



United States
General Accounting Office
Washington, D.C. 20548

Health, Education and Human Services Division

B-257503

June 7, 1994

The Honorable Thad Cochran
United States Senate

The Honorable Jeff Bingaman
United States Senate

The Senate is considering a new formula for distributing federal assistance for the educationally disadvantaged under title I of the Elementary and Secondary Education Act amendments of 1994. The new formula, described in Senate bill S. 1513, would distribute federal aid for the educationally disadvantaged on the basis of four factors. In response to your request, this letter provides our views of these four factors in light of the program's objective to target funds to children with the greatest need.

Under S. 1513, funds would be allocated under one formula, which contains four factors:

- The first is a weighted measure of poor children that serves as a proxy for the number of educationally disadvantaged children. The weighting scheme provides a higher per child allocation to school districts in counties with high poverty rates and high numbers of children in poverty.
- The second is a state average per pupil expenditure factor, a measure of total state and local spending on education per pupil, that serves as a proxy for state costs of providing chapter 1 services.¹ Under current law, this factor cannot exceed 120 percent or fall below 80 percent of the U.S. average. Under S. 1513, this factor would range between 115 and 85 percent of the average per pupil expenditure in the United States.
- The third is an effort bonus based on state per pupil spending expressed as a percentage of state income, which is a proxy for the level of "effort" the state

¹Under S. 1513, chapter 1 is redesignated as title I.

makes in funding elementary and secondary education in the state. However, this factor must range between 95 and 105 percent of the nation's average effort, rewarding those states with the greatest effort with a bonus in their chapter 1 per pupil funding.

- Fourth, an equity bonus generally based on the coefficient of variation in per pupil education spending in the state² serves to reward states that have low disparities in per pupil spending in the state; states with great disparities will be penalized. This factor must also range between 95 and 105 percent; states with the lowest disparities are weighted 105 percent, giving them a bonus in their chapter 1 per pupil funding.

In summary, while the goals of S. 1513 are laudable, the new grant allocation formula may not be appropriately designed to increase targeting to high poverty areas and to reward states that reduce inequities in per pupil spending. An unintended consequence of adopting the new formula may be to produce less--rather than more--targeting to educationally disadvantaged children.

EXTRA WEIGHTING FOR AREAS
WITH HIGH POVERTY LEVELS
COULD BE INCREASED

The bill's proposed formula provides extra weighting, which results in somewhat higher funding per child, to target additional funds to serve children in areas with high concentrations of poverty. In a 1992 report, GAO recommended that counts of children receive greater weight in high poverty areas to better reflect the greater number of educationally disadvantaged children in these areas.³ However, the weighting scheme adopted in S. 1513 may not provide high enough weight to sufficiently target dollars to counties with high concentrations of educationally disadvantage children. For example, the need for chapter 1 funding in high poverty counties may be as high as 150 percent of the need in low poverty counties, but the weighting scheme in S. 1513 is insufficient to provide allocations that will compensate for this 150 percent difference in need.

²The coefficient of variation in per pupil spending is a statistical measure of the degree to which per pupil spending varies in a given state.

³Remedial Education: Modifying Chapter 1 Formula Would Target More Funds to Those Most in Need (GAO/HRD-92-16, July 28, 1992).

STATE AVERAGE PER PUPIL
EXPENDITURE IS A POOR PROXY
FOR COST OF CHAPTER 1 SERVICES

Our earlier report also criticized the current cost factor because it overstated cost differences and unfairly benefitted wealthier states that can afford to spend more on education. S. 1513 tries to correct this bias to some extent by reducing the range of this factor from between 80 and 120 percent of the U.S. average to between 85 and 115 percent. However, we believe that the current measure of per pupil expenditure is a poor proxy for the cost of providing chapter 1 services.

EFFORT BONUS FACTOR MAY
NOT TARGET HIGH NEED STATES

The effort bonus may target more aid to states with lower concentrations of children in poverty and less to states with the highest concentrations of such children. Such targeting would be contrary to the objective of the program, which is to target more money to those places with greater concentrations of poverty and, hence, more educationally disadvantaged children.

The rationale for using an effort factor is to introduce a financial incentive into the formula for low spending states to increase their effort to adequately fund their educational systems. However, placing a floor on this factor of 5 percent less than the national average substantially reduces the impact of this incentive. Because of the 95-percent floor, a low spending state that increases its effort may get little additional benefit in the form of a larger chapter 1 grant. Similarly, by placing a 105-percent ceiling on this factor, a high spending state that decreases its effort may not have its chapter 1 grant reduced substantially.

EQUITY BONUS FACTOR MAY
NOT PROVIDE INCENTIVES
FOR STATE REDUCTIONS IN
SPENDING DISPARITIES

Finally, the equity bonus factor, while well intended, is not likely to serve its intended purpose--as an incentive for a state to decrease in-state per pupil spending disparities--for three reasons:

(1) Chapter 1 funding is such a small portion of total school spending that it is unlikely that it will cause states to change their school aid formulas to produce smaller spending disparities.

(2) The floor placed on the factor so that it cannot be less than 95 percent substantially weakens the incentive for

states to reduce per pupil spending disparities for precisely those states with the largest inequities.

(3) The restriction that the factor can be no more than 105 percent significantly reduces the penalty for states with the smallest variation in per pupil spending whose performance deteriorates.

The equity bonus may tend to target less aid to some states with larger spending disparities in per pupil funding and generally higher rates of child poverty and educationally disadvantaged children while targeting more assistance to some states with the smaller spending disparities and generally lower concentrations of child poverty and educationally disadvantaged children. This would happen because some states with smaller spending disparities also generally have smaller economic disparities and, hence, fewer poor children.

ADDING A FUNDING CAPACITY
FACTOR WOULD IMPROVE FORMULA

One way of both targeting high poverty areas and promoting greater equalization is to include a measure of county or state funding capacity in the allocation formula. For example, in our 1992 report, we recommended the inclusion of an income factor that would target localities with limited capacity to fund remedial services. Such a factor would target more--rather than less--assistance to areas with the highest concentrations of educationally disadvantaged students.

- - - - -

Copies of this correspondence will be provided to interested parties upon request. If we can be of any further assistance please call me on (202) 512-8403 or Jerry Fastrup on (202) 512-7211.

Sincerely,

Cornelia M. Blanchette

Cornelia M. Blanchette
Associate Director, Education and
Employment Issues

(104791)