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ABSTRACT

Partly because of the rise of block grants, federal distribution mechanisms raise the issues of federal control and distributional equity in elementary-secondary grant programs. Data--drawn from such major programs as aid for education of the disadvantaged, aid for education of the handicapped, vocational education, and bilingual education--were analyzed according to three topics: the requirement for funding and eligibility in the programs, the distribution roles of federal and state governments, and the formulas for distributing federal funds. The fund allocation formulas and discretionary allocation processes appear to be widely varied, uncoordinated, and, in some cases, vague. Federal and nonfederal programs thus require better coordination, or, as an alternative, an effective allocation of authority to the states, in order to ensure both federal and state interests in the distribution of funds. The present federal formulas are insensitive because they fail to take account of educational or local needs, local fiscal factors (such as revenue-raising ability or variations in cost), or program goals, nor do they make explicit the discretionary criteria for funding. Future allocation procedures will be affected by the increasing number of state compensatory education programs, and indeed should be changed by more effective intergovernmental cooperation on formulas to fund handicapped, vocational, and bilingual programs. (JW)

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FEDERALISM, EQUITY, AND THE DISTRIBUTION OF FEDERAL EDUCATION GRANTS

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February 1983

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Abstract

This report addresses issues of federalism and distributional equity raised by the fund distribution mechanisms of federal grant programs in elementary and secondary education. The present intergovernmental arrangements for distributing federal grants are criticized on multiple grounds and two reform strategies are suggested: 1) coordinating the distribution of federal and non-federal funds aimed at particular educational problems, and 2) delegating allocative authority to states in ways that do not sacrifice federal interest. The present aid allocation formulas are deemed not so much inequitable as insensitive. Suggested improvements include substitution of more precise and detailed need indicators into the formulas and incorporation of interstate and intrastate equalization provisions. The report's specific recommendations apply to major categorical grant programs, the new education block grants, and possible general aid programs of the future.

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I. BACKGROUND AND ISSUES

Federal policy in elementary and secondary education is carried out primarily by means of intergovernmental grants. Before passage of the Educational Consolidation and Improvement Act of 1981 (ECIA), there were, by one count, nearly 100 elementary-secondary grant programs.[1] The major programs underwrote services for children with special educational problems, including the disadvantaged, the handicapped, and the limited-English-proficient; helped finance vocational education; supported attempts at educational innovation; assisted desegregating school districts; and provided general financial assistance ("impact aid") to districts allegedly affected by the presence of federal activities. The ECIA consolidated 30 to 40 programs (depending on how one counts) into a single block grant, but the remainder, including most of the larger programs, retain their separate identities.[2] Expenditures for the elementary-secondary grant programs have been cut sharply during the last two years but still will total approximately $6 billion for FY 1982.

FUND DISTRIBUTION MECHANISMS

An essential element of each federal education grant program is a *fund distribution mechanism*--a system consisting of one or more *fund allocation formulas* and/or one or more *discretionary allocation processes* whereby the funds appropriated for the program are distributed among states, school districts, and sometimes other public or private agencies. Each funding mechanism has an *intergovernmental structure*--a definite set of roles for each participating level of government and a pattern of intergovernmental transactions. Sometimes these structures are very simple, involving only a single procedure for distributing federal aid to the ultimate recipient. For example, Impact Aid funds are distributed directly to LEAs according to a formula prescribed by Congress, and Bilingual Education grants are made to LEAs through a federally operated discretionary process. More typically, however, one method is used to distribute funds among the states (usually a formula), and a second method (either another formula or a

state-controlled discretionary process) is used to distribute funds to local districts within each state. For example, vocational education funds are distributed among states according to a statutory formula, and then among districts according to state-developed formulas of a federally prescribed type. Moreover, some programs use different methods to distribute different portions of their funds. Three-fourths of federal grant funds for the handicapped under P.L. 94-142, for example, are distributed within states according to a federal statutory formula, while the remaining one-fourth is distributed at state discretion. As the foregoing examples suggest, there is considerable diversity among the intergovernmental structures established by Congress for different education grant programs.

The individual components of fund distribution mechanisms--the formulas and discretionary processes--also vary among programs. Fund allocation formulas can be characterized by the variables, or allocation factors, that they contain, their mathematical forms, and the constraints, if any, imposed on aid entitlements. As will be seen, many recent and current formulas conform to a single, simple model: allocation of aid in proportion to the number of persons in some specified category (e.g., the number of school-age children) in each state or local district. The discretionary allocation processes can be characterized by their selection criteria, selection methods, and procedures for determining grant amounts. Unfortunately, only limited information is available on how these processes work in practice. Taken as a whole, each fund distribution mechanism (i.e., the combination of a particular intergovernmental structure and a particular set of components) plays a major role in determining how the educational and fiscal benefits of the program will accrue to the children and taxpayers of different jurisdictions.[3]

POLICY ISSUES

Fund distribution issues are among the most sensitive issues of federal education policy, as is demonstrated by the "formula fights" that erupt periodically in Congress when new programs are born or old ones reauthorized. The stakes in these debates are often high. The choice of a distribution mechanism determines not only "who gets how

much"—the most fundamental question of practical politics—but also how the power to allocate money is divided between the federal and state levels of government. Thus, issues of *federalism* as well as issues of *distributional equity* are involved.

Federalism Issues

The federalism issues concern the roles of federal and state governments in distributing federal aid.[4] They include the question of how authority should be divided between the two levels (specifically with respect to the allocation of federal aid within states), whether and how distributions of federal aid and state aid for related purposes should be coordinated, and how, and to what extent, control over the distribution of federal money can be delegated to the states.[5] At the concrete level of program design, federalism issues translate into concerns about the appropriate intergovernmental structure for particular programs: Should federal aid flow directly to districts or be channeled through the states? Should federal or state authorities prescribe the intrastate distribution of funds, or should that responsibility be shared, and if so, how? Should formulas or discretionary processes be used at each stage of the allocation process? These questions are taken up in Chapter III.

Equity Issues

Questions of equity in the distribution of federal education aid are similar to questions of equity in school finance generally. The overriding issues are whether the present fund distribution mechanisms are designed to allocate funds equitably among states and LEAs or, if not, whether they can be reformed to do so. Following convention, one may distinguish between horizontal and vertical equity; that is, do the present allocation methods ensure equal treatment of equally situated states and LEAs and appropriately unequal treatment of states and LEAs facing different educational and fiscal problems? For the present analysis, however, it has proven more productive to focus on certain concrete, equity-related issues of program design:

- Do the fund distribution mechanisms establish an appropriate relationship between funding and educational needs?
- Do they (or should they) promote fiscal equalization among states and among the districts within each state?
- Do they take into account, where and as appropriate, variations in state and local conditions?
- Are discretionary processes, where used, fairly designed and conducted?

Answers to these questions cannot be wholly objective; they necessarily depend on the equity concepts and criteria that one brings to the problem. Fortunately, two circumstances mitigate this problem: first, that there is a substantial core of agreement concerning some aspects of equity (e.g., that allocations should reflect educational needs), and second, that it is reasonably easy to trace the implications of alternative values (e.g., regarding the desirability of fiscal equalization). The latter task is an integral part of the equity analysis in Chapter IV.

PURPOSE AND SCOPE

The purposes of this report are to address the issues of federalism and distributional equity raised by the fund distribution mechanisms of federal elementary-secondary grant programs and to identify and assess possible reforms and alternative approaches.

The analysis covers the major current grant programs, selected smaller programs, and certain programs that existed in 1980 but have since been consolidated under ECIA Chapter 2. The selection of programs for examination is intended to provide representation of the full range of federal funding mechanisms used in elementary and secondary education. The greatest emphasis is placed on these major grant programs: Aid for Education of the Disadvantaged (ECIA Chapter 1, formerly ESEA Title I), Aid for Education of the Handicapped (P.L. 94-142), Vocational Education, and Bilingual Education. In addition, a special effort is made to draw implications regarding the new block grant program--both because it is new and because of its relevance to proposals for larger-scale consolidation of education grants.

This report examines the fund distribution mechanisms themselves rather than the outcomes (i.e., the actual grant amounts) of the distributional process. Consequently, the analysis is primarily conceptual and theoretical rather than empirical. In this respect, the present effort complements earlier empirical studies of actual fund distribution patterns under particular grant programs.

The remainder of the report consists of four chapters. Chapter II presents descriptive information on current and recent fund distribution mechanisms; Chapter III deals with the issues of federalism, or intergovernmental relations, in fund distribution; Chapter IV assesses the equity of existing and alternative distribution methods; and Chapter V offers a concluding discussion of policy implications.

II. CURRENT AND RECENT GRANT DISTRIBUTION MECHANISMS

To provide background for the discussion of issues, this chapter presents descriptions of the distribution mechanisms of selected elementary-secondary grant programs. These descriptions cover programs in operation today plus certain programs that existed prior to the ECIA but that now have been subsumed under the new education block grant. Only the larger elementary and secondary grant programs are examined, and coverage is restricted mainly to programs that support educational services for children, as opposed to programs that support research, staff training, or management functions. A few exceptions have been made to ensure that all major types of fund distribution mechanisms are represented. The new block grant is among the programs considered, but the description of its funding mechanism should be considered provisional, since it is not yet clear how certain features will be implemented.[6]

The information presented here is derived from statutes and program regulations.[7] It was not possible, within the scope of this inquiry, to go beyond the regulations to determine how the Department of Education carries out certain allocative processes in practice. This means, in particular, that certain discretionary allocation processes are not completely described. It was also not possible to conduct original research on how states exercise the discretion afforded them under federal programs, as in establishing intrastate allocation formulas or making discretionary grants to local agencies; however, existing research on this question has been taken into account. Determining how states exercise their powers to distribute federal funds would be a valuable activity, but earlier studies have shown that it requires considerable effort to investigate that subject for even a single program.[8]

BASIC CHARACTERISTICS OF GRANT PROGRAMS

Table 1 summarizes certain characteristics of the grant programs that are germane in assessing the fund distribution mechanisms. It includes the following items:

1. Program identification,
2. The current status of the program (i.e., following enactment of the Education Consolidation and Improvement Act of 1981),
3. The level of funding of the program (in most cases, prior to the 1981 ECIA legislation and budget reductions),
4. The nominal duration of support for each grantee,
5. The agencies eligible to receive funds, and
6. The nominal purposes for which grant funds are to be used by the recipients.

Anticipating the discussion in later chapters, several distinctions brought out by Table 1 are relevant in assessing the fund distribution mechanisms.

First, there is the distinction between programs that are nearly universal in coverage--i.e., that serve all LEAs within broad strata--and programs that serve only selected LEAs. ECIA Chapter 1, ESEA Title I, Aid for the Handicapped, and Vocational Education fall into the former category, while Bilingual Education, Emergency School Aid, and ESEA Titles II and IVC are in the latter group. Different fund allocation methods are obviously required when all members of a class of eligible recipients are to receive funds and when selection of a limited number of recipients from a larger class of eligibles is part of the distribution process.

A second relevant distinction is between programs intended to provide continuing support for a given service or class of pupils (ECIA Chapter 1, ESEA Title I, Handicapped, Vocational Education) and programs intended to support special projects of limited duration (Emergency School Aid and ESEA Titles II and IVC).[9] Criteria for determining "needs" for assistance and appropriate funding levels are different in the two cases.

Third, there is an important distinction between programs that support specific, identifiable services or services for particular target groups (ECIA Chapter 1, ESEA Title I, Handicapped, Bilingual Education, Headstart) and those that underwrite services in general or

Table 1

GRANT PROGRAM CHARACTERISTICS: STATUS, MAGNITUDE, DURATION, ELIGIBILITY, AND INTENDED USES OF FUNDS, SELECTED FEDERAL GRANT PROGRAMS IN ELEMENTARY AND SECONDARY EDUCATION

Program	Current Status	Level of Funding ($millions)[a]	Duration of Funding[b]	Eligible Recipients[c]	Nominal Uses and Targeting of Funds
ESEA Title I, part A, LEA-operated programs, basic grants	Superseded by ECIA Chapter 1	3830 (incl. part B, below)	Continuing	All LEAs (N)	Supplementary services for educationally deprived children in schools with high concentrations of low-income children
ESEA Title I, part A, LEA-operated programs, incentive grants	"	0	Continuing[d]	All LEAs (N) in states with programs similar to Title I	Same as above
ESEA Title I, part A, LEA-operated programs, concentration grants	"	200	Continuing	All LEAs (N) in counties with high concentrations of low-income children	Same as above
ESEA Title I, part B, state-operated programs	"	(incl. with part A, above)	Continuing	All states	Supplementary services for handicapped children in state schools, neglected or delinquent children in state institutions, and migrant children
ESEA Title II, basic skills improvement, part B, state programs	Subsumed under block grant, ECIA Chapter 2	35	Project	Selected LEAs (awardees selected competitively in each state)	Special projects to improve basic skills instruction
ESEA Title IV, part B, instructional materials and school library resources	"	172	Continuing	All LEAs	Purchases of instructional materials and school library resources, as defined in the regulations
ESEA Title IV, part C, improvement in local educational practice	"	91	Project	Selected LEAs (awardees selected competitively in each state)	Special projects to improve educational practice
ESEA Title VB, strengthening SEA management	"	51	Continuing	All states	Activities to "strengthen educational leadership resources of SEAs"
ESEA Title VI, Emergency School Aid	"	236	Projects up to 5 years, but extendable	Selected LEAs carrying out required or voluntary desegregation	Activities to facilitate accomplishment of desegregation plans
ESEA Title VII, part A, bilingual education programs	Remains a separate program	175	Projects up to 5 years, but extendable	Selected LEAs	Special projects to establish and operate bilingual programs for limited-English-proficient pupils
Impact Aid (P.L. 874)	"	790	Continuing	LEAs with certain minimum numbers or percentages of children whose parents live and/or work on federal property	General aid; no restrictions

Table 1 (continued)

Program	Current Status	Level of Funding ($millions)[a]	Duration of Funding[b]	Eligible Recipients[c]	Nominal Uses and Targeting of Funds
Vocational Education, part A, state vocational education programs	Remains a separate program	834	Continuing	All LEAs	Support of vocational education programs (portions set aside for particular target groups)
Handicapped, part B, assistance for education of all handicapped children (P.L. 94-142)	"	1498	Continuing	All states and LEAs (M)	Pay excess costs of special education for handicapped pupils
Adult Education, state-administered programs	"	120	Continuing	All states; all LEAs and other agencies	Support adult education services
Headstart	"	778	Continuing	Designated public or private local Headstart agencies	Support pre-school programs for low-income children
Educational Consolidation and Improvement Act of 1981, Chapter 1, aid for the disadvantaged	New (replaces ESEA Title I)	3480	Continuing	All states and LEAs (M)	Same as ESEA Title I
Educational Consolidation and Improvement Act of 1981, Chapter II, block grant to states	New block grant	589	Left to state discretion	All states and LEAs	Any or all purposes of predecessor programs

[a] Levels of funding are the amounts appropriated by Congress for expenditure in FY1981 prior to the Reagan Administration's budget recissions, except that the amounts shown for ECIA Chapters 1 and 2 are the amounts authorized in the Omnibus Education Reconciliation Act of 1981, as reported in the Congressional Record, July 29, 1981.

[b] The term "continuing" indicates that continuing support is envisioned for as long as the grant program is authorized, and that there is nothing in the legislation to indicate an intention to terminate support at any point; it does not signify, of course, that reauthorization of the program is automatic or can be taken for granted. The term "project" indicates that the legislation provides explicitly for projects of limited duration.

[c] The symbol "(M)" indicates that there is a "de minimus" provision in the legislation, limiting eligibility to LEAs that qualify for at least a certain threshold level of funding. In some instances, LEAs are permitted to form consortia to satisfy this minimum scale requirement.

[d] The incentive-grant portion of Title I has not been funded. It has been included in the table to illustrate a particular funding mechanism, as is explained on p. 17.

services for the whole student population (Impact Aid, ESEA Title IVB, ECIA Chapter 2). Different methods of quantifying "needs" for assistance apply to the two categories.

Fourth and finally, a distinction not brought out explicitly in the table is between federal programs that provide large or dominant shares of funding for the activities they support and programs that provide relatively small add-ons to the state and local funds available for the designated purposes. Only ECIA Chapter 1, ESEA Title I, and Headstart fall unambiguously under the former heading, while such major programs as Handicapped and Vocational Education and, by definition, such general-purpose programs as Impact Aid and ECIA Chapter 2, fall into the latter category. As will be shown in the next chapter, the ratio of federal to total support for an activity largely determines whether it is technically feasible for the federal government to retain control over the distribution of its own funds.

INTERGOVERNMENTAL STRUCTURES

As explained earlier, the term "intergovernmental structure" is used here to characterize the roles of federal, state, and local governments and the nature of transactions among the three levels under each elementary-secondary grant program. The two aspects of intergovernmental structure that are most important in assessing fund distribution mechanisms are (1) the *intergovernmental flow of funds*--i.e., whether federal funds go directly to LEAs, directly to states for their own use, or to states for "pass-through" or redistribution to LEAs; and (2) the *authority or discretion vested in each level of government* to determine the distribution of funds--i.e., whether funds are allocated by formula or discretionary process at each level and whether the formulas or processes are determined by the Congress, the federal agency, or the states.[10]

Table 2 characterizes the intergovernmental structure of each grant program by identifying the federal and state roles in fund distribution. The entry under "federal role" indicates whether the flow of funds is to LEAs or to or through states and whether that flow is controlled by a statutory formula or subject to agency discretion. The entry under "state role" indicates whether the subsequent distribution of funds within states (if any) is by formula or at state discretion and, if by

Table 2

INTERGOVERNMENTAL STRUCTURE: FEDERAL AND STATE ROLES IN DISTRIBUTING FUNDS, SELECTED FEDERAL GRANT PROGRAMS IN ELEMENTARY AND SECONDARY EDUCATION

Program	Federal Role in Fund Distribution	State Role in Fund Distribution
ESEA Title I, part A, LEA-operated programs (compensatory education for the disadvantaged)	ED[a] allocates funds by statutory formula--to LEAs if data are available, otherwise to counties; pays funds to states for pass-through to LEAs	State allocates funds to LEAs within counties, but state discretion is limited to selecting the poverty measure to use in a federally specified formula; state also allocates funds between LEAs that serve the same territory, and among LEAs in cases where many LEAs overlap county lines
ESEA Title I, part B, state-operated programs (handicapped in state institutions, neglected and delinquent, migrants)	ED allocates funds to states by statutory formula	States use funds directly or make discretionary subgrants to LEAs or other agencies
ESEA Title II, basic skills improvement, part B, state programs	ED allocates funds to states by statutory formula	States make discretionary subgrants to competing LEAs and other agencies
ESEA Title IV, part B, instructional materials and school library resources	ED allocates funds to states by statutory formula	States allocate funds to LEAs according to state-designed formulas of federally specified type, reflecting federally specified allocation factors
ESEA Title IV, part C, improvement in local educational practice	ED allocates funds to states by statutory formula	States make discretionary subgrants to competing LEAs
ESEA Title VB, strengthening SEA management	ED allocates funds to states by statutory formula	None--states are the final recipients.
ESEA Title VI, Emergency School Aid	ED makes discretionary grants mainly to LEAs, also to states and other agencies	No state role in distribution to LEAs, except right to comment
ESEA Title VII, part A, bilingual education programs	ED makes discretionary grants to LEAs	No state role in distribution to LEAs, except right to comment
Impact Aid (P.L. 874)	ED allocates funds to LEAs by statutory formula	None
Vocational Education, part A, state vocational education programs	ED allocates funds to states by statutory formula	States allocate funds to LEAs according to state-designed formulas that reflect federally specified priorities and allocation factors
Handicapped, part B, assistance for education of all handicapped children	ED allocates funds to states by statutory formula	State distributes 75 percent of funds to LEAs by federal statutory formula; uses the remaining 25 percent of funds directly or distributes them as discretionary grants to LEAs
Adult Education, state-administered programs	ED allocates funds to states by statutory formula	State makes discretionary grants to LEAs and other agencies
Headstart	HHS[b] makes discretionary grants to designated local Headstart agencies, public or private	State may disapprove applications of local agencies
Education Consolidation and Improvement Act of 1981, Chapter 1, aid for the disadvantaged	(Same as ESEA Title I)	(Same as ESEA Title I).
Education Consolidation and Improvement Act of 1981, Chapter 2, block grant to states	ED allocates funds to states by statutory formula	State distributes at least 80 percent of funds to LEAs according to state-designed formulas of federally specified type, reflecting federally specified allocation factors; remainder for use of state or distribution at state discretion

[a] ED - U.S. Department of Education.

[b] U.S. Department of Health and Human Services.

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formula, whether the formula is federally prescribed or state-designed. The table shows that six different intergovernmental structures have been established to distribute elementary-secondary grant funds:

1. Distribution to states and pass-through to LEAs according to federal statutory formula: ESEA Title I, part A, Handicapped (in part), ECIA Chapter 1.
2. Distribution directly to LEAs according to federal statutory formula: Impact Aid.
3. Distribution to states according to federal statutory formula; no subsequent distribution to LEAs: ESEA Title I, part B (in part), ESEA Title VB.
4. Distribution to states according to federal statutory formula and subsequent distribution to LEAs according to state-designed formulas: ESEA Title IVB, Vocational Education, ECIA Chapter 2.
5. Distribution to states according to federal statutory formula and subsequent distribution to LEAs at state discretion: ESEA Title I, part B (in part), ESEA Title II, part B, ESEA Title IV, part C, Handicapped (in part), Adult Education.
6. Distribution of federal discretionary grants directly to LEAs: ESEA Title VI, Bilingual Education, Headstart.[11]

When the intergovernmental structures (Table 2) are compared with background characteristics of the programs (Table 1), several interesting relationships emerge. Federal control over the distribution of funds has been asserted strongly in all grant programs aimed at federally protected target groups--ESEA Title I and its successor ECIA Chapter 1, Aid for the Handicapped, Bilingual Education, and Emergency School Aid (ESEA Title VI). Under the first two of these programs, which serve the universe of LEAs, federal formulas govern the distributions of funds both among and within states.[12] Under the latter two, which serve only

selected districts, federal discretionary grants are made directly to the LEAs, with no state involvement in the distributional process. It appears that little state discretion has been allowed where civil rights concerns are paramount or where national goals with respect to special-need pupils are at issue. In comparison, states have much more control over fund distribution in areas where targeting of funds is a less sensitive issue.[13]

There is also a relationship between the putative duration of assistance and the fund distribution method. Programs that provide continuing support for educational services tend to rely on formulas for both interstate and intrastate fund distribution, while programs that support finite-duration projects tend to rely on discretionary allocation processes, at least within states.[14]

Finally, it is noteworthy that certain funding arrangements are not found at all among the elementary-secondary grant programs. There is no instance in which Congress has delegated to the Department of Education the power to devise a formula; rather, all federal formulas are specified in the statutes. Also, in no instance has the Department been permitted to exercise discretion in distributing funds among the states. In marked contrast, Congress has given the Department broad discretion under programs (Bilingual Education and Emergency School Aid) that channel funds to a relatively few, selected districts. These patterns and/or idiosyncracies will be explored further in the discussion of federalism issues in Chapter III.

FUND DISTRIBUTION FORMULAS

The larger elementary-secondary grant programs have employed explicit mathematical formulas to distribute funds among the states, and the very largest programs--ESEA Title I, ECIA Chapter 1, Aid to the Handicapped, Vocational Education, and Impact Aid, rely on formulas to distribute funds to local districts as well. This section deals first with federal statutory formulas for distributing funds among states and LEAs and then with the federal rules governing state-designed formulas for apportioning funds among LEAs.

Federal Statutory Formulas

Table 3 summarizes the main features of the federal statutory formulas. All the programs listed have interstate distribution formulas, and three programs, ESEA Title I, ECIA Chapter 1, and Aid for Education of the Handicapped, also have statutory formulas to distribute funds within states.[15] The Impact Aid program, the only education program that distributes formula grants to LEAs without regard to state boundaries, is a special case and is not included in the table.[16] The table identifies the allocation factors in each formula, distinguishing between pupil or child counts and all other factors; the mathematical forms of the formulas; and any constraints imposed on state or local entitlements. These features are discussed in sequence below.

Allocation FActors. Every program represented in the table relies on a count of some category of children, pupils, or other persons in each state or LEA as its major fund allocation factor.[17] In many cases, the only factor considered in distributing funds is the number of individuals in the stipulated category. Reliance on these person counts has generally been justified on the grounds that the number of actual or potential service recipients is a measure of the "need" for services and hence of the appropriate level of federal assistance.

Perhaps the most important point brought out by the person-count column of the table is that there is considerable variation in (1) the breadth, or specificity, of person-count variables used to distribute different grants, and (2) the degree to which these person counts are logically related to the program or service for which funds are provided. In some cases, the relationship between the allocation factor and the purpose of the program is reasonably clear-cut. For instance, funds to support compensatory education for the disadvantaged are allocated according to counts of low-income pupils, and funds for education of the handicapped are distributed according to the number of handicapped children served by special-education programs. In other cases, however, a much broader variable, the number of school-age children in a state, is the basis for allocating funds. The issue of appropriate breadth or specificity--together with other issues concerning the selection of person-count variables--is taken up in Chapter IV.

Table 3

FORMULAS FOR DISTRIBUTING FEDERAL FUNDS TO STATES, SELECTED FEDERAL GRANT PROGRAMS IN ELEMENTARY AND SECONDARY EDUCATION

Program	Variables Included in Formula: Pupil or Child Counts	Variables Included in Formula: Other Variables	Mathematical Formula	Constraints on Allocations
ESEA Title I, part A, LEA-operated programs, basic grants	Low-income children in each LEA or county[a]	Per pupil expenditure in state (but not less than 80 percent nor more than 120 percent of per pupil expenditure in U.S.)	LEA or county allocation proportional to product of number of low-income pupils and per pupil expenditure in state; state allocations determined by aggregating local allocations	de minimus rule[b]
ESEA Title I, part A, incentive grants[c]	--	State spending for programs similar to ESEA Title I.	Matching of state spending for qualifying programs (up to 50 percent of state outlays)	No state to receive more than 10 percent of all incentive grant funds
ESEA Title I, part A, concentration grants	1. Low-income children in excess of certain numbers or percentages of all children in each county[a] 2. Low-income children in each county[d]	Per pupil expenditure, as for basic program, above	County allocations proportional to product of basic grant amount and ratio of excess low-income children to all children in county; state allocation determined by aggregating county allocations	No state to receive less than 1/4 of 1 percent of all concentration grants
ESEA Title I, part B, state-operated programs	1. Migrant children in state 2. Handicapped children served in state-operated schools 3. Neglected and delinquent children in state institutions	Per pupil expenditure, as above	Funds for each category of child proportional to the product of the number of children in that category and per pupil expenditure in the state	
ESEA Title II, part B, state programs	School-age children, 5-17, in state	--	Allocation in proportion to number of school-age children	No less than $50,000 per state
ESEA Title IV, parts B, C, D	School-age children, 5-17, in state	--	Allocation in proportion to number of school-age children	
ESEA Title VI (formula for apportioning a certain portion of ESAA funds among states)[e]	Minority-group children, 5-17	--	Allocation of $75,000 to each state, plus remainder in proportion to number of minority-group children	1. No less than $100,000 per state 2. Hold-harmless relative to FY1978 allocation

Table 1 (continued)

Program	Variables Included in Formula: Pupil or Child Counts	Variables Included in Formula: Other Variables	Mathematical Formula	Constraints on Allocations
Vocational Education, part A, state vocational education programs	1. Population, 15-19 2. Population, 20-24 3. Population, 25-65	Per capita income of state	Specified fractions of the available funds are distributed in proportion to each population count, each multiplied by an allotment ratio, which is a negative function of per capita income	1. Hold-harmless relative to FY1976 allocation 2. State must match the federal grants[f]
Handicapped, part B, assistance for education of all handicapped children	Handicapped children, 3-21, who are receiving special education (but not more than 12 percent of all children 5-17)	--	Allocation in proportion to number of handicapped children receiving special education	1. de minimus rule[b] 2. Hold-harmless relative to FY1977 allocation 3. State must match the 25 percent state share[f]
Headstart (formula for apportioning a certain portion of Headstart funds among states)[d]	1. AFDC recipients 2. Children 0-5 in families with incomes below the poverty line	--	Equal amounts distributed in proportion to the two child-count factors	Each state's allotment to increase each year at least 50 percent as fast as the total appropriation
Adult Education, state-administered programs	Adults who do not have high school diploma or equivalent	--	Allocation of $150,000 to each state, plus remainder in proportion to number of adults without high school diploma	
Education Consolidation and Improvement Act of 1981, Chapter 1	← Same as ESEA Title I, parts A and B →			
Education Consolidation and Improvement Act of 1981, Chapter 2	School-age population, 5-17	--	Allocation in proportion to school-age population	No state to receive less than 0.5 percent of all Chapter 2 grants

[a]Since enactment of the Educational Amendments of 1978, the definition of "low-income children" for the purpose of computing Title 1 allocations has become very complicated. Different counts of low-income children, from different data sources, are used to allocate different portions of the the Title 1 appropriation. For details, see ESEA Title 1, Sec. 111.

[b]The de minimus rule specifies that an LEA must qualify for a certain minimum amount of funds to receive a Title 1 grant.

[c]The incentive grant portion of Title 1 is unfunded but is included here to represent a "true" matching formula, as opposed to the fixed-amount matching formulas in Vocational Education and Handicapped (see note f, below).

[d]Federal grants are awarded directly to local agencies under these programs, but an apportionment formula is used to determine the total amount of federal money to be distributed to local agencies in each state.

[e]The allotment ratio is defined as $1-.5(Y_i/Y_n)$, where Y_i is per capita income in state i and Y_n is per capita income in the nation; but no state's allotment ratio may be greater than 0.6 or less than 0.4.

[f]Vocational Education and Handicapped require "fixed-amount" matching of federal funds (in the case of Handicapped, only the 25 percent state share of the grant must be matched. The term "fixed amount" means that the size of the federal grant, and therefore of the state contribution, is predetermined. In contrast, a "true" matching formula, such as the Title 1 incentive grant formula provides grant funds equal to a specified fraction, or multiple, of state spending. The state determines the amount of federal aid, within limits, by its own spending decisions.

The number of variables other than person counts that appear in the education grant formulas is surprisingly small. Under ESEA Title I (and now under ECIA Chapter 1), the level of educational expenditure per pupil in each state is taken into account in allocating funds for both LEA-operated and state-operated programs. Under the Vocational Education program, allocations to states depend on an "allotment ratio," which is a negative function of state per capita income. All other formulas represented in Table 3 distribute funds solely according to counts of pupils or other persons, without regard to other fiscal or educational characteristics of the states or localities. The paucity of factors in the existing formulas raises the issue, discussed in Chapter IV, of whether potentially relevant variables have been omitted from the fund distribution mechanisms.

Mathematical Forms. Most of the programs rely on simple *proportional allocation* formulas, whereby each grantee's share of a program's appropriation is the same as its share of the total number of individuals in the United States who fall into the specified person-count category. For instance, under several programs a state's percentage of the "pot" is the same as its percentage of the children aged 5-17 in the U.S. Two programs, Vocational Education and Headstart, use weighted, multiple-factor proportional allocation formulas, under which different fractions of the available funds are allocated in proportion to different person-count variables. In the case of Vocational Education, numbers of persons in the age groups 15-19, 20-24, and 25-65 are assigned weights of approximately .59, .24, and .18, respectively.[18] In the case of Headstart, equal shares of the available funds are allocated in proportion to the number of AFDC recipients and the number of children of ages 0-5 in families with incomes below the poverty line. A few programs allow a relatively small flat grant to each state but provide for proportional allocation of the remainder (ESEA Title VI, Adult Education).

The programs whose formulas include variables other than person counts, ESEA Title I, ECIA Chapter 1, and Vocational Education, allocate their funds in proportion to *adjusted* person counts. That is, each state's share is computed by multiplying the person count by the appropriate adjustment factor, and then comparing the resulting product with the sum of the corresponding products calculated for all the states.[19]

Two departures from the proportional allocation method are noteworthy. The formula for allocating ESEA Title I concentration grants (carried over to ECIA Chapter 1) contains the same factors as the basic Title I formula plus an additional multiplicative factor, the percentage of low-income children in excess of a specified concentration threshold. This illustrates the use of an *incidence* measure (the percentage of low-income children); also, it demonstrates that the grant amount may be a *nonlinear* function of a person-count variable (in this case, the number of low-income children).[20] The Title I incentive grant formula (also carried over to ECIA Chapter 1) illustrates the use of a *matching grant*. Under it, each state's grant is proportional (subject to a ceiling) to the amount that the state spends for programs "similar" to ESEA Title I. Thus, the state's own fiscal choices determine its share of the incentive grant funds. In comparison, two other programs with matching provisions, Vocational Education and Handicapped, offer only "fixed-amount" matching: each state's entitlement is predetermined, and states are required to match those amounts as a condition for receiving the aid. These fixed-amount matching requirements are not part of the fund distribution mechanisms, since they do not affect the size of a recipient's grant entitlement.

In sum, the elementary-secondary grant programs have relied on a limited range of very simple formulas. In contrast, federal programs in fields other than education use more sophisticated formulas, capable of taking into account multiple characteristics of jurisdictions (examples include the General Revenue Sharing formula and the Community Development Block Grant formula).[21] Also, many states have developed school finance formulas that take into account more factors, and do so in more sophisticated ways, than do the federal formulas.[22] The implications of relying mainly on simple, single-factor formulas are examined in Chapter IV.

Constraints on Allocations. State and local entitlements under some programs are subject to constraints, which supersede the basic formula in instances where they apply. Five types of constraints are represented in Table 3: (1) a lower bound on the number of dollars to

be allocated to each state (ESEA Title II, ESEA Title VI, Vocational Education; (2) a lower bound on the percentage of a program's appropriation to be allocated to each state (ESEA Title I concentration grants; ECIA Chapter 2); (3) an upper bound on the percentage of the appropriation that may be allocated to a state (ESEA Title I incentive grants); (4) a lower bound on the rate of increase in each state's entitlement, relative to the rate of increase in the total appropriation (Headstart); and (5) a "hold harmless" requirement, stipulating that a state's entitlement in one year shall not be less than that state's entitlement in some previous year (ESEA Title VI, Vocational Education, Handicapped). There are also constraints incorporated within the basic formulas themselves. Under the Handicapped program, for example, a state is entitled to a certain amount of assistance for each handicapped pupil served, but the number of pupils that may be counted is limited to 12 percent of the state's school-age children. Under ESEA Title I and Vocational Education, the adjustment factors in the formulas (based, respectively, on per pupil expenditure and per capita income) are not permitted to reflect the full range of interstate variation in those variables. All these constraints serve to limit the range of entitlements that would otherwise exist under the basic formulas.

Federal Rules Governing State-Designed Formulas

Prior to the passage of ECIA in 1981, two federal programs, ESEA Title IVB and Vocational Education, required states to develop their own formulas for distributing funds among LEAs. In both cases, federal rules stipulated that the state-designed formulas must take into account certain priorities and factors. ESEA Title IVB has now been folded into the block grant to states. However, the importance of this approach to intrastate allocation has increased because the new block grant itself (ECIA Chapter 2) requires states to develop formulas that incorporate certain federally specified allocation factors.

The ESEA Title IVB and Vocational Education specifications are (or were) as follows:

ESEA Title IVB provided that federal funds should be apportioned among LEAs according to enrollments in public and private schools within each district, adjusted to provide higher allocations to (1) LEAs whose

tax effort to support education is substantially above the state average but whose per pupil expenditure is below average, and (2) LEAs with the greatest numbers of costly-to-serve children, "such as children from low-income families, children living in sparsely populated areas, and children from families in which English is not the dominant language."[23] The implementing regulations specified further that any LEA receiving additional funds under the adjustment provision must receive extra funds per pupil at least equal to the amounts distributed on the basis of enrollment. To satisfy this rule, each state had to establish a multi-part formula, distributing a portion of the available money among all LEAs according to enrollment and the remainder among those LEAs qualifying under the so-called adjustment factors. The issues of rationality and equity raised by this procedure are discussed in later chapters.

The Vocational Education Act sets forth a series of rules governing state-designed formulas.[24] First, states must "give priority" to districts that

> (i) are located in economically depressed areas and areas with high rates of unemployment, and are unable to provide the resources necessary to meet the vocational education needs of those areas without Federal assistance, and
>
> (ii) propose programs which are new to the area to be served and which are designed to meet new and emerging manpower needs and job opportunities in the area and, where relevant, in the States and the Nation....

Second, states are directed to distribute funds according to "economic, social and demographic factors relating to the need for vocational education among the various populations and the various areas of the State," including as the "two most important factors" (a) the relative financial ability of each LEA to provide resources for vocational education, and (b) the relative number or concentration of low-income families within each LEA. Third, states are told *not* to distribute funds among LEAs merely in proportion to enrollments or by matching local expenditures at a uniform percentage rate, nor to deny funds to any recipient making a reasonable tax effort solely because that recipient is unable

to pay the nonfederal share of the cost of new programs. Significantly, nothing is said about how the various "priorities" and "factors" are to be combined into a single formula, nor about the weights that must be assigned to the various factors when they are "taken into account." For this reason and others, a number of policy problems have been created by the current Vocational Education rules.

The new block grant program, ECIA Chapter 2, adheres in some respects to the ESEA Title IVB and Vocational Education prototypes. It requires each state to distribute not less than 80 percent of its Chapter 2 grant among local agencies

> according to the relative enrollments in public and non-public schools within the school districts of such agencies, adjusted, in accordance with criteria approved by the secretary, to provide higher per pupil allocations to local educational agencies which have the greatest numbers or percentages of children whose education imposes a higher than average cost per child, such as--
> (1) children from low-income families,
> (2) children living in economically depressed urban and rural areas, and
> (3) children living in sparsely populated areas.[25]

Note that while this language recognizes the problem of special-need children, as do the requirements of ESEA Title IV and Vocational Education, it parts from the two earlier programs in not also identifying limited ability to finance education as a relevant factor. Note also that nothing is said about the degree to which allocations should be skewed in favor of districts with high concentrations of costly-to-educate children.

Recently issued Department of Education regulations for ECIA Chapter 2 add nothing to the above statutory language. In fact, the Department of Education has explicitly disclaimed any intention of producing more specific standards or guidelines, indicating instead that the Department will approve any formula "reasonably calculated to produce an equitable distribution of funds with reference to the factors listed in [the statute].[26] What the statutory requirement will mean in practice consequently remains to be determined.

DISCRETIONARY ALLOCATION PROCESSES

Discretionary processes have been used by federal agencies to distribute certain grants directly to LEAs and by states to distribute federal funds among their LEAs, as authorized by federal statutes. Reliance on discretionary processes is greatest where funds are either distributed to relatively few LEAs with special needs or problems or awarded to the winners of project-grant competitions. Table 3 understates the role of discretionary processes because it includes few of the smaller grant programs, which relied on them most heavily. This section deals first with the federal discretionary processes and then with federal rules governing the discretionary processes operated by the states.

Federal Discretionary Allocation Processes

Three important federal education programs, Bilingual Education, Emergency School Aid (ESEA Title VI), and Headstart, provide (or provided) direct discretionary grants to local agencies. Certain aspects of the discretionary processes, especially the allocation criteria, are specified in the applicable laws and regulations. Other aspects, such as the methods used to rate applications according to the stated criteria, are not prescribed by the formal legal structure and consequently are less accessible to scrutiny. This inquiry unfortunately is limited to the former aspects. A study of the latter aspects would probably be valuable to policymakers but would require detailed investigations, including interviews and reviews of records within the individual program offices.

The Bilingual Education Act (ESEA Title VII) and its regulations establish detailed criteria for selecting grantees but say almost nothing about the selection process itself. The statement of criteria is in two parts. First, the regulations lay out a rating scheme under which points are awarded to proposals from the LEAs according to the following schedule:[27]

1. Need (based on the percentage of the limited-English-proficient (LEP) children to be served who have not previously been served under the Act) ..... 10 points

2. Need (based on the percentage of LEP children to be served who are from low-income families) ..... 5 points

3. Rationale for selection of project site and participants ..... 10 points

4. Instructional approach ..... 15 points

5. Performance objectives ..... 15 points

6. Evaluation plan ..... 15 points

7. Quality of personnel ..... 20 points

8. Commitment and capacity ..... 20 points

But the resulting scores do not determine the winners. Rather, according to the regulations, the numerical ratings are to be considered as one factor, along with a number of other factors named in the Act itself. These additional factors include (a) the need to serve children who have "historically been underserved" by bilingual education programs, (b) the desirability of distributing funds in proportion to the "geographical distribution of children of limited English proficiency throughout the Nation," (c) the "relative [financial] ability" of LEAs to carry out bilingual education programs, and (d) the "relative numbers of persons from low-income families" to be benefited by the programs.[28]

Both the subjective nature of some criteria in the rating scheme (e.g., "commitment and capacity") and the requirement to take into account the aforementioned additional factors (with unspecified weights) provide tremendous leeway to program administrators. The formal legal framework conveys very little information about how grantees are actually rated and selected and how grant amounts are determined. It would take both an analysis of past awards and applications and a field study of the selection process to fill this information gap.

The Emergency School Aid program (ESEA Title VI) was also supposed to distribute grants according to formal allocation criteria prescribed

in its regulations. These regulations established, first, a detailed mathematical procedure for ranking applicants according to (a) the change over time in the degree of racial isolation in their districts, and (b) the anticipated change in minority concentration in the applicant's schools under the applicant's desegregation plan.[29] Once ranked, the applications were to be "considered for award" in rank order within each state according to the following criteria, for which no weights were specified:[30]

A. Relevance of project objectives to the desegregation plan,

B. The magnitude of plan-related educational needs addressed by the project,

C. Realism of the applicant's timeline,

D. Quality of the proposed methods,

E. Effectiveness of the proposed management plan,

F. Qualifications of the key personnel,

G. Adequacy of resources to carry out the project,

H. Adequacy and reasonableness of the proposed budget,

I. Quality of the evaluation plan,

J. Quality of the applicant's assessment of effects on "traditionally underrepresented groups," and

K. Degree of commitment of community educational resources.

Nothing is said about how or by whom these criteria are to be applied, nor about the respective weights to be accorded the listed criteria and the aforementioned numerical rankings.

Here, even more than under the Bilingual Education program, the stated criteria allow extremely wide leeway for the exercise of administrative discretion, and the formal structure itself conveys very little about how the process works. To learn more, one would have to investigate the inner workings of the selection process (necessarily

a retrospective inquiry, since ESEA Title VI has been folded into the new block grant).

The Headstart regulations specify criteria for choosing among applicants as follows:[31]

> The basis for making a selection among applicants for a Head Start program shall be the extent to which the application selected reasonably promises the most effective and responsible Head Start program of the approvable applications submitted in terms of (a) the cost-effectiveness of the program proposed to be provided; (b) the qualifications and experience of the applicant in planning, organizing, and providing comprehensive child development services at the community level; (c) the provisions made for direct participation of parents in the planning, conduct, and administration of the program; (d) the opportunities provided for employment of target area residents and career development opportunities for paraprofessionals and other staff; (e) the suitability of the facilities and equipment proposed to be utilized in carrying out the Head Start program; and (f) the administrative and fiscal capabilities of the applicant to administer all Head Start programs carried out in the community.

Once again, no particular selection process is prescribed in the regulations, and little information about the actual workings of the process can be gleaned from the formal structure.[32]

Federal Rules Governing State-Run Discretionary Processes

The federal programs that give states discretion to distribute federal funds among their LEAs generally impose few restrictions on the state-run allocation processes. The following examples illustrate the minimal degree of federal control:

Under the Migrant Education program (part of ESEA Title I, part B), states are authorized to establish their own criteria for project approval. They are directed to allocate funds among the selected local agencies according to the number of children to be served, the nature and scope of the services, and "any other criteria developed by the State relevant to matters of the State migrant education program."[33]

Under ESEA Title II (state programs to improve basic skills), the federal regulations defined eligible types of projects relatively precisely and specified certain items of information that each grant

application had to contain but said nothing about procedures or criteria to be used by the states to select grantees and allocate funds among them.[34]

Under the Handicapped Act, there are no stipulations at all regarding how states should allocate funds to LEAs (if the state chooses to make such allocations) from the 25 percent of federal funds reserved for use at the states' discretion.[35]

Under ESEA Title IVC (projects to improve educational practice), the states were told only to distribute funds on an "equitable, competitive basis."[36]

One program that goes somewhat further is Adult Education. The program regulations direct the states to conduct a competitive process and to develop selection criteria that "take into account" eight factors, which are similar to the factors prescribed for the Bilingual Education and Emergency School Aid programs. Each state must also include in its state plan a description of the method to be used in allocating funds among the approved applicants. As in the federally operated discretionary programs, these requirements appear to leave ample room for administrative discretion.[37]

States exercise virtually full power to shape their own discretionary fund allocation processes under these programs. The federal legal framework provides few guidelines, much less constraints. It would take an ambitious study, covering at least a sample of states, to develop even rudimentary descriptive information on how this component of the federal fund allocation system actually operates.

III. FEDERALISM AND FUND DISTRIBUTION

This chapter deals with issues of intergovernmental relations, or federalism, in the distribution of federal education grants to states and localities. It asks: Do the existing intergovernmental arrangements make sense? Are they compatible with and helpful in promoting the purposes of the grant programs? Do they provide the framework for an equitable distribution process?

For concreteness, the issue of whether present arrangements "make sense" is broken down into several more manageable questions:

- Is there a reasonable *division of responsibility* for fund distribution between the federal government and the states? Is there a rationale for the present *differences* in federal and state roles under the different programs?
- Do the present arrangements promote *coordinated* distributions of federal and nonfederal funds that finance similar programs or services?
- Are there workable arrangements for *sharing* allocative responsibility between the federal government and the states, or for *delegating* authority to the states?

In addition, there is the cross-cutting policy question, which arises wherever present arrangements seem deficient:

- What *alternative* intergovernmental structures merit consideration for the future?

For expository convenience, a distinction is made between the foregoing federalism questions, discussed in this chapter, and questions of equity, discussed in Chapter IV. It is evident, however, that the two issues overlap. One criterion for judging whether the present federal-state division of responsibility is reasonable is

whether it promotes distributional equity. Accordingly, equity issues are considered as they arise in the federalism discussion, although the full discussion of equity questions is deferred to Chapter IV.

FEDERAL AND STATE ROLES IN FUND DISTRIBUTION

The central issue of federalism is the division of power among different levels of government--in this case, the division of authority between the federal government and the states to allocate federal education funds. Some views on this issue are strongly grounded in ideology. Those who see no legitimate federal role in education are likely to oppose any exercise of federal control, including control over fund distributions within states; those who believe that the federal government should pursue educational goals neglected by or resisted by the states are likely to favor as much federal control as is necessary to accomplish the putative national purpose. Ideologies that give rise to conflicting views of federalism in education are not within the purview of this paper. Rather, a narrower and more tractable form of the division-of-power question is considered: given the present programs and their purposes, as stated by Congress, do the present federal-state divisions of allocative authority make sense; if not, what alternative federal and state roles might be preferable?

A starting point for the analysis of federal and state roles is the observation that these roles vary sharply among programs. As shown in Chapter II, the intrastate distribution process is entirely or almost entirely federally controlled in some cases (ESEA Title I, part A, Bilingual Education, Impact Aid), partially federally controlled in others (Vocational Education, ESEA Title IVB), and wholly state-controlled in still others (ESEA Title I, part B, ESEA Titles II and IVC, Adult Education). A partial rationale for these differences, already suggested, is that federal control has been asserted where there is a federally protected target group and/or a civil-rights motive for federal aid, while distributions have been left to the states under less sensitive programs. Yet this explanation alone is not compelling. That the federal goal is "sensitive" does not necessarily imply that the goal is best achieved by retaining control over allocations at the

federal level. Nor is the nature of the educational goal the only relevant program characteristic. As will be shown, it is difficult to argue, once other program attributes are taken into account, that the present arrangements make sense in some of the more important federal programs.

The Feasibility of Meaningful Federal Control

Before asking whether federal control over within-state distributions of aid is *desirable*, one should establish that such control is *meaningful*. Is it realistic to believe that prescribing how federal aid shall be allocated can influence the distribution of funds or services among LEAs? Had that question been considered by Congress when it established grants to support vocational education and education for the handicapped, the fund distribution mechanisms of those programs might now have very different forms.

The most important determinant of whether the federal government can influence the district-level distribution of funds is the *federal share of financial support* for the program or service in question. Where that share is dominant or large, as in compensatory education, federal prescriptions mean something; where the federal share is small, as in vocational education and education for the handicapped, prescribing how the federal money should be distributed is an empty gesture. In both vocational and handicapped education, there are ten or more state and local dollars for every federal dollar. Consequently, no matter what distribution of federal aid is mandated, that distribution can easily be offset by redistribution of the much larger nonfederal share. In these situations, it makes no sense for the federal government to specify how the federal grant funds shall be allocated unless it is prepared to control the distribution of state and local funds as well. Prescribing how a small fraction of the available funds shall be distributed is an exercise in futility; it can have little influence on the actual distribution of resources and services among the LEAs.

The misconception that presumably motivates attempts to control the LEA-level distribution of aid even where the federal role is small is that distributions of nonfederal money are unaffected

by the federal grants. If that were true, then federal grants, though relatively small, could affect the overall distribution at the margin. It would be possible, for example, for the federal government to channel extra funds to urban, low-income, or other preferred categories of districts. It is naive, however, to believe that federal funds will simply be superimposed upon the distribution of nonfederal funds that would have existed in their absence. Realistically, state governments have both the means and the motive to take the distribution of federal aid into account when deciding how to distribute their own funds for categorical programs. If, for example, a state considers that federal aid is too skewed in favor of urban districts, it can "correct" by skewing its own aid somewhat less in favor of the cities than it would have in the absence of the federal funds. Even where federal aid constitutes a substantial share of the available funds for a given program, the power of the state to reshape its own distribution mechanism in response to the federal mechanism means that state rather than federal preferences are likely to prevail.[38]

The possibility that meaningful federal control can be asserted is further diminished where federal formulas apply to only a portion of the federal funds. Under the Handicapped program, for example, the federal government prescribes how 75 percent of federal aid shall be distributed to LEAs; the remaining 25 percent can be distributed at state discretion (or retained for the state's own use). By manipulating the discretionary 25 percent, a state can make the overall distribution of funds look very different from the federally prescribed pattern of the other 75 percent.[39] Suppose, for instance, that a state believes that aid for education of the handicapped should reflect the level of special-education outlays in each LEA, while the federal government prescribes a uniform allocation per handicapped pupil, regardless of the level of outlays. By directing its discretionary funds to "high-outlay" districts, the state could, in effect, overrule the federal decision.

The last point has direct implications for the new education block grant. Under that program (ECIA Chapter 2), each state must distribute 80 percent of its grant to LEAs by means of a state-designed formula of federally specified type; the remaining 20 percent may be distributed or used at state discretion. The combination of a discretionary 20 percent

and partial state control over the remaining 80 percent probably makes this distribution mechanism indistinguishable in practice from 100 percent state discretion.

Another program characteristic that determines whether federal control over the intrastate distribution of federal funds is attainable is the specificity of the purpose of federal aid. The more specific the purpose, the narrower the target group, or the more separate the aided activity from the regular education program, the better the chance of effective control. Thus, the federal government is more likely to be able to influence resource distributions under targeted programs like ESEA Title I and Headstart than under a program like ESEA Title IVB, which though nominally a subsidy for instructional materials, effectively provided general aid. The possibility of influencing the actual distribution of resources is smallest under an unrestricted aid program or block grant, since any specified distribution of the federal aid is easily nullified by a tiny change in the distribution of state general aid to districts.

Thus, while federal authority over the intrastate distribution of aid can always be asserted in name, such assertions mean little in fact under most federal programs. Federal control is rendered infeasible by the small size of the federal contribution under the Handicapped and Vocational programs and by the general purpose of the aid under the Chapter 2 block grant. Even under ESEA Title I (ECIA Chapter 1), where circumstances favor federal control, the federal government's potential influence varies from state to state, depending on whether and to what extent the state supports compensatory education. Where the state contribution is substantial, as in New York and California, the state can deploy its own money in a way that alters the federally specified pattern. There is no effective barrier in federal law or regulations to such offsetting state behavior.[40] Ideological arguments notwithstanding, it makes little sense to assert federal control over district-level distributions except where either (a) federal funding is dominant, or (b) the federal government controls the distributions of nonfederal as well as federal funds.

The Desirability of Federal Control

Even assuming that federal control over the within-state distribution of aid is feasible, the question remains of whether it is desirable. Does prescribing the allocation of aid among LEAs help to advance the goals of the federal programs? There are two opposing arguments. The argument favoring federal control is sometimes *necessary* to goal achievement because states would otherwise not distribute aid according to the incidence of federally perceived educational needs. In particular, some states allegedly have little interest in channeling extra resources to districts with concentrations of poor people and racial or linguistic minorities. Left to their own devices, these states might choose to spread federal aid widely, slighting the intended target groups and thereby undercutting the federal program. The counterargument is that federal control may be self-defeating because the federal government has *less capacity* than the states to distribute funds in a reasonable relationship to educational or fiscal needs, as is evidenced by the crudeness of existing federal formulas. Consequently, asserting federal control over intrastate distributions may impede rather than advance federal goals. To see how these arguments balance out, it is necessary to examine particular federal programs.

The case for federal control is probably weakest in connection with aid for education of the handicapped. Under that program, federal aid is (nominally) distributed to LEAs solely in proportion to the number of handicapped children receiving special-education services in each LEA, without regard to either the types of children served or the nature, adequacy, and cost of the services. This makes little educational or fiscal sense, given the tremendous range in the severity of handicapping conditions and in the costs of educating different kinds of handicapped children.[41] Were it not for the predominance of nonfederal funds, the federal formula might generate serious inequities and mismatches between resources and educational needs. In comparison, many state systems for funding special education deal in detail with variations in educational and financial needs. Various state formulas, for example, assign differential weights to as many as 10 or 20 different types of handicaps, allow for variations in service costs, and take into account local ability

and/or willingness to pay for special education services.[42] Federal funds for the handicapped would probably be distributed more intelligently in many states if the states were allowed to use their own formulas to allocate federal aid instead of being forced to use the crude federal formula.

One may ask, "is it not possible for the federal government to develop more-refined formulas of its own, perhaps emulating the more advanced states, and thereby to neutralize the capacity argument?" The answer appears to be "no." That option is precluded by the absence of nationally applicable definitions of handicapping conditions and the lack of uniform national data on handicapped pupils, modes and costs of services, financial ability, and other relevant variables. While each state can develop a formula based on its own definitions and data systems, no federal formula would be applicable--or even meaningful--to all the states. It is, of course, technically feasible to develop and implement a national system, but that would be costly and almost certainly politically unacceptable, since it would be necessary to impose federal categories on every state. For better or worse, diversity of definitions and data must be taken as a given characteristic of the system, and one that severely limits the potential federal role.

Turning to the "need" for federal control, there is little reason to believe that states would be inclined to discriminate among districts in distributing federal aid for the handicapped. Handicapped children, unlike poor and language-minority children, are not concentrated in certain types of districts (e.g., central cities), which may be unpopular with state legislatures. Many states have demonstrated by their actions that they are as intent as is the federal government on channeling extra resources to the handicapped and that they have the will and capacity to distribute such resources among LEAs according to the incidence of special-education problems. Considering that states appear no less inclined and are probably better equipped than the federal government to allocate special-education funds reasonably, one must conclude that federal control over intrastate distributions is not justified, even if it were attainable, under the Handicapped program.

In contrast, the case for federal control is stronger in the area of compensatory education. Admittedly, the formulas for distributing compensatory education grants under ESEA Title I/ECIA Chapter 1 are no

less crude than the formulas used to distribute aid for the handicapped. Pursuant to statute, federal money is distributed within states solely according to the number of low-income children in each LEA, without regard to the degree of poverty, the incidence and severity of educational problems, or the nature or cost of the LEA's compensatory education services. Moreover, the lack of comparable data from different states on degrees of educational and economic disadvantage is as severe a problem as the corresponding lack of national data on handicaps. What distinguishes the program for the disadvantaged from the program for the handicapped, however, is that states have done no better than the federal government in allocating compensatory education funds according to educational or financial needs. Most states provide no compensatory education funds at all or none of any significance. The states that do support compensatory programs (or other programs aimed at the disadvantaged) typically base their allocations on single factors, such as the number of poor children in an LEA or the number of children performing below a specified educational standard.[43] Because it has not been demonstrated that states are equipped to deal with multiple dimensions of need or gradations in the need for compensatory education, the "capacity" argument favors neither state nor federal control.

On the other hand, the claim that federal control is necessary to protect the intended beneficiaries carries far more weight in the case of education for the disadvantaged than in the case of education for the handicapped. There is good reason to believe that some states, given the authority, would distribute ECIA Chapter 1 funds in a manner inconsistent with the federal government's definition of compensatory education needs. Unlike aid to the handicapped, which serves a large middle-class constituency, Title I is a redistributive program that favors districts with large concentrations of poor and minority pupils. Political support for these districts and pupils is generally weaker at the state level than at the federal level.[44] Consequently, devolution of authority to the states would probably result in shifts of funds away from the present target districts and pupils, detracting from the purpose of the federal program. In sum,

because federal control over the intrastate distribution of funds is necessary to protect federal interests in compensatory education, while there are few reasons to believe that states would allocate funds better if the authority were transferred to them, continued and even strengthened federal control over the intrastate distribution of funds can be justified in the compensatory education field.

Essentially the same arguments apply to Bilingual Education as to ESEA Title I, with the important difference that federal funds for bilingual education are allocated as discretionary grants rather than by formula. The significance of discretionary funding is that one cannot judge without carrying out a special study whether the present federal fund distribution system allocates funds in a reasonable, responsive, or equitable manner. This problem notwithstanding, there is no evidence that state allocations would be more reasonable than the present federal distribution, nor that states, left to their own devices, would continue to channel extra resources to the federally defined target group. Therefore, there is at least a presumption in favor of retaining the present federal control over the district-level distribution of federal bilingual education funds. Whether the present discretionary grant program should be replaced with a formula grant program is a separate issue, discussed in Chapter IV.

Finally, consider Vocational Education. Under the vocational program, unlike the other programs discussed above, the federal government has not asserted full control over the intrastate distribution of federal funds. Rather, allocative authority has been shared with the states. Specifically, the law requires each state to design its own formula for distributing aid to districts, but each such formula is to reflect federally prescribed "priorities" and "factors" (as described earlier in Chapter II). Setting aside for the moment that the small share of federal funding for vocational education makes it unlikely that real federal control could be achieved, is the present sharing of authority desirable? Would it be preferable to have either more complete federal control over within-state distributions or a more extensive delegation of authority to the states?

The capacity argument points towards delegation of substantial allocative authority to the states. Consider the "priorities" and "factors" set forth in federal law. The items that states are expected to take into account are more numerous, detailed, and subtle than the items found in any federal formula. It would be virtually impossible for the federal government itself to write a formula that takes, e.g., the relative financial ability of LEAs into account because of the lack of uniform national data on that variable.[45] To carry out the intent of the law, the responsibility for detailed formula design must be delegated; the federal government cannot do the job itself.

Whether federal control is needed to protect the intended beneficiaries of Vocational Education grants is less clear. On one hand, vocational education is less vulnerable in state political arenas than are redistributive target-group programs like compensatory and bilingual education, although it is probably more vulnerable than education for the handicapped (there is a "class" element to vocational education that could result in conflicts over shares between middle-class suburban districts and districts with larger low-income or working class populations). The prospect of class-based discrimination is probably not serious enough, however, to warrant federal control over the interdistrict distribution. On the other hand, it is unlikely that the specific federal distributional priorities stated in the law would be taken adequately into account if states were given full discretion. Based on past performance, many states would probably not give much weight, on their own initiative, to such factors as unemployment, the concentration of low-income people, and whether an area is economically depressed. These factors are likely to appear in state formulas only if the federal government mandates their inclusion.

The present allocative approach in Vocational Education can be interpreted as a compromise: by delegating authority to the states, the government seeks to obtain a more sensitive and detailed formula than it could have designed itself; by requiring that state formulas contain certain factors, the government seeks to ensure that its own

distributional goals will not be neglected. This is not to suggest that the present compromise works well. It has serious, perhaps disabling flaws, which will be examined below. Nevertheless, the present shared-power arrangement in the vocational program does bring out two important points about federalism in education: (1) there is no need to make an either-or choice between federal and state control; allocative authority can be shared, and (2) there is a trade-off between the degree of federal control and the degree to which distributions can be "fine tuned" to reflect multiple characteristics of the LEAs.

Summing up the discussions of both the feasibility and the desirability of federal control, federal prescriptions of how federal aid should be distributed within states can be *effective* only where federal aid provides a dominant share of financing for the service in question, while federal control is *important for the achievement of federal goals* where there are federal distributional concerns, such as the protection of certain target groups, that the states may not share. Where a federal interest is at stake but the small share of federal funding makes it pointless to specify how federal aid should be allocated, the only alternatives are to eschew federal control or to seek influence over the *combined* distribution of federal and nonfederal funds. But even where federal control is feasible, exercising such control directly may not be the best option because of the limited federal capacity to design sensitive fund allocation mechanisms; rather, it may be preferable to seek a workable mixed model, in which states take charge of the detailed allocations, but the federal government sets general allocative priorities and provides incentives for the states to pursue federal distributional goals. There are thus two classes of federal policy options to consider: strategies for coordinated distribution of federal and nonfederal funds, and strategies for delegating partial authority to the states. These are taken up in the following two sections.

COORDINATED DISTRIBUTION OF FEDERAL AND NONFEDERAL FUNDS

A conspicuous shortcoming of federalism in education is that there is little coordination between federal and nonfederal programs aimed at the same purposes and target groups. The federal and state-local

programs typically are each designed to operate independently, as if the other did not exist. This lack of coordination affects many aspects of the programs, including administration, program content, and service delivery, but the issue of immediate concern here is that it affects the distribution of funds to LEAs. The problem, simply put, is that the federal and nonfederal distribution mechanisms are separate. Each allocates aid according to its own criteria, without taking account (at least explicitly) of the allocations of the other. The combined distribution consequently bears no necessary relationship to what either the federal or nonfederal policymakers intended.

One reason for the lack of coordination is that federal and state policymakers sometimes disagree about the appropriate criteria for allocating funds. For instance, federal compensatory education funds are distributed according to the number of low-income children in each LEA, while some state funds for compensatory education (e.g., in Michigan, New York, and New Jersey) are distributed according to indicators of low educational performance. The resulting overall distribution pattern naturally reflects a mix of the federal and state criteria (implicitly, a weighted sum). There is nothing necessarily wrong with this outcome, and there is no way to avoid it without one party yielding to the other's philosophy. In other cases, however, the federal-state differences in allocative approaches seem more matters of inertia, happenstance, or plain lack of communication than matters of educational philosophy. It is difficult to believe, for example, that the federal formula in the Handicapped program reflects a deep-seated philosophy that handicapped funds should be allocated on a flat per pupil basis, without regard to the characteristics of handicapped children or their programs. There, the disjunction between federal and state distribution methods is unnecessary; it merely complicates the states' task of ensuring that handicapped children in all LEAs receive "appropriate" special education services, as required by P.L. 94-142. Where there is no substantive reason for there to be two sets of allocative criteria, the existence of dual distribution systems is a needless impediment to rational, equitable allocations. A unified system within each state for distributing both federal and nonfederal funds would be preferable.

Another reason for lack of coordination is that federal law usually requires separate allocation and handling of the federal funds. The statutes and regulations of the education grant programs are replete with

requirements for "tracking" federal funds, prohibitions against "commingling" federal and nonfederal money, and strictures against using federal aid to "supplant" funds from state and local sources. It would be difficult to design a system for allocating funds in a coordinated manner without violating some of these rules.

Underlying these separation requirements is an unrealistic model of resource allocation in education: the implicit assumption is that states and LEAs allocate their own funds without regard to the availability of federal money for the same program, and then use the federal funds to provide supplementary resources for federally designated LEAs and pupils. But such behavior is implausible. Realistically, any competent state official or legislator will take the availability of federal money--and its prescribed distributional pattern--into account in deciding how to distribute state funds. Consequently, requiring grantees to keep their federal money separate provides no assurance that federal funds will *add to* the state and local funds that *would have been provided* in their absence. Except in the few instances where federal funding is dominant, the distributions of federal and nonfederal funds are likely to be interdependent regardless of whether formal separation of the funds is required.[46] Keeping federal and nonfederal funds separate on paper cannot change this, but can entail a needless loss of coordination. A more productive approach would be to develop a coordinated method of distributing the combined federal and nonfederal funds in a manner consistent with the federal goals.

As explained earlier, coordinating the distribution of federal and nonfederal funds is the only effective way to assert some federal control over the interstate distribution of resources where the federal share of program financing is small. In the absence of coordination, state preferences will prevail, regardless of what rules apply to the small federal contribution. Particularly in the areas of vocational education and education for the handicapped, the only way to assert a meaningful federal role is to establish procedures for the coordinated, combined distribution of federal and nonfederal funds.

What might a coordinated fund distribution system look like? Presumably, coordination means that federal and nonfederal funds would be

given out either together (according to a single formula) or in such a way that the joint distribution reflects a single set of allocative criteria. There appear to be several methods of achieving this end, some of which give the initiative to the federal government, others to the states.

One approach is to let each state use its own distribution mechanism to give out federal as well as state funds, provided that the method satisfies certain minimum federal standards of equity. This approach is attractive for programs like Handicapped and Vocational Education, where separate allocation of the federal funds makes no sense because of the small federal financial share and where more extensive federal control is neither desirable nor attainable.

A second, somewhat stronger approach is to establish federal standards of equity that apply to all available funds for a program, whether from federal or nonfederal sources, and to require states to meet those standards as a condition of eligibility for federal aid. For example, a federal standard might provide that all vocational education funds must be equalized to a specified degree for variations in local fiscal capacity. The obvious problem with this alternative is that it entails a major and probably politically unacceptable enlargement of the sphere of federal control.[47]

A third approach is to induce states to distribute their own funds according to a federal formula (e.g., state compensatory education funds according to the ECIA Chapter 1 formula) by offering fiscal or nonfiscal incentives. The existing incentive grant provision of ECIA Chapter 1 provides a framework for a fiscal incentive--i.e., one in which states are rewarded for federally preferred behavior with additional federal aid.[48] A nonfiscal incentive might consist of relaxation of certain programmatic or procedural requirements for states that agree to use the federal allocation formula.

Finally, a fourth method is to let states develop their own proposed formulas (within specified federal guidelines) for distribution of the combined resources--federal and nonfederal--available for a given program. These proposals would be negotiated, approved, and then embodied in formal agreements between the federal government and the

states. Obviously, changes in legislation and regulations would be needed to allow this form of differential treatment of different states.

All these proposals are offered tentatively, and all would have to be developed extensively to merit consideration. The list of options suffices, however, to make the point that there are a number of plausible alternatives to the present uncoordinated system.

DELEGATING ALLOCATIVE AUTHORITY TO THE STATES

The alternative federal strategy is to search for workable mixed distribution models, in which the federal government establishes general allocative principles or priorities for the distribution of aid to districts but delegates the responsibility for detailed formula design to the states. The theoretical advantage of the mixed model is that it capitalizes on the greater capacity of states to take multiple dimensions of the educational and fiscal needs of their districts into account, while retaining some federal leverage to promote federal distributional goals. The enactment of ECIA Chapter 2, which specifies a mixed model for distributing block-grant funds, makes it especially relevant to explore the mixed approach. Unfortunately, the two previous experiences with partial delegation of authority--in ESEA Title IVB and Vocational Education--are not encouraging. Under neither program have the potential benefits of the mixed strategy been realized. It is important to learn from these two experiences, so that more satisfactory methods of delegating authority can be developed in the future.

Both the ESEA Title IVB and Vocational Education funding mechanisms are the subjects of recent evaluations.[49] The resulting evaluation reports provide the basis for the following comments.

ESEA Title IVB required each state to develop its own district-level distribution formula but imposed an awkward and--as it turned out--ineffective set of constraints on the type of formula that could be used. Each state formula was to distribute funds according to district enrollment but also to channel extra funds to districts with (a) high educational tax effort and low per-pupil outlay, and (b) large numbers of costly-to-serve children (a fuller description appears in

Chapter II). At least as much money per pupil was to be distributed according to the two special-need factors as according to enrollment. These specifications forced states to establish discontinuous funding formulas, under which each LEA either did or did not qualify for extra funds based on the special-need factors. States were required, in effect, to divide their Title IVB grants into separate portions, one to be distributed among all districts according to enrollment, the others to be distributed only among districts with above-threshold levels of the two special-need factors. Smoother methods of adjusting for special needs were precluded. These requirements did not produce the intended results: districts with low fiscal capacity and high concentrations of costly-to-serve children did not receive significant extra funds, as Congress clearly intended; instead, allocations turned out to be almost as highly correlated with enrollment as if they had been distributed as flat per-pupil grants.[50] The evaluators attributed this unexpected result to the states' tactic of incorporating multiple special-need factors into their formulas in such a way that the different factors essentially cancel out, producing a distribution little different from a proportional allocation according to enrollment.

Similarly, the recent assessment of state-designed formulas for allocating federal Vocational Education aid found serious problems with both the federal requirements and the state responses. As explained in Chapter II, the main requirements in Vocational Education are that states must "give priority" to districts located in economically depressed or high-unemployment areas and districts that propose "new" types of vocational programs, and must distribute funds on the basis of multiple need factors, specifically including the relative financial ability of each LEA and the concentration of low-income families. The analysts found that the federally prescribed "priorities" and "factors" are ill-defined and in conflict with one another; that the states have not been given clear interpretations or guidelines by the Department of Education; and that the state-designed formulas have many arbitrary, irrational, and inequitable provisions.[51] The extent of the problem was dramatized by the Department's failure as of 1980 (five years after enactment of the legislative requirements), either to issue specific criteria or to approve *any* state formula developed under the rules.

The main problems with the ESEA Title IVB and Vocational Education rules are lack of specificity, lack of an outcome orientation, and consequent vulnerability to state manipulation. States are told to "take into account" or "adjust for" certain factors, but are not told which specific variables or how many variables to include in their formulas nor how much weight to give each factor. Nor are there guidelines concerning the desired distributional results. Lacking specific guidance, it is not surprising that some states have chosen to give only minimal weight to the federally prescribed factors (in Vocational Education) or to include multiple factors that cancel each other out (in ESEA Title IVB). It seems clear that these delegations of authority must be made more specific to accomplish the federal intent.

There are several ways to frame more concrete, less manipulable requirements. One approach is to specify in more detail what the state formulas should look like. This could entail (a) naming the specific types of variables to be included in the formula--e.g., a poverty or low-income variable, an index of pupil need, a fiscal capacity variable; (b) specifying how (i.e., in what form) variables should be incorporated into the formula--e.g., as a weighted sum or as multiplicative adjustment factors; and (c) specifying either the weights (or minimum weights) to be assigned to particular variables or the shares of funds to be allocated according to each variable--e.g., that a low-income pupil should count at least 1.5 times as much as a regular pupil or that one-third of the funds should be distributed according to the number of low-income pupils in each district. There is little doubt that a series of such specifications could lead states to develop formulas with the intended effects. After a certain point, however, adding detail defeats the purpose of delegating authority. In the extreme case, states would be allowed to do little more than choose the specific indicators to be used in a federally written formula, just as they are now allowed only to select the particular measure of poverty to be used in distributing ECIA Chapter 1 funds among LEAs.

An alternative approach (which may seem more or less restrictive, depending on one's perspective) is to specify the distributional outcomes to be produced by the formula rather than the design of the

formula itself. For instance, states might be directed to produce a certain range of variation in per-pupil grant amounts between high-income and low-income districts or between districts with high and low concentrations of special-need pupils; alternatively, they might be asked to satisfy a more sophisticated criterion, such as equalizing the local tax effort required to produce a given level of support for each target-group pupil. Such specifications would force states to favor certain classes of districts to at least a specified degree but would not dictate the details of the formula itself. It could prove difficult, however, to write outcome standards that are applicable to and attainable by all 50 states. Any given set of standards may be too restrictive for some states and too loose for others. Also, if standards are written tightly enough to avoid manipulation, they may constrain the choice of means so tightly as to be tantamount to specification of the actual formula. Nevertheless, the possibility of an outcome-based approach seems worth exploring, at least to the point of developing hypothetical standards for particular federal programs.

A third approach, which also involves a type of performance standard, is to link the federal requirements to the state's own school finance system. For instance, federal rules might specify that allotments of federal funds to LEAs should be at least as negatively related to local financial capacity as are allotments of the state's own general aid funds. This would allow states to use the same types of mechanisms to distribute federal funds as they use to distribute state funds (thereby, incidentally, encouraging coordination of federal and state aid). Unfortunately, not all state aid allocation systems are likely to qualify as suitable standards. Some state aid systems do little to help either districts with low fiscal capacity or districts with concentrations of costly-to-educate children. In consequence, it would probably be necessary to limit this approach to states with "qualifying" systems, which means that different requirements would have to be imposed on the remaining states. While no single approach is ideal, any of the foregoing approaches, or a combination of approaches, would certainly be preferable to the present flawed approaches in Vocational Education and ESEA Title IVB.

CONCLUSIONS

The existing intergovernmental arrangements for distributing federal aid to LEAs can be faulted on the following grounds: (1) federal prescriptions of how aid should be distributed within states are pointless under some programs because of the small federal share in financing; (2) some federal distribution formulas are crude and insensitive compared to state-designed formulas--and unavoidably so, given the need to design formulas applicable to all states and the paucity of comparable data for different states; (3) the distribution mechanisms of federal aid programs are generally not coordinated with the distribution mechanisms of related state programs; and (4) attempts to delegate to the states responsibility for the detailed allocation of federal aid have not worked because of the vagueness and manipulability of the federal guidelines.

This diagnosis of problems suggests two main strategies of reform (apart from the obvious one of deleting meaningless prescriptions of how federal aid should be allocated): one, to develop coordinated systems for combined allocation of the federal and nonfederal funds aimed at particular educational problems and target groups; the other, to implement new arrangements for delegating allocative authority to the states without sacrificing federal interests. There appear to be several plausible ways to carry out each strategy.

IV. EQUITY IN THE DISTRIBUTION OF FEDERAL AID

Equity has been a paramount concern in the educational policy debates of recent decades, including, in particular, the debates over how federal education grants should be distributed to states and localities. There are two broad approaches to analyzing the equity of a grant distribution method. In one, the analyst applies various equity criteria to data on the distribution of aid dollars among grantees, seeking to determine whether fund allocations are equitable. In the other, the allocation mechanism itself is examined to see whether it takes into account appropriate factors and embodies equitable principles of distribution. This assessment, being of the latter school, is organized around questions concerning attributes of the fund distribution mechanisms rather than questions concerning allocative outcomes. Specifically, the discussion deals in sequence with these aspects of distributional equity:

1. The relationship of funding to educational needs;
2. The relationship of funding to the fiscal capacity of states and LEAs ("equalization");
3. The treatment of variations in state and local conditions; and
4. The role of discretionary processes in the distribution system.

FUNDING AND EDUCATIONAL NEEDS

State and local entitlements under all the major elementary-secondary formula grant programs are based mainly on the numbers of certain children, pupils, or other persons in each jurisdiction, as explained in Chapter II. These person counts roughly represent the number of potential program beneficiaries in each jurisdiction, and as such are considered indicators of "needs" for educational services. The questions immediately arise: Are these person counts satisfactory as indicators of need? Where counting persons is appropriate, which persons should be counted? What practical alternatives are there to relying on person counts to represent educational needs?

Person Counts as Indicators of Educational Need

The term "educational need" is not well defined and is used very loosely in educational policy discussions; consequently, more must be said about need before deciding whether it can be well represented by counting persons. Presumably, the need for educational services should be derived ultimately from that which is to be learned. The need for instruction in reading, for example, might be tied to a certain gain in reading achievement per pupil. More to the point, the need for services to a target group with special problems, such as the disadvantaged or handicapped, might be tied to the magnitude of the educational deficit to be overcome. This implies that there are two dimensions of need to consider: the *number* of persons with an educational problem to overcome and the *severity* of the problem, on average, among members of that group. For instance, 1,000 children whose average score is two years below grade level in reading, would represent more educational need than 1,000 children whose average score is only one year below norm. It follows that a count of pupils who score below grade level in reading, or by analogy, a count of handicapped children or children with family incomes below the poverty line, can be no more than a one-dimensional proxy for a two-dimensional concept. These proxies are the principal allocation factors in all the federal grant formulas.

A person count may be a good proxy for some educational needs and a bad proxy for others. Where the group of intended beneficiaries of a service is both clearly bounded and homogeneous, the count of its members may be an excellent need indicator; but where the bounds are fuzzy or where there are great variations in the severity of problems among members of the group, relying on a person count may be unsatisfactory. It was shown in Table 3 (Chapter II) that the persons counted to distribute federal aid range from very narrowly defined target groups, such as inmates of state institutions for neglected and delinquent children, to a very broad group, the number of school-age children in each state. In most instances, at least a rough relationship is discernible between the purpose of the program and the person count on which its fund allocations are based, but the relationship is often imprecise. In some instances, the chosen

category seems clearly too broad--e.g., children 5-17--to represent the need for any particular educational service, and the question is whether a more appropriate indicator can be identified. In still other cases, children with highly diverse needs have been lumped into a single category, and the issue is whether a more disaggregated or differentiated approach might be preferable. To be more specific, one must consider the formulas of particular education grant programs.

Under ECIA Chapter 1 (ESEA Title I), funds are allocated according to the number of children from low-income families in each jurisdiction--a variable that is certainly logically related to the program's goal of serving disadvantaged children. The law provides, however, that federal aid is to be used to serve *educationally deprived* children, poor or not, in schools with high concentrations of children from low-income families.[52] This raises the issue of whether low income, by itself, is an adequate proxy for the disadvantagedness at which the program is aimed. It has been shown that low income and educational deprivation (i.e., low educational performance) are far from perfectly correlated: many low-income children are not low performers, and many low performers are not from low-income families. Thus, it seems that the targeting of Chapter 1 funds could be linked more precisely to the program's established goals by taking educational performance into account along with the present low-income proxy. There are many reasons, both technical and political, why Congress has resisted proposals to bring educational performance criteria into the funding formula, but that does not alter the conclusion that such a step would yield a more precisely targeted, and hence more equitable, distribution of federal funds.[53]

Setting aside the issue of whether low income is the appropriate indicator of need for compensatory education, one may still fault the present person count variable for ignoring the severity dimension (as opposed to the incidence dimension) of the low-income problem. Under the present formula, a child "earns" the same amount of Chapter 1 money whether his or her family's income is just at the official poverty line or only at, say, half the poverty level. Yet children from the poorest families are likely, on average, to pose more severe

educational problems than children who live at the margin of poverty. One might therefore improve the targeting of federal aid by distinguishing among *degrees* of poverty and assigning differential weights in the funding formula to children from different low-income strata. (Similarly, if Chapter 1 funds were distributed according to educational performance, one might assign differential weights to children one, two, or three years behind grade level.)

There are many federal education programs in which the relationship between the program's goal and the person-count variable in the funding formula is considerably looser than under ECIA Chapter 1. Federal aid under ESEA Title II, for example, was intended to improve instruction in basic skills, yet the funds were distributed according to school-age population rather than according to the number of children with basic-skills deficiencies. Aid under the Emergency School Aid program (ESEA Title VI) was intended to facilitate desegregation but was apportioned among states according to numbers of minority-group children, not according to numbers of minority-group children in segregated schools or in desegregating districts. Funds for Adult Education support a wide variety of adult education programs, but money is allocated according to the number of adults in each state without a high school diploma or its equivalent, as if basic literacy training were the sole purpose of adult education. In each instance, there were reasons for choosing an allocation factor that does not quite correspond to the purpose of the program; nevertheless, the disjunction between educational need and program dollars detracts from distributional equity.

Among the major grant programs, the relationship between program objectives and the person count in the formula seems weakest in Vocational Education. Funds for state vocational education programs are allocated according to each state's population in the age ranges 15-19, 20-24, and 25-65, without regard to any indicator of the need for vocational education, the demand for vocational education, or the number of persons in vocational education programs. This can easily lead to wide disparities among states in aid per pupil served by vocational programs and in aid relative to vocational education

outlays. For instance, a state that has a high percentage of college-bound students or a relatively low-cost mix of vocational education programs, or that simply chooses to offer vocational education to a relatively small fraction of its citizens, would receive more aid under the present system than could be justified by calculations of relative "needs" for vocational education resources. While developing a satisfactory measure of the need for vocational education services would admittedly be difficult, several possible approaches do exist. These include basing funding on the number of persons actually served by the program (as in the federal program of aid to the handicapped) or linking aid to indicators of the demand for vocational education. Both options are explored below. In any event, it seems clear that the present person count is too broad to be considered even a rough proxy for a state's relative need for vocational education funds.

In the case of Aid to the Handicapped, the problem is not that the category of persons is inappropriate but that it is too aggregative: it fails to reflect the heterogeneity of the clientele for special education. According to the law, grants for the handicapped are distributed according to the number of handicapped children actually served by each state and LEA. The difficulty is that the term "handicapped" covers everything from children with mild speech defects, who need relatively low-cost, limited-duration special instruction, to profoundly retarded or physically handicapped children, who need long-term intensive treatment, special environments, and in some cases full-time institutional care. The range of funding needs subsumed under the "handicapped" label is suggested by two pieces of information: one, weights under state-developed weighted-pupil formulas for funding special education run from 1.2 times the cost of the regular program for the milder handicapping conditions to 5, 10, or 20 times the cost of the regular program for severe handicaps;[54] and two, the "excess costs" of special education vary by more than a factor of 10 among the different handicapping conditions, according to a major recent study.[55] Yet all handicaps count equally under the present formula. It is easy to see how this failure to differentiate can produce inequities: states or districts with relatively high-cost mixes of handicapped children will tend to receive less federal aid relative to their special-education needs and outlays than will jurisdictions with lower-cost mixes. This

problem could be addressed by developing a funding mechanism that takes into account the severity of handicapping condition, perhaps in the form of a weighted-pupil formula of the type already adopted by several states.[56]

The Handicapped program is unique among major federal aid programs in that it distributes funds according to the number of children actually receiving special education services. In contrast, most other federal grants are allocated according to counts of children with some specified problem or condition, not counts of children served. Basing aid on the number actually served has one major advantage from the standpoint of equity: it guarantees that funds will be apportioned according to a variable closely related to the goal of the program. But counting persons served also poses two new equity problems: first, different states and LEAs might adopt different policies concerning access to service, thereby making the counts of persons served noncomparable across jurisdictions; second, some jurisdictions might spread their services thinly over large numbers of children to earn additional federal aid. In the particular case of Aid to the Handicapped, these threats to equity are reduced by provisions of P.L. 94-142 that require states and LEAs to serve *all* their handicapped children and to serve them "appropriately." In other programs, allocating aid according to persons served might be far more problematical--a point discussed under "alternative approaches," below.

Finally, consider the new education block grant, ECIA Chapter 2. If there is any program that should allocate its funds according to the number of school-age children in each state, this surely is the one. Even here, however, it can be argued that so broad an indicator does not correspond to the goal of the program. Although ECIA Chapter 2 is a multi-purpose block grant, its purposes are not all-encompassing. In theory, Chapter 2 funds are to be used to accomplish the goals of some or all of the superseded categorical programs (the particular mix to be determined by the LEAs). Some of those programs were aimed at particular target groups rather than at student bodies in general--e.g., children with deficient basic skills (ESEA Title II) and pupils of desegregating

districts (ESEA Title VI). If these remain the targets of the block grant, would it not be consistent to consider the concentrations of such children in distributing Chapter 2 funds? In particular, would the interstate distribution formula not be more equitable if it were based in part on the same counts of "costly to educate" pupils as states are directed to take into account in distributing their block grant funds among LEAs?[57] Reliance on so broad a need indicator as the number of children aged 5 to 17 seems reasonable mainly where federal funds are provided for general financial support of the grantees or for activities that apply more or less uniformly to all children in an LEA but not where there are more specific educational purposes to be served.

Alternative Approaches

If the present person counts fall short as measures of educational needs, what alternative approaches are available? Many of the likely alternatives have already been suggested. They include (1) replacing the present pupil categories with categories that correspond more precisely to program objectives, or with multiple person counts to reflect the heterogeneity of needs, (2) taking into account the severity as well as the incidence of educational problems, (3) allocating funds according to the number of pupils actually served by a program, and (4) considering indicators other than person counts of needs or demands for services. These possibilities and their potential areas of application are spelled out in more detail below.

More Precise and/or Multiple Person Counts. Several fund allocation formulas could be made more equitable either by switching from the present person count to another, more appropriate one or by disaggregating the formula, so that aid depends on the numbers of children in multiple subcategories within the overall target group. Some previously mentioned examples of programs where such changes would have made the targeting of federal aid more precise include ESEA Title II, where counting children with basic skills deficiencies would have been more in keeping with the program's goal than counting school-age children, and ESEA Title VI, for which counting racially isolated children might have been preferable to counting all minority pupils. These cases are moot, however, since

the programs in question have been superseded by ECIA Chapter 2. A more relevant possibility is that the equity of ECIA Chapter 1 might be improved by allocating aid according to the number of educationally deprived pupils in low-income schools rather than the number of pupils from low-income families; however, the lack of comparable data on educational deprivation for different states and LEAs makes this more a theoretically appealing idea than a practicable policy option. Another possibility is that the targeting of Vocational Education grants could be improved by switching from the present population counts to a more germane indicator of the potential clientele for vocational training, such as the number of non-college bound students in each state. This is not as compelling an alternative, however, as some of the more complex methods suggested below for distributing vocational education aid.

The option of a disaggregated formula, using multiple person counts, is applicable in areas where there is substantial variation within the target group in the nature or severity of educational problems. Two such areas, as mentioned earlier, are education of the handicapped and compensatory education. The equity of the funding mechanism for the handicapped could be improved by counting children with different categories of handicaps, distinguishing among more and less severe or more-costly-to-treat and less-costly-to-treat handicapping conditions, and allocating differential amounts of aid accordingly. Existing state systems for dispensing special education funds provide several prototypes for such a formula. The targeting of compensatory education aid could be improved by counting children in different low-income strata and allocating more aid to the more disadvantaged; similarly, if educational performance were the criterion, one could count children in different low-performance strata (one year behind grade level, two years behind, etc.) and allot more aid to those with the more severe educational deficits. The mathematics of these multifactor formulas is simple: aid can be distributed in proportion to a weighted sum of pupil or person counts, where the weight applied to each subgroup reflects either empirical findings or judgments about relative educational needs.[58] Such "weighted-pupil"

formulas are in common use in state school finance systems; also, the present Vocational Education formula, which contains a weighted sum of three population counts, provides a federal precedent.

Formulas that Reflect the Severity as Well as the Incidence of Problems. An alternative to the multifactor, weighted-pupil formula is a formula that includes a measure of the average severity of the educational problem in each state or LEA, along with the present person-count measure of incidence. For instance, a formula for distributing compensatory education funds might depend on the number of low-income pupils in each jurisdiction, as at present, *and* on the average level of poverty of such pupils, as measured, say, by the average percentage by which low-income families fall short of the poverty line. Thus, if two LEAs have the same number of children from low-income families, but in one the average income of such families is 20 percent below the poverty level, while in the other it is 40 percent below, the latter LEA would receive more aid. There are several ways to construct allocation formulas that take into account both the incidence and the severity of needs. The simplest design is the adjusted proportional allocation formula, now used to adjust for per pupil expenditure in ECIA Chapter 1 and for per capita income in Vocational Education. There are also more mathematically complex forms, which permit more flexible calibration of aid differentials among the grant recipients.[59]

Allocation According to the Number of Pupils Served. Federal funds are now allocated according to the number of pupils served only under the Handicapped program, but the same approach is potentially applicable to such other programs as compensatory, vocational, and bilingual education. It is an attractive option because of (1) its simplicity, compared to attempting to measure fine gradations in the severity of educational problems and (2) the apparent gain in equity from equalizing resources per pupil served. When other equity implications are considered, however, along with the incentive effects of linking aid to the number of pupils served, serious questions arise about the applicability of that approach in the absence of the special circumstances created by P.L. 94-142.

One concern about linking aid to pupils served is that such a policy would tend to shift resources from places with the greatest educational problems (large concentrations of poor, low-performing, or limited-English-proficient pupils) to places with the greatest willingness and capacity to conduct programs for federally designated target pupils. Thus, one concept of equity--equal resources per pupil served--would be advanced at the expense of another--equal treatment of jurisdictions with equal educational needs. Moreover, unless strong equalizing features were built into the formula (as discussed in the following section), the net effect might be to shift resources from relatively poor to relatively well-off places. Such distributional effects are not an overwhelming concern under P.L. 94-142 because all states and LEAs--rich or poor--are required to serve handicapped children "appropriately," but similar service mandates do not exist in most other program areas.[60] In compensatory education and vocational education, in particular, decisions about how many pupils to serve and how intensively to serve them are left to state and local authorities. There could consequently be large interjurisdictional disparities in the percentage of eligible children actually served and corresponding inequities in the distribution of federal aid.

A formula that distributes funds according to the number of children actually served creates incentives that do not exist when allocations depend on the number of children with some specified problem or condition. One incentive to states and LEAs is to serve a large proportion of the eligible target group so as to earn more federal aid. Another is to spread services thinly among the participants to hold down the nonfederal share of costs. A third is to maximize the number of less-costly-to-serve participants in the program while attempting to hold down the number of more-costly-to-serve participants (assuming that each participant generates the same federal aid, as under P.L. 94-142). The strength of these incentives depends on the magnitude of federal aid per pupil relative to the total cost of services. In the case of special education for the handicapped, federal aid is small compared with the cost of serving

even a moderately handicapped student; consequently, LEAs have little or no incentive to broaden participation. Moreover, the "appropriate services" requirement and the procedural safeguards of P.L. 94-142 limit the degree to which LEAs can dilute services to hold down costs.[61] But the same offsets to the formula incentives do not exist in other programs. Under ESEA Title I and ECIA Chapter 1, the federal policy has been to pay the full incremental cost of compensatory education. If that policy were retained, while aid allocations were linked to the number of pupils served, there obviously would be very powerful incentives for LEAs to enroll more pupils in compensatory programs and to spread the available resources more thinly. Congress has taken contradictory stances on whether such spreading is desirable or whether limited funds should be concentrated on fewer beneficiaries. The philosophy of spreading prevails under P.L. 94-142, while the doctrine of concentration applies to compensatory education.[62] Given this ambiguity, it is difficult to evaluate the incentives that would be set up by linking aid to pupils served; nevertheless, it is clear that these incentives differ significantly from those of the present target-group formulas.

A practical obstacle to linking federal aid to the number of pupils served is that such a policy requires the federal government to define what qualifies as "service." It would be necessary to specify a service threshold for each program--the minimum level of funds, resources, or instructional time that children must receive to be counted. Formulating such definitions would be difficult, and any proposed formulation would touch off controversies about not only the definition itself but also the federal "intrusion" into the states' role. The prospect of having to define minimal compensatory, bilingual, or vocational education services is probably sufficient to deter Congress from basing its formulas on numbers of persons served.

Under P.L. 94-142, the definitional problem has been circumvented by leaving it to states to define "appropriate" services for their handicapped children; however, the same method is probably not applicable to other programs. The problem with letting each state write its own definition is that it is in each state's interest to

inflate its child count to maximize its federal aid. In the case of P.L. 94-142, strong process requirements make it difficult for states to count children who receive very little service, and the low level of federal aid makes counting extra children unprofitable; but in programs where these restraints are not present, delegating similar authority to states could invite a variety of abuses. Federal definitions and service standards would probably be essential if funds for other major target-group programs were distributed according to numbers of children served.

Need and Demand Indicators Other than Person Counts. Relying mainly on person counts to represent needs for services unduly limits the sensitivity of allocation formulas to state and local conditions that impinge upon the educational task. Taking into account gradations in needs, either by disaggregating the person counts or by considering the severity of needs, helps the situation but still does not address the point that other community attributes influence needs or demands for services. Fund allocations might be better matched to program goals if these other variables were incorporated into the formulas, either in addition to or in place of the present person counts. To see some of the possibilities, consider how the measurement of need might be refined under two major programs, ECIA Chapter 1 and Vocational Education.

The distribution of ECIA Chapter 1 funds now is governed by the number of low-income children in a state or LEA. As explained above, the Chapter 1 formula could be made more sensitive, without abandoning the premise that low income is the appropriate allocation criterion, by distinguishing among different degrees of poverty. A further refinement would be to take into account the *concentration* of poverty in each LEA--i.e., the percentage of the LEA's student body from low-income families.[63] Many additional possibilities open up when one drops the assumption that low income is the sole relevant criterion. Among the additional factors that might be considered are (1) indicators of family disadvantagedness, such as the incidence of one-parent households, welfare dependency, and low levels of parental education, (2) indicators of community socioeconomic conditions, such as per capita income, unemployment rates, and housing conditions, and

(3) direct indicators of educational needs, including not only the previously mentioned performance indicators but also such other indices as absenteeism and drop-out rates. It is feasible to develop formulas, as is shown below, in which a combination of several of these variables influences the size of an LEA's compensatory education grant.

Under the Vocational Education Act, funds are allocated among states mainly according to population counts, which are related in only the most general way to the states' needs for vocational education services. The principal factors missing from the formula are indicators of the demand for vocationally trained individuals in each state's economy. Among the many such factors that might be considered are (1) the composition of the state's economy, as measured by the percentages of employment in manufacturing, commerce, services, government, and other sectors, (2) the socioeconomic make-up of the state (per capita income, level of educational attainment, and percentages of the work force in various occupational categories), (3) economic conditions in the state, such as rates of economic growth or decline, the unemployment rate, and the rate of job creation, and (4) such demographic characteristics as the rate of change in population and the percentages of the population in urban, suburban, and rural areas. The relative weights to be assigned to such variables could conceivably be determined by a statistical analysis of the degree to which each variable "explains" interstate variations in the demand for vocational education services.

Multifactor Formulas. One theme of the foregoing discussion is that greater equity often requires formulas that reflect multiple indicators of need. Such multifactor formulas are common in the federal grant system (the examples of General Revenue Sharing and Community Development Block Grants have already been cited) but not in education. There are several methods by which multifactor formulas can be constructed. The simplest approach is to rely on a weighted-sum formula of the type already described in the discussion of multiple person counts. Another simple formula is the multiplicative type, in which aid is distributed in proportion to the product of several factors. The present ECIA Chapter 1 and Vocational Education formulas, with their "adjustment factors," are

simple examples of this family. There is also a more flexible and broadly applicable formula that combines the multiplicative and weighted-sum approaches: it consists of a compound need indicator, such as a weighted sum of person counts, multiplied by an adjustment factor, which may itself be an amalgam of several variables.[64] There are, of course, many other mathematical possibilities, but the ones suggested here are probably the simplest and most comprehensible formulas that can handle multiple dimensions of need. These formulas can also accommodate fiscal equalization factors and other adjustments for state and local circumstances, as discussed below.

FUNDING, FISCAL CAPACITY, AND EQUALIZATION

For more than a decade, fiscal equalization and equity have been the predominant themes in school finance. Approximately half the states, some acting under court order and some on their own, have taken steps to reduce disparities in per pupil spending and resources among school districts and to reduce the dependence of educational spending on local wealth. The federal government has supported this school finance reform movement in a variety of small ways but has done little to promote fiscal equalization either within or among the states through its own education grant programs.[65] Most of the existing federal fund distribution mechanisms lack explicit equalization features and have, at best, accidental equalization effects. The issue, then, is whether fiscal equalization should become a more important consideration in designing federal allocation mechanisms and, if so, how this should be accomplished.

Interstate Equalization

Only the federal government is in a position to promote *interstate* equalization of educational resources, but the federal formulas for distributing funds to states contain almost no equalization provisions. The largest federal grant program, ECIA Chapter 1, is, if anything, counterequalizing: it provides more money per low-income child to states with higher levels of per pupil spending. Although this feature has been justified as a rough method of adjusting for differences in costs, its effect is to give extra federal aid to the

relatively wealthy, high-spending states and thus to reinforce existing fiscal disparities. Other federal grant programs, such as the Handicapped program, are neutral; they distribute funds in proportion to numbers of target-group children, without regard to the state's capacity to finance educational services. The one program with an explicit interstate equalization feature is Vocational Education, which contains in its formula an "allotment ratio," negatively related to per capita income. The effect of this factor is to give less vocational education aid per capita, other things being equal, to higher-income than to lower-income states. This provision is substantially watered down, however, by constraints that limit variation in the allotment ratio to a relatively narrow range.[66]

Federal grants under ECIA Chapter 1 are sometimes said to have an equalizing effect because the amount of federal aid per pupil is negatively correlated with state per capita income; however, this relationship is misleading. It merely reflects the fact that per capita income and the number of low-income pupils in a state are themselves correlated. A more valid test of equalization is whether federal aid tends to equalize *expenditures relative to needs* among the states--e.g., is the amount of aid per low income child negatively correlated with per capita income? By that criterion, neither ECIA Chapter 1 nor the other federal programs, with the minor exception cited above, can be said to contribute to interstate equalization.

The question of whether the federal government *should* promote interstate equalization has no objective answer--it calls for value judgments about the desirability of fiscal equalization in general, equalization of educational services in particular, and the legitimacy of a federal redistributive role. A comparison with other areas of federal involvement is instructive, however. It seems ironic that in the area where fiscal equalization has been most extensively discussed and most widely accepted at the state level--elementary and secondary education--the federal government does far less to promote equalization than it does in many other program areas. Outside education it is common for federal grants to be distributed in inverse proportion to state per capita income. The list of such grants includes Air Pollution Prevention and Control, Child Welfare Services,

Developmental Disabilities, Vocational Rehabilitation Services, Alcohol and Drug Abuse, Maternal and Child Health Services, Medicaid, and Aid to Families with Dependent Children.[67] Moreover, a general federal role in redistributing resources from better-off to less-well-off states was confirmed (implicitly) by the enactment and renewal of the General Revenue Sharing program, which also distributes funds in inverse proportion to per capita income. Thus, the absence of equalization features in the education programs is conspicuous and difficult to account for in terms of established practice elsewhere in the intergovernmental grant system.

Intrastate Equalization

A policy of equalizing resources among the LEAs within each state has a firmer footing in federal law and policy. Several federal education grant programs contain explicit (though not necessarily effective) intrastate equalization provisions (notably Vocational Education and ESEA Title IV). There have also been a number of federal activities in support of such equalization, including technical assistance, research, support for state equalization planning, and inclusion of equalization incentives in the Impact Aid program, but many of these have been terminated. More important, the major target-group programs, ECIA Chapter 1 and Aid to the Handicapped, contain no intrastate equalization features. The former federal policy may be characterized as one of mild support, not backed up by significant resources; the present policy is one of neglect.

A reason for the federal government to involve itself in intrastate equalization, apart from any interest in interdistrict equity per se, is that large resource disparities among districts may clash with the purposes of federal programs. In the case of compensatory education, the federal government seeks to channel extra resources to educationally deprived pupils. If some districts in a state have very low expenditure levels, even the extra federal funds may not bring total spending for the educationally deprived children in those districts up to the levels enjoyed by "regular" children in the more prosperous districts. These educationally deprived children would consequently remain at a disadvantage relative to regular children elsewhere in the state. Similarly,

the federal purpose under P.L. 94-142 is to ensure that each handicapped child receives an "appropriate" education; but where large interdistrict expenditure disparities exist, the levels of support for the handicapped in the low-spending districts may fall short of prevailing state standards of "appropriateness." It is in the federal interest, therefore, to promote sufficient intrastate equalization to ensure that each LEA's fiscal base provides an adequate foundation for targeted federal programs.

Given the support for intrastate equalization that has sometimes been expressed in Congress, it is not inconceivable that equalization provisions will one day be written into the major education aid programs. Further consolidation of categorical grants into education block grants would facilitate such a step. Realistically, however, a shift toward equalization, with its attendant redistribution of federal grant funds, is not likely while aggregate federal aid for education is being reduced. A move toward equalization is therefore not a serious short-term prospect.

Whether or not equalization is desirable, the federal government's ability to achieve equalization, either within or among states, is severely limited. The small federal share of funding for elementary and secondary education places mathematical limits on the amount of equalization that can be achieved by redeploying federal funds. There are also political limitations on the federal government's ability to allocate its grants unequally to states and localities for the purpose of redistributing resources among them. Experience has shown that federal grant programs usually must distribute some funds to everyone, equalization objectives notwithstanding.[68] An all-out equalization effort, under which wealthier areas receive no aid at all, appears not to be feasible. In effect, only a fraction of federal aid funds can be used to promote equalization. Another political consideration is that Congress is generally reluctant to reduce aid entitlements significantly below previously established levels, except when there is an across-the-board reduction in funding. This means that funds for equalization would have to come mainly from increased appropriations, which are unlikely to materialize in education for years to come. Finally, equalization could clash with

other program goals. Some of the major target groups of federal education programs--disadvantaged children and children with limited proficiency in English--are concentrated in states and districts with above-average wealth. Taking money from wealthy places to pursue equalization might consequently harm some of the prime beneficiaries of the present categorical programs. For all these reasons, the federal government's ability to promote equalization by reallocating its aid funds may be even more limited than is suggested by the federal share of total educational spending.

Equalization Formulas

After a decade of school finance reform in the states, the mechanics of equalization are well understood. The essential point is that the amount of federal aid per child must be negatively related to income, wealth, or some other measure of a jurisdiction's fiscal capacity. Similar formulas can be used to promote both interstate and intrastate equalization, although data limitations would require the use of different measures of fiscal capacity at the two levels. Perhaps the simplest equalization method is to distribute aid in inverse proportion to per capita income. This approach is inflexible and not workable where the range of variation in fiscal capacity is large, but it has the advantage of familiarity, having been used to distribute federal grants in a variety of non-educational programs. A second method, analogous to the "foundation" formula used in many state school finance systems, is to distribute aid so that each state or LEA is guaranteed a certain minimum level of per pupil support for its program, provided that it makes a certain minimum effort to support the program from its own resources.[69] This approach would only make sense, however, where (a) the responsibility for financing a program is shared between the federal government and the states or LEAs, and (b) the federal share of program financing is substantial. A third option is the "leveling up" formula, in which enough aid is first given to the poorest state or LEA to enable it to finance its program with the same effort as the second-poorest jurisdiction; enough aid is then given to the two poorest jurisdictions to bring them up to the level of the third-poorest; and

so forth, until federal funds are exhausted. This strongly redistributive formula provides no funds at all to the wealthier states or LEAs, and thus would be unlikely to generate Congressional enthusiasm. A fourth method, analogous to the "guaranteed tax base" and "power equalization" formulas used in some state school finance systems, embodies the principle of "equal support for equal effort." The allocation formula is of the "variable matching" type, under which federal aid is linked to the level of state or local spending for the program in question, but the rate at which the federal government matches nonfederal outlays depends inversely on state or local wealth.[70] This formula can be a potent equalization instrument, provided that the federal share of program financing is substantial, but it is appropriate only where the value judgment has been made that a state or LEA should be rewarded in proportion to its fiscal effort to support the aided program. In addition to all these specific allocation formulas, there is also the option of allowing states with satisfactory equalization formulas of their own (according to some federally established standard) to use the same method for allocating federal funds as they use to allocate their own equalized aid to LEAs. There are, in short, many available methods and no significant methodological barriers to incorporating equalization features in the federal fund distribution formulas.

A final point on equalization is that it is important to distinguish between equalization of expenditures for federally aided programs or target groups and equalization of education spending in general. No significant degree of equalization of general education support is currently attainable because of the modest leverage afforded by the present low level of federal funding. Only a limited degree of equalization is likely to be obtainable in the program areas where the federal contribution is modest (Handicapped and Vocational Education).[71] In the one area where federal funding is substantial, compensatory education, substantial equalization could be achieved, both within and among states. Both interstate and interdistrict disparities in educational services for the disadvantaged could be reduced substantially by writing strong equalization provisions into the Chapter 1 fund allocation formula. Concomitantly, however, it

would be necessary to shift from the doctrine that Title I is a federally funded "add-on" program to a concept of joint federal and state-local responsibility for compensatory education for disadvantaged children.

VARIATIONS IN STATE AND LOCAL CIRCUMSTANCES

Two important considerations in assessing the equity of the federal grant distribution mechanisms are (1) whether variations in relevant state and local characteristics are taken into account in allocating aid, and (2) whether the allocation processes exclude factors whose inclusion would create inequitable results. Because the present allocation mechanisms take account of so few factors, there is little to say about variables whose inclusion undermines equity. The one important variable in that suspect category is the per pupil expenditure variable in ECIA Chapter 1, the counterequalizing effects of which have already been noted. Consequently, the main issue is whether relevant factors are missing. Would the distribution of federal education dollars be more equitable if additional state and local attributes were taken into account in the fund allocation formulas?

Variations in the Cost of Educational Services

There is broad agreement that equity would be enhanced by adjusting for geographical variations in the cost of providing educational services. To the extent that such variations exist, equal dollars do not buy equal educational services. Thus, federal programs intended to provide equal benefits to all members of a target group actually provide lower benefits to those who live in high-cost areas than to those who live in low-cost areas. To equalize the benefits one would have to adjust grant amounts to offset the cost differentials. In principle, this could be accomplished by incorporating appropriate cost adjustment factors, or cost indices, into the aid allocation system. Unfortunately, suitable indices are not yet available for use in federal grant distribution formulas. Several states have attempted to develop cost indices for their own use in distributing state education aid among districts, but unresolved technical issues

and problems of political acceptability have deterred them from putting the indices into operation.[72] No interstate cost-of-education index has yet been developed, although constructing such an index might be technically feasible. Whether Congress would write a cost index into its aid formulas is another matter, but we are unlikely to find out until someone constructs the index and incorporates it into a specific legislative proposal.

Variations in the Cost of Living

Under ECIA Chapter 1, federal funds are distributed according to a count of low-income children in each state and LEA, but the low-income standard is a national one that takes no account of geographical variations in the cost of living. By not adjusting for living costs, the formula discriminates in favor of low-cost places. Children are not counted in Northern cities who have substantially lower real incomes than do children who are counted in Southern rural districts. Compensatory education funds would be distributed more equitably if the low-income standard were adjusted to represent the same level of real income in each state.[73] Making these adjustments would require a state-level or regional-level cost of living index, neither of which is now available; however, the techniques for constructing such an index are routine, and there is no doubt that one could be produced if it were wanted. Again, the question is whether Congress would be willing to include such an adjustment factor in its formulas.

Urban and Rural Factors, Density, Sparsity, and Size

All these factors are cited frequently as things that should be considered in distributing education funds. They appear in various combinations in state school finance formulas. None currently appears in a federal fund distribution formula; however, some are among the factors to be "taken into account" in state-designed formulas under ESEA Title IVB, Vocational Education, and ECIA Chapter 2. The question is whether equity is enhanced when such variables are taken into account.

Of the factors listed above, district size is the one most frequently found in state aid formulas. Many states recognize that small districts face resource indivisibilities and therefore have relatively high costs per pupil. The two federal programs that allocate funds directly to LEAs, ESEA Title I and Handicapped, circumvent the small-size problem by establishing *de minimus* rules that make the smallest districts ineligible for funds. This seems an adequate solution, provided that superordinate agencies (counties, intermediate districts, or states) assume responsibilities for serving children from the excluded districts. It would be possible, of course, for the federal government to emulate the states by allowing extra aid to small districts, but this not only would complicate the formulas but also would set up perverse incentives to carry on uneconomically small programs.

Many state aid formulas provide extra aid to sparsely populated school districts (usually in rural areas) to offset the higher costs of operating school systems with widely dispersed pupils and schools. One might argue that federal aid allocation formulas should take sparsity into account also, but it may not be feasible to develop a general sparsity factor that applies to all states. A possible solution, then, is to allow states to use their own sparsity factors, perhaps subject to federal approval, to modify the allocations of federal aid among their districts.

Density is the inverse of sparsity, but a density factor is generally understood to mean one that provides extra aid to densely populated central-city districts. It thus has an allocative effect similar to that of an explicit urban factor. The two rationales for including urban or density factors in aid formulas are that city districts confront special problems not encountered elsewhere (e.g., needs for security services) and that costs are higher in urban areas. Several states include either a density or an urban factor in their general school finance formulas. A case can be made for including such variables in federal formulas as well, provided that the same cost or need differentials are not already corrected for by other adjustment factors.

There is considerable redundancy among the different types of factors discussed here and in previous sections. If a fund distribution

mechanism already takes into account the concentration of needs, as does the formula of ECIA Chapter 1, that diminishes the case for including urban or density factors. Similarly, if there is a cost adjustment factor in the formula there is less reason to make special provision for rural or urban districts. In the absence of an acceptable cost index, adjusting for urban or rural location or population density may be a reasonable "second-best" method of allowing for geographical variations in educationally relevant conditions.

Variations in Fiscal Effort

One of the major issues in grant program design is whether the distribution formulas should reward state or local fiscal effort. The usually cited reasons for doing so are to induce states and LEAs to allocate some of their own resources to programs of interest to the federal government and to implement a philosophy of federal and state-local "sharing" in the costs of activities of interest to both national and state or local constituencies. At present, the incentive grant component of ESEA Title I is the only education grant program that rewards effort explicitly, although the basic Title I formula also may be construed as rewarding effort to a limited degree. However, linking federal aid to state or local spending by means of some type of matching formula is common in many grant programs outside the education field.[74]

The equity implications of rewards for fiscal effort depend on how the rewards are structured. If all states or LEAs were rewarded at the same rate--i.e., if the federal government matched state or local spending in some fixed ratio--the effect would almost certainly be to increase disparities in educational outlays for the programs in question. Wealthier states and localities would be likely to spend more for the federally aided programs and thus to receive larger federal grants. This outcome is not inevitable, however. An appropriate system of variable matching rates can equalize the opportunities available to districts of different wealth. The key requirement is that the federal matching rate must be a negative function of the

grantee's fiscal capacity. Some of the previously mentioned equalization formulas embody this principle, and thereby provide the means for rewarding fiscal effort without necessarily sacrificing fiscal equalization.

It should be noted, however, that incorporation of an effort factor into an aid formula entails a shift from one definition of equity to another. Without such a factor, the prevailing equity principle is "equal aid to places with equal educational need;" with an effort factor it becomes "equal fiscal opportunity to places with equal educational need." That is, with the effort factor in the formula, two places with equal need will receive equal aid only if they also exert equal fiscal effort to support the program in question; but if the rates of effort are unequal, the place that makes the greater effort will receive more aid relative to its needs. Equal treatment, in this instance, consists of having the same opportunity to "earn" federal aid, regardless of local revenue-raising ability. The price of rewarding fiscal effort, then, is a certain measure of inequality among places with equal educational circumstances but unequal tastes for the program in question.

EQUITY AND DISCRETIONARY GRANTS

Because of the 1981 grant consolidation, there will be less reliance in the future than in the past on discretionary allocation processes to distribute federal education funds. Several programs that depended wholly or in part on discretionary processes, such as ESEA Titles II, IVC, and VI, were merged into the block grant under ECIA Chapter 2. Several major discretionary programs remain in operation, however, including Bilingual Education, Headstart, and the state-operated portion of the Handicapped program; moreover ECIA Chapter 2 has established a new discretionary program to distribute 20 percent of the block-grant funds. The fairness of discretionary processes is therefore still an important consideration in assessing the equity of the education grant distribution system.

Two special issues of equity arise in connection with discretionary grants. One is how discretion per se affects equity. In particular, would equity be enhanced if some of the present discretionary grants were replaced by formula grants, and is the transformation from dis-

cretionary to formula grants feasible? The second issue is whether the discretionary allocation processes themselves are equitable--that is, are they organized and conducted "fairly." Unfortunately, very little is known about how the present discretionary processes actually operate (as was explained in Chapter II), and this, coupled with the lack of a well-defined concept of equity of a discretionary process, severly limits what can be said about these issues. Nevertheless, an attempt is made below to sketch briefly some pertinent equity criteria and to apply them, to the limited extent possible, to the present discretionary programs.

Discretionary Versus Formula Grants

Allocation by formula is more objective and less manipulable but not necessarily more equitable than discretionary allocation. As this chapter has demonstrated, formulas can and do deviate substantially from generally accepted principles of equity. On the other hand, one can conceive of a highly equitable discretionary process that responds sensitively to the circumstances of different jurisdictions and treats all applicants evenhandedly. What does differentiate discretionary grants and formula grants sharply, however, is the ease with which equity can be demonstrated. The equity of a formula grant is apparent for all to judge from the formula itself, while the equity of a discretionary grant depends primarily on the unobservable behavior and unknown motives of program officials. This uncertainty about process equity is accentuated in the case of the major current discretionary programs because so little about the selection and award processes is specified in the legal framework. With the "rules of the game" unstated, as in Bilingual Education or ESEA Title VI, the processes are established, controlled, and subject to manipulation by program administrators. The same discretionary program could be run equitably one year but abused for political or other purposes in a different year, depending on the inclinations of those in power. Thus, while there is nothing in principle to say that a discretionary grant will be less equitable than a formula grant, there are also no grounds for confidence that equity will prevail. Lack of accountability relegates the discretionary programs to a suspect category and motivates the search for formula-grant alternatives to the present discretionary programs.

Reliance on discretionary fund allocation is sometimes a matter of necessity and sometimes a matter of choice. It is a necessity where the purpose of the program requires selection of a few grantees from a larger pool of applicants on the basis of the "quality" of proposed projects. For instance, subjective judgment, and hence discretion, was required to select grantees under the now defunct ESEA Title IVC innovation program, where the likely success and potential educational significance of proposed innovations were central allocation criteria. (Note, however, that the discretion was exercised at the state level; federal funds were distributed among the states by formula.) Under such programs, the issue of discretionary versus formula allocation does not arise, and the only relevant equity issue is the fairness of the discretionary process. It is not clear, however, that major recent and current discretionary grants belong in the category of inherently discretionary programs. Bilingual Education grants could certainly be distributed to states by formula, as in the Title IVC example, and could conceivably be allocated to LEAs according to formulas based on numbers of limited-English-proficient children; Emergency School Aid funds (ESEA Title VI) might have been allocated to LEAs according to numbers of children affected by desegregation plans; and Headstart funds, which are apportioned among states according to numbers of poor children, could also be distributed to localities according to a similar formula.[75] It is relevant to ask, then, whether switching from a discretionary to a formula method of allocation might enhance equity under these programs. For concreteness, this issue is discussed below with particular reference to Bilingual Education, for which discretionary versus formula allocation is a live current issue.[76]

Bilingual Education is legally constituted as a program that (a) supports limited-duration "capacity-building" projects, (b) awards funds to only a fraction of the eligible LEAs--those that win grants competitions, and (c) bases the awards mainly on judgments about the "quality" of proposed projects and only secondarily on needs for bilingual education services.[77] These attributes imply a need for subjective judgment and consequently for discretionary funding at some stage of the allocation process, although this leaves open the aforementioned option of shifting the discretionary process to the state level. But going further, one

can question whether the concept of bilingual education aid as a competitive, capacity-building program should be retained. If that doctrine were altered--and, especially, if the shift were in the direction of federal support for ongoing bilingual education services--the rationale for a program of discretionary rather than formula grants would disappear.

The principal arguments for dropping the concept of limited-duration, competitive, capacity-building grants are that it is (a) inadequate to meet current federal responsibilities for limited-English-proficient (LEP) children and (b) inconsistent with the reality of the present program. Through federal court decisions interpreting the civil rights laws, and Executive Branch actions to implement the courts' rulings, the government has taken on the role of guaranteeing appropriate services for limited-English-proficient children, just as P.L. 94-142 guarantees such services for the handicapped.[78] Under the law, bilingual education (or some equivalent service for LEP children) is not an option or "frill" but something that LEAs *must* provide, regardless of their tastes, their capacities, or their abilities to write high-quality proposals. To award funds competitively, then, seems inherently inequitable, since the losers as well as the winners are obliged to operate projects. The federal government has imposed a service requirement on all, but under the current doctrine shares the fiscal burdens of only the most able. From the standpoint of equity, the reverse of the present policy might be preferable--that is, funding priority for the LEAs least able to design and conduct high-quality programs on their own. But setting that radical suggestion aside, there is a strong case for applying to bilingual education the model of the other target-group programs--allocation to LEAs by formula according to numbers of target-group pupils (or, preferably, according to more refined indicators of the need for bilingual education services).

The case for shifting to a formula grant in bilingual education is reinforced by indications that the present program is not entirely what it is said to be. Although funds are nominally awarded for limited-duration grants, some districts have enjoyed continuous support for many years.[79] In effect, their bilingual education efforts have benefitted from an ongoing federal subsidy, while LEAs with similar needs

and similar federally created fiscal burdens have received no comparable assistance. No information was available for this study on how the decisions were made that resulted in continuous funding of some LEAs, but the existence of a class of permanent grantees is itself a source of concern about the equity of the present discretionary program.

Alternatives to the present federally conducted discretionary process for allocating bilingual education funds include (1) distributing federal formula grants to the states and delegating the discretionary decisionmaking to the state level, (2) distributing federal formula grants to the states and requiring each state to develop its own formula for distributing funds to its LEAs (as in Vocational Education), and (3) allocating federal funds by formula down to the LEA level (as in compensatory education). The first alternative is the subject of a recent Department of Education study, which finds that there would be relatively little effect on the interstate distribution of funds, since allocations are already roughly proportional to the numbers of LEP children in each state.[80] The effect on intrastate distributions is of course unknown. The option is compatible with the present emphases on capacity building and proposal quality, but has the disadvantage that the federal government would have to establish a standard national definition of the LEP target group for use in the formula. The second option would presumably imply a shift to a need-based allocation criterion both within and among states, although states could be permitted to consider innovativeness and other quality attributes as formula factors. A federal definition of LEP children would govern the interstate distribution, but states could be permitted to use their own target group definitions for the allocation among LEAs. A very restrictive version of this option would require allocation to LEAs in proportion to numbers of LEP pupils, leaving states discretion over only the definition of "LEP." A looser version would allow states to decide the relative weights to be given to multiple allocation factors, although precautions would have to be taken to avoid the problems (discussed in Chapter III) of other programs that have delegated formula-design powers to state agencies. The third option--formula allocation down to the LEAs--would require a standard definition of target-group pupils and federally established weights for all formula factors, but this would represent no

increase in centralization since the present discretionary process is entirely in federal hands. This all-formula option would make sense only in connection with a broader policy decision to accord education of LEP children the same status as education of the disadvantaged and handicapped--an activity that receives continuing federal support based on state and local needs.

Would a shift to a needs-based formula necessarily mean more equitable distribution of bilingual education funds? Certainly there would be less arbitrariness, the allocation process would be open to scrutiny, and there would be an end to the present pattern of continuous support for some and no support at all for others. This does not necessarily mean, however, that there would be an improved match of funds to educational needs. Specifically, concern has been expressed that the present discretionary program protects one aspect of equity that might have to be sacrificed under a formula grant; namely, it permits a very uneven geographical distribution of federal aid to match the very uneven geographical incidence of LEP children in the United States. A formula grant program, it is said, tends toward homogeneity: all states and LEAs must get something, even if their needs are not great. Thus, a pattern of concentrating funds on a relatively few high-need districts, which some consider desirable, might not be sustainable under a formula grant. Technically, the problem of undue spreading of resources can be avoided by writing high thresholds of need into the district-level aid formulas (e.g., requiring minimum numbers and/or percentages of LEP children to make an LEA eligible for a grant). The point at issue is political rather than technical, however: would Congress accept a sharply written definition of need that concentrates federal grants heavily in a relatively few states and LEAs. While the case for a formula grant is strong, a recommendation for change would have to be conditional on a satisfactory resolution of this issue.

Fairness of Discretionary Processes

Where allocation by formula is infeasible or unlikely, distributional equity hinges on the fairness of the discretionary process itself. Unlike formula grants, discretionary grants cannot be evaluated for equity on the basis of allocative outcomes. There is no external standard against

which to determine if the "best" applicants have been chosen or if funds have been properly apportioned among the grantees. An attempt to make such a determination--say, by comparing actual program decisions with independent ratings of the proposals--would be merely to pit one set of subjective judgments against another. To decide whether discretionary grants are being allocated fairly, one must focus on the decision mechanisms: are the rules of the game fair, and are they fairly applied by the funding agency?

That brings us to the question of what constitutes a fair discretionary process. Can specific elements of fairness be defined, either for appraising the existing processes or for designing fair processes for the future? While fairness is ultimately in the eye of the beholder, many interested parties would agree that the relevant considerations include those discussed in the following paragraphs.

Selection Criteria. The criteria for choosing grantees should presumably be explicit, comprehensive, demonstrably relevant to, or derived from, the Congressionally established program goals, and sufficiently operational to be understandable to the applicants and interpretable with reasonable consistency by proposal reviewers. The criteria for the major federal discretionary programs are reasonably explicit. Specific criteria, sometimes with numerical weights, are prescribed in the regulations, as explained in Chapter II. Unfortunately, many of the other desirable attributes are lacking. The Bilingual Education program specifies the weights to be attached to certain criteria but then introduces additional items to be considered, to an unspecified extent, in choosing grantees. Thus, the formal criteria turn out to be noncomprehensive, and the full set of criteria is less than explicit. The Emergency School Aid and Headstart programs specify criteria without weights, which greatly diminishes the usefulness of the criteria to applicants. A particular source of confusion is the relationship between criteria of need and criteria of proposal quality. In both the Bilingual Education and Emergency School Aid programs explicit, quantitative measures of need are set forth in the regulations, but it is not clear how these indices enter into the decision process. It appears that LEAs with very high needs for assistnace could be passed over in favor of LEAs with much lower needs but higher-quality proposals,

even though it is not clear that this is what Congress intended.[81] Finally, certain criteria seem conspicuously nonoperational--e.g., "commitment and capacity" of an LEA, leaving ample room for manipulation of the proposal ratings. The stated criteria could easily be tightened up if the will were there, but the funding agencies have little incentive to be more definitive, since doing so would reduce their flexibility.

Selection Procedures. Most would agree that proposals should be judged objectively and evenhandedly by disinterested reviewers in a process shielded from political manipulation, but it is virtually impossible to name specific arrangements that will guarantee these desirable traits. Nevertheless, some pertinent process may be noted. The identity of the reviewers is a major concern. Other things being equal, the more insulated the reviewers are from the political-level decisionmakers of the granting agency, the more objective the process will, at least, appear to be. Thus, review by outside raters will appear more disinterested than review by agency professionals, which in turn will appear more objective than review by the program administrators. The method of selecting reviewers is itself an element that may contribute to or detract from equity. A procedure that distances choices, or at least nominations, of reviewers from the political decisionmakers would be preferable to one in which the officials name the reviewers themselves. Some mechanics of the review and rating process may also be germane. For instance, a system based on independent ratings by multiple reviewers (especially outsiders) is more secure against manipulation than is a system of collective decisionmaking at agency-controlled sessions. A multistage review system may also contribute to equity, especially if the later-stage reviewers are required to document their reasons for overturning lower-level decisions. A related consideration is how much power the process confers on higher-level officials to modify or override the results of the professional-technical reviews. While ultimate power must reside with political officials--department secretaries, agency directors, and their designees--there remains an important role for procedural safeguards to deter purely political decisionmaking at the upper levels. These include such things as requirements for formal justification, for disclosure of potential conflicts of interest, and for

participation of officials from outside the immediate program office.

Perhaps more important than any specifics of the process is the general principle that grantees should be selected according to rules that are well-defined, predetermined, and *known* to the applicants and other interested parties. The hidden, unstated nature of the present processes contributes, as much as anything else, to doubts that discretionary grants are being equitably distributed. It is common practice in many other federal discretionary programs to spell out in the formal regulations how the review process will be conducted. Making such information available would be one step, albeit a small one, toward building confidence in the equity of the discretionary education grant programs.

Determination of Grant Amounts. An equitable discretionary allocation process would include explicit procedures for determining grant amounts as well as for selecting grantees, but such procedures are absent under the present programs. The legal frameworks of the Bilingual Education and Emergency School Aid programs say virtually nothing about how these amounts should be established, set no standards for calculating reasonable costs, and impose no discernible limits on agency discretion. Judging by fragmentary data for Bilingual Education, this broad discretion has resulted in wide variations among grantees in the amount of federal aid per participating pupil.[82] It is hard to explain, from the standpoint of equity, why the level of federal support for a program should be substantially greater in one state or LEA than in another, except to compensate for such specific factors as price differentials, economies of scale, and needs for facilities and equipment. Even where the need for discretionary selection of grantees is unchallenged, the need for discretionary determination of the size of each grant seems questionable. The arbitrariness of the present discretionary processes could be reduced substantially by establishing specific cost guidelines, such as upper and lower bounds on the amount of aid per participating pupil, and by identifying in advance the types of circumstances that might justify deviations from the funding norm.

State-Operated Discretionary Processes. Although the same issues of fairness arise in connection with both federally operated and state-operated discretionary processes, the scope for federal action is very

different in the two cases. With regard to federally operated programs, it would be reasonable for either Congress or the Department of Education to lay out detailed procedural guidelines for discretionary allocation of funds. In the case of state-operated processes, however, federal specification writing would clash with the delegation of discretionary authority to the states. It would be inappropriate, for example, to prescribe allocation "at state discretion" and then to turn around and dictate detailed allocation criteria or specify which state officials should review grant proposals. This does not imply that the federal government should do no more than at present to encourage states to distribute discretionary funds fairly (which, as explained in Chapter II, is virtually nothing). A compromise between telling the states what to do and providing no safeguards at all is to require the states to formulate explicit discretionary processes of their own. Federal regulations might require, for example, that each state notify its LEAs of the selection criteria, evaluation and selection methods, and rules for determining grant amounts that it will use to make discretionary grants under each federal program. Where states are required to submit their program plans for federal approval (as under the Handicapped program), this information could be made a required item in each state plan. Where there are no requirements for plans or federal approvals, the information would at least be available for scrutiny by local school officials, state legislators, and other interested parties.

CONCLUSIONS

The present federal aid allocation formulas are not so much inequitable as insensitive. They take into account too few of the relevant educational and fiscal factors to satisfy widely shared standards of distributional justice. Specifically, most of the present interstate and intrastate allocation formulas (1) distribute aid according to person counts that are only loosely linked to the program's goals, (2) take no account of other dimensions of educational need, (3) do nothing to compensate (equalize) for differences in revenue-raising ability, and (4) fail to adjust for variations in costs, fiscal effort, and other fiscal factors.

The correspondence between aid allocations and educational needs could be improved by developing formulas that take into account the

severity as well as the incidence of educational problems, the heterogeneity of target populations, and indicators of needs other than person counts. A limited degree of interstate fiscal equalization (consistent with the small federal financial role in education) could be achieved by methods analogous to those of state school finance systems, if such equalization were deemed politically desirable; a limited degree of intrastate equalization could be promoted by building appropriate incentives into the federal grants. Methods borrowed from state aid systems could also be used to take into account variations in effort, costs of services, and other relevant circumstances. The resulting formulas would be more complicated than the present ones but no more so than the formulas of other well-established state and federal grant programs.

Federal discretionary grant programs in education have not been shown to be inequitable, but there is reason for skepticism about how they are being conducted. A shift from discretionary to formula funding of the Bilingual Education program (and perhaps other discretionary programs) would make the allocation process less arbitrary but would entail rethinking the federal role. Meanwhile, providing explicit and detailed descriptions of the discretionary processes (and assurances that the processes are adhered to) would help to build confidence that the programs are being administered equitably.

V. POLICY IMPLICATIONS

The foregoing analyses of federalism and equity issues contain many findings and suggestions concerning the major categorical grant programs, the new education block grant, and possible policy options for the future. This chapter brings together the main policy implications pertaining to each current and prospective program. Many of the options mentioned here have little chance of being considered in the present political and fiscal climate, but if the rapid swings in federal education policy during recent decades are any guide, there are few things that can be ruled out with assurance as possibilities for future years.

MAJOR CATEGORICAL GRANT PROGRAMS

Much of this report has focused on the major categorical grant programs in elementary and secondary education--compensatory education, education for the handicapped, vocational education, and, to a lesser extent, bilingual education. The diagnosis of the federalism and equity problems associated with each program has led to various proposals for change, ranging from relatively minor tinkering with existing formulas to wholesale revision of the funding mechanisms. The following are the major considerations that seem likely to be pertinent to future debates over fund distribution under these programs.

Compensatory Education

The structure of the fund distribution mechanism of ESEA Title I/ ECIA Chapter 1 is well suited to a program that (a) provides the dominant share of funding in its field and (b) needs to control allocations to the local level to ensure that federal goals are accomplished; but the present design may become less suitable over time if recent fiscal trends continue. Specifically, the growth of state compensatory education programs and other programs aimed at the same clientele (e.g., remedial programs associated with minimum-competency requirements), coupled with the sharp decline in federal funding and the poor prospects for a reversal

of that decline in the future, could eventually reduce the federal government to a minor partner in financing services for the disadvantaged. In that context, the effectiveness of federal control over the intrastate distribution of federal aid would diminish. It would become increasingly unreasonable to assume that the prescribed distribution of federal aid is simply superimposed upon an independently determined pattern of state and local resources. Instead, it would become necessary to consider options that have been relevant, up to now, mainly for the programs in which the federal financial share is small. These include arrangements for joint distribution of federal and nonfederal compensatory education funds, federal incentives to encourage desirable distributions of state aid, and delegation to the states of some control over the allocation of compensatory aid to LEAs. Consideration of such fiscal options would inevitably entail some rethinking--already overdue--of the doctrine that the federal compensatory program should be fiscally and organizationally separate. Thus, the effort to rationalize the funding mechanism might well become entangled with broader issues of program reform.

Even if the aforementioned trends to not materialize and compensatory education retains its status as a separately funded, separately administered federal program, a greater state role in the fund allocation process would be necessary to accommodate certain refinements of the funding formula. Specifically, it would be essential to rely on state data, and hence to decentralize the allocation process, to (a) bring educational performance data into the funding formula, (b) equalize Chapter 1 grants to compensate for differences in local tax bases, or (c) adjust for cost variations among LEAs.

Apart from accepting educational performance as a funding criterion and decentralizing the allocation system--either of which would mark a major shift in program philosophy--other options aimed at improving distributional equity fall under the heading of tinkering with the formula. The severity dimension of the low-income problem could be taken into account in both the interstate and intrastate allocation formulas, allocations to states could be equalized by linking them inversely to personal income, and the counterequalizing effect of the present expenditure factor could be removed. These and other detailed formula options have been

extensively discussed, and their effects simulated, in previous studies of the ESEA Title I funding mechanism.

Changes in the funding formula and other issues of program design have usually been considered in conjunction with reauthorization of the Elementary and Secondary Education Act of 1965. The next reauthorization was to have been in 1982-83, but the cycle was broken by enactment of the Educational Consolidation and Improvement Act of 1981. Because the new law was passed in the midst of a hectic debate over the federal budget, there was no opportunity for consideration of such detailed issues as formula refinement. The next major opportunity for considering reform, then, will be when the ECIA itself comes up for renewal. The fiscal outlook that far ahead is so clouded and the prospects for federal education policy so uncertain that one cannot begin to predict which fund allocation issues, if any, are likely to be on the policy agenda.

Education for the Handicapped

The federal government has pursued two major strategies to channel resources into special education for the handicapped. On one hand, it has established the mandate to serve all handicapped children "appropriately"; on the other, it covers part of the cost (a minor fraction) by distributing formula grants to states and LEAs. Of the two approaches, the service mandate is more important, both in terms of the volume of funds affected and the impact on the interstate and intrastate distributions of resources. The presence of the service mandate is consequently a major consideration in assessing the present funding mechanism and any proposals for change.

As explained in Chapter III, there is a disjunction under the Handicapped program between the structure of the federal funding mechanism and the reality of the fiscal environment. Because the federal share of funding is small compared with the state share, prescribing how the federal aid shall be distributed to LEAs is ineffectual. The overall distribution of funds for the handicapped within each state would probably be insignificantly different from what it is now if all federal aid

were turned over to the states with no distributional strings attached. Moreover, given the federal service mandate, it is not clear what purpose would be served by prescribing how the small amount of federal aid should be distributed, even if that prescription could be made binding. One structural change to consider, therefore, is federal disengagement from the issue of intrastate allocation. This would mean allowing the states to distribute 100 percent, rather than the present 20 percent, of Handicapped funds at their own discretion.

Should federal safeguards be deemed necessary to ensure that states treat all their LEAs fairly, there are two ways to proceed. One is by attempting to control the distribution of federal funds directly, if not by prescribing a formula, then by establishing standards of equity that states must satisfy with formulas of their own. It is evident, however, that such standards would be ineffective unless applied to the whole pool of federal, state, and local funds for the handicapped, but any attempt to set such far-reaching standards would represent a major federal intrusion into state and local budgetmaking. A more effective approach would be to attach distributional safeguards to the present service mandate, perhaps by defining the minimum level of service that qualifies as "appropriate." That being done, there would be no further rationale for federal involvement with the intrastate distribution formula.

Another reason for at least partial federal disengagement from the intrastate distribution process is that the present federal formula (like any nationally applicable formula) is necessarily crude, while state-designed formulas can and do take into account the varying costs of serving more and less severely handicapped children. Certainly, the Department of Education should have the flexibility, when dealing with a state that operates a full-blown weighted-pupil formula, to waive the federal formula in favor of the more sensitive state instrument. Going further along the same line, the federal formula might be eliminated in favor of a requirement that each state distribute federal handicapped funds according to a weighted-pupil formula of its own.

Two changes in the interstate distribution formula that would make the allocation of federal handicapped funds more equitable are, one, a shift from the present undifferentiated count of pupils to a weighted

count, and two, incorporation of a substantial element of equalization into the system. There is a special reason to consider equalization with respect to aid for the handicapped whether one is generally favorable to equalization or not, namely that the federal government itself has created a right to appropriate services and placed the burden of financing those services on fiscally unequal states. It seems only reasonable, under those circumstances, for the government to ensure that all states, including the fiscally weakest, will be able to carry out their obligations on roughly equal terms.

Vocational Education

The funding mechanism of the Vocational Education program, unlike those of other categorical programs, contains features that seem aimed at dealing with issues of federalism and equity in the distribution of federal aid. The program's 50-50 matching requirement brings a certain portion of the nonfederal resources for vocational education under the umbrella of federal allocational rules. The federal government does not prescribe a specific formula for distributing federal funds to LEAs but lets each state design its own formula according to general federal guidelines. There are fiscal equalization provisions in both the interstate allocation formula and the rules governing allocation to LEAs. For reasons discussed earlier, these provisions do not work well, and they are not adequate to deal with the problems, but they do contain the seeds of (and establish precedents for) more effective solutions.

The key structural problem is the same in Vocational Education as in the Handicapped program: the small share of federal funding makes it difficult for the federal government to exert any real influence over the distribution of resources among LEAs. Even with 50-50 matching, only one-fifth or one-fourth of the available resources are subject to federal influence. Moreover, the federal guidelines concerning state-designed formulas are too weak to ensure that even that small portion of the resources will be distributed according to federal priorities. To assert federal influence effectively, it would be necessary not only to tighten the guidelines but to make them applicable to a substantially larger portion of state-local vocational education funds, but in the

present political climate, which is inimical to extensions of federal control, that is not a realistic option. A somewhat more palatable alternative might be to offer either fiscal or nonfiscal incentives to states that distribute their vocational education resources in a manner consistent with federal priorities. Unless such reforms can be effected there would be little point to maintaining the present federal involvement with intrastate distribution, which produces the illusion but not the reality of federal influence.

The federal formula for distributing Vocational Education aid among states has the positive distinction of being the only such formula with an equalization feature and the negative distinction of relying on the need indicator--weighted population--least related to the program's goal. The formula could be improved materially by replacing the population variables with a set of state characteristics more directly related to the demand for vocational education--in particular, factors representing the industrial and occupational mixes of each state.

Bilingual Education

The question of fund distribution in bilingual education is subordinate to a more fundamental issue concerning the federal role. If the present doctrine of competitive, limited-duration, capacity-building grants is retained, then the allocation method must remain discretionary, and efforts to enhance equity must focus on improving the discretionary process. On the other hand, if the government eventually takes on the same role with respect to limited-English-proficient children as it has assumed with respect to disadvantaged and handicapped children, it would become reasonable to develop a formula for distributing bilingual funds.

Steps that would make the discretionary process more equitable include (1) combining all decision criteria into a single rating scale with explicit weights, (2) clarifying the relationship between considerations of need and considerations of proposal quality, (3) spelling out in operational detail the processes for selecting grantees and determining the amounts of aid, and (4) broadening participation in

the decisionmaking process and opening the process to greater outside scrutiny. These reforms can all be accomplished by regulatory and administrative action.

A formula grant for bilingual education could consist either of a grant to states, with subsequent distribution according to state-designed formulas or at state discretion, or a direct formula grant to LEAs. In either case, the natural choice for the main need indicator is a count of pupils from families with a primary language other than English. (A count of pupils with limited proficiency in English would be preferable in theory, but would raise all the problems of measuring performance and differentiating among levels of limited proficiency.) To prevent undue diffusion of resources, the need indicator could be defined relative to a high threshold, below which LEAs would not qualify for aid. The references to low income and ability to pay in the present law suggest that Congress might be willing to include an equalization factor in the formula, perhaps of the same type now used in Vocational Education.

A key consideration affecting the choice between a formula grant to states or to LEAs is the future of the service mandate to serve LEP children, now embodied in the Lau Remedies. If that mandate develops into a general obligation of states to serve their LEP children appropriately, then it would be reasonable to limit the federal role to providing formula grants to states to help them finance the federally imposed obligation. Otherwise, with the obligation not placed squarely on the states, a direct formula grant to LEAs would be justified.

THE NEW EDUCATION BLOCK GRANT

Under ECIA Chapter 2, more than 30 formerly separate categorical programs were consolidated into a single block grant to the states, with at least 80 percent of the money to be passed through to LEAs. Grants to states are distributed in the simplest manner possible: allocation in proportion to each state's school-age population. The pass-through grants to LEAs are (nominally) to be distributed according to state-designed formulas that allocate funds primarily according to enrollment, but with an adjustment to reflect each LEA's concentration

of certain types of "high-cost" children. These arrangements may be faulted from the standpoints of both federalism and distributional equity.

ECIA Chapter 2 has been billed as a decentralizing move in education, but this characterization is more correct with respect to control over program substance than it is with respect to control over the distribution of funds. Chapter 2 does decentralize in that it removes any federal discretionary authority over the intrastate distribution of funds (such as the authority formerly exercised under ESEA Title VI). On the other hand, Chapter 2 also relieves the states of the discretionary authority that they enjoyed under such predecessor programs as ESEA Titles II and IVC. That authority has now shifted to the federal level, in that 80 percent of the funds must be distributed to LEAs according to formulas of a narrowly circumscribed, federally specified type. Moreover, states have fewer formula design options under Chapter 2 than they had under the similarly structured categorical program, ESEA Title IVB. On balance, then, Chapter 2 does not represent a clear gain in allocative authority for the states.

The new fund distribution mechanism set up for ECIA Chapter 2 lacks nearly all the pro-equity features identified in this report. The interstate distribution mechanism is extremely crude. It reflects no attempt to define educational or financial need beyond counting pupils, recognizes no special-need subpopulations or differentials in the severity of educational problems, takes no account of interstate differences in fiscal capacity, and does not adjust for differences in resource prices or other cost factors. The intrastate distribution mechanism replicates the shortcomings of its predecessors in Vocational Education and ESEA Title IVB: states are to adjust the size of the allocation per pupil by taking into account the percentage of high-cost children in each LEA, but nothing is said about how the adjustment should be made or how much extra weight should be given to the special-need pupils. Consequently, if the experience of the earlier programs is any guide, the exhortation to take the presence of high-cost children into account is likely to have little effect on the intrastate distribution of Chapter 2 funds.

Whether the intrastate distribution rules are well designed is of little real consequence, however, since there is little probability that such rules--whatever their form--could have a significant effect on the distribution of resources among districts. There are so many permitted uses of Chapter 2 funds that the grants are effectively general aid. As such, they constitute only a tiny addition--on the order of one percent--to state-provided general aid for local school districts. Each year, as states revise their own general aid formulas, they are likely to take into account the presence of the Chapter 2 funds and to adjust their own levels of funding and allocations accordingly. It is very unlikely, consequently, that that there will be any discernible effect of the federal block grant on the overall distribution of funds among LEAs. As in other areas where the federal financial contribution is small, it makes little sense for the federal government to prescribe the intrastate distribution of its funds. Nothing would be lost if Chapter 2 funds were simply turned over to the states with no stipulations concerning subsequent redistribution,

CONSOLIDATED GRANTS AND GENERAL AID

The present block grant is but a pale shadow of the one that the administration proposed to the Congress. That larger consolidated grant would have incorporated within it the present compensatory education and handicapped programs plus others of the remaining categorical grants. The categorical grant structure in elementary and secondary education would have been effectively wiped out, in favor of a single general-purpose grant (or, in some versions, a pair of general-purpose grants--one to states and the other to LEAs). Similar proposals for grant consolidation have been offered in the past but never accepted. They have received sufficiently serious consideration, however, that the possibility cannot be ruled out that a future attempt will succeed. Alternatively, it is conceivable that in some future year, under fiscal circumstances more conducive to new federal ventures, a proposal for general federal aid to education will be accepted by Congress. In either event, the issue would arise of how a large amount of unrestricted federal aid for education should be distributed to states and LEAs.

The structural issue pertaining to consolidated or general-purpose aid is whether the federal government should determine only the distribution among states, leaving the subsequent distribution to LEAs to state discretion, or prescribe both the interstate and intrastate allocations of funds. There are two main considerations: one, the federal interest in the district-level distribution, and two, the government's ability to make its preferences effective.

The federal government's primary distributional concern has been, and will presumably continue to be, with the availability of extra resources for special-need children--the poor, disadvantaged, handicapped, and limited-English-proficient. In the context of an education block grant, this concern would translate into an interest in seeing that allocations of block grant funds are weighted in favor of districts with high concentrations of these types of children. The available options, then, are to prescribe intrastate distribution formulas that take these concentrations into account or to establish guidelines (more effective than those of Vocational Education or ECIA Chapter 2) that require states to take them into account in designing their own distribution mechanisms. A secondary federal concern, the bounds of which have never been well defined, is with school finance equity in the traditional sense--that is, with interdistrict disparities in spending and the relationship of spending to local wealth. A decision in favor of a general aid program would force the government to confront the question of general school finance equity more directly than it has in the past, and a decision to pursue that dimension of equity would require federal involvement in the intrastate distribution process.

The government's ability to make its distributional preferences effective would be limited under a general aid program by the same factor that limits it under most current categorical programs: the small scale of federal support relative to state support for the same purpose. A federal program deploying several billion dollars would still be small relative to state general aid programs, which amount, in the aggregate, to more than $50 billion. Merely prescribing how the federal funds should be distributed to districts would be ineffectual, since once again, states could nullify the federal prescriptions by taking them into account as they distribute their own funds. Effective control can probably be

achieved only by linking the federal general aid funds to the overall distribution of combined federal and nonfederal resources. Two of the more promising options are (1) to establish allocative standards that states must meet as a condition of eligibility for all or part of their general aid funds, or (2) to allocate the federal funds as incentive grants, wherein the amount of each state's grant would depend on the degree to which its school finance system reflects the federal priorities.

The federal interest in special-need populations implies that the percentages of disadvantaged, handicapped, and LEP children should be major factors in the formula for distributing federal general aid among the states. A weighted-pupil formula, allowing differential weights for each of those categories (and perhaps for subdivisions within them) would be the obvious allocative mechanism. The present composition of federal aid would undoubtedly be used as a base point for political bargaining over the relative weights to be assigned to the different pupil categories. It can be argued, however, that the present mix understates the federal role with respect to handicapped and LEP children, since that role is now carried out primarily through service mandates rather than grants. A revision of the weights in favor of those two groups might therefore be in order.

A major issue that would have to be resolved in drawing up the interstate aid formula is whether the federal program should equalize for differences in state fiscal capacity. The premise that federally protected categories of pupils should be served without regard to geographic location argues for an equalization component, as does the more general, albeit weak, federal interest in equalization per se. If accepted, the principle of equalization could easily be embedded in the system by means of the usual inverse income factor or, preferably, by writing a formula of the capacity-equalizing type. Nevertheless, interstate equalization would be a significant departure from past and current practice in education (although not in the federal grant system more generally), and it is by no means a foregone conclusion that Congress would accept it as a guiding principle for general aid.

NOTES

[1]There is no one correct way to count programs. The count varies depending on whether one considers separate appropriations, separate distribution mechanisms, or separate allocations of funds for specified purposes. Legislative practice in labeling programs varies from one program area to another; what would be a separate program under one statute appears as only a "set-aside" of funds for a particular purpose in another.

[2]The Education Consolidation and Improvement Act of 1981 (ECIA) contains two chapters. Chapter 1 corresponds to Title I of the Elementary and Secondary Education Act (ESEA). It changes many provisions of ESEA Title I but preserves the general purpose and the distribution mechanism of the earlier program. Chapter 2 authorizes the new education block grant to states, which encompasses and supersedes numerous formerly separate programs.

[3]The distribution mechanism plays a major role but does not wholly determine what educational and fiscal benefits flow to different states and localities. Other factors complicate the relationship between federal grants and educational services. Prominent among these factors are the fiscal and allocative control mechanisms of the federal programs, which help to determine how much of a given federal grant will translate into incremental educational spending (or tax relief) and how much will translate into services for different categories of pupils. The effects of grant provisions other than the distribution mechanisms are beyond the scope of this report.

[4]Obviously, concerns about federalism in education encompass many features of grant programs other than fund distribution mechanisms. For example, the question of how authority to determine instructional strategies and settings under federal programs should be divided between the federal government and the states is a federalism issue, as is the question of what role the states should have in administering federal programs.

[5]Although this discussion refers only to the division of authority between the federal government and the states, it is conceivable that questions could arise concerning a three-way division of allocative authority among the federal, state, and local levels of government. For example, under the Carter Administration's Youth Initiative, federal funds would have been allocated to specific schools within districts. This would have raised the issue of whether federal, state, or local authorities should control the distribution of resources among school buildings.

[6]Final regulations for ECIA Chapter 2 have recently been issued (*Federal Register*, Vol. 47, No. 146, July 29, 1982) but they say nothing about the key distributional issue under the block grant, how states will be permitted to design their formulas for allocating funds among LEAs. It remains to be seen how the Department of Education will behave in approving or disapproving proposed state formulas.

[7]All federal education statutes referred to in this paper other than the ECIA are compiled in U.S. House of Representatives, Committee on Education and Labor, *A Compilation of Federal Education Laws*, Volumes II and IV, March 1981. All regulations referred to in the paper other than the ECIA regulations are compiled in the *Code of Federal Regulations, Title 45*, revised October 1980 (hereafter cited as 45 CFR). Descriptions of the ECIA and its regulations are derived from the original entries in the *Federal Register*.

[8]The most extensive analysis of this type is Charles S. Benson, E. Gareth Hoachlander, and Robert Polster, *Analysis of Distribution Procedures Used by States to Distribute Federal Funds for Vocational Education*, Project on National Vocational Education Resources, University of California, Berkeley, December 1980.

[9]Two important programs, Bilingual Education and Emergency School Aid (ESEA Title VI) have ambiguous status. Although the grants under these programs are initially for periods of no more than three to five years, there are explicit provisions for extending them in the law. For instance, very general criteria of need that may be used to justify extensions of Bilingual Education programs are spelled out in sec. 721(e) of the Bilingual Education Act. According to Department of Education officials, continuous funding of LEAs is a common practice under the program.

[10]A full description of the intergovernmental structure of a grant program would have to cover many other aspects of the division of authority among levels of government, including authority to select target pupils, to determine modes of service, to decide on staffing mixes and staff qualifications, and so forth.

[11]Under the ESEA Title VI and Headstart programs, federal formulas are used to "apportion" funds among states (i.e., to determine the aggregate aid that must flow to districts in each state), but the actual grants are made directly to local agencies.

[12]ESEA Title I specifies in full detail how funds shall be distributed down to the county level. It also prescribes the type of formula to be used in allocating aid to LEAs within each county but gives the states discretion over a minor aspect of the distribution process—the choice of a poverty indicator to use in the formula for allocating funds among LEAs within each county.

[13]Exceptions to this pattern include the target-group programs under ESEA Title I, part B that serve neglected and delinquent children and migrants. States have been given broad allocative discretion under these programs even though federally protected target groups are involved. The relatively small scale of these programs and the difficulty of developing nationally applicable definitions of the target groups are two possible explanations of the federal decision not to prescribe the within-state distribution of these funds.

[14]Exceptions to this rule include the following discretionary grant programs that support continuing services: the state-operated portion of the Handicapped program, the state-operated programs under part B of ESEA Title I, and the Adult Education program. The new block grant program, ECIA Chapter 2, may provide an example of a program that allocates formula grants to LEAs for use partly to support special projects, but whether LEAs will use the funds for limited duration projects or continuing services remains to be seen.

[15]As noted earlier (fn. 12), the ESEA Title I/ECIA Chapter 1 formulas fully control the distribution of funds to the county level but not LEA level. The formulas of the Handicapped program control 75 percent of the available funds; the remaining 25 percent are distributed at state discretion.

[16]Impact aid funds are distributed according to numbers of children whose parents live *and* work or live *or* work on federal property and according to other indicators of the federal presence in an area. The distribution formula contains a complex set of thresholds and proration rules, designed to give priority to particular indicators of need for assistance in the event of changes in the overall level of funding. The details are spelled out in P.L. 874 and in related pieces of legislation. Because the Impact Aid program is dissimilar to the other education grant programs in purpose and design and raises a series of specialized issues, it is mentioned only in passing in the remainder of this paper.

[17]An apparent exception is the incentive grant portion of ESEA Title I, which distributes funds in relation to state spending for programs similar to Title I. However, one can take the view that the incentive grant is a minor add-on to the basic Title I formula, and thus that the Title I formula as a whole, including the add-on, relies primarily on a person count as the basis for allocating funds.

[18]The actual formula distributes portions amounting to 50, 20, and 15 percent of the appropriation in proportion to the respective population counts, and then distributes the remaining 15 percent in proportion to the resulting entitlements. This results in approximately the weights reported here (see Vocational Education Act, sec. 103(a)(2)).

[19]The general formula for an adjusted proportional allocation formula is $G_i = Af_iN_i/(\sum_j f_jN_j)$, where G_i is the grant to state i, A is the total appropriation for the program, N_i is the person count for state i, and f_i is the adjustment factor for state i.

[20]The formula is nonlinear because two factors that enter into it in the form of a product both depend on the number of low-income children--i.e., one factor is the number of low-income children in a district L_i, and the other is the proportion of low-income children in excess of a specified threshold $L_i/N_i-(L/N)_o$ (where N_i is the total number of children in district i and $(L/N)_o$ is the threshold). The product is quadratic in L_i.

[21]The General Revenue Sharing formula is a complex function of five variables: population, per capita income, state and local revenue, income tax receipts, and the percentage of the population that is urban. The Community Development Block Grant formula allocates aid according to three need indicators: population, housing overcrowding, and poverty.

[22]Descriptions of the formulas used by all 50 states to distribute general and categorical aid to LEAs may be found in Esther O. Tron, *Public School Finance Programs, 1978-79*, U.S. Government Printing Office, Washington, D.C., 1980.

[23]ESEA Title IV, sec. 422(a).

[24]Vocational Education Act, sec. 106(a)(5).

[25]Education Consolidation and Improvement Act of 1981, sec. 565(a).

[26]ECIA Chapter 2 regulations, *Federal Register*, Vol. 47, No. 146, July 29, 1982.

[27]45 CFR, sec. 123a.30.

[28]ESEA Title VII, part A, secs. 721(b)(4) and 721(b)(3)(A), and 45 CFR, sec. 123a.31.

[29]45 CFR, sec. 185.45(d).

[30]45 CFR, sec. 185.45(e)(2).

[31]45 CFR, sec. 1302.10.

[32]The lack of process specifications is less significant under Headstart than under the aforementioned programs because the Headstart legislation contemplates that the Headstart agency selected for each area will continue to operate the program as long as its performance is satisfactory; i.e., there is no recurring selection process.

[33]45 CFR, sec. 116d.40.

[34]45 CFR, part 162b, subpart C.

[35]45 CFR, secs. 121a.370, 121a.706.

[36]45 CFR, sec. 134.40(b).

[37]45 CFR, sec. 166a.51.

[38]The state's power to offset a distribution of federal aid that it does not like depends on both the federal share of funding and the degree to which federal aid is skewed toward certain recipients. If, as is typically the case, the skewing is mild--i.e., per capita or per pupil allocations do not vary by a large factor among recipients--the state can influence the overall distribution even if the federal share is relatively large. On the other hand, if the federal distribution is sharply skewed, as, e.g., in Bilingual Education, where aid is concentrated in relatively few districts, then the state may be able to modify but not undo the federally established distributional pattern.

[39]The states' 25 percent share of aid for the handicapped is available for state administration (up to 5 percent of the total) and to provide "support services" and "direct services." The latter services may be provided through LEAs (45 CFR, sec. 121a.370). For an analysis of how states use their discretionary P.L. 94-142 funds and distribute some of those funds to LEAs, see Margaret A. Thomas, *State Allocation and Management of P.L. 94-142 Funds*, The Rand Corporation, N-1561-ED, September 1980.

[40]ESEA Title I specifies that states shall not "take into consideration" the availability of Title I funds when determining how to allocate state aid among LEAs; however, this prohibition is likely to be unenforceable except in the most blatant cases. The reason is that to know whether a state has taken federal aid into account, one must know what the state would have done in the absence of aid. Except where there is a demonstrable state reaction to federal action--e.g., a cutback in state support in response to an increase in federal aid, or unless state officials go on record about their intent to offset federal aid, it is almost impossible to prove that a state is engaging in offsetting behavior.

[41] For an in-depth analysis of cost differentials among different categories of handicapped children and different modes of treatment, see J. S. Kakalik et al., *The Cost of Special Education*, The Rand Corporation, N-1792-ED, November 1981.

[42] Descriptions of state provisions for funding special education for the handicapped are described in Esther O. Tron, op. cit.

[43] See Esther O. Tron, op. cit., for descriptions of state provisions for funding compensatory education programs and other programs aimed at poor and/or low-performing children.

[44] For a discussion of political support at the state level for compensatory education and special education of the handicapped and of the likely consequences of relaxed federal control, see Mary E. Vogel, "Education Grant Consolidation: Its Potential Fiscal and Distributive Effects," *Harvard Educational Review*, Vol. 52, No. 2, May 1982, pp. 169-188.

[45] The local property tax base, the standard measure of fiscal ability in school finance, is defined differently by every state. This, together with differences in state assessment practices, makes it impossible to construct a set of nationally comparable property value data. Per capita income, a proxy for fiscal ability, is not available by LEA and thus could only be used in an interstate distribution formula.

[46] A large body of theoretical and empirical work on the effects of intergovernmental grants has shown that federal grants are partly substituted for state and local funds that would otherwise have been provided for the program in question. It is frequently found in empirical studies that only a minor fraction of aid translates into increased spending. Thus, it is unrealistic to assume that the distribution of federal aid is simply superimposed upon a predetermined distribution of state and local funds. For a recent review of the literature on the fiscal effects of grants, see Mun C. Tsang and Henry M. Levin, "The Impact of Intergovernmental Grants on Educational Spending," Institute for Research on Educational Finance and Governance, Stanford University, July 1982.

[47] There is a precedent for establishment of federal standards concerning the distribution of nonfederal education dollars in the provision of P.L. 94-142 that requires states to provide "appropriate" educational services for all their handicapped pupils, but this standard setting stops short of quantifying "appropriate" services in terms of either funding or resource inputs. Standards of equity, as suggested here, would have to be quantified to be enforceable, and this would constitute a significant extension of federal control.

[48]The incentive grant provision of ECIA Chapter 1 (presently not funded) links the amount of federal aid to the *level* of state funding for programs "similar" to the federal compensatory education program. The incentive suggested here would link the amount of aid to the *method* by which state funds are distributed; for instance, a state might receive a specified percentage increment in aid if it agrees to distribute its own funds according to the federal formula.

[49]The Vocational Education funding mechanism is evaluated in Benson, Hoachlander, and Polster, op. cit.; the ESEA Title IV mechanism is evaluated in Lorraine M. McDonnell and Milbrey W. McLaughlin, *Program Consolidation and the State Role in ESEA Title IV*, The Rand Corporation, R-2531-HEW, April 1980.

[50]McDonnell and McLaughlin, op. cit., pp. 5-7.

[51]Benson, Hoachlander, and Polster, op. cit.

[52]The actual process of defining the Title I target group is much more complicated than this simple statement suggests. Although Title I funds are earmarked for schools with "high concentrations of low-income children," LEAs have considerable discretion over where to draw the low-income cut-off point. Also, low income is defined only in relation to the average income level of each LEA. Therefore, the low-income criterion can mean very different things in different districts. Further, although Title I funds are intended to serve "educationally deprived" children within the target schools, SEAs and LEAs have wide discretion to choose their own definitions of deprivation and to establish the cut-off points. Consequently, neither "low income" nor "educational deprivation" has a uniform meaning across LEAs, much less across states.

[53]The possibility of introducing educational performance as an allocation criterion, either in addition to or instead of the present low-income criterion has been extensively studied; see, e.g., National Institute of Education, *Using Achievement Test Scores to Allocate Title I Funds*, U.S. Department of Health, Education, and Welfare, 1977. There have also been repeated attempts in Congress to incorporate an educational achievement factor into the formula, but these have always been defeated. The present arrangement--low income as the criterion for allocating funds to states, LEAs, and schools, and educational deprivation as the criterion for selecting pupils--represents a delicate compromise between those who saw Title I as mainly an educational improvement program and those who viewed it mainly as a program of financial aid for poor, urban, or heavily minority districts.

[54]For examples of the weights assigned to different categories of handicapped pupils by different states, see Tron, op. cit. (especially the entry for Florida).

[55] J. S. Kakalik et al., *The Cost of Education: Summary of Study Findings*, The Rand Corporation, R-2858-ED, November 1981.

[56] The problem in developing a national weighted-pupil formula is not only that different states assign different weights to the same category of handicap, but also that different states categorize their handicapped pupils into different and incompatible sets of categories. It might not be possible to generate sufficient support for any single weighting scheme to permit its incorporation into a federal formula.

[57] There is a curious relationship between the targeting provisions of the new block grants and those of the antecedent categorical programs. Although the latter were aimed at specific purposes and, in some cases, specific categories of children, their funds were distributed according to such general criteria as school-age population (or on a discretionary basis, as in the important case of ESEA Title VI). The block grant, in contrast, is aimed at broad purposes, but concentrations of various types of "costly to serve" pupils are supposed to be taken into account in distributing its funds. The implicit target group for ESEA Title VI, children in desegregating districts, was not mentioned in the block grant legislation, but the regulations were recently reinterpreted to include such children in the "costly to serve" category (Final Regulations for ECIA Chapter 2, *Federal Register*, op. cit.). At present, then, there are a number of specific need indicators that states are supposed to take into account in distributing funds to their LEAs--more than there were in the antecedent federal formulas--but in sharp contrast, no need indicator other than school-age population is to be used in distributing block grant funds among the states.

[58] Ideally, one would infer the appropriate weights from knowledge of the relative amounts of resources required to produce equivalent results for different categories of children, but unfortunately research on resource-outcome relationships in education has not progressed nearly far enough to provide estimates of these ratios. In practice, weights have been derived from (a) expert judgments concerning desirable services for different categories of special-need pupils, (b) analyses of the relative costs of current services (as in Kakalik et al., op. cit.), and (c) political judgments, such as underlie the conclusions of certain state legislatures that each disadvantaged pupil should generate a certain multiple (e.g., 1.25 or 1.5) of the aid allowed for each "regular" pupil.

[59] The multiplicative type of adjusted proportional allocation formula, as used in ECIA Chapter 1 and Vocational Education, is inflexible in that the product form forces each factor to enter into the formula with an elasticity of +1 or -1. These multiplicative formulas could be made more flexible by allowing for other elasticities--i.e., allowing formulas of the type Aid = kX^aY^b, where a and b are exponents applied to allocation factors X and Y. There seem to be no cases, however, in which such exponential (or logarithmic) functions are used to distribute federal grants.

[60]The requirement that all children be served "appropriately" seems to call for statewide minimum levels of service. While this by no means implies equality of service, it does imply some limitation on the range of disparities in service within each state. Although each state is free to define "appropriate services" for itself, the likelihood that a state's definition would be challenged in court if it fell below minimum professional standards means that there is also a constraint, albeit an indirect and uncertain one, on the range of service variations among states.

[61]The procedural requirements include requirements for screening and evaluation of children and the requirement that an individual educational plan (IEP) must be developed for each child and approved by the parent. This is backed up by a variety of "due process" provisions for use by dissatisfied parents. These provisions come into play once a child is identified as handicapped, and the cost to the district of serving that child depends on the outcome of the IEP process.

[62]ESEA Title I requires that projects must be "of sufficient size, scope, and quality to give reasonable promise of substantial progress toward meeting the special educational needs of the children being served" (sec. 124(d)). The regulations stipulate that to satisfy this requirement, Title I services must be "concentrated on a sufficiently limited number of services for a sufficiently limited number of children. . . ." (45 CFR, sec. 116a.22(b)(5)). Many states have adopted requirements concerning minimum expenditures of Title I funds per participant, and, historically, funds have been concentrated on half or fewer of the potentially eligible pupils instead of being spread among the entire eligible population.

[63]The rationale for considering the concentration of disadvantaged pupils is that the educational problems facing a school or an LEA increase more than proportionately with increases in the percentage of disadvantaged pupils in the student body. The present concentration grant provision of ECIA Chapter 1 was added to the compensatory education program to respond to this problem, but the concentration factor is considered only in allocating a small amount of earmarked concentration grant money, not in allocating the main body of Chapter 1 funds. The present concentration grant formula operates by counting low-income children in excess of a specified numerical or percentage threshold rather than by adjusting the low-income count by the concentration rate. The adjustment method would produce a more continuous formula without an arbitrary cut-off point.

[64]The multifactor, multiadjustment formula is written (in the case of two need indicators and two adjustment factors),

$$G_i = \frac{A(k_1N_{1i} + k_2N_{2i})(1 + w_1f_{1i} + w_2f_{2i})}{\sum_j (k_1N_{1j} + k_2N_{2j})(1 + w_1f_{1j} + w_2f_{2j})} ,$$

where k_1 and k_2 are weights that apply to the need factors N_1 and N_2 (e.g., person counts) and W_1 and w_2 are weights that apply to the adjustment factors f_1 and f_2 (e.g., economic characteristics of states or localities).

[65]Federal activities in support of equalization have included a program of grants to help states develop school finance equalization plans, programs of equalization research sponsored by the National Institute of Education and the National Center for Educational Statistics, and inclusion in the Impact Aid Program of a provision that allows states to treat Impact Aid funds like local revenues in calculating state aid entitlements, provided that the state formulas meet certain standards of equity.

[66]The allotment ratio is defined as $1 - .5(Y_i/Y_N)$, where Y_i is the per capita income of the state in question and Y_N is per capita income in the nation, but permitted values of the ratio are limited to the range from 0.4 to 0.6. Thus, a state with 1.5 times the national average per capita income, which would be assigned an allotment ratio of .25 under the basic formula, is instead assigned a ratio of .40 under the constraint.

[67]Federal grant programs that use personal income as a factor in distributing funds are tabulated in Advisory Commission on Intergovernmental Relations, *Categorical Grants: Their Role and Design*, Report A-52, Washington, D.C., 1977, Table IV-A1.

[68]A major case in point is the General Revenue Sharing program, which, unlike education grant programs, has explicit redistributive elements. Even so, the richest state receives about one-half as much aid per capita as does the poorest state. In contrast, a Canadian revenue-sharing program, aimed specifically at closing gaps in fiscal capacity between the richer and poorer provinces, allocated no aid at all to provinces above a certain cut-off point on the scale of fiscal capacity. Such a strong and explicit form of equalization has never been accepted by the U.S. Congress.

[69]The typical state foundation program determines the amount of aid per pupil to each LEA by the formula $V_i = F - r_o V_i$, where G_i is the amount of aid per pupil, V_i = property value per pupil, r_o is an arbitrarily set "computational tax rate," representing the required local effort, and F is the "foundation amount," which represents the state-guaranteed level of support. It would not be feasible for the federal government to employ such a formula directly because property value data are not comparable among states, but it would be feasible to use an analogous formula, based on per capita income rather than property value, to equalize among states.

[70]The power equalizing or guaranteed tax base formula, now in use in a number of states, has the form $G = r(V_0 - V)$, where G is aid per pupil, V is the value of assessed property per pupil in the district in question, V_0 is the guaranteed tax base (also expressed in terms of property value per pupil), and r is the tax rate of the aid recipient. In effect, each grantee is able to raise revenue as if it had a tax base at least equal to V_0. The rate at which the grantor matches spending by the grantee is $V_0/V - 1$; this rate varies in an inverse relationship to V. An analogous formula based on per capita income could conceivably be used by the federal government to equalize educational spending among states.

[71]In addition to equalizing resources by distributing aid, the federal government can also exert an equalizing influence by mandating certain levels of service for target-group pupils, as it has for the handicapped. By requiring states to serve all their handicapped pupils "appropriately," P.L. 94-142 has, in a very rough sense, built a floor under the level of support for special education that a state can accept in any of its districts. In this respect, the service mandate is equalizing. If the mandate were quantified--i.e., if a specific minimum *level* of services were required--the equalizing effect would naturally be more visible, as well as much stronger.

[72]For a review and critique of attempts to develop intrastate cost indices, see Stephen M. Barro, *Educational Price Indices: A State-of-the-Art Review*, AUI Policy Research, Inc., Washington, D.C., March 1981.

[73]Note that a double adjustment would be required in the compensatory education formula to offset cost differences among the states: first, the poverty level would have to be adjusted for cost of living differentials; second, the amount of aid per pupil would have to be adjusted to reflect differences in the cost of education.

[74]For a summary of the matching requirements of a large number of federal grant programs, see Advisory Commission on Intergovernmental Relations, op. cit., Chapter V, including appendix tables.

[75]This is not meant to imply that it would be desirable to distribute these grants solely according to counts of target-group children but only that formulas similar to those of the present formula-grant programs could be applied to funds now distributed by discretionary processes.

[76]In 1981, Congress directed the Secretary of Education to prepare "a report setting forth recommendations on the methods of converting, not later than July 1, 1984, the bilingual education program from a discretionary grant program to a formula grant program to serve students of limited English proficiency and recommendations on whether or not such conversion would best serve the needs of such students" (Sec. 731(f)).

[77] This refers to the basic capacity-building grant component of the bilingual education grant program. Another program component funds demonstrations of innovative methods of serving limited-English-proficient children. There is no intention in this discussion to challenge the discretionary status of the latter component.

[78] The U.S. Supreme Court decision in *Lau* v. *Nichols*, 414 U.S. 563 (1974), upheld the federal government's interpretation of Title VI of the 1964 Civil Rights Act to the effect that no student can be excluded from participation in educational programs because he or she cannot speak the language of instruction. Pursuant to this decision, the government in 1975 issued the "Lau Remedies"--a document specifying the types of services that LEAs must provide to satisfy Title VI and the court's ruling. Formal regulations containing revised guidelines for services to limited-English-proficient pupils were issued by the outgoing Carter administration in 1980 but rescinded by the Reagan administration in 1981. Thus, the informal "Lau Remedies" remains the operative document for defining "appropriate" services to such pupils.

[79] Unpublished Department of Education data.

[80] U.S. Department of Education, "Evaluation of Formula Approaches to the Distribution of Funds Under Title VII of the Elementary and Secondary Education Act," 1982. (This is the report prepared in response to the mandate cited in fn. 76.)

[81] There is a conspicuous disjunction between the allocation criteria stated in the Bilingual Education Act and the selection criteria in the regulations (see Chapter II for specific language). The former emphasize needs for services, while the latter assign only 15 points on a scale of 110 to criteria of need and 95 points to criteria of project quality. The situation is confused, however, because additional factors to be taken into account in the allocation process, but not included in the rating scale, also emphasize need. What the actual balance is between the need criteria and the quality criteria cannot be determined from the formal legal framework.

[82] Unpublished Department of Education data.