctuates with changes in government as well as changes in the economy. Consider the case of California, where the economic downturn spurred the legislature to loosen restrictions on 40 of the state’s categorical programs in 2009. Existing regulations on how the funds in these programs could be spent were removed, thus enabling local districts to make decisions on how to best utilize this newly established flexible funding within the context of significant state budget cuts to the general fund.⁷

Our methodology approach

Previous research—while limited—shaped our design and framework. Most of the research on categorical funding is focused on California,⁸ which at times has had more than 60 different categorical programs.⁹

But in one of the most relevant studies of categorical funding—“State Policies That Pay: A Survey of School Finance Policies and Outcomes”—education researchers Hightower, Mitani, and Swanson’s national survey found that targeted categorical funds in fiscal year 2008 mostly went toward the following program areas: special education, transportation, capital outlay/debt service, technology, or gifted and talented programs.¹⁰ They also found that perceptions of categorical funding varied state by state and to some respondents; as a result, formula-based and/or student-weighting mechanisms and categorical funding could not be easily distinguished.

More recently, the Education Commission of the States, or ECS, a nonpartisan organization dedicated to improving public education, reported that the number of categorical-funding programs per state varied considerably, with most states utilizing six to a dozen such programs.¹¹ The majority of funding in most states, ECS found, is disbursed through a formula instead of through categorical grants.

Given that the recent economic downturn has likely changed the funding landscape for education at the state level, coupled with growing interest in having a more transparent finance system,¹² we wanted to evaluate the role that categorical grants currently play in state education funding systems.

We conducted a two-phase study. First, we administered a survey of chief financial officers in each state on the number and use of categorical-funding programs in states’ K-12 education funding formulas.¹³ The survey questions also asked about their views regarding the effectiveness of categorical funding in helping states to meet student-improvement goals. Thirteen states did not respond and two declined to be included, resulting in a final sample size of 36 states. To facilitate comparison across states, respondents were asked to select which programs use categorical funding from a list of program categories derived from prior research.¹⁴ We obtained data on the number of categorical-funding programs and the dollar amount allocated for categorical programs from states not responding to the survey through Internet research and phone calls to state school boards associations.

We supplemented our survey with interviews in four states—Arkansas, California, Ohio, and Wisconsin—to better understand the impact of categorical funding on school and district efforts to improve student performance and meet the requirements of state and federal accountability policies. The four states were selected to maximize variation across the following criteria: student demographics, geographic region, and political orientation. These four states represent a reasonable sampling of national trends across these indicators and all have taken different approaches to categorical funding in recent years.

In these states, we conducted interviews with district superintendents (n=6) and local school board members (n=2) from two districts in each of the four case study states to understand their perceptions of categorical funding. Interviews covered the uses of categorical programs, strategies for the effective use of categorical funds, and challenges related to categorical funding.

Our findings

While the use of categorical-funding programs varies considerably across all states, the average number of categorical grants has dropped since FY 2008

There is currently a wide range in the use of categorical funding across states. States employed an average of 16 categorical programs in the 2012-13 school year, a drop from 25 in FY 2008. Half of the states used between 1 to 10 programs. The average dollar amount allocated through categorical funding was nearly \$1 billion.

South Carolina reported allocating the largest percentage of their state education budget to categorical programs—55 percent. Iowa had the greatest number of categorical programs—64 (a notable increase from FY 2008, when they reported having only 37 programs).

TABLE 1
Categorical programs by state

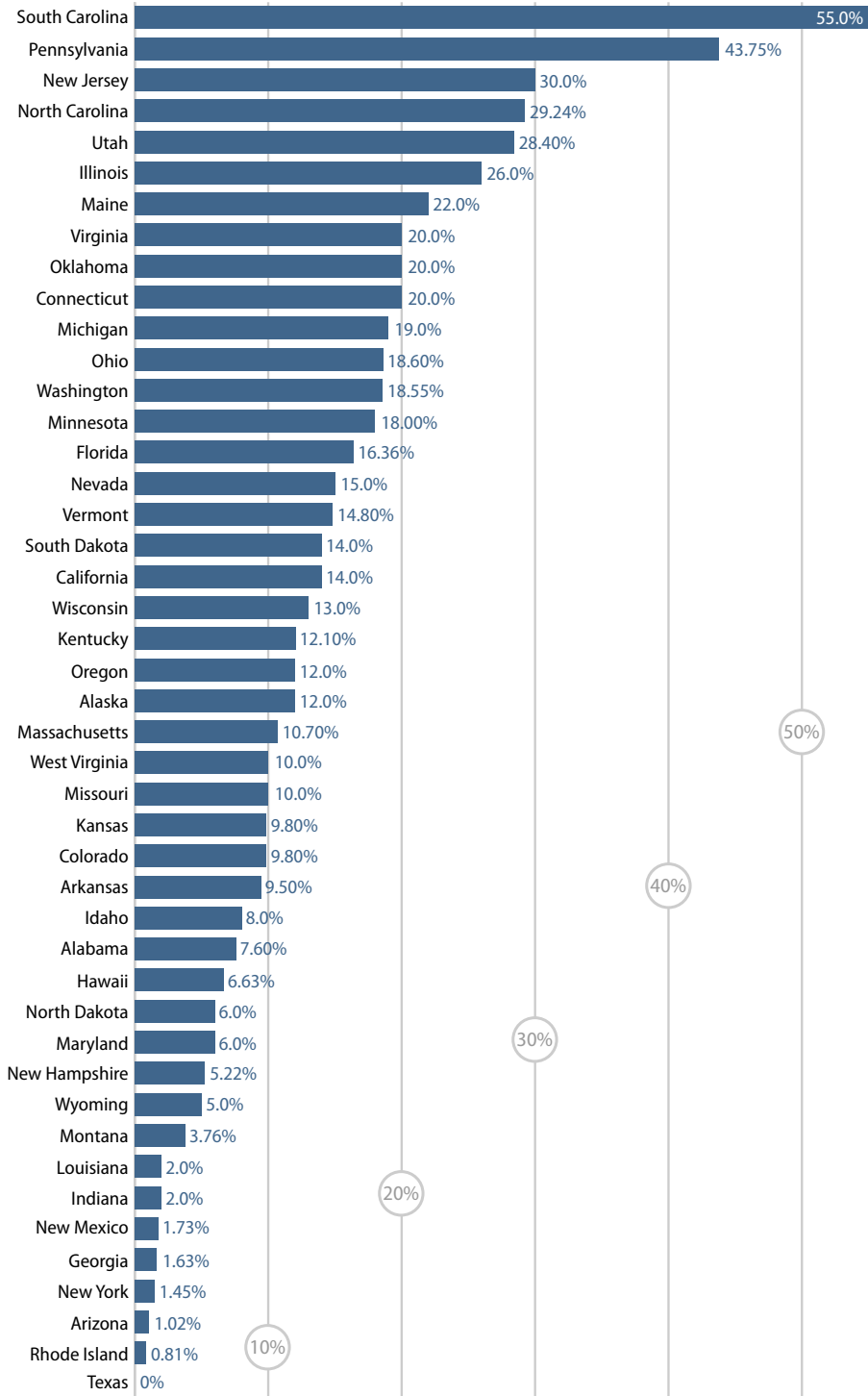
State	Number of programs	Ranking	Percent of budget	Dollars allocated	Number of programs in 2008	2008–2013 Change
Alabama	30	10	7.6%	\$184,700,000	28	Increase
Alaska*	7	33	12.0%	\$176,000,000	2	Increase
Arizona	7	32	1.0%	\$36,100,000	12	Decrease
Arkansas	4	44	9.5%	\$256,600,000	86	Decrease
California*	60	2	14.0%	\$9,715,100,000	68	Decrease
Colorado	8	30	9.8%	\$414,300,000	8	Same
Connecticut	9	27	20.0%	\$500,000,000	19	Decrease
District of Columbia	N/A	N/A	N/A	N/A	5	
Delaware	N/A	N/A	N/A	N/A	22	
Florida	1	49	16.4%	\$2,983,800,000	16	Decrease
Georgia	14	19	1.6%	\$116,700,000	32	Decrease
Hawaii	16	17	6.6%	\$63,400,000	68	Decrease
Idaho	8	29	8.0%	\$103,100,000	23	Decrease
Illinois	9	26	26.0%	\$1,755,900,000	38	Decrease
Indiana	13	20	2.0%	\$184,600,000	18	Decrease

State	Number of programs	Ranking	Percent of budget	Dollars allocated	Number of programs in 2008	2008–2013 Change
Iowa ¹	64	1	N/A	N/A	37	Increase
Kansas	12	23	9.8%	\$491,000,000	9	Increase
Kentucky	7	31	12.1%	\$46,600,000	39	Decrease
Louisiana ¹	2	47	2.0%	\$80,000,000	16	Decrease
Maine	4	43	22.0%	\$464,300,000	4	Same
Maryland	2	46	6.0%	re	19	Decrease
Massachusetts	39	4	10.7%	\$505,000,000	18	Increase
Michigan	50	3	19.0%	\$2,000,000,000	50	Same
Minnesota ¹	30	9	18.0%	\$1,273,000,000	58	Decrease
Mississippi ²	5	40	N/A	N/A	12	Decrease
Missouri	4	42	10.0%	\$309,500,000	4	Same
Montana	1	48	3.8%	\$37,100,000	14	Decrease
Nebraska ¹	11	24	N/A	N/A	11	Same
Nevada	22	14	15.0%	\$205,500,000	19	Increase
New Hampshire	4	41	5.2%	\$147,000,000	10	Decrease
New Jersey	8	28	30.0%	\$2,560,600,000	10	Decrease
New Mexico	14	18	1.7%	\$41,600,000	9	Increase
New York	17	16	1.5%	\$292,700,000	60	Decrease
North Carolina	12	22	29.2%	\$2,388,000,000	14	Decrease
North Dakota	5	39	6.0%	\$84,000,000	2	Increase
Ohio	12	21	18.6%	\$1,350,000,000	105	Decrease
Oklahoma	26	13	20.0%	\$456,600,000	33	Decrease
Oregon ¹	19	15	12.0%	\$374,000,000	10	Increase
Pennsylvania	29	12	43.8%	N/A	29	Same
Rhode Island	5	38	0.8%	\$7,500,000	10	Decrease
South Carolina	36	6	55.0%	\$1,215,000,000	68	Decrease
South Dakota*	2	45	14.0%	\$53,000,000	3	Decrease
Tennessee	10	25	N/A	\$4,100,000,000	0	Increase
Texas	5	37	0.0%	\$300,000	2	Increase
Utah*	31	7	28.4%	\$845,600,000	39	Decrease
Vermont	6	35	14.8%	\$206,200,000	10	Decrease
Virginia	30	8	20.0%	\$1,200,000,000	11	Increase
Washington	5	36	18.6%	\$1,169,300,000	11	Decrease
West Virginia	36	5	10.0%	\$1,493,300,000	35	Increase
Wisconsin	29	11	13.0%	\$653,900,000	36	Decrease
Wyoming	6	34	5.0%	\$40,600,000	2	Increase

National Summary Statistics	Number of programs	Ranking	Percent of budget	Dollars allocated
Average	16.04	-	13.57%	\$909,900,000
Median	10.00	-	12.00%	\$365,200,000
Standard deviation	15.21	-	11.26%	\$1,619,500,000

Notes: 1 Respondent estimated
2 Respondent unable to distinguish between categorical allotment and weighted student formula; *Calculated by research team
N/A: Data not available

FIGURE 1
Percentage of education budget allocated to categorical funding,
2012-13 school year



Note: These data were not available for the District of Columbia, Delaware, Iowa, Mississippi, and Nebraska.

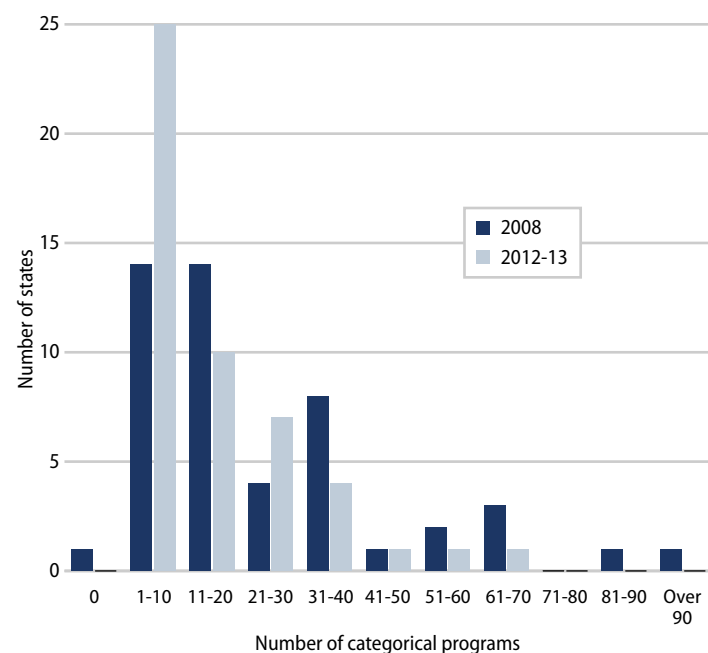
Categorical funding is used to support a range of priorities with the most common being special education programs and student transportation

We examined the different programs for which states use categorical funding. We were interested only in state programs, not federal programs such as the Individuals with Disabilities Education Act, or IDEA, or Title I, because federal programs offer uniform funding across the nation. Based on our review of the prior research,¹⁵ we asked survey respondents to identify the categorical programs in their state from a list provided. We broke programs into five groups:

1. Schoolwide categorical programs: class-size reduction; parent involvement; pupil retention; safety and violence prevention; school nutrition; student assessment; and technology
2. Programs for targeted populations: adult education; Advanced Placement, or AP, test fee reimbursement; afterschool programs; child care and development; English language learners; foster youth services; gifted and talented programs; interventions for low-performing students; interventions for underperforming schools; mental health services; refugee children assistance; special education; student apprenticeships; and vocational programs
3. Teacher support and professional development: math and reading professional development; principal-training programs; general professional development grants; teacher recruitment and retention programs; and teacher retirement/benefits
4. Facility-related programs: capital outlay/debt service; maintenance reimbursement; and school and library improvement
5. Miscellaneous programs: charter school grants; pupil transportation; and regional occupational centers (regional occupational centers provide targeted skill development to students based on the demands of the local labor market; the goal is to facilitate successful school-to-career transition for students and provide local businesses with a productive pool of skilled employees)

Under each category, respondents had the option of selecting “other” and writing in the program.

FIGURE 2
Distribution in number of categorical programs, FY 2008 and 2012–13 school year



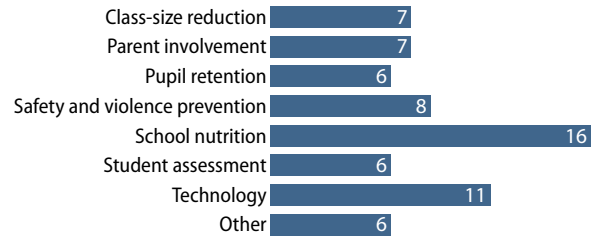
Note: Since data for the District of Columbia and Delaware for the 2012-13 school year were not available, we did not include them in the comparison with 2008 data, resulting in a total of 49 states compared.

Our survey updates the earlier work done by Hightower, Mitani, and Swanson that found that the most common categorical programs in the 2008 fiscal year were special education, transportation, capital and debt service, technology, gifted and talented education, bilingual education and English language learners, teacher retirement and benefits, and compensatory education—programs targeted specifically to low-income students, which we broke into several subcategories in our survey. In the 2012-13 school year, the most common targets for categorical funds nationwide were special education programs, student transportation, interventions for low-performing students, school nutrition, adult education, gifted and talented programs, and vocational programs. (see Figure 3)

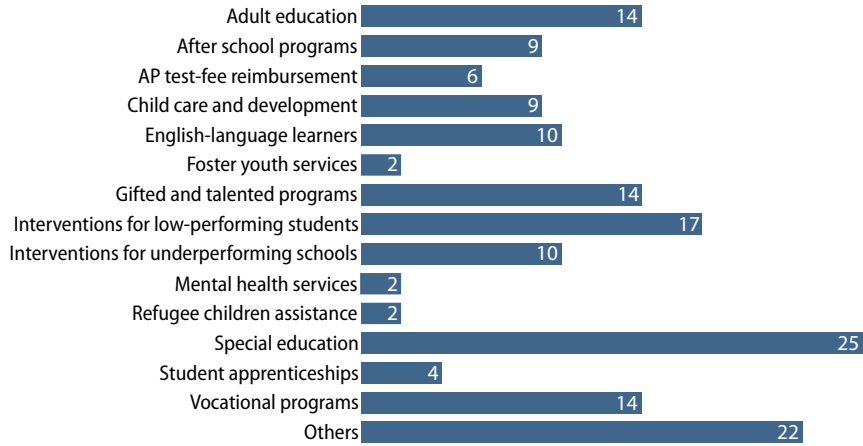
FIGURE 3

Areas targeted for categorical programs

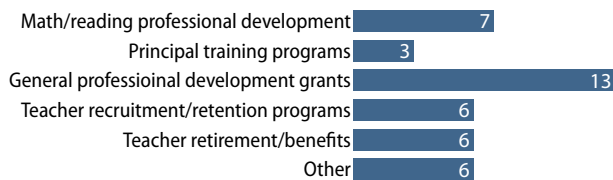
Schoolwide categorical programs



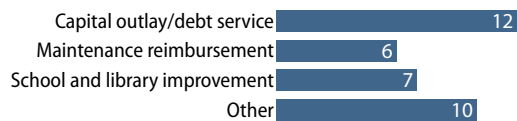
Targeted populations categorical programs



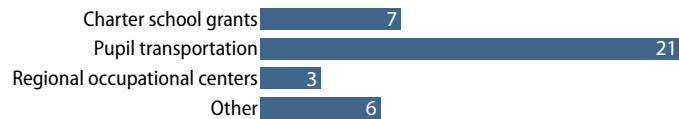
Teacher support and professional development categorical programs



Facility-related categorical programs



Miscellaneous categorical programs



Categorical programs targeting schoolwide programs varied across the states. Sixteen states reported that they employed a school nutrition categorical program, while seven reported categorical funding going to class-size reduction, and eight reported safety and violence prevention programs.

Special education was the most common state categorical funding program targeting specific populations.¹⁶ This mirrors Hightower, Mitani, and Swanson’s fiscal year 2008 findings. There were a variety of programs listed under “other” programs for targeted populations, including poverty alleviation, high-need special education, orphans, educational excellence, early intervention, ACE remediation—statewide initiatives designed to raise expectations for student achievement—reading sufficiency, Indian education, desegregation and integration, expelled and at-risk students, math and reading intervention, small schools, youth in custody, and catastrophic aid.

Among categorical programs related to teacher support and professional development, general professional development grants were the most common categorical program for the support and professional development of teachers, followed by math and reading professional development, teacher recruitment and retention programs, and teacher retirement and benefits programs. Principal-training programs were the least common, reported by only three states. Some of the “other” categorical programs written in under teacher support and professional development included teacher evaluation, teacher salary supplements, special education salary supplements, and national board certification programs.

Facility-related categorical programs included capital outlay/debt service programs, used to acquire, build, remodel, or maintain school-district facilities and capital outlay projects (reported by 12 states). They also included maintenance reimbursement programs reported by six states, and school and library improvement programs reported by seven states.

The two most common miscellaneous categorical programs were pupil transportation, reported by 21 of the 36 states, and charter school grants, in seven of the 36 states. Pupil transportation was the second-most common categorical program overall, after special education.

[There has been a downward trend in states’ use of categorical grant programs in recent years](#)

We took advantage of the fact that a similar study of categorical programs had been done for fiscal year 2008 by Hightower, Mitani, and Swanson to provide a longitudinal look at the use of categorical funding. The earlier study was also conducted as a survey administered to state education agencies and similarly asked how many categorical-funding programs the state employed, the program categories, and the dollars allocated to such programs. As such, we examined whether the use of categorical funding had changed in the past five years, the impact of the economic downturn on their use, and the locus of control in each state.

Comparing our findings with Hightower, Mitani, and Swanson’s findings for the 2008 fiscal year suggests that there has been a trend towards decreased categorical funding. This comparison shows that 29 states had reduced the number of categorical-funding programs in use, 14 had increased the number, and only 6 had retained the same number. (see Table 2)

Of note is that the five states that used the highest number of categorical programs in FY 2008—Ohio, Arkansas, California, South Carolina, and Hawaii—all reduced their use in the 2012-13 school year, with some large declines, such as in Ohio that went from 105 categorical-funding programs in FY 2008 to only 12 such programs in the 2012-13 school year, and Arkansas that went from 86 programs to only 4.¹⁷ Some of these reductions can be attributed to the consolidation of programs, such as in Utah where eight categorical programs were consolidated with other programs in FY 2012, reducing the number of categorical-funding programs in the state from 39 to 31.

At the other end of the spectrum, the change from FY 2008 to the 2012-13 school year was more varied: All five states with the fewest number of categorical-funding programs increased their use. The largest jump among this group of states was in Tennessee, which went from being the only state with no categorical-funding programs in FY 2008 to having 10 in the 2012-13 school year.

Figure 4 shows that there was also a fairly even split between states that reported that the economic downturn resulted in the decreased use of categorical-funding programs (n=14) and those that felt that it had no impact on the number of programs (n=13). A variety of contextual factors explained these different reactions to the economic downturn. “Categorical allotments for staff development and technology were eliminated due to the economic downturn,” reported the respondent from North Carolina.

TABLE 2
Number of categorical programs, 2012-13 school year compared with FY 2008

State	Number of programs, 2012-13	Number of programs, 2008
Alabama	30	28
Alaska*	7	2
Arizona	7	12
Arkansas	4	86
California*	60	68
Colorado	8	8
Connecticut	9	19
District of Columbia	N/A	5
Delaware	N/A	22
Florida	1	16
Georgia	14	32
Hawaii	16	68
Idaho	8	23
Illinois	9	38
Indiana	13	18
Iowa ¹	64	37
Kansas	12	9
Kentucky	7	39
Louisiana ¹	2	16
Maine	4	4
Maryland	2	19
Massachusetts	39	18
Michigan	50	50
Minnesota ¹	30	58
Mississippi ²	5	12
Missouri	4	4
Montana	1	14
Nebraska ¹	11	11
Nevada	22	19
New Hampshire	4	10
New Jersey	8	10
New Mexico	14	9
New York	17	60
North Carolina	12	14
North Dakota	5	2
Ohio	12	105
Oklahoma	26	33
Oregon ¹	19	10
Pennsylvania	29	29
Rhode Island	5	10
South Carolina	36	68

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In contrast, a few states (n=4) reported increasing the use of categorical funding due to the economic downturn. “Because our largest categorical program is poverty funding, the program required increased funding with the economic downturn due to increase in poverty,” reported the respondent from Arkansas.

State legislatures have the authority to establish and terminate categorical programs in most states

Decisions to start or end categorical programs determine, in part, policy priorities for each state. For example, creating a class-size reduction categorical program shows a state’s belief in the benefits of a smaller student-teacher ratio. We wanted to know who held the decision-making power over creating or ending such programs.

Vesting such decision-making powers in the legislature or governor might result in the adoption of partisan policies, while the state board of education might be assumed to adopt nonpartisan programs. As shown in Table 3, the legislature in nearly every state included in the study (n=36) was reported as having decision-making power to create new categorical-funding programs and the power to end or consolidate such programs. The locus of control included the governor in nearly half of the study states (n=16).

In only one state (Kentucky), the voters have the power to create a new categorical program, but not to consolidate or end a program. Other decision-making bodies noted by states included a state’s department of education, state board of education, and commissioner of education.

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State	Number of programs, 2012-13	Number of programs, 2008
South Dakota*	2	3
Tennessee	10	0
Texas	5	2
Utah*	31	39
Vermont	6	10
Virginia	30	11
Washington	5	11
West Virginia	36	35
Wisconsin	29	36
Wyoming	6	2

NOTE:

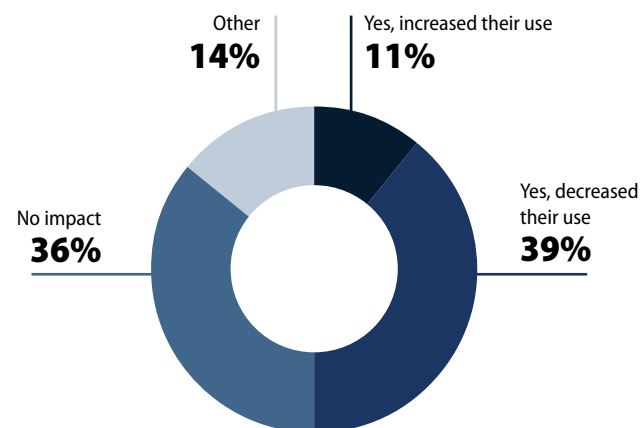
1 Respondent estimated

2 Respondent unable to distinguish between categorical allotment and weighted student formula

*Calculated by research team

N/A: Data not available

FIGURE 4
Has the economic downturn had an impact on the use of categorical funding in your state?



Source:

TABLE 3

Who determines the creation of a new categorical-funding program and whether to end, or consolidate, an existing categorical-fund program in your state?

State	Legislature	Governor	State Board of Education	Voters	Commissioner of Education
Alabama	✓	✓			
Alaska	✓				
Arkansas	✓				
California	✓	✓			
Colorado	✓				
Georgia	✓	✓			
Illinois	✓	✓	✓		
Iowa	✓				
Kansas	✓				
Kentucky*	✓	✓	✓	✓ (Only determines creation of programs)	
Louisiana*	✓	✓	✓ (Only determines creation of programs)		
Maryland	✓	✓			
Massachusetts	✓				
Michigan	✓	✓			
Minnesota	✓	✓			
Mississippi	✓				
Missouri	✓	✓	✓		
Montana	✓				
Nebraska	✓				
Nevada	✓				
New Jersey	✓				
North Carolina	✓				
North Dakota	✓				
Ohio	✓	✓			
Oklahoma	✓		✓		
Oregon	✓				
Rhode Island	✓	✓	✓		✓
South Carolina	✓				
South Dakota	✓	✓			
Tennessee	✓	✓			
Utah*	✓		✓ (Only determines whether to end or consolidate programs)		
Vermont	✓				
Virginia	✓	✓			
Washington	✓				
Wisconsin	✓	✓			
Wyoming	✓				

*States for which decision-making bodies differ between creating categorical-funding programs and ending or consolidating programs

Many states believe categorical funding supports student achievement without limiting flexibility

Prior research—as well as popular opinion—warns that categorical funding limits local districts’ ability to be flexible and innovate. For instance, Margaret Weston argues that California’s categorical program does not particularly work well in a state that is so diverse, saying that “categorical restrictions prohibit local administrators from shifting funds to meet local needs.”¹⁸

With this in mind, we assessed the extent to which state officials agreed with these concerns. We asked state-level respondents—chief financial officers of the departments of education in each state—whether they perceive categorical funding as helping or hindering efforts to improve student performance and local innovation and flexibility by asking them to indicate their level of agreement with the following statements:

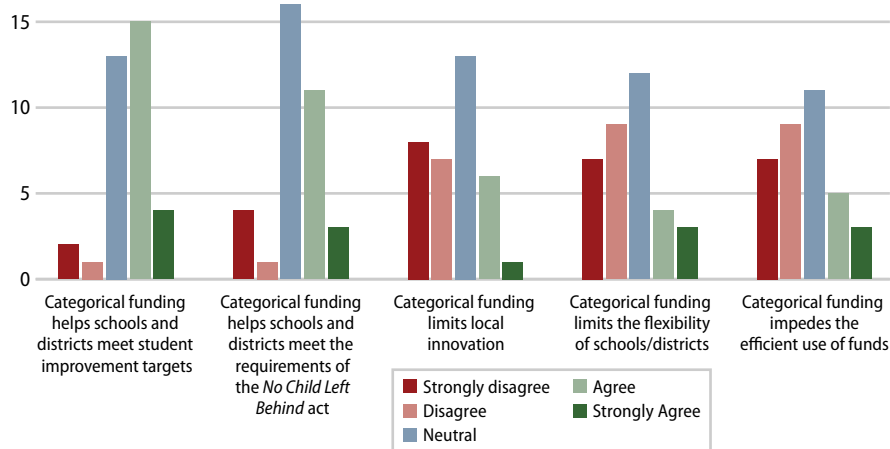
- Categorical funding helps schools and districts meet student improvement targets.
- Categorical funding helps schools and districts meet the requirements of the No Child Left Behind Act.
- Categorical funding limits local innovation.
- Categorical funding limits flexibility of schools/districts.
- Categorical funding impedes the efficient use of funds.

The majority of state respondents (54 percent) agreed or strongly agreed that categorical funding helps schools and districts meet student improvement targets. (see Figure 5) A large number of states (13 out of 35) were neutral on the topic. But state respondents are more neutral on whether categorical funding helped schools and districts meet the requirements of the No Child Left Behind Act. Their responses, however, veered toward the affirmative end of the spectrum.

Slightly more varied responses were given regarding whether categorical funding limits local innovation, limits the flexibility of schools and districts, and impedes the efficient use of funds. While a plurality of the state survey respondents remained neutral on these topics, feelings were more mixed than on the questions around categorical funding helping schools and districts meet student performance targets and NCLB requirements. Forty-three percent of state-level respondents strongly disagreed or disagreed that categorical funding limits local innovation, and 46 percent indicated that they strongly disagreed or disagreed that categorical funding limits the flexibility of schools and districts or that categorical funding impedes the efficient use of funds.

It is worth noting that some state-level respondents did acknowledge negatives: Three felt that categorical programs do not help schools and districts meet student improvement targets; five felt that categorical funding does not help schools and districts meet the requirements of the No Child Left Behind Act; seven felt that these programs limit local innovation and flexibility; and eight felt that they impede the efficient use of funds.

FIGURE 5
State survey respondents' views on the impacts of categorical-funding programs

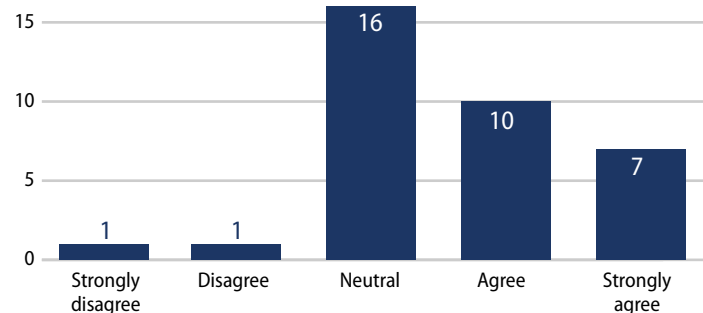


Source:

States' opinions were mixed on whether categorical funds supported broader state education goals

When asked their perception of whether the criteria for accessing categorical funds are aligned with broader state education goals, state-level respondents' opinions varied, but only two states disagreed or strongly disagreed. (see Figure 6)

FIGURE 6
The criteria for accessing categorical funds are aligned with state goals



Source:

A few states allocate a larger share of unrestricted state funding to offset the categorical funding earmarked for high-need students

As noted earlier, in their study of education funding in California, Thomas B. Timar and Marguerite Roza found that districts in the state offset the restricted categorical funds earmarked for high-need students by directing a larger share of unrestricted funds to lower-need students.¹⁹ To test whether California is a unique case, we asked on the state survey whether students with lower needs receive a larger share of unrestricted state funding to offset the categorical funding earmarked for high-need students. Six of our study states reported a similar practice: Alabama, Wisconsin, South Carolina, Mississippi, Massachusetts, and Utah. (see Figure 7) The accuracy of this response is uncertain, as state respondents may not know how districts at the local level use general fund money. Indeed, Colorado responded that it is likely to vary district by district.

Superintendents and school board members highlighted the ways categorical funding can support student achievement but also identified challenges

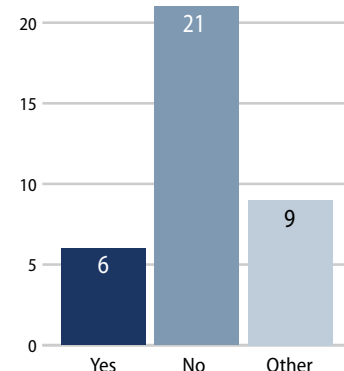
Although our state survey respondents generally supported the idea that categorical funding helps schools and districts meet state improvement targets and the requirements of NCLB, these were the perspectives of state finance officers. As noted earlier, we supplemented our survey with interviews with district-level respondents in four states—Arkansas, California, Ohio, and Wisconsin—to better understand the impact of categorical funding on school and district efforts to improve student performance and meet the requirements of state and federal accountability policies. Interviews with district leaders in four case study states were also generally supportive of categorical programs, but they provided some contrast with the state views.

There was a sense that local actors are best suited to make decisions about how to spend money to meet the needs of their specific students. “I think the bulk of that is best left at the local level and I don’t have a problem with being held accountable,” said one district respondent. “The main thing is an issue of trust—can we be trusted to look at the characteristic of our students and spend the money wisely? I like to think that those of us in the business aren’t going to go out and buy a swimming pool,” said another respondent. There appears to be reluctance on the part of district leaders to do away with categorical funding for fear that the money would not be reallocated to the general fund, but also a sense that states should afford districts greater flexibility in exchange for greater accountability.

District-level interviewees expressed a fear that if funding was all provided in the form of unrestricted base grants, the money would not be spent in ways to help those who need it most: low-income students, English learners, and special education students. They felt that maintaining categorical programs for high-need students would alleviate this concern.

Districts also noted that overly strict restrictions on categorical programs prevented them from using the money in ways they deemed appropriate at times. Some categorical funding, for example, can only be used for programs, not for people, which may not be in line with the need. “It can be hard to use the money in the ways it was intended and still provide the services you want. For example, money that is designated for a program but can’t be used for a person limits our ability to provide needed services to students,” said one interviewee. Districts would prefer the flexibility to spend categorical funding on people, programs, or materials and supplies to meet their students’ needs in ways they deem most effective.

FIGURE 7
Do students with lower needs receive a larger share of unrestricted funding to offset the categorical funding earmarked for high-need students?



Conclusion

Categorical funding has its detractors and its supporters, at both the state and district levels. While state-level survey respondents generally felt that categorical funding helps meet student improvement targets without limiting districts' flexibility or ability to innovate, district interviewees noted the benefit of categorical funding in setting aside funds for the neediest populations who might otherwise be overlooked. Both groups, however, noted challenges to such funding programs, with interviewees citing a number of concerns including overly restrictive requirements on how the funds can be spent and limiting local actors' ability to cater programs to the unique needs of their student bodies.

Amid the continued economic downturn, state policymakers are faced with making difficult choices about which programs to fund, and district personnel are increasingly asked to do more with less. Our hope is that limited education budgets are put to the very best use for the greatest number of students so that all students can perform to their potential.

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***Correction, November 18, 2013:** *In the original version of this issue brief, the state names in Figure 1 did not correspond to the correct percentages. The current version contains the corrected figure.*

Endnotes

- 1 Amy M. Hightower, Hajime Mitani, and Christopher B. Swanson, "State Policies That Pay: A Survey of School Finance Policies and Outcomes" (Bethesda, MD: Editorial Projects in Education, 2010), p. 11.
- 2 Thomas B. Timar and Marguerite Roza, "A False Dilemma: Should Decisions about Education Resource Use Be Made at the State or Local Level?," *American Journal of Education* 116 (3) (2010): 397–422.
- 3 Joshua H. Barnett, Nathan C. Jensen, and Gary W. Ritter, "Dollars for Sense: Assessing Achievement Gaps in Arkansas in the Context of Substantial Funding Increases," *Journal of the Association of Mexican American Educators* 4 (1) (2010): 39–47; Timar and Roza, "A False Dilemma."
- 4 Policy Analysis for California Education, "Getting Down to Facts: Five Years Later" (2012); Margaret Weston, "Rethinking the State-Local Relationship: K-12 Education" (San Francisco: Public Policy Institute of California, 2011).
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- 7 Bruce Fuller and others, "Deregulating School Aid in California: How 10 Districts Responded to Fiscal Flexibility, 2009–2010" (Stanford and Santa Monica, CA: Policy Analysis for California Education and RAND Corporation, 2011); Weston, "Rethinking the State-Local Relationship."
- 8 William Duncombe and John Yinger, "Making Do: State Constraints and Local Responses in California's Education Finance System," *International Tax and Public Finance* 18 (3) (2011): 337–368; Fuller and others, "Deregulating School Aid in California"; Policy Analysis for California Education, "Getting Down to Facts"; Jennifer Imazeki, "Deregulating School Aid in California: Revenues and Expenditures in the Second Year of Categorical Flexibility" (Stanford and Santa Monica, CA: Policy Analysis for California Education and RAND Corporation, 2012); Katharine O. Strunk and Dara Zeehandelaar, "Differentiated Compensation: How California School Districts Use Economic Incentives to Target Teachers," *Journal of Education Finance* 36 (3) (2011): 268–293; Heather Rose, Jon Sonstelie, and Margaret Weston, "Pathways for School Finance in California" (San Francisco, CA: Public Policy Institute of California, 2010); Margaret Weston, "California's New School Funding Flexibility" (San Francisco, CA: Public Policy Institute of California, 2011).
- 9 Michael Griffith, "Understanding State School Funding: The First Step Toward Quality Reforms," *The Progress of Education Reform* 13 (3) (2012).
- 10 Hightower, Mitani, and Swanson, "State Policies That Pay."
- 11 Griffith, "Understanding State School Funding."
- 12 See, for example, Michael J. Petrilli and Marguerite Roza, "Stretching the School Dollar: A Brief for State Policymakers" (Washington: Thomas B. Fordham Institute, 2011).
- 13 Data collection was conducted from December 2012 through February 2013. We contacted the chief financial officer (or similar position) in each state and gave respondents the option of self-administering the survey online or answering it with a member of the research team over the phone.
- 14 Rose, Sonstelie, and Weston, "Pathways for School Finance in California"; Hightower, Mitani, and Swanson, "State Policies That Pay"; EdSource, "State Categorical Programs in 2010–11" (2011).
- 15 Different prior research used different categories of possible categorical funding programs, so we used an amalgamation of ideas from prior research. See EdSource, "State Categorical Programs in 2010–11"; Hightower, Mitani, and Swanson, "State Policies That Pay"; Rose, Sonstelie, and Weston, "Pathways for School Finance in California."
- 16 While 26 states reported categorical funding for special education, it is important to note that states have a legal civil rights obligation to provide special education services to qualifying students.
- 17 For FY 2008 data, see Hightower, Mitani, and Swanson, "State Policies That Pay."
- 18 Weston, "Rethinking the State-Local Relationship."
- 19 Timar and Roza, "A False Dilemma"