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U.S. DEPARTMENT OF EDUCATION FINANCING OF ELEMENTARY AND SECONDARY EDUCATION: WHERE THE MONEY GOES

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As the United States prepares to enter the 21st century, its educational system is in crisis. Despite the more than \$175 billion in program dollars that have been spent by the U.S. Department of Education (ED) over the past 16 years on elementary and secondary education, achievement scores continue to stagnate as increasing proportions of America's youth drop out of school.¹ Most of America's students are not meeting proficient levels in reading, and, in 1994, 57 percent of high school seniors lacked even a basic knowledge of U.S. history.² In addition, impoverished children in inner-city and rural areas often lack access to schools that adequately equip them to escape the cycle of poverty and dependency. In some of these school districts there are twice as many school-related crime incidents as there are graduating seniors.³ Such statistics strongly suggest the need for Congress to require a closer evaluation of where the ED's dollars go and whether they have any measured impact on educational achievement.

In order to determine where the ED allocates elementary and secondary education dollars and their effects, ideally we would want to know how much of every elementary and secondary educa-

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- 1 Office of Management and Budget, *The 1997 Budget of the United States Government*, Historical Tables, pp. 57-59; dropout data found in the White House's Social Statistic Briefing Room, U.S. Census data, <http://www.ed.gov/NCES/pubs/r94/r9402f0a.html>.
 - 2 Based on findings from the 1994 National Assessment of Education Progress, a congressionally mandated program of the National Center for Education Statistics, a branch of the U.S. Department of Education.
 - 3 In Cleveland City School District, for example, for the 1992-1993 school year there were 5,531 reported crime incidents, including 864 assaults, 144 sex-related incidents, 335 possessions/uses of weapons, 1,801 incidents of disruptive behavior and fighting, and 246 thefts/robberies. Out of an enrollment of 72,745 students, nearly 7,000 of them seniors, there were 2,254 graduates, a graduation rate of 33 percent. Based on data from Cleveland City School District, "Incidents Within District," and Ohio education data on the World Wide Web: http://www.ode.ohio.gov/www/ims/www_hist_vitals.html.

tion program dollar reaches classrooms in local schools and what effect each program dollar has on achievement. In addition, to determine the full value of ED elementary and secondary education spending, we also would want to determine what states must spend of their own money to receive federal dollars and comply with its regulations and requirements. Comprehensive data such as these, however, do not currently exist.

Based on data available at this time, we can calculate what portion of each tax dollar that funds ED elementary and secondary education programs reaches school districts. According to The Heritage Foundation Education Finance Model, which tracks the ED funds reaching local school districts using data from the ED and other federal agencies,⁴ our initial examination of the ED's spending on elementary and secondary education found that 85 cents of each dollar the ED allocates for elementary and secondary programs is sent to school districts. To put it another way, based on 1993 data, of the more than \$14 billion allocated to the ED elementary and secondary education programs included in our analysis, \$2 billion was allocated to entities other than local school districts.⁵ This money was used to pay for administrative overhead, as well as state and national programs of unknown effectiveness.

At the national level, there has been considerable debate about the proper role of the federal government in education and, more specifically, the need for the ED itself. The continuing poor educational performance of America's schoolchildren suggests a need to reexamine the role of the U.S. Department of Education in funding elementary and secondary education. This paper is the first in a series that will look at the federal role in education: It examines where the ED's elementary and secondary education dollars go, and what steps Congress needs to take in order for each state to evaluate what it is getting from the funds received from the ED.

DEPARTMENT OF EDUCATION SPENDING ON ELEMENTARY AND SECONDARY EDUCATION

The vast majority of all federal education funds does not go to schools or school districts. In 1995, 33 percent of the total \$100 billion the federal government allocated for education was spent by the ED; less than half of all ED funds went to elementary and secondary education (see Chart 1); and less than 40 percent of ED funds went to local educational agencies, 13.1 percent of total federal education spending.⁶ Contrary to what many Americans believe, the ED actually funds very few elementary and secondary education programs in their local communities.

In fact, ED spending amounts to only about 4.5 percent of all the money, including state and local revenues, spent for elementary and secondary education. Yet it has a significant influence on state and local education agencies and on schools all across the country.⁷ These programs fundamentally

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- 4 A model is only as accurate as the data upon which it is based. The primary source of data for the model is U.S. Department of Education, Office of the Under Secretary, "The Distribution of State-Administered Federal Education Funds in FY 1993: Eighteenth Annual Report to Congress Under Section 406A of the General Education Provision Act," Contract No. EA94052001, 1996. These data are based on information supplied by state educational agencies, which is not 100 percent accurate. We have taken steps to compensate for deficiencies in the data, but welcome the opportunity to re-run the model based on more accurate data. See below for more details concerning the model.
 - 5 The U.S. Department of Education allocates about \$14 billion to elementary and secondary education. Due to inadequate or unavailable data, we included only about \$13.2 billion in our analysis. \$2 billion in DOE rehabilitative services is not included in either number.
 - 6 Funds for elementary and secondary education reach school districts via other agencies, but the total amount is only about \$20 billion.
 - 7 U.S. Department of Education, *Reinvention: Transforming the Organization*, 1993-1996, p. 3.

shape how states and local school districts allocate their resources to meet the unique educational needs of their student populations. In order to receive federal money, state and local educational agencies must spend their own state and local tax dollars to apply for funds and to comply with the regulations that often dictate not just how the federal money is spent, but also how state and local money must be spent.⁸ Therefore, it is all the more important to understand where ED elementary and secondary education dollars go and how they affect academic achievement.

The majority of the funds appropriated for elementary and secondary education programs is dedicated to addressing the needs of disadvantaged and disabled students through Chapter 1/Title I and Education for Individuals with Disabilities Act (IDEA) programs. In FY 1993 (the year for which this analysis was performed), about 70 percent of the ED's \$14 billion in elementary and secondary appropriations funded such programs.

In addition to programs addressing the needs of special populations, Congress has appropriated funds for various programs in which there is a perceived need or federal role, such as Safe and Drug Free Schools and Bilingual Education. This paper's Appendix 1 lists the ED elementary and secondary programs that primarily send their money to local school districts, either directly or via state educational agencies. There is a wide range in the amounts of total program funding that reach local school districts.

What portion of all ED spending on elementary and secondary education actually goes to local school districts for their direct use? Based on The Heritage Foundation's Education Finance Model using 1993 tax and budget data, about 15 cents of every tax dollar sent to Washington, D.C., for ED elementary and secondary education programs—more than \$2 billion—is spent on state and national programs and administration.⁹ This spending breaks down as follows:

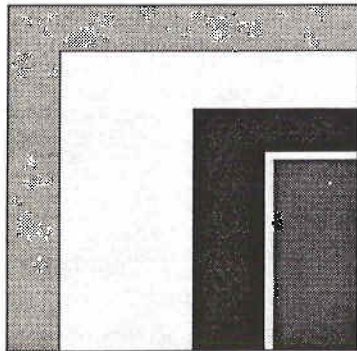
Departmental Administration and National Programs:	5 cents
State Program Administration and Programs	5 cents
+ State allocations to "other recipients" and programs	5 cents
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Administrative Cost and State and National Programs	15 cents
To Local School Districts	85 cents

The ED, like all other federal Cabinet agencies, is funded with revenues appropriated by Congress and composed primarily of individual and corporate tax revenues. Based on the proportion of all individual taxes sent to the federal government from each state and what that state receives as a proportion of ED elementary and secondary education spending, we are able to calculate each state's net "return." Because the majority of the funds local school districts receive from the ED is

8 The submission of such applications requires the use of state and local revenue, with no guarantee of what they will receive based on federal/state funding formulas or grant awards. Many federal forms for optional programs require special expertise to complete properly, discouraging smaller and poorer school districts from applying unless they can afford to hire a trained grant-writer. A study completed a few years ago by the state of Ohio found 170 forms totaling over 700 pages that could be attributed to participation in federal programs, with over 40 percent of them classified as "mandatory" or "virtually mandatory." Over one-half of the forms identified in their study of public-school reporting requirements were attributable to federal programs, although when the study was conducted Ohio was receiving only 5 percent of its education revenues from the federal government. See Ohio State Legislature, Legislative Office of Education Oversight, "Public School Reporting Requirements," RR9002, October 1990, pp. 11-12.

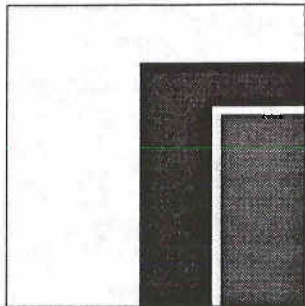
9 FY 1993 is the latest year for which allocation and sub-allocation data of Department of Education program funds data are available.

Of Total Federal Education Spending, Only 13% Goes to Local School Districts from the Department of Education



Total Federal Support for Education:
\$100.1 billion

of which...



Total On-Budget Support for Education:
\$73.8 billion

of which...

Portion of Federal Spending Going to Department of Education: **32.9%**



Department of Education:
\$32.9 billion

of which...

Portion of Federal Spending Going from Department of Education to Elementary and Secondary Education: **15.4%**



Elementary and Secondary Education:
\$15.4 billion

of which...

Portion of Federal Spending Going from Department of Education to School Districts: **13.1%**



Local Education Agencies:
\$13.1 billion

Note: Heritage calculations, using FY 1995 spending figures and FY1993 spending patterns; includes on and off-budget spending.
Source: U.S. Department of Education, FY 1995.

allocated to address the needs of students who are disadvantaged or have special needs, certain states receive a greater return per tax dollar than others. According to our analysis, school districts in Connecticut, for example, receive only 39 cents in return for every dollar sent to Washington for elementary and secondary education programs operated by the ED (see Table 1). School districts in Alaska, on the other hand, have relatively smaller school populations and receive additional funds from Impact Aid and Indian Education; consequently, they receive more than \$3 for every tax dollar sent to Washington for ED's elementary and secondary education programs.

But, as the Heritage model shows, not all of the individual and corporate tax revenue that goes to Washington goes back to local school districts. More than \$2 billion is spent on state and national programs and administration. How is that extra money being spent?

Department of Education Elementary and Secondary Spending on Administration and National and Federally Funded State Programs

Slightly more than \$2 billion—15 cents of every tax dollar appropriated by Congress to fund the ED's elementary and secondary education programs—is being spent by the ED, state governments, universities, libraries, and private organizations on administration, national programs, and federally funded state programs.

National Programs

The ED funds many national programs and activities that are administered directly by the ED and designed to effect change at the national or regional level rather than just at the local level.¹⁰ Many programs that send funds to the states to be distributed to local school districts have national components that are operated at the federal level. The Safe and Drug Free Schools program, for example, sends funds to the states in its State Grants program, but it also has a "National Programs" component that is operated at the federal level. The recipients of funds from these programs are primarily universities and private organizations. A few programs award competitive grants to individual schools and school districts¹¹ (see Appendix 2).

Lack of Evaluation. Most of these national programs have not been subject to the level of critical evaluation or oversight that one normally would expect, such as a review by the U.S. General Accounting Office (GAO), the financial investigative arm of Congress. Evaluating national programs often is difficult and subjective, and these evaluations frequently are not conducted because funds are not going directly toward increasing student achievement. In these cases, the sole remaining determination is whether the program is run efficiently; even these kinds of data, however, rarely are collected.

Several of the evaluations that do exist indicate the funds are not being used effectively. Some examples:

- An audit of Women's Educational Equity (WEEA), a program designed to promote equity in education for women that specifically targets elementary and secondary students, was described by the GAO as a "program with no director, with a staff of one and one-quarter persons in two different offices of the Department... with too many resources [going] for direct services to small numbers of persons."¹² Only 17 percent of WEEA awards go to state and local school dis-

10 Because the data available for analysis were for FY 1993, Appendix 2 includes some programs that are no longer funded, such as the National Diffusion Network. Likewise, it excludes many new national programs, such as the national programs component of Goals 2000.

11 Funds sent to local school districts are excluded from the 15-cents-per-dollar figure representing funds that do not go to local school districts.

Table 1

For Every Dollar Sent to Washington for Department of Education Elementary and Secondary Education Programs, Only 85¢ Is Received by Local Education Agencies

FY 1993	Individual Tax Revenues Funding DOE Elementary and Secondary Education Programs	Portion of Individual Tax Revenues Returned to Local School Districts	Amount Received per Individual Tax Dollar	
			Net	
Alabama	\$110,017,200	\$141,608,900	\$31,591,700	\$1.29
Alaska	\$27,785,100	\$86,655,700	\$58,870,500	\$3.12
Arizona	\$116,783,700	\$165,663,800	\$48,880,100	\$1.42
Arkansas	\$55,622,400	\$82,682,300	\$27,060,000	\$1.49
California	\$1,118,702,700	\$929,394,600	(\$189,308,100)	\$0.83
Colorado	\$144,445,900	\$84,237,800	(\$60,208,100)	\$0.58
Connecticut	\$205,463,100	\$79,522,700	(\$125,940,400)	\$0.39
Delaware	\$27,832,600	\$21,620,700	(\$6,211,900)	\$0.78
District of Columbia*	\$28,463,900	\$31,437,900	\$2,974,000	\$1.10
Florida	\$447,312,600	\$355,803,500	(\$91,509,100)	\$0.80
Georgia	\$225,204,100	\$190,626,100	(\$34,578,000)	\$0.85
Hawaii*	\$44,788,800	\$47,232,100	\$2,443,300	\$1.05
Idaho	\$30,158,700	\$33,621,500	\$3,462,800	\$1.11
Illinois	\$505,789,300	\$323,685,700	(\$182,103,600)	\$0.64
Indiana	\$192,532,000	\$137,762,100	(\$54,769,900)	\$0.72
Iowa	\$82,454,000	\$62,798,800	(\$19,655,300)	\$0.76
Kansas	\$84,201,000	\$61,538,900	(\$22,662,200)	\$0.73
Kentucky	\$97,975,000	\$128,817,600	\$30,842,600	\$1.31
Louisiana	\$108,161,800	\$179,502,400	\$71,340,700	\$1.66
Maine	\$33,537,600	\$39,318,000	\$5,780,400	\$1.17
Maryland	\$211,354,800	\$118,338,600	(\$93,016,200)	\$0.56
Massachusetts	\$277,766,300	\$161,029,100	(\$116,737,100)	\$0.58
Michigan	\$341,933,200	\$306,389,900	(\$35,543,300)	\$0.90
Minnesota	\$170,923,300	\$104,220,800	(\$66,702,500)	\$0.61
Mississippi	\$50,527,300	\$121,751,700	\$71,224,400	\$2.41
Missouri	\$167,434,900	\$131,946,200	(\$35,488,700)	\$0.79
Montana	\$21,838,500	\$46,409,700	\$24,571,200	\$2.13
Nebraska	\$49,803,200	\$44,163,200	(\$5,640,100)	\$0.89
Nevada	\$67,622,900	\$26,478,400	(\$41,144,500)	\$0.39
New Hampshire	\$48,187,200	\$22,469,100	(\$25,718,000)	\$0.47
New Jersey	\$420,852,500	\$221,173,800	(\$199,678,700)	\$0.53
New Mexico	\$39,795,200	\$93,021,900	\$53,226,700	\$2.34
New York	\$802,739,400	\$632,371,900	(\$170,367,500)	\$0.79
North Carolina	\$208,405,700	\$172,678,400	(\$35,727,300)	\$0.83
North Dakota	\$18,236,000	\$31,954,800	\$13,718,800	\$1.75
Ohio	\$372,259,900	\$303,109,400	(\$69,150,500)	\$0.81
Oklahoma	\$81,871,000	\$126,174,900	\$44,303,900	\$1.54
Oregon	\$98,650,900	\$76,841,900	(\$21,809,000)	\$0.78
Pennsylvania	\$430,049,600	\$334,079,800	(\$95,969,800)	\$0.78
Rhode Island	\$35,107,500	\$30,115,000	(\$4,992,500)	\$0.86
South Carolina	\$91,250,900	\$112,927,700	\$21,676,800	\$1.24
South Dakota	\$21,713,300	\$36,101,200	\$14,387,900	\$1.66
Tennessee	\$163,185,400	\$144,278,800	(\$18,906,600)	\$0.88
Texas	\$608,190,000	\$628,334,400	\$20,144,400	\$1.03
Utah	\$49,145,600	\$52,177,100	\$3,031,500	\$1.06
Vermont	\$17,540,600	\$18,202,200	\$661,700	\$1.04
Virginia	\$250,407,800	\$171,377,200	(\$79,030,600)	\$0.68
Washington	\$215,923,500	\$138,465,200	(\$77,458,300)	\$0.64
West Virginia	\$40,625,900	\$65,585,700	\$24,959,700	\$1.61
Wisconsin	\$171,286,800	\$140,065,400	(\$31,221,400)	\$0.82
Wyoming	\$17,139,500	\$21,876,200	\$4,736,700	\$1.28
50 States, D.C.	\$9,249,000,000	\$7,817,641,000	(\$1,431,359,000)	\$0.85

Note: *Hawaii and the District of Columbia do not have Local Education Agencies; thus these numbers reflect only what the state/district receives. Net tax revenues represent only individual tax revenues; thus, totals do not reflect total loss of \$2 billion. Individual taxes are about 70% of general revenues; thus, \$2 billion includes the additional 30% from corporate taxes.

Sources: The Heritage Foundation Education Finance Model; Department of Education; GEPA 406A 18th Annual Data Collection.

tricts, and the GAO found little evidence that the other recipients were working with state or local education agencies to address equity problems in public schools.¹³ According to the GAO, there is “little evidence of their effectiveness in eliminating sex bias in education.”¹⁴

- A study of the Ellender Fellowships program found that, although federal and private funding for the program had increased significantly, the number of fellowships had declined steadily.¹⁵ The study also found that more teachers and administrators had received funds than students.
- The Media and Captioning Services, funded under the Individuals with Disabilities Act, spends \$19 million to close-caption television shows, targeting those that enrich the “general, educational and cultural experiences and advancement of individuals with hearing impairment.”¹⁶ In the second half of the 104th Congress, the House Economic and Educational Opportunities Committee discovered that, according to the ED, such programs as “Baywatch,” “Regis and Kathie Lee,” and “The Young and the Restless” fit this category and are included in the close-captioning project.¹⁷

State Programs

Under such programs as Eisenhower Math and Science and Title I, as well as others among those listed in the Appendix, states have the option of keeping funds for state programs and activities. In addition, the ED often allows—and often requires—state governments to allocate elementary and secondary appropriations to universities, libraries, and private organizations. More than 5 cents of every education tax dollar sent to the states is allocated by state governments to recipients other than local education agencies. The types of programs funded with these allocations range from university research in the area of elementary and secondary drug curriculum to awards for private organizations for the purpose of operating community activities.

Administrative Costs

The ED uses approximately \$130 million just for administering elementary and secondary education programs, which includes salaries, expenses, and departmental management. Because the ED currently does not track administrative expenditures by program, it is difficult to determine whether a program is being operated efficiently. Calculating an “overhead” percentage per program would enable Congress to determine whether a program is being operated in an efficient manner, or even if it is possible to administer certain types of programs at the federal level in a cost-effective manner.

The ED also permits states to keep a certain percentage of their federal program dollars in order to administer and operate these programs.¹⁸ About 5 cents of every tax dollar spent by the ED on elementary and secondary education goes toward this purpose. For example, states are permitted to keep 1 percent of funds they receive for Chapter 1/Title I for administrative expenses.

12 U.S. General Accounting Office, *Women's Educational Equity Act: A Review of Program Goals and Strategies Needed*, GAO/PEMD-95-6, December 1994, p. 4; targeted for elimination by the 104th Congress, it received no funding for FY1996. It was funded at \$3.9 million in 1995, and the Administration has requested \$4 million for FY 1997.

13 *Ibid.*, p. 6.

14 *Ibid.*, p. 25.

15 U.S. Department of Education, *The Fiscal Year 1994 Budget*, p. 25.

16 Tony Snow, "Baywatch Educational? Feds Spend \$19 Million to Close-Caption Popular TV Shows," *USA Today*, March 4, 1996, p. A11. See also U.S. Department of Education, Office of Special Education Programs, "Captioned Films, Television, Descriptive Video and Educational Media for Children with Disabilities," 1996.

17 *Ibid.*

18 Administering and operating such programs includes providing technical assistance and training, as well as operating other state programs that do not sub-allocate funds to any other recipients.

According to the GAO, the states fund a significant portion of their state education agencies with federal funds.¹⁹ In FY 1993, for example, federal funds constituted about 41 percent of all state education operating funds, and 41 percent of the staff were federally funded.²⁰ For all education programs, the states keep 5.8 percent of all federal funds they receive in order to administer and operate federal programs, about four times greater than the percentage of state funds retained for the same purpose. According to the GAO study, state officials found that federal education programs had more significant administrative and regulatory requirements than state programs, and that these requirements contributed to higher administrative costs, as evidenced by the higher proportion of funds retained for federal programs.²¹

What Actually Makes It to the Schools and Classrooms?

The Heritage Foundation Education Finance Model tracks only what portion of ED elementary and secondary education dollars reaches school districts: districts, however, are still several layers of bureaucracy away from classrooms. School districts are not required at this time to track what portion of their ED dollars is sent directly to schools and classrooms. And few districts—and virtually no parents and taxpayers—have any accurate data with which to figure out how many cents on the dollar reach the classroom.²²

There are studies, however, that indicate just how little in general gets from school districts to the classroom. Audits around the country have found as little as 26 percent of school district funds is being spent on classroom expenditures.²³ But Coopers & Lybrand, an accounting firm, has designed a new financial model to analyze what portion of school district education money actually reaches schools and classrooms. This model was released recently after it was field tested in 118 school districts and 17 states, and is now being implemented statewide in South Carolina and Rhode Island. The Coopers & Lybrand model is not designed to address the issue of specifically tracking ED funds, but results from the districts in which the model has been tested give an overall idea of the portion of each federal tax dollar that is returned to schools and classrooms. For example, New York City Public School System Chancellor Rudy Crew recently released an analysis that was built on a 1994 Coopers & Lybrand analysis of the city's public school system. The report found that only 43 percent of the district's total funds were spent on direct classroom expenditures.²⁴

If the New York City Public School System provides any indication of what portion of federal dollars reaches the classroom nationwide, then there is an even more serious need to determine what schools are receiving in fact from ED elementary and secondary education funds, and how they are benefiting.

19 U.S. General Accounting Office, *Education Finance: Extent of Federal Funding in State Agencies*, GAO/HEHS-95-3, October 1994, p. 11.

20 *Ibid.*

21 *Ibid.*

22 "Classroom" expenditures are expenditures for teachers and materials.

23 Sammis B. White and Richard C. Rue, "Fiscal Accountability in Wisconsin's Public Elementary Schools: 'Where Does the Money Go?'" *Wisconsin Policy Research Institute Report*, Vol. 2, No. 1 (January 1989), pp. 1, 2. See also Douglas Munro, "How to Find Out Where the Money Goes in the Public Schools," Heritage Foundation *State Background* No. 955, August 10, 1993.

24 Jacques Steinberg, "NYC School System Budget Analysis Shows 43% Goes to Classrooms," *The New York Times*, November 21, 1996. The 1994 Coopers & Lybrand analysis found that 47.9 percent of district funds went to the classroom, but did not break out the results by school. See Speakman, Cooper, Sampieri, May, Holsomback, Glass, "Bringing Money to the Classroom: A Systemic Resource Model Applied to the New York City Public Schools," in *Where Does the Money Go? Resource Allocation in Elementary and Secondary Schools*, Lawrence O. Picus and James L. Wattenbarger, eds. (Thousand Oaks, Cal.: Corwin Press, 1995).

CONCLUSION

The U.S. Department of Education currently spends over \$2 billion of individual and corporate tax dollars on programs and administrative costs that do not directly involve local school districts. Some states see a return on this investment; others do not, however, and, in some cases, the loss may be significant. Because of stagnant achievement results over the past 15 years, and the range and amount of funds states receive in return for their investment in the ED's programs, state and local communities and Congress have a right to know what they are getting for their money.

In order for Congress and state and local school districts to evaluate properly what they are receiving from the ED, Congress should:

- **Take steps to evaluate the effectiveness of national and state programs that do not allocate funds primarily to local school districts or schools.** Programs that do send funds primarily to schools should also undergo evaluation, of course. If such programs do not benefit students, money should be sent back to state and local communities to be used as they deem necessary to meet the unique needs of their student populations.
- **Require the ED to track their administrative costs by program,** so that policymakers can determine whether a program is being operated efficiently and can keep administrative costs to a minimum.
- **Encourage states that receive ED funds to track expenditures of federal and state revenues for the administration of federal programs.** State education agencies have little or no specific information at this time on the proportion of federal and state revenues they expend to administer federal programs.
- **Encourage states and local school districts to employ the use of financial models** that would allow them to account for how scarce educational resources are being spent.

Before there can be any serious debate as to whether states and local communities benefit from the tax dollars they send to Washington for elementary and secondary education as funded by the Department of Education, more information is needed about how the money is being spent and whether the programs benefit the educational well-being of children.

The Heritage Foundation

Education Finance Model

Primary data files in model:

- U.S. Department of Education, Office of the Under Secretary, "The Distribution of State-Administered Federal Education Funds in FY 1993: Eighteenth Annual Report to Congress Under Section 406A of the General Education Provision Act," Contract No. EA94052001, 1996.
- U.S. Bureau of the Census, *Consolidated Federal Funds Reports, 1985–1994*, August 1995.
- Internal Revenue Service, *SOI Bulletin*, U.S. Department of the Treasury, Summer 1995.
- U.S. General Accounting Office, *Education Finance: Extent of Federal Funding in State Agencies*, GAO/HEHS-95-3, October 1994.

Design of Model

In order to determine what portion of Department of Education elementary and secondary education dollars reaches local school districts, the following questions needed to be answered:

- **How much money does each state receive for elementary and secondary education programs from the U.S. Department of Education (ED)?**

The amount of money received by the states is collected by the National Center for Education Statistics. We used their file, entitled "The Distribution of State-Administered Federal Education Funds in FY 1993," as well as data from the Departments of Education and Commerce and the General Accounting Office (GAO).

- **How much does each state contribute in individual tax revenues to fund the ED?**

IRS statistics of income data for tax year 1993 provide data on what each state sent to Washington in individual taxes. By multiplying total individual tax revenue by the percentage of general revenues composed of ED elementary and secondary program dollars, we were able to calculate the portion of tax revenues funding those programs.

- **What is the net return to each state for every individual tax dollar sent to the ED to fund elementary and secondary programs?**

This calculation is based on the proportion of general revenues used to fund ED elementary and secondary education programs, adjusting that percentage to include only revenues from individual tax dollars. We subtracted what each state received from the ED in elementary and secondary appropriations from their proportionate "share" of elementary and secondary funds based on their relative share of individual taxes.



Data Adjustments and Assumptions

Most of the education programs included in this analysis are "forward funded." Thus, FY 1993 appropriations correspond roughly to the 1993–1994 school year. Although the 1993 tax year does not correspond exactly, we concluded that any difference would be negligible.

Wherever possible, we included outlays, not obligations, in our calculations.

Tax Data

We adjusted the state-by-state individual tax data downward in order to match aggregate data from the Office of Management and Budget on the portion of general revenue composed of individual taxes. This was necessary because the state breakdown of individual tax revenues is estimated by the Internal Revenue Service using a sample of the tax returns from each state.

Because of the difficulties associated with breaking down corporate tax revenues by state, we examined only individual taxes to determine what portion of each tax dollar is received by local school districts. Seventy percent of the U.S. government's general revenues is composed of individual tax dollars. We adjusted the total amount of individual tax dollars spent at the department and state level accordingly, assuming a constant rate of loss per corporate tax dollar as well as for individual tax dollars in order to come up with the total \$2 billion in taxes spent. Thus, the sum of what each state nets from the ED does not amount to \$2 billion, because the state totals reflect only individual taxes.

Education Data

In order to control most efficiently for differences in state reporting of funds received from the ED, for the purposes of this model we assumed that states disbursed 100 percent of the funds received from the ED during the fiscal year in question. Consequently, we distributed among the types of recipients the difference between the total allocations reported by each state and what each state actually was appropriated.

When a state receives funding from the ED, it either retains it for use by state agencies or allocates it to five other types of recipients: state institutions, local education agencies, universities, libraries, or some other entity or organization. We distributed the difference between appropriated funds and reported funds among these categories based on reported allocations and data from the GAO on the percentage of federal funds retained by states in order to distribute them as accurately as possible.²⁵

For this analysis, we combined recipient categories in order to minimize allocation discrepancies. The categories we used for analysis were: state agencies, local school districts, and "other."

We also adjusted budget data so that they reflected only the funds going to the 50 states, excluding the territories and Puerto Rico.

Why 15 cents per tax dollar is a conservative estimate:

Most states do not allocate these funds within one year, and thus there is a certain amount of what is known as "carryover." In reality, local school districts actually receive less than our calculation of 85 cents per tax dollar during a calendar year. According to ED calculations based on state-reported data (not appropriations), for every dollar sent to the states for local school districts, less than 85 cents makes it to school districts. Combined with the 5 cents spent at the federal level, this amounts to only about 80 cents returning to school districts.

Data Limitations

Education data used in this model are based on state-reported data, with some improvements and corrections made by the ED's National Center for Education Statistics. As previously mentioned, many states reported only low percentages of total funds appropriated; thus, the data required adjustment to be comparable. There also are inherent limitations on data of a "self-reported" nature.

25 U.S. General Accounting Office, *Education Finance: Extent of Federal Funding in State Agencies*.

Data used in this analysis represent more than 94 percent (\$13.2 billion) of the ED's \$14 billion FY 1993 elementary and secondary education budget. Certain smaller programs were left out because of inadequate or non-existent state-level and sub-allocation data. In addition, although the ED collects data on the Foreign Language Assistance Centers program, it was excluded from this analysis because the percentage reported by the states of total funds appropriated was less than 70 percent, with some states reporting less than 5 percent. Our conclusion that 15 cents per tax dollar allocated to ED elementary and secondary programs amounts to \$2 billion is reflective only of the budget included in our analysis. Consequently, it is possible that the figure understates the total amount by about 6 percent.

Using budget and ED data, we are able to determine where most of the money was spent, but gaps remain to the extent that it is not possible to itemize each expenditure at the federal and state level that figures in to the 15 cents per tax dollar spent at the state and departmental level.

APPENDIX 1

**Department of Education Elementary and Secondary Programs
Primarily Sending Funds to Local School Districts, FY 1993**

Programs	General Description of State-Administered Elementary and Secondary Education Programs	Percent of Appropriation to School Districts
<p>Education for the Disadvantaged (Chapter 1) Basic and Concentration Grants Grants to States for Migrant Children Even Start Program State Administration Capital Expenses Grants to States for Neglected or Delinquent Children State Program Improvement Grants</p>	<p>Chapter 1 (now Title I) programs fund school districts and other agencies to assist educationally disadvantaged students. This \$6.3 billion (in FY 1993 dollars) program represents the federal government's largest investment in elementary and secondary education, assisting 13 percent of all children in elementary and secondary education.</p>	<p align="center">97</p>
<p>Education of Children with Disabilities Individuals with Disabilities Act (IDEA) Programs: Grants to States Preschool Grants for Children with Disabilities Early Intervention Program for Infants and Toddlers with Disabilities</p>	<p>These state-administered programs authorized by the Individuals with Disabilities Education Act provide financial assistance to children with disabilities. Their FY 1993 appropriation was \$2.6 billion.</p>	<p align="center">87</p>

<p>Carl D. Perkins Vocational and Applied Technology Education Act Basic State Grants Tech-Prep Education Consumer and Homemaking Education Community-Based Organizations</p>	<p>The majority of the \$1.2 billion allocated to this program in FY 1993 funds state grants designed to provide equal opportunities in vocational education in historically underserved areas.</p>	<p>55</p>
<p>Drug-Free Schools and Communities Act State and Local Education Agency Programs Governor's Office</p>	<p>The Drug-Free Schools and Communities Act provides \$499 million (in FY 1993 dollars) in assistance to states for school- and community-based programs that provide for the prevention of alcohol and other drug use, early intervention, student assistance program, rehabilitation referral, community involvement, training, and technical assistance.</p>	<p>82</p>
<p>Chapter 2 State and Local Programs Grants to LEAs State-Level Activities</p>	<p>Funds from this \$436 million (in FY 1993 dollars) program are used to improve elementary and secondary education for students in public and private schools by implementing promising programs and supporting innovation and improvement.</p>	<p>84</p>
<p>Dwight D. Eisenhower Math and Science Education State Grant Program Elementary and Secondary Programs Demonstration Programs Higher Education Programs</p>	<p>This \$246 million program seeks to strengthen the economic competitiveness and national security of the United States by improving the skills of teachers and the quality of instruction in mathematics and science in elementary and secondary schools.</p>	<p>69</p>
<p>Adult Education Act Formula Grants to the States</p>	<p>The goal of this \$255 million program is to enable states to establish adult education programs that will provide the opportunity for all adults to become literate, complete high school, and receive job training.</p>	<p>54</p>

<p>Education for Homeless Children and Youth</p>	<p>The \$25 million Education for Homeless Children and Youth program provides grants for states to establish an Office of Coordinator of Education for Homeless Children and Youth, as well as to develop and implement activities to ensure that homeless children have access to public education.</p>	<p>86</p>
<p>Emergency Immigrant Education Program</p>	<p>This \$30 million program, operated by the Office of Bilingual Education and Minority Affairs, assists school districts with more than 500 immigrant students or in which such students make up at least 3 percent of current enrollment.</p>	<p>99</p>
<p>Foreign Language Assistance Program-Grants to Local School Districts</p>	<p>Due to percentage of allocation data available for this program it was excluded from the analysis. This program provides \$10.8 million in grants to states for local activities to improve elementary and secondary education in critical foreign languages.</p>	<p>**</p>

Source: U.S. Department of Education, Office of the Under Secretary, "The Distribution of State-Administered Federal Education Funds in FY 1993: Eighteenth Annual Report to Congress Under Section 406A of the General Education Provision Act," Contract No. EA94052001, 1996.

Department of Education Elementary and Secondary Education Programs Included in Analysis That Send Funds Directly to Local School Districts

Program	General Description
Impact Aid	This \$750 million program compensates local education agencies for increased enrollment or lost revenues as a result of federal activities. The majority of these funds goes toward the support of "federally connected children," such as children of members of the armed services.
Bilingual and Immigrant Education	Bilingual Education programs, funded at \$196 million (in FY 1993 dollars), support programs in school districts that help children with limited English proficiency learn to speak English.
Magnet School Assistance	According to the Department of Education, research has shown that magnet schools can be successful at promoting educational excellence and achieving desegregation without forced busing. In 1993 this program awarded \$108 million in grants to 63 local school districts.
Indian Education	Indian Education programs, funded at \$81 million in FY 1993, help to promote educational opportunities for Indian children and adults, a highly disadvantaged population.

APPENDIX 2

Examples of Department of Education Elementary and Secondary Education Programs That Do Not Allocate Funds Primarily to School Districts, Categorized by Office, FY 1993

<i>Office of Elementary and Secondary Education School Improvement Programs</i>	
Law related education	This program makes competitive awards for programs that provide children and adults with knowledge and skill pertaining to the law, the legal system, and the principles and values on which they are based (\$6 million).*
Arts in Education	Primarily funds two organizations, the Very Special Arts Organization and the John F. Kennedy Center for the Performing Arts (\$6.9 million).
Ellender Fellowships	Administered by the Close Up Foundation of Washington, D.C., this program provides financial aid to enable low-income students and their teachers to participate in week-long seminars in Washington. A separate program is designed to increase understanding of the federal government among older Americans and recent immigrants (\$4.2 million).
Follow Through	This program was designed to develop knowledge about educational practices that can assist low-income children in the early elementary grades (\$8.5 million).*
Inexpensive Book Distribution	Provides funds via legislatively mandated contract to the nonprofit organization Reading Is Fundamental, Inc., to distribute free and inexpensive books to areas of particular need (\$10 million).
Women's Educational Equity	First funded in 1976 to promote the achievement of education equity for women specifically targeting elementary and secondary education, this program primarily awards grants to colleges and nonprofit organizations, with only 17 percent of its funds going to local education agencies (\$2 million). ¹
Safe and Drug Free Schools National Programs	Funds in this program are used for higher education drug-prevention programs, regional technical assistance, local education agencies in areas of high-need program development and evaluation (\$61.5 million).*

¹ U.S. General Accounting Office, *Women's Educational Equity Act: A Review of Program Goals and Strategies Needed*, GAO/PEMD-95-6, December 1994, p. 4.

<i>Chapter 1: Aid to Disadvantaged Children</i>	
Rural Technical Assistance Centers	Provide rural areas with assistance in Chapter 1–related issues (\$5 million).*
Evaluation and Technical Assistance	Funds appropriated to this program support evaluation and technical assistance for school districts (\$14 million).

<i>Office of Bilingual and Immigrant Education</i>	
Support Services	This program issues grants to state education agencies, evaluation assistance centers, studies, evaluations, and clearinghouses for information (\$10.9 million).*

<i>Office of Special Education and Rehabilitative Services</i>	
Media and Captioning Services	Through the closed-captioning of educational television and film and distribution of textbooks on tape, this program seeks to advance the education of the hearing and visually impaired (\$18 million).
Clearinghouses	Three clearinghouses funded by this program disseminate information to parents and others regarding special education, provide information on available post-secondary services, and encourage and assist individuals to seek careers in special education (\$2.2 million).
Regional Resource Centers	The six regional centers and one national center funded by this program provide technical assistance to states to help them provide special education and early intervention services (\$7.2 million).

<i>Vocational and Adult Education</i>	
Vocational Education National Programs	Funds research, demonstration programs, and data systems in order to address the needs of non-college-bound youth (\$31 million).*
Adult Education National Programs²	Programs under this heading fund evaluations and technical assistance for various vocational programs, as well as an interagency working group of representatives for the Departments of Education, Labor, and Health and Human Services (\$8.8 million).

<i>Office of Education Research and Improvement</i>	
Fund for Innovation in Education	This fund allows the Secretary to carry out programs and projects that show promise of identifying and disseminating nationally significant, innovative educational approaches (\$25 million).
Eisenhower Mathematics and Science Education	The national component of this program issues grants to states in order to help them to develop mathematics and science curriculum frameworks and grants to develop model professional development programs designed “to prepare teachers to teach to national standards for mathematics and science.” The regional component of this program supports ten regional consortia that disseminate exemplary mathematics and science instructional materials (\$30 million).
National Diffusion Network	This is an information-dissemination program that selects educational projects on a competitive basis in order to send out information on what works well in education (\$15 million).*

² Although these programs are designed to address the needs of adults, they are nevertheless considered by the Department to be a part of the elementary and secondary education budget. The funds in the Adult Education State Grants program are sent to school districts.

Regional Education Laboratories	Ten laboratories provide technical assistance, conduct applied research, develop strategic materials and other products, and disseminate information in order to help all students meet high standards, focusing particularly on at-risk students (\$41 million).
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*Program not funded in FY 1997.