November 7, 2016

The Honorable John B. King, Jr.
Secretary
U.S. Department of Education
400 Maryland Ave, SW
Washington, DC 20202

Docket ID ED–2016–OESE–0056

Dear Secretary King,

Education Resource Strategies (ERS) is pleased to comment on the proposed regulations regarding the requirement under section 1118(b) of the Every Student Succeeds Act that title I, part A funds be used to supplement, and not supplant, non-Federal funds. We respectfully acknowledge two of the prime aims of this regulatory action, as defined in the Department’s executive summary:

- To enforce the principle that all children have access to “a fair, equitable, and high-quality education, and to close educational achievement gaps.”
- To support LEAs with “flexibilities to ensure that [they] can implement the requirement in a way that reflects local needs, circumstances, and decision-making,” by reducing “potential costs.”

To these ends, we offer comments meant to increase the regulation’s impact as a measurement of educational equity and excellence, while offering LEAs ample flexibility to comply in ways that are not unduly disruptive to their operations.

ERS has studied school district spending since its inception, more than ten years ago. Over this time, we’ve worked closely with dozens of large urban systems across the country to analyze spending and resource allocation, with a specific focus on how districts differentiate resources based on differences in student need across schools. In preparation to offer this comment, ERS analyzed how the compliance tests the regulation proposes would play out in a handful of systems we’ve studied and engaged district stakeholders in the results of our analysis. We use these analyses to inform our recommendations.

In general, based on the analysis described above, as well as our experience analyzing education funding for more than a decade, we think the high-level regulatory framework promulgated by the Department—giving LEAs the option of measuring compliance through either budget or expenditure, and giving SEAs the ability to design state-specific tests—makes sense. However, we believe there are substantial opportunities to improve on what the department has proposed in order to mitigate the possibility that the regulation will have unintended consequences. We also
believe there are alternative regulatory frameworks the Department could adopt to achieve the purpose of title I.

To these ends, we have organized our comment into three sections, each of which explores a unique issue.

- **Clarification.** Language or specific provisions the Department must clarify to make this regulation actionable for LEAs as they seek to comply.
- **Technical adaptations.** Revisions we believe Department must make based on our deep knowledge of education funding to ensure the regulation hews to the statute’s intent and is sensitive to the practices that LEAs across the country employ.
- **Alternative approaches.** New regulatory structures the Department could consider that aim broadly at the intent of supplement, not supplant and would, we believe, give LEAs more pathways to compliance that better align with intent.

Regardless of how the Department chooses to proceed, states will likely have the option to create their own rigorous tests to determine whether LEAs have allocated resources fairly and in ways that promote excellence. We affirm that these tests must examine the actual budget allocations or per-pupil expenditures in schools—rather than only using the stated intention to allocate staff to all schools by a standard formula, which is the test many states effectively use now. We hope that this kind of detailed analysis and the concrete suggestions we provide will support states in creating their tests and inform the guidance the Department circulates in the coming months.

I. Clarification

There are a number of instances where we seek clarification on specific language.

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<th>Paragraph</th>
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<td>(b)(1)(ii)</td>
<td>“…the LEA must distribute <strong>almost all</strong> State and local funds…”</td>
<td>How does the Department define the term “almost all”? Depending on this definition, a funding formula aimed at improving equity may unnecessarily “fail” districts by requiring resources to be measured that aren’t appropriate to include in a district’s school funding system, or inappropriately “pass” systems that aren’t equitable by excluding resources that are. We suggest “almost all” should refer to an LEA’s <em>school-attributed</em> dollars (by which we mean resources reported in schools and resources that are reported currently centrally but predictably play out in schools) rather than all dollars. To be clear, this does not mean that the...</td>
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regulation should require districts to allocate specific resources to schools in a specific way or at a certain level; it just means that however those resources are allocated, the district must demonstrate that title I schools receive what they would if they weren’t title I.

One particularly challenging type of resource for which the Department may choose to offer an exemption is one which is allocated to some schools as a full-time allocation (such as a related service provider with a full caseload at a single school) and others as an itinerant (where schools with smaller or no ongoing need for service are served be related service providers only periodically or on an as needed basis).

Further, for the test described in Paragraph (b)(1)(ii)(A), we believe based on our work with districts that use weighted student formulas that it is not realistic to expect that almost all school attributed dollars are put through the formula.\(^1\) We suggest the language be amended to require that a school’s core instructional resources be distributed through the formula and that the total funds put through the formula must represent at least roughly 35% of a district’s total spending per pupil as defined by the Department at section 1111(h)(1)(C)(x) of the ESSA. Note that this threshold is informed by Edunomics’ analysis of weighted student funding systems nationally. A more detailed analysis of how Edunomics defines the total district spend compared to the total spend identified in section 1111(h)(1)(C)(x) would be helpful to confirm the appropriateness of this cutoff.

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\(^1\) Of districts currently using weighted student formulas, to our knowledge, very few allocate more than 40% of total funds through that formula.
Can the weighted student formulas contemplated here also weight for student characteristics not associated with disadvantage but for which there is still benefit to additional dollars? We recommend that nothing in this regulation should preclude a district from weighting student characteristics not associated with disadvantage such as grade level or gradespan. We believe districts should be able to weight for these factors as long as high need students still generate additional revenue for their schools.

The first two compliance tests contemplated by the regulation do not appear to us to specify whether LEAs will be held to compliance based on their budgeted allocations to schools or on actual expenditure in schools.

In our analysis, we have made the assumption that the regulation refers to budgeted allocations when it mandates that title I schools “receive” the funds to which they are entitled. We believe that this is the most appropriate interpretation and urge the Department to clarify this. We will rely on our interpretation throughout this comment.

We believe the intention of this provision of the regulation is to test that the policies the district is using to allocate resources to schools at least do not disadvantage title I schools. Analyzing these budgeted amounts—either as dollar allocations in the first test or through staffing ratios in the second test—is the truest way to test this district action. As district leaders work to identify and remedy violations of the regulation that may arise, they have control over budget allocations to schools and can adjust allocations on the front end to ensure compliance. Therefore, we believe it is important for districts to have...
| (b)(1)(ii)(B) | “…a consistent districtwide personnel and non-personnel resource formula…” | In this context, what does the word “consistent” mean? Can the allocations prescribed by the formula vary based on special programs or disproportionate need in schools? We believe districts should be able to provide additional staff for magnet programs, career and technical programs, and other programs, as long as the schools that receive additional resources for these programs are overall not disproportionately non-title I. |
| (b)(1)(ii)(B)(1) | “The average districtwide salary…” | This test does not define average salary. We recommend that this regulation should test employees’ total compensation rather than simply their salary. We define compensation as the sum of an employee’s salary, stipends, and fringe benefit costs. Though we believe it is essential to allocate benefits to staff in order to get a true sense of compensation, we wish to give LEAs maximum flexibility to do this in a non-disruptive way. Therefore, we recommend the Department allow LEAs to allocate a benefit amount directly to employees based on either the true cost of each staff member’s benefits or based on a per-FTE allocation method. Therefore, where the regulation currently tests the actual salary of staff, it should instead test average compensation, defined as the sum of actual salary, actual stipends, and a benefits allocation derived by a method of the LEA’s choosing. We also recommend that performance bonuses earned at the end of each year may be excluded from this calculation as long as they are not given disproportionately to teachers in non-title I |
schools as opposed to those in title I schools.

Additionally, many districts in their budget processes use an average compensation amount to determine allocations that may not exactly match the actual average salary among a class of employees. For example, some districts slightly discount the average compensation amount based on the expectation of vacancy savings. We recommend that the Department clarify that title I schools must receive an allocation calibrated to the actual average salary within each employee class in the district.

(b)(1)(ii)(B)(1), (b)(1)(ii)(B)(2) “The average districtwide salary…” “The average districtwide per-pupil expenditure…” Pursuant to our interpretation that both of the first two compliance tests should operate on budgeted allocations, the text of the second compliance test would seem to indicate that personnel costs should be taken as budgeted allocations, while non-personnel costs should be actual expenditures. We urge the Department to reconcile this discrepancy and test the LEA’s average non-personnel budget allocation among schools. These two data sources are not necessarily comparable, and the need to mix budget and expenditure will create an off-cycle process, as expenditure is known only after the end of the academic year, while budget is set before the academic year.

(b)(1)(iii) “…an amount of State and local funds per pupil…” What costs are included in this per-pupil measure? We believe that this metric should be defined as it will be in the regulations pursuant to section 1111(h)(2)(C) of the ESSA, with the stipulation that it include all resources reported at the school, and all resources reported centrally that play out predictably in individual schools. The Department must also clarify how LEAs and SEAs should account for large drivers of
spending that are not easily reported at schools, including student transportation and one-time bulk procurement of technology.

(b)(1)(iii)(C)(1) “…receive additional funding to serve a high proportion of students…” In order to make this exception to the Special Rule manageable, the Department must define what constitutes a “high proportion” of students with additional need.

(b)(1)(iii)(C)(2)(iii) “…an LEA may exclude supplemental State and local funds expended for programs that meet the intent and purposes of title I, part A.” What programs meet the intent and purpose of title I? Is the standard in this paragraph defined narrowly to only include dollars that serve students from low-income backgrounds, or can the LEA read this more broadly and exclude funds used to serve other high-need groups or funds meant to improve district equity overall even if not targeted to a single group? We believe a more expansive definition better meets the intent of the law and reduces the likelihood of unintended consequences.

II. Technical Adaptations

Paragraph (b)(1)(ii)(A)—Distribution of State and local funds based on characteristics of students.

We believe that for the purposes of the supplement, not supplant regulation, the Department should not allow LEAs to be in compliance on the basis of revenue schools generate for their English learner or special education populations. These two student types are typically considered disadvantaged and typically generate significant additional revenue under weighted formulas. But funds dedicated to serve them do not generally enrich the quality of educational services across the school (except to some extent in schools that have robust inclusion programs).

As a result, even modest weights for these groups could help a system comply, even if the district’s funding system provides no other weight for students from low-income backgrounds or any other disadvantage characteristic.

More fundamentally, because most LEAs using weighted student funding fulfill schools’ allocations on the basis of average staff salaries, we interpret the proposed text to imply that in order for a title I school to receive all of the funds it is entitled to under the formula, its average salaries/compensation levels must be equal to or higher than the district average, independent of
how many extra dollars it receives associated with greater student need. In districts with majority
title I schools, it would technically be impossible for all title I schools to pay their teachers, on
average, the same or more than the district average salary/compensation.

To solve this problem, we recommend that for this test, a school be considered in compliance
only if weights for characteristics related to need that improve whole-school programs (such as
student poverty, poverty depth, and poverty concentration) generate sufficient revenue to at least
offset any difference that exists between what the school would receive based on the districtwide
average salary/compensation associated with its teachers and what it actually receives, such that
each title I school receives at least the same quantity of State and local funds it would receive if
it had the same marginal weights as the average of the non-title I schools in the district (not
including weights for special education and ELL).

For example, if the average weight of a student in a non-title I school is 1.08 (not including
weights for ELL and special education), the actual budget allocation for a title I school would
need to match or exceed 1.08 multiplied by the base funding weight multiplied by the number of
students in the school.

In short, complying with this provision should not require districts using a weighted student
formula to charge schools actual salaries or actual compensation for staff. It should, however,
require that any summed differences between actual salaries in a school and districtwide average
salaries are at least made up for by higher weights for students with educational disadvantages.

*Paragraph (b)(1)(ii)(B)—Distribution of State and local funds based on personnel and non-
personnel resources*

As with our recommendation for the first compliance test, we hope the Department will take
steps to more closely tailor the second compliance test to the statute’s intent that title I schools
receive the same amount of State and local funds they would receive if they did not have the title
I designation.

In districts we have studied, staff in title I schools tend to—but do not always—earn lower-than-
district-average salaries. In districts where this is true, title I schools may struggle to pass the
second compliance test because the salaries of their staff members are likely to be lower than the
districtwide average. This is a legitimate inequity for this regulation to seek to remedy; however,
our interpretation of the draft language is that it creates an inappropriate standard for compliance.

Districts that seek to address the inequities associated with differences in salary/compensation
levels across high- and low-need schools by allocating additional staff to higher-need schools
might not pass the test because if the formula allocates additional staff, the district will, per the
test, still need to pay those additional staff, in aggregate, at least the districtwide average
compensation. We believe this is unfair to districts that are taking substantive action against
inequity.

One district with which we have worked, for instance, uses a student-weighted staffing formula
that allocates additional staff to schools based on the percentage of students in poverty in each
school—the greater the share of students in poverty, the more extra positions the school is
allocated. This intervention is in close alignment with the spirit of the regulation, but if those additional staff are in aggregate paid less than the district average salary, our interpretation of the language is that this district will have many out-of-compliance title I schools.

We first recommend for sake of simplicity that the test focus only on the allocation of resources associated with teachers, not on other staff positions. Teachers are the single largest resource type in a school and historically have been the primary focus of attention around differences in compensation levels across schools.

In order for this compliance test to cleave as closely as possible to the spirit of the regulation, we recommend that the Department adopt language stipulating that supplemental allocations of staff or non-personnel resources distributed on the basis of education disadvantage (excluding special education and ELL) are not counted as part of a school’s base non-title I allocation, and that the district can comply with this provision if the amount of these supplemental allocations at least offsets any difference that exists between what the school would receive based on the districtwide average salary/compensation associated with its teachers and what it actually receives.

For the tests contemplated in paragraphs (b)(1)(ii)(A) and (b)(1)(ii)(B), no language in the regulation should dictate the form in which resources allocated on the basis of additional need must be distributed to schools. The LEA should simply be required to demonstrate that it is providing resources in any form sufficient to offset the difference that exists between what a title I school would receive based on the districtwide average salary/compensation associated with its teachers and what it actually receives.

In addition, no language in this regulation ought to override district policies on the flexibility schools have over these allocations. If districts want to allow schools to “exchange” positions allocated through the ratios in question for other positions, they ought to be able to provided that all schools in the district use the same “position exchange” rates. The teacher staffing ratio can determine the size of the allocation due to title I schools, but should not dictate that those resources be spent on teachers or any other specific resources. Rather, the flexibility to determine how the differential resources are spent should be left to LEAs and schools.

Paragraph (b)(1)(iii)—Special Rule

The first two compliance tests focus on the resource choices LEAs make in their budgets. The Special Rule focuses on LEA expenditure. We believe each approach has reasons to recommend it. LEA leadership has direct control over its budget and may be able to respond more nimbly to any equity issues the regulatory tests identify. Expenditure accurately represents actual spending in schools, and therefore is therefore a full representation of how an LEA’s budget choices play out. Because expenditures are often not under central control but budgets are, it makes sense that the Department offers a de minimis threshold within which schools may be considered in compliance, but no similar threshold on the budget tests.

Above, we have discussed the ways that variation in student need (especially variation in special education enrollment) may drive variation in funding across schools in ways not directly related to the equity or resource level of whole-school programs. As an expenditure test, the Special
Rule is sensitive to a new driver of funding variation: total school enrollment. Because the first two compliance tests focus on resource ratios relative to students, their results are not impacted by variation in school enrollment. However, schools with low enrollment tend to have higher per-pupil expenditures than schools with higher enrollment. This variation in funding is not related to the equity or excellence of the educational services these schools provides—it is, all else equal, just a product of variation in size.

Therefore, we believe that any compliance test based on expenditure that does not meaningfully control for school enrollment can lead to incorrect conclusions about which schools are genuinely over- or under-resourced. We suggest revisions to the regulation that mitigate the possibility that a school will fail one of the supplement, not supplant, compliance tests for a reason not substantially related to the actual level of resource equity in the school. We refer to schools that fall out of compliance for one of these reasons as “false negatives.”

With respect to the Special Rule, the Department has included exceptions that acknowledge the impact of school enrollment and special education placements on per-pupil expenditure across schools.

- Paragraph (b)(1)(iii)(B) permits LEAs to exclude from their calculations schools with fewer than 100 students.
- Paragraph (b)(1)(iii)(C)(I) permits LEAs to exclude from their calculations non-title I schools that receive supplemental, non-title I funding to serve a high proportion of students with higher needs.

Nevertheless, we believe based on our analyses of district compliance that these two exceptions are not sufficient to adequately reduce the incidence of “false negative” schools. Here, we propose two changes to the Special Rule that we believe will do so.

- **School Enrollment.** According to our analyses, schools with fewer than approximately 350 students tend to be considerably more expensive on a per-pupil basis than larger schools. Our position is that despite the considerable difference in cost, smaller schools do not consistently—or for any reason related to their enrollment—provide better or richer academic services to students. Therefore, we suggest that if a title I school is out of compliance with the Special Rule due to its size, this non-compliance does not represent an inequitable distribution of resources, per se. The Special Rule, then, should allow for an optional adjustment based on school size: SEAs or LEAs should be permitted to designate a size threshold and compare title I schools only to non-title I schools on the same side of that threshold. We believe that comparing title I schools to like-sized non-title I schools will significantly reduce the number of title I schools that appear out of compliance.

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2 Also of concern are “false positives”: schools that appear high-funded because of low enrollment, large share of students enrolled in special education, or an artificially low non-title I school average expenditure, but are actually under-resourced when these factors are controlled for. However, we acknowledge it is beyond the scope of this set of regulatory tests to identify or remedy this issue.

3 For instance, if a district sets a threshold of 400 students, per-pupil expenditure title I schools with fewer than 400 students would be compared to the average of per-pupil expenditure in non-title I schools with fewer than 400 students and per-pupil expenditure title I schools with more than 400 students would be compared to the average of per-pupil expenditure in non-title I schools with more than 400 students.
compliance solely for their size. The one circumstance in which we would not recommend this test is if there is very little overlap in the size distributions of title I and non-title I schools, as this will make comparison between the two difficult.

- **School Special Education Placements.** In every district we have worked with, systems spend significantly more providing services to students identified for special education than to general education students. With respect to the Special Rule, this fact presents two issues. First, if title I schools have disproportionately fewer special education students than the average non-title I school, they will appear non-compliant for reasons unrelated to the equity of resource distribution. Conversely, title I schools with disproportionately more students identified for special education may appear to be high-funded and compliant to the Special Rule, even if the overall level of resources in the school is inequitably low. We propose that in LEAs where the difference between the average percentage of students enrolled in special education programs among title I and non-title I students is greater than an amount to be determined by the Department, those districts must demonstrate compliance to the special rule by excluding special education dollars from their calculation. Further, the Department may decide to exclude special education expenditures from this test entirely in order to mitigate the possibility of false negatives.

In cases where there is no significant variation across district schools in enrollment or in special education enrollment, the issue of false negatives will be less relevant, and these two revisions may not be necessary.

Given that the Special Rule tests district expenditures, the Department must clarify that it expects at least a two-year lag between an identified violation and remediation. The violation cannot be discovered until after the relevant academic year, at which point the budget for the following year will have been set. As a result, the Department must account for the fact that an expenditure test will imply a significant delay in remedy.

*Paragraph (b)(1)(iii)(A)—De minimis annual variation*

The Department requires under the Special Rule that the expenditure in each non-title I school is greater than or equal to 95 percent of the average expenditure in non-title I schools.

This yearly 5 percent exemption is helpful because it helps reduce the chance that a school will fall out of compliance because of an unforeseen and unintentional circumstance, like a persistent vacancy.

However, school budgets can vary significantly year-over-year, creating short-term peaks and troughs in spending. As such, we believe the regulation should be revised to allow a school to comply with the Special Rule if its expenditure averaged over three to five years is within 95 percent of the average expenditure in non-title I schools to mitigate the possibility of a one-time event that is quickly addressed removing a school from compliance.

**III. Alternative approaches**

Supplement, not supplant, is aimed to enforce title I, which is in turn meant to improve the quality of education for low-income students. Title I aims at equitable access to a high-quality
education by governing a key educational input: funding. At ERS, we believe that an educational system is equitable – irrespective of resource levels – if it produces excellent outcomes in similar proportion for students of all levels of need. If the district performs well as a whole, and there is no strong relationship between a student’s need and her likelihood of high achievement, then the district has addressed both equity and excellence.

In other words, if a district is producing excellent outcomes for all students regardless of income level, it should not be required for compliance purposes to describe or alter how it allocates resource inputs to its schools. Its outcomes speak for themselves, and would fulfill the aim of title I.

Given that this is true in no large urban district in the United States today, we submit also that there are a range of educational resource inputs beyond funding that are very powerful in determining the likelihood that a school system will become equitable. These include, but are not limited to, access to high quality curriculum materials and instruction aimed at preparing students for college and career, instructional supports and modifications that recognize differences in student learning needs, support to help students catch up if they fall behind, access to rigorous coursework, access to effective teaching, and enrichment opportunities like art, music and team sports. Funding is a necessary but insufficient measure of equity; these inputs that financial resources enable but don’t guarantee are necessary as well.

Therefore, we suggest a major new exception to the supplement, not supplant, regulation aimed at allowing LEAs to fully maintain an exacting focus on excellent and equitable outcomes.

If a school does not pass the LEA’s chosen supplement, not supplant compliance test but meets one of the following criteria:

- The performance of its high-need students, as defined by a school accountability rating that takes account of both absolute performance and growth, meets or exceeds the average student performance in non-title I schools, or;
- The non-financial resources allocated to it (as measured by rigorously-defined, multi-dimensional measure of non-financial resource equity, to be developed by the State, and to incorporate some set of factors, possibly including, but in no way limited to, the metrics described above) are equitable relative to the rest of the district, and commensurate to the school’s need.

Then that school should either:

- Be offered an increase in the de minimis variation threshold applied to schools in paragraph (b)(1)(iii)(A), or;
- Be fully exempted from the requirements of the supplement, not supplant compliance tests.

The implication of this exception is that if there is a high-performing LEA with no significant achievement gap across its schools or one that makes equitable non-financial resource and service decisions, then that LEA would receive significant additional flexibility around meeting the supplement, not supplant requirement.
This hews to our assertion that if a district produces excellent, equitable outcomes for all students—if a student’s need not strongly correlated to his achievement level—then those student outcomes should be dispositive, and that district should be offered flexibility on the specific choices it makes around resource inputs.

A second alternative approach relates to how LEAs in which all schools could legally qualify for title I funding classify and fund those schools. We worry that the regulation as written may incentivize districts like this to make decisions about what share of schools to fund with title I based on maximizing the ease of compliance to this regulation, rather than based on a strategic consideration of the needs of students. For this reason and others, we recommend that the consequences of non-compliance to supplement, not supplant, particularly at the early stages of implementation, should be focused on corrective action. District title I directors with whom we have engaged typically imagine the loss of title I funding as the consequence for non-compliance. The Department should specify the types of consequences that LEAs should expect initially.

IV. Conclusion

In general, though we strongly support the spirit of title I and the supplement, not supplant regulation, we feel the regulations need additional clarification to push LEAs toward genuine equity. Fair funding commensurate with student need is an absolute prerequisite of equity. At least as important, however, is how schools spend those dollars.

When possible, these regulations ought to give districts room to focus on the many resource choices key to student achievement that do not track directly to funding: Do high needs students interact with rigorous curriculum materials and receive instruction that helps them reach college- and career-aligned standards? Are high-need students likely to be taught by highly effective teachers? Do struggling students get additional time in core subjects?

We acknowledge the challenge the Department faces. Even with the technical corrections we suggest, arriving at a regulation that enforces equity without unintended consequences for LEAs will be difficult. Nevertheless, we acknowledge the importance of the Department’s two, at times conflicting, aims: to create a strong safeguard of fair funding for high-need students, and to give LEAs flexibilities appropriate to an educational system based on local control.

The tension between these aims highlights the need for the Department to create a regulatory framework that hews as closely and simply as possible to the statute’s stated intention. At the most basic level, the regulation asks if title I schools receive equal or additional resources relative to non-title I schools. The Department must ensure that the regulation’s language is tailored as closely as possible to testing that question, such that LEAs have as many ways as possible to comply.

One point further: Congress’s decision to enforce some measure of funding equity only at the level of schools within a district does not represent the full scope of the equity challenge facing districts, states, and the nation. Just as powerful in determining equitable outcomes are the gulfs in resource levels that exist between districts within states. In some states, funding inequity
among districts dwarfs funding inequity among schools in a district. Within the scope of the statute, it is clearly not the Department’s prerogative to take action on this issue, however, we assert that while the solutions contemplated by the supplement, not supplant regulation admirably aim at within-district equity, they do not address a key dimension of resource equity that states must urgently consider.

We appreciate the opportunity to provide our views on the proposed regulations.

Sincerely,

Karen Hawley Miles
Executive Director

Jonathan Travers
Director of District Consulting & Support