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## BROOKINGS WORKING PAPER<sup>1</sup> EDUCATION PROPOSALS IN THE 2004 PRESIDENTIAL CAMPAIGN: A PRELIMINARY ASSESSMENT

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### OVERVIEW

After war and the economy, one of the most important issues of concern to the American public is education. The purpose of this paper is to summarize and assess the education proposals of both presidential candidates. The paper addresses the candidates' proposals in four areas: preschool programs, elementary and secondary education, after-school programs, and higher education.

*Preschool programs.* Senator Kerry has said that he wants to make preschool universal. However, in the interest of keeping deficits under control, he has backed away from a specific proposal in this area. And although he has promised to “work toward” full funding for Head Start, a preschool program for disadvantaged children, he has not spelled out a specific initiative in this area either. President Bush has left Head Start funding essentially unchanged, although he has proposed a controversial experiment with

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The views expressed in this piece are those of the authors and should not be attributed to the staff, officers or trustees of the Brookings Institution. The authors wish to thank Barry White and Tom Loveless for their helpful comments.

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block granting the program to enable states to better coordinate existing early education programs. Most independent research about the benefits of Head Start is somewhat inconclusive, although model preschool programs targeted to disadvantaged children have had impressive educational and social benefits.

*Elementary and Secondary Education.* The passage of the “No Child Left Behind” (NCLB) law in 2001 was one of the most high-profile pieces of domestic legislation in President Bush’s first term. The goals of the law are accountability and reducing achievement gaps between more and less advantaged students. Federal spending on elementary and secondary education increased from \$18.5 billion in 2001 to \$22.5 billion requested in 2005. Future increases are likely to be constrained by the need to reduce record deficits. Both Kerry and Bush support restraining the growth of domestic discretionary spending (outside of homeland security) to the rate of inflation (Kerry) or somewhat less than this (Bush). However, Kerry advocates exempting education spending from this cap on discretionary spending by proposing a ten-year \$200 billion entitlement to the states for education spending. (Our understanding is that the total would include not only spending to achieve the goals of the NCLB law, but also other education initiatives such as spending on special education and a tax credit for college attendance. Roughly half the total, or \$100 billion, would be devoted to NCLB.) Both candidates support improving teacher qualifications and demanding accountability. The debate between them would seem to hinge on the extent to which improvements in student performance can be achieved without significant additional resources and whether these resources should be provided by states or by the federal government.

*After-school programs.* Kerry has proposed to expand and revamp the 21st Century Community Learning Center Program, an academically-oriented after-school program targeted to poor school districts (authorized as part of NCLB). Funding would be expanded from \$1 billion to \$2.5 billion by 2007. The revamped program would shift the focus from exclusively academic benefits to include emphasis on values and decision-making skills that encourage children to avoid drugs, crime, and other risky behavior. The program would be required to stay open until at least 6 p.m. and provide school bus transportation. Bush had proposed cutting the funding for after-school programs in fiscal year 2004, but was rebuffed by the Congress last year, and he has not requested cuts in this year’s budget. A preliminary evaluation of the 21st Century program by Mathematica showed negligible effects on academic improvement in the program’s first year, but it remains extremely popular with parents and with members of Congress.

*Higher Education.* Kerry proposes to reduce the cost of attending college by expanding tuition tax credits for most households. The maximum value of existing credits would increase from \$1,500 to \$2,500; they would be available for four years instead of two; and they would be made refundable so that families without tax liability could also benefit. Bush has supported modest spending increases for the Pell grant program, which provides assistance to lower-income families. The maximum value of the Pell grant was

\$3,750 in the 2001-2002 school year and \$4,050 in the 2003-2004 school year, an increase of about 1 percent after inflation, with further increases proposed for students who take challenging courses in high school or agree to study math or science in college. While there is no question that higher education aid in any form reduces the financial burden on students and their families, it is not clear how much effect such aid has on college attendance rates. Especially for the middle-class, it may operate primarily as another form of tax relief.

Many of the proposals discussed in this discussion draft are in flux or have not been fully specified. Where necessary, we have made our own assumptions about them explicit and await further clarification from either campaign where we have been in error.

### **Pre-school education**

Neither Bush nor Kerry proposes to change significantly the number of students served in Head Start, the primary federal preschool program designed to improve the academic readiness of children in poverty. Head Start serves slightly more than half of the 3- and 4-year-olds living at or below the poverty line.

Bush proposes a pilot program that would provide a Head Start block grant to the states. His 2005 budget proposal would provide an additional \$169 million for Head Start, a 2.5 percent increase that approximately keeps pace with inflation. Kerry would “work toward” fully funding Head Start, but his campaign has not proposed a specific increase in Head Start benefits in the same way it has proposed additional spending for after-school programs, K-12 education, or college education. This section considers the merits of the candidates’ proposals and estimates the costs of providing Head Start to all 3- and 4-year-olds.

#### *Benefits of Head Start*

Studies show that students from poor households are less prepared to enter elementary school than children from middle-class or wealthy backgrounds. These achievement gaps persist and even expand during the elementary years.<sup>2</sup> In 2002, Head Start served about 54 percent of the almost 1.5 million children age 3 and 4 living in poverty.<sup>3</sup>

Head Start has had strong backing within Congress and among child advocates since its inception in 1965. Whether Head Start helps children succeed in elementary school remains unclear. The General Accounting Office noted last year that “no recent, definitive, national-level research exists about Head Start’s effectiveness on the lives of the children and families it serves.”<sup>4</sup> HHS intends to complete a study by 2006.

Some researchers report finding at least limited benefits associated with Head Start. Currie and Thomas found short-term benefits on increasing vocabulary and found that Head Start children were somewhat less likely to repeat an early grade or to be placed in special education classes.<sup>5</sup> Benefits were more likely to fade for African-

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<sup>2</sup> Lee and Burkham (2002)

<sup>3</sup> The Current Population Survey reports that there were 747,000 4-year-olds and 749,000 3-year-olds below poverty in the United States in 2002. See CPS chart, POV034. Single Year of Age-Poverty Status: 2002. Head Start enrolled about 474,000 4-year-olds and 328,000 3-year-olds.

<sup>4</sup> Shaul (2003)

<sup>5</sup> Currie and Thomas (1995). See also Currie, Janet (2001a).

Americans than whites or Hispanics, which suggests that other factors – such as the poor quality of elementary schools – may exert powerful influence on the achievement gap after students enroll in school.

Even if the academic benefits of Head Start are still unclear, the program plays an important role as a form of center-based child care that emphasizes school preparation skills, health and nutrition. Expanding the Head Start program to all children in poverty age 3 and 4 would make services available to an additional 394,000 children each year.<sup>6</sup> For many families in poverty, access to affordable, quality child care is among the most significant barriers parents face in their efforts to obtain and maintain steady work. Head Start services generally are of much higher quality than other types of child care available to low-income parents.<sup>7</sup>

#### *Bush's proposal*

About \$45 million of Bush's proposed \$169 million increase would be given to states as part of a new block grant program for Head Start. States could use the funds for increasing teacher salaries or training or for other purposes. At present, states have very little involvement in Head Start administration. The Administration of Children and Families, which is part of the Department of Health and Human Services, directly funds and oversees Head Start providers. Kerry opposes Bush's block grant proposal.

One argument for involving states in Head Start is that the No Child Left Behind law adds new penalties if children fail to learn basic skills by the third grade. Therefore, states have an increased need to coordinate Head Start with public schools to assure that children are ready to learn when they enter elementary school. Also, since states fund their own preschool programs and administer millions of dollars in Child Care and Development Block Grant funds, states might better coordinate Head Start funds with other child care funds to create a more seamless and effective early education and child care system. However, the Head Start block grants represent less than 1 percent of the program's funds. It is unclear what can be learned from an effort with such limited scope, unless the block grants are provided to just a few states that also agree to track outcomes compared to preschool students under the traditional funding system. Critics contend Head Start programs developed by states would likely be of worse quality than the current programs and that efficiency gains would likely be negligible. Indeed, funds provided in a block grant could be diverted to other purposes.<sup>8</sup>

#### *Costs for full participation in Head Start*

Kerry's espoused goal is to work toward fully funding Head Start. The costs to do so would be substantial. We estimate that it would take \$33 billion in additional spending to offer Head Start to all 3- and 4-year-olds from 2006-2015.

If all 3- and 4-year-old children who were eligible participated in 2002, Head Start costs would have increased by \$4.91 billion from \$6.54 billion to \$11.45 billion. A take-up rate of 100 percent is not realistic, however. We assume an 80 percent

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<sup>6</sup> Assumes that 80 percent of those eligible would choose to participate.

<sup>7</sup> Currie (2001a), p. 8

<sup>8</sup> For a discussion of the merits and risks of Head Start block grants, see Haskins and Sawhill (2003).

participation rate, and under that assumption the total cost would have been \$9.35 billion in 2002, an increase of \$2.82 billion.<sup>9</sup>

Head Start spending per child has increased substantially over the past several years, as programs attempt to hire better teachers and improve other program services. Real spending jumped an average of 6 percent per year between 1998 and 2002. Yet many Head Start teachers lack even a four-year college degree. Only 30 percent of Head Start teachers held a bachelor's degree in 2001-2002, and they earned less than half the average elementary school teacher's salary in 2002-2003.<sup>10</sup>

High quality preschool programs are expensive. Even with recent increases, per-child spending on Head Start still lags behind widely lauded experimental preschool programs such as the Carolina Abecedarian Project and the Perry Preschool Program.<sup>11</sup> In future years, it seems reasonable to assume that real per-child spending would continue to climb. However, to be conservative we only adjust spending for inflation. Under these parameters, Head Start would serve an estimated 1.28 million children per year compared to 910,000 under current law. Costs would start at \$10.1 billion in 2006 and grow to \$12.8 billion by 2015. The spending increase from 2006-2015 would be \$33 billion (Table 1).

### **Elementary and Secondary Education**

Federal spending on elementary and secondary education has increased substantially in President Bush's first term. The No Child Left Behind (NCLB) law signed by President Bush provided more federal money, particularly for poor school districts, but also created escalating sanctions for schools and districts that fail to improve the academic performance of low-achieving students. The law ushered in a greater reliance on high-stakes testing to measure the skills that education policy makers believe students should master. Federal spending for the Individuals with Disabilities Education Act (IDEA), which funds special education, also increased under Bush.

#### *No Child Left Behind*

Federal K-12 spending is likely to continue to grow, regardless of which presidential candidate is elected in November. Both Kerry and Bush believe the federal government should play a greater role in funding local public education than was the case before Bush took office in early 2001. Both presidential candidates emphasize using objective standards to measure teachers' skills and students' performance. Both support spending growth for disadvantaged schools. A direct comparison is difficult, in large part because neither candidate has been specific enough about his future intentions. In general, the Kerry campaign has been more forthcoming about future spending goals than the Bush campaign. Kerry proposes creating an entitlement to states for education spending that would guarantee a spending increase of \$200 billion over 10 years. The

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<sup>9</sup> In raw numbers, participation among 3 year-olds and 4 year-olds would increase by 394,000 children – from about 800,000 to 1.2 million. About 110,000 children in Head Start in 2002 were below age 3 or older than 4. The number of current participants younger than 3 or older than 4 was held constant when calculating costs of the expansion.

<sup>10</sup> National Institute for Early Education Research (2003)

<sup>11</sup> Currie (2001b). Currie estimates the Carolina Abecedarian project cost about \$12,000 per child per year and the Chicago program cost about \$7,000 per year in 1999 dollars, the equivalent of about \$8,000 today.

total would include not only spending to achieve the goals of the NCLB law, but also spending on special education services and tax benefits for college students.

Even with substantial increases in federal spending, the federal government would continue to make up a small fraction of overall education spending. Federal Department of Education spending on elementary and secondary education made up less than 8 percent of total spending on public education in 2001-02, the most recent year for which data is available.<sup>12</sup>

Under NCLB, school systems must demonstrate academic improvement over time both as a whole and within minority subgroups. Many state leaders have argued that the costs of implementing No Child Left Behind exceed the additional federal funds provided to improve education quality and to measure student achievement. States are required to demonstrate that schools – and subgroups of students within a school – are making “adequate yearly progress” (AYP) toward all students demonstrating mastery of basic skills, particularly in reading and math. Schools and districts that fail to meet “adequate yearly progress” according to their state’s formula are subject to an escalating list of sanctions that starts with offering school choice and extra tutoring services. Schools that consistently miss AYP targets must make more dramatic changes, such as removing administrators or altering the curriculum. Thus, sanctions would require more local spending – on tutoring or providing school choice – or loss of local control. A school would have to miss AYP benchmarks for two consecutive years to be identified as needing improvement and begin the process that could trigger sanctions.<sup>13</sup>

#### *Bush’s spending record and proposals*

The No Child Left Behind law, signed by President Bush in 2001, emphasizes broad-based mastery of minimum standards for reading and math. Measurement of school performance would increase through the use of standardized tests and tightening requirements for teacher certification. In exchange, the Bush administration has pushed for additional money for schools to meet these standards. Critics of the law say the additional funds fall short of what states and school districts need to comply.

The largest portion of funding under NCLB comes in the form of Title I funds targeted to schools with high concentrations of poor students. No Child Left Behind also provides funds for improving teacher quality, reading programs, after-school programs and teaching students with limited English proficiency. President Bush’s 2005 budget request sought spending increases in many of these areas. Under the president’s budget, Title I funds would rise to \$13.3 billion – a \$1 billion increase from 2004 and \$4.6 billion since 2001 – a real spending increase of 12 percent per year over that period. Reading First grants increased from \$286 million in 2001 to \$1.3 billion requested in 2005. Improving Teacher Quality grants to states was a new spending program created in 2002 and now totals \$2.9 billion requested in 2005. Other elementary and secondary education programs have not grown as quickly or have experienced funding cuts.

Funding to promote school choice would increase by nearly 30 percent to \$503 million under Bush’s proposed 2005 budget. The funds would be used to plan and build

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<sup>12</sup> The U.S. Department of Education spent \$32.7 billion on elementary and secondary education in fiscal 2002, while total spending on public schools was \$422 billion in the 2001-2002 school year. See U.S. Department of Education fiscal year 1995 budget and Digest of Education Statistics, 2002, Table 30.

<sup>13</sup> U.S. Department of Education (2003)

charter schools, to assist school districts in creating school choice programs and for public magnet schools. Though the sum is small compared to other programs, school choice funding is important strategically to the overall NCLB agenda. Schools that are designated as failing to meet AYP in future years must offer parents a choice to move children to a new school. Increases in school choice funding are likely to expand the supply and the quality of charter schools. Federal spending on developing additional options now will help assure that parents have more school choices available as NCLB-related sanctions take effect over the next several years.

Overall, funds related to No Child Left Behind increased by an average of 12.5 percent per year from 2001 to 2005.<sup>14</sup> But this growth rate is unlikely to be sustained over the next 10 years. If spending on NCLB continued to increase at this same rate, NCLB-related discretionary spending would total \$502 billion from 2006-2015. This represents a \$216 billion real spending increase compared to 2005 spending levels.

The Bush administration has signaled that inflation-adjusted federal education spending is likely to fall in future years, if Bush is re-elected. Bush intends to increase discretionary spending outside of defense and homeland security by less than 1 percent per year in future years before inflation is factored in.<sup>15</sup> The Office of Management and Budget is considering a \$1.5 billion cut in the Department of Education's 2006 budget.<sup>16</sup> Some areas of K-12 education could keep pace with inflation or grow if other areas were cut, but the overall education budget is likely to be under severe budgetary pressures over the next decade.

### *Kerry's proposals*

Kerry proposes creating a guaranteed stream of additional funds called a "National Education Trust Fund" that would help schools budget for compliance with NCLB and IDEA. His goals – mastery of basic skills, improving teaching quality and earmarking special funds for disadvantaged school districts – are similar to the goals of the Bush administration. But unlike Bush, Kerry wants a dedicated funding stream to achieve these goals. Federal funding for education, including the funding required by NCLB and IDEA, would shift from discretionary to mandatory spending making it less likely that such funding would be cut as part of the annual battle over appropriations.<sup>17</sup>

The trust fund would contain \$200 billion over 10 years of additional education spending.<sup>18</sup> Kerry has been most specific in his proposed teaching improvement program called "A Great Teacher for Every Child," estimated to cost \$30 billion over 10 years. The program would provide additional federal funds to increase teacher salaries and training programs, with an emphasis on boosting pay for teachers in "troubled" schools

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<sup>14</sup> NCLB discretionary spending was \$17.4 billion in 2001, and the administration requested \$24.8 billion in 2005. Elementary and secondary education spending not related to NCLB and IDEA actually fell from \$3.2 billion to \$1.7 billion from 2001 to 2005, which suggests that a small portion of the \$12.2 billion increase in combined NCLB and IDEA funds represents a shift in spending, rather than all new spending.

<sup>15</sup> Bush, George W. (2004). p. 2.

<sup>16</sup> Washington Post (2004)

<sup>17</sup> "Our public schools are too important to be left in the lurch without adequate resources. That is why John Kerry is proposing an Education Trust Fund that makes sure – with mandatory funding – that we meet the promises in the No Child Left Behind Act and the Individuals with Disabilities Education Act. He has fought for mandatory funding for special education for years and as President he will ensure that we get it for all elementary and secondary education." See [www.johnkerry.com](http://www.johnkerry.com).

<sup>18</sup> John Kerry for President (2004a) "A Great Teacher for Every Child"

and in subjects such as math and science where demand is highest. Pay would increase by \$5,000 or more per year for teachers who teach in high-demand subjects or in difficult neighborhoods.

Teacher pay would be tied in part to student performance on standardized tests, and Kerry would require states to set up a process to remove ineffective teachers more quickly. His proposal also requires that states increase standards for teacher certification and set-up a mentoring system where skilled, experienced teachers guide new teachers. This Kerry proposal attempts to tie teacher pay to a greater degree to demonstrated skill and market demand and de-emphasizes the traditional arrangements between school districts and teachers unions that result in across-the-board pay increases largely based on years of experience.

### *Compliance costs impossible to gauge*

The most controversial aspect of No Child Left Behind is a debate over whether greater spending on public schools will improve student performance – and if so, how much additional spending is needed to meet the requirements of the NCLB law. Education policy scholars fiercely debate the importance of money on student performance. The modern dispute dates to the 1980s, when Eric Hanushek challenged the idea that higher spending led inexorably to improved student achievement. After reviewing much of the literature linking spending and student outcomes, he found that “there is no strong or systematic relationship between school expenditures and student performance.”<sup>19</sup> Other researchers disagree and do find a relationship between increased spending and better performance.<sup>20</sup>

The policy inherent in No Child Left Behind straddles the two sides of the argument. The federal government provides some additional funds, but requires that school administrators use those funds wisely. Progress is measured primarily through testing. However, there is no systematic formula or set of procedures that schools can use to reach the goals of No Child Left Behind. In other words, it is impossible to estimate how much more money is needed to fix substandard schools and assure that students meet the NCLB guidelines. Many education experts are skeptical that the current standards can be met at all.

Bush and Kerry’s positions on the issue demonstrate that both candidates believe spending increases were needed beyond those provided after the first year the law was implemented. Both candidates use or would use the existing Title I program to provide extra money for schools located in poor neighborhoods. Both favor achievement tests to force schools to be accountable for their spending.

The cost of NCLB compliance for public schools can be divided into three categories – increased testing, new requirements for teacher qualifications and raising student achievement.

NCLB requires annual tests for reading and math for third through eighth graders that must be in place by 2005-2006. Tests in science for elementary, middle and high school students must be in place by 2007-2008.<sup>21</sup> Benchmark appropriations from fiscal

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<sup>19</sup> Hanushek (1989) p. 47

<sup>20</sup> See Hedges, Laine, and Greenwald (1994) or Card and Krueger (1996)

<sup>21</sup> Schools must also administer reading and math tests to high school students at least once between grades 10 and 12.



year 2002 to fiscal year 2008 are \$2.7 billion – about \$1.2 billion less than the estimated need.<sup>22</sup>

NCLB sets a goal to give each student a “highly qualified teacher” in core subjects by 2006. These requirements are expected to increase the cost of employing teachers since states either must pay for additional professional training or raise salaries to attract more qualified individuals. Estimating these costs is difficult and comprehensive estimates do not exist.

The costs associated with boosting student achievement almost certainly make up the largest portion of the three major ways that NCLB increases schools’ costs. Some have tried to estimate these costs and have come up with widely varying estimates.

Mathis (2003) used 10 studies of state-specific NCLB compliance costs to find that a “conservative estimate” would require a 20 percent increase in spending nationally. Public education spending was \$422.7 billion in 2001-2002, which suggests the needed increase in 2001-2002 would have been about \$84.5 billion. Peyser and Costrell (2004) estimate that a spending increases of only \$8 billion a year is needed and that those increased costs are concentrated in a few states. These two studies stake out the ends of the ideological perspective. Even if a cost calculation were possible, the analysis would be significantly complicated by the fact that states are free to set their own standards of proficiency. States that fail to meet federal goals will likely be tempted to lower standards in future years.

In the end, no one formula can be used to determine the spending increases sufficient to comply with No Child Left Behind. As Peyser and Costrell write, “No one – neither critics nor supporters of NCLB – really has any idea what it would cost to bring all students to proficiency by 2014 (or even 95 percent of all students, given the exceptions already built into the law), or if it can be done at all.”<sup>23</sup> Too many aspects of school administration are not related to financial resources. And too many other factors – family support, peer effects, neighborhood problems – affect student performance but lie outside schools’ sphere of influence.

#### *Analysis of reforms*

Neither candidate differs greatly on the key provisions of NCLB – emphasis on basic skills, gauging improvements in students’ performance and better teacher preparedness. Kerry would guarantee mandatory funding levels to states, which could help states better plan for ways to meet NCLB requirements. Creating a mandatory spending stream would also protect education to some extent from future budget cuts. Kerry also has been critical of the formula to calculate adequate yearly progress, saying that it overemphasizes testing but he has not provided clear signals about what aspects of the system he would change.

Neither proposal does an adequate job of addressing whether disadvantaged schools actually will receive more money than well-to-do schools in the same district once state and local funds are factored in. Title I funds are intended as extra money for schools with high concentrations of impoverished students.<sup>24</sup> However, the funding formula provides significant flexibility to school districts, including allowing districts to

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<sup>22</sup> U.S. General Accounting Office. (2003) p. 2.

<sup>23</sup> Peyser and Costrell (2004) p.1

<sup>24</sup> Rosa and Hill (2004) p. 211-212

average teacher costs even though teacher salaries in disadvantaged schools tend to be lower. District-wide cost averaging obscures these intra-district spending differences among schools.<sup>25</sup>

Both Bush and Kerry emphasize improving teacher quality as a way to boost student achievement. Kerry proposes his “Great Teacher for Every Child” program, which he estimates would cost \$30 billion over 10 years, and Bush’s 2005 budget also designates funding increases for teacher training. Students exposed to a series of high-quality teachers usually perform better, but legislating teaching quality is extremely difficult.<sup>26</sup> Education experts have been unable to identify specific attributes that are substantially more likely to produce a high-quality teacher. Increased pay could draw more teachers to high-poverty schools, though money alone is not the only factor. Hanushek, Kain and Rivkin analyzed teacher transfer data in Texas and found that student characteristics were more likely to lead to teacher transfers than financial rewards. “This tends to leave disadvantaged, low-achieving students with relatively inexperienced teachers. Because teachers appear so unresponsive to salary levels, it would take enormous across-the-board increases to stem these flows.” Working conditions – not just salaries – need to improve, they found.<sup>27</sup>

There are other options available to improve student achievement such as reducing class size, instituting comprehensive school reform and increasing the school year or school day. Evidence for these practices is not clear cut either. After an experimental program to reduce class size in Tennessee produced some achievement benefits, California launched a similar reform with similar benefits. However, because so many new teachers were needed once class sizes were reduced, the percentage working without full certification increased and the uncertified teachers were more likely to work in predominantly poor and minority schools.

Comprehensive school reform (CSR), which involves introducing a model curriculum throughout a school, has led to achievement improvements in some schools. However, teachers sometimes rebel at what they perceive as an overly rigid formula that dictates their teaching methods, and the CSR programs can cost tens of thousands of dollars per school to implement. The federal government is funding independent research into several CSR models but the results of that research will not be known for several years. States appear reluctant to lengthen the school day or school year, citing cost as a primary factor. Teachers salaries would need to increase, and facilities costs would rise as well, if instructional days got longer or more school days were added. In fact, states that have faced severe budget crunches in recent years have opted to shorten the school calendar.

### *Special education*

Both Kerry and Bush favor increasing special education funding. Kerry includes IDEA in his \$200 billion education trust fund, and about one-quarter would go toward special education. Bush proposed a \$1 billion increase in IDEA grants to states in fiscal year 2005, for a total appropriation of \$11.1 billion. Special education grants to states

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<sup>25</sup> See Rosa and Hill (2004) and Haycock (2000)

<sup>26</sup> Hanushek and Rivkin. (2004) p. 22.

<sup>27</sup> Hanushek, Kain, and Rivkin (2004)

increased an average of 16 percent per year from 2001 to 2005 after adjusting for inflation.

Schools must provide a free, appropriate public education to students designated as needing special education. The cost of educating a special ed student is 228 percent the cost of educating an average student.<sup>28</sup> The federal government currently contributes around 18 percent of the average per pupil expenditure. Kerry wants to gradually raise the percentage of federal funding for special education to 40 percent of the average per pupil expenditure for each special education student. That is the amount authorized by Part B of the IDEA legislation.

While an attempt to reduce what states call “an unfunded mandate,” Kerry’s proposal would be costly. We estimate that the cost of fully funding IDEA from 2006 to 2015 would be \$255 billion. If the federal government continued to spend at 18 percent of average student costs, IDEA funding would be \$143 billion over 10 years. Thus, the expected increase would be \$112 billion from 2006 to 2015 (Table 3).<sup>29</sup>

Making funding for IDEA mandatory could free up discretionary funds for other educational purposes if the states were required to spend special education savings on other education programs. However, increasing the federal role in special education funding could increase the rate at which children were designated special needs – since such a designation would qualify schools for more federal funds.

### **After-school programs**

Kerry proposes increasing spending for the federally sponsored after-school programs from \$1 billion currently to the maximum amount authorized under the No Child Left Behind Law – \$2.25 billion in 2006 and \$2.5 billion in 2007. Kerry’s proposal would change the program’s name from 21<sup>st</sup> Century Community Learning Centers to “School’s Open ’Til 6.” The revamped program would shift the focus from exclusively academic benefits to include emphasis on values and decision-making skills that encourage children to avoid drugs, crime and other types of risky behavior. The programs would stay open until at least 6 p.m. and provide school bus transportation.

The current 21<sup>st</sup> Century program funds after-school activities geared toward improving academic performance for students in Title I schools. The federal government pays 70 percent of the cost, an estimated \$700 per child, and the rest comes from state or local governments or private donors. Under current cost estimates, Kerry’s proposal would increase the number of participating students by about 1.8 million in 2006 and 2.2 million in 2007. State and local costs for the program would be expected to increase by about \$700 million, from \$300 million to \$1 billion, assuming the average state and local contribution of \$300 per-child remains constant.

The 21<sup>st</sup> Century Community Learning Centers began as a pilot program in 1998 with a \$40 million appropriation and has expanded to about \$1 billion in spending. Congress appropriated \$1 billion in fiscal year 2004 after President Bush proposed

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<sup>28</sup> Moore (1988)

<sup>29</sup> Our estimate uses the growth in special ed enrollment since 1990 to estimate an average annual growth rate and then applies this rate to subsequent years. Using this method, we predict that special ed enrollment will reach 16 percent of total enrollment in 2015. Using the same method, we predict that average per pupil spending will grow at 3.98 percent annually.

cutting funding to \$600 million. The White House then requested \$1 billion for the program in FY 2005. In the 2001-02 academic year, 1.4 million students participated in the program.

Congress continues to strongly support the after-school program, rebuffing Bush's proposal to cut the program in the 2004 budget. Federal funding for the 21<sup>st</sup> Century program is provided to states, which administer grant programs that award funds to local communities in a competitive bidding process. School districts compete vigorously for the currently available funds. In 2000, states approved 310 new grants out of more than 1,300 "high-quality applicants." More than four times as much money was requested as was available.<sup>30</sup>

Kerry claims the new program would "fully fund" after-school care by increasing grants to states to \$2.5 billion by 2007. Increasing funding to the authorized level would not provide enough funds to offer free after-school care to all of the students in Title I schools whose parents want the care. If all students in Title I schools could participate, we estimate about 4.4 million would do so. About 1.2 million children would be left out in 2006 and about 900,000 would be left out in 2007. Many people (including us) define "full funding" as meaning that enough money is available for all those eligible to participate if they wish. Authorization levels are largely symbolic gestures within legislation and have little significance in terms of policy.

Spending levels after 2007 are not available since the program is only authorized through 2007. If the proposed 2007 spending level of \$2.5 billion were appropriated from 2008-2015, the ten-year cost for the Kerry proposal would be \$14.75 billion (Table 2). Fully funding the program so that it reached all Title I schools and allowing costs to increase in line with inflation would cost substantially more.

A preliminary evaluation of the 21<sup>st</sup> Century program by Mathematica showed negligible effects on academic improvement in the program's first year. Elementary students in the 21<sup>st</sup> Century program did not improve their grades or reading test scores when compared to students of similar background who did not participate. Middle-school students in the program did not achieve higher grades than their peers, though teachers reported homework was completed more to their satisfaction.

In addition, students who attended the 21<sup>st</sup> Century program frequently did not have better academic results than students who participated infrequently. Frequent participants were more likely than infrequent participants to report better social skills – to say that they are better at working with others in a group, have better problem solving skills and feel less lonely.<sup>31</sup> Whether these social skill differences persist and whether these differences translate into meaningful behavior changes – such as a decreased likelihood of engaging in juvenile crime or becoming pregnant as a teenager – are empirical questions that the authors were not able to answer after studying the program for a single year. The Mathematica study was controversial, however, with some criticism of the methods used for evaluation.<sup>32</sup> Future study of after-school programs

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<sup>30</sup> Mahoney (2003)

<sup>31</sup> Mathematica (2003) p. 107-108. These results may be due to parenting differences or other differences outside the 21<sup>st</sup> Century program. The Mathematica study also shows that frequent participants' parents are slightly more likely to check on their children's homework and attend an after-school event, and these positive parenting attributes might explain some or all of the observed social benefits related to frequent attendance in the 21<sup>st</sup> Century program.

<sup>32</sup> See Mahoney and Zigler (2003).

should include more information about their effects on delinquency and other troubling behaviors.

It should be noted that the after-school program's spending level of \$1,000 per child (\$700 in federal spending) might be too low to provide the quality of services needed to impact academic or social measures. This level of spending on 540 hours of after-school care (three hours a day for 180 school days) averages \$1.85 per hour, while other youth programs spend more. After-school advocates estimate that more spending would be needed to develop a "high quality" after-school program.<sup>33</sup>

### **Higher Education**

Both Bush and Kerry propose increased financial aid for college students, though the number and types of students who would benefit and the amount to be spent vary substantially between the candidates. Both candidates agree that the student loan program needs reform, but they differ on how to fix the program's shortcomings – most specifically how to reduce costs for taxpayers.

Both candidates stress improving access to post-secondary education for those who cannot afford it now, but Bush focuses almost entirely on providing Pell grants to low-income families while Kerry would extend additional assistance to the middle class. Both Kerry's and Bush's remedies to improve access also introduce additional complexity and uncertainty into a system in which poor children already see college as out of reach. A limited body of research suggests that poor students make decisions about college based more on the "sticker price" of college tuition than on the actual costs they would pay.<sup>34</sup>

#### *Pell grants*

About \$8.8 billion was appropriated for Pell grants in 2001. If Bush's 2005 budget request is accommodated, Pell grants appropriations will have increased 34 percent since 2001, after adjusting for inflation. The maximum award was \$3,750 in 2001, and \$4,050 in 2004. While campaigning for president in 2000, Bush proposed raising the Pell grant award to \$5,100 for first-year students within five years.<sup>35</sup> More recently, he has proposed a "State Scholars" program, which provides an additional \$1,000 for each of the first two years of college for those who take demanding high school courses and another program that would provide a \$5,000 award to those who choose to study science or math in college.

#### *Tax credits*

Kerry proposes a significant expansion of subsidies for higher education. His proposal, which he calls the "College Opportunity Tax Credit," and which builds on the Hope scholarship, potentially increases aid to college students in three ways. First, the maximum value increases each year, from \$1,500 to \$2,500. Second, the credit becomes

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<sup>33</sup> Hollister (2003) p. 13-14, cites two studies for comprehensive, year-round spending on after-school care. Newman, Smith and Murphy (2000) while a study of needs in Massachusetts estimated costs at almost \$6,000 per child per year.

<sup>34</sup> Kane (1995)

<sup>35</sup> Chronicle of Higher Education (2001)

available for four years, instead of two. Third, the credit is refundable to those with little or no tax liability.<sup>36</sup>

Unlike Pell grants – in which 90 percent of recipients come from families earning less than \$40,000 – the tax credit reaches many middle-income families who do not qualify for Pell grants. The current tax credits primarily benefit students from families with adjusted gross incomes between \$30,000 and \$75,000. Long (2003) found that households in that income bracket made up nearly half (48 percent) of filers claiming the credit, and the average dollar value of the credit was highest within that income group.<sup>37</sup> Thus, Kerry's proposal for tuition assistance would reach far more middle-class families than Bush's and would cost much more than Bush's proposal.

As is the case with the existing credits, benefits in the Kerry plan would phase out between \$80,000 and \$100,000 in adjusted gross income for joint filers and between \$40,000 and \$50,000 for single filers.<sup>38</sup> About 5 percent of students are ineligible because they have family incomes above the ceiling. The take-up rate for the current credits is fairly low; less than 30 percent of eligible taxpayers filed for the credit in 1999.<sup>39</sup> Take-up rates typically grow as benefits increase and as more taxpayers learn about the credit. Therefore, we project that use of the College Opportunity Tax Credit would rise steadily from 35 percent to 50 percent from 2006 to 2015. The projected 2015 take-up rate is still far below that of the Earned Income Tax Credit, where more than 80 percent of those eligible participate. (Schols, 1994)

There is no evidence from past federal tuition aid programs that suggests Kerry's tax credit proposal would increase enrollment. Kane (1995) found no enrollment gains immediately after the Pell grant program was created in the 1970s. Since Pell grants require no matching funds and are immediately available, low-income families would be more likely to respond to Pell grants than to the expansion of higher education tax credits.<sup>40</sup> However, a college degree has increased in importance within the labor market since the 1970s, which makes a direct comparison inexact and suggests that an effect on enrollment is at least theoretically possible.

The limited research on the Hope Scholarship and Lifetime Learning Tax Credit also finds no impact on increasing college attendance. Long (2003) finds no increase on the likelihood of college attendance, but estimates a 9 percent increase, on average, in the likelihood of attending a four-year college over a two-year college. Long theorizes that the tax credits provide incentives for students to attend more expensive schools but do not increase the overall enrollment in higher education. This theory is consistent with Kane's

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<sup>36</sup> The Lifetime Learning Tax Credit would continue to be used by students ineligible for the Kerry credit – undergraduates in their fifth year and beyond and graduate/professional students. However, third- and fourth-year undergraduate students would redeem the more generous Kerry credit instead of the LLTC. Information about students who currently use the LLTC is not readily available, but we assume that 75 percent of the current credit amount benefits third- and fourth-year undergraduates. Therefore, we assume that the cost of the LLTC would drop by around 75 percent if Kerry's credit were enacted. The LLTC is small compared to the new Kerry credit, so the 75 percent assumption here will have little effect on total cost estimates.

<sup>37</sup> Long (2003)

<sup>38</sup> Long (2003)

<sup>39</sup> Long (2003) p. 58.

<sup>40</sup> Long (2003) points out that tax credits take up to 15 months to reimburse tuition expenses, which could impact students with liquidity constraints. Lack of information about tax credits' existence could also create a barrier to enrollment.

(1995 and 1999) observation that aid programs provide the largest benefit for people who have already decided to attend college.

Theory suggests that colleges have an incentive to increase tuition at least up to the point of the maximum tax credit to capture the federal aid benefit. Kane (1999) suggests that colleges would be more likely to increase tuition – a qualifying expense – while lowering room and board costs, which are not qualifying expenses for existing tax credits.<sup>41</sup> Evidence for this practice has not been found. Another hypothesis suggests states would increase tuition to capture more federal aid and reduce state aid by a similar amount.

Long's (2003) finding that students substitute more expensive education with the introduction of the tax credit means that tax credits lower students' price sensitivity to tuition increases within the range of credit-eligible spending. (In the case of the Kerry proposal, up to \$4,000 per year.) Therefore, institutions that charge less than \$4,000 per year in tuition would be rational in raising tuition rates or substituting higher tuition for lower room and board or other ancillary fees as Kane (1999) hypothesized.<sup>42</sup>

A CBO (1997) study found states were likely to capture 50 percent of federal aid by increasing tuition and decreasing state subsidies to public colleges.<sup>43</sup> Tuition increases would cause students at public two-year colleges to qualify for an even higher benefit, on average, which would raise the total federal costs even higher. Students at many public four-year universities and all private colleges already face tuitions that exceed \$4,000, though several large states charge less than \$4,000 and other students pay less than that amount if they receive some college-based financial aid or scholarships or attend part-time.<sup>44</sup>

Kerry could include a "maintenance-of-effort" requirement that would prohibit states from cutting aid to public colleges and universities. However, the college financing process is exceptionally complex with the federal government, state governments, and individuals all paying part of the cost of attendance. Designing a maintenance-of-effort requirement that could not be overcome by determined state legislatures would be exceptionally difficult.

The College Opportunity Tax Credit would cost an estimated \$82 billion more than existing higher education tax credits (Table 4). This assumes that use of the college tax credits among eligible households rises steadily to reach 50 percent by 2015. A greater take-up rate among eligible families would increase costs. The maximum credit available to each student over four years of college would climb from \$3,000 under current law to \$10,000 under the Kerry proposal. More students would be eligible, since the credit is refundable to households without tax liability.

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<sup>41</sup> Kane (1999)

<sup>42</sup> The U.S. Department of Education was aware of this incentive for public universities to capture a portion of federal aid intended to benefit students. William Bennett, who was secretary of education under Ronald Reagan, theorized in 1987 that increases in federal aid were responsible for rising college prices. When the Hope and Lifetime Learning credits were passed, then-Secretary of Education Richard Riley wrote a letter to college and university presidents asking them not to cut financial aid to students shortly after the tax credits were made law. (Long, 2003)

<sup>43</sup> The CBO study cited McPherson and Shapiro (1991) as the basis for their estimate.

<sup>44</sup> The average tuition in California (\$2,566), North Carolina (\$2,298) and Texas (\$2,785) was significantly below \$4,000 in 2000-01, according to the National Center for Statistics.

The Kerry proposal also would attempt to improve information about college financing options by simplifying student-aid paperwork and expanding the GEAR UP program that provides mentors to secondary school students interested in attending college. He proposes providing the tax credits in advance, when tuition is due, which could help poor families that do not have money to extend up front. Advancing tax credits also is likely to increase erroneous payments, however.

Projecting ten-year cost totals for the Bush administration's Pell grant proposal is not possible, in part because little guidance is provided by the Bush administration about long-term spending intentions, but real spending increases are likely to be less than \$1 billion. Also, Pell grant spending is subject to the annual appropriations process and future growth is unpredictable, while Kerry's tax credit would become part of the tax code and not subject to annual review by lawmakers.

#### *Volunteer programs*

Kerry proposes that high school students can engage in public service for two years in exchange for four years of the equivalent of public tuition in their state. This proposal is similar to Americorps, with the exception that Americorps participants join after college and can use their stipends to pay student loans or for future graduate study. About 200,000 are estimated to attend school full time and 300,000 would attend part time. We project program costs of \$10.3 billion for 2006-2015. The Kerry campaign estimates the Service for College program will cost \$13 billion over 10 years.

Under President Bush, funding for the Americorps program has increased from 50,000 members to 75,000 members. He proposed a \$565 million budget for Americorps programs in 2005.

#### *Student loan reform*

Both Kerry and Bush intend to reform the student loan program, which is up for reauthorization under the Higher Education Act. The student loan process consists of federal guarantees to private lenders (the Federal Family Education Loan Program, or FFELP) and direct loans made by the federal government (the William D. Ford Direct Federal Loan Program, or FDLP). Bush proposes changing fixed-rate consolidation loans to variable-rate loans, which would save the government money if interest rates climb in the future. Kerry proposes an auction system that could reduce private lenders' underwriting subsidies and would shift some of the risk of rising interest rates from the federal government to lenders. We have not done a more detailed analysis of these proposals.



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Table 1. *Head Start Costs 2006-15*  
*Billions of dollars*

Fiscal Year	Spending Under Current Policy	Total Spending to Enroll All Poor 3 and 4 Year Olds <sup>a</sup>	Additional Spending
2006	7.20	10.13	2.93
2007	7.39	10.40	3.01
2008	7.58	10.67	3.08
2009	7.78	10.94	3.16
2010	7.98	11.23	3.25
2011	8.19	11.52	3.33
2012	8.40	11.82	3.42
2013	8.62	12.13	3.51
2014	8.85	12.44	3.60
2015	9.08	12.77	3.69
Ten Year Costs:	81.08	114.05	32.97

Sources: Administration for Children and Families and authors' calculations.

a. Assuming 80 percent participation rate.

Note: Change between current law and new policy is increasing number of participants from 910,000 to 1.28 million per year. Costs increase only with inflation (2.6% per year).

Table 2. 21st Century Program Costs 2006-15  
*Billions of dollars*

Fiscal Year	Spending if Constant at 2005 Level	Kerry Proposal - Authorization Level <sup>a</sup>	Additional Spending Under Kerry Proposal <sup>a</sup>	Total Spending for All Title I Schools to Participate	Additional Spending for All Title I Schools to Participate
2006	1.00	2.25	1.25	3.30	2.30
2007	1.00	2.50	1.50	3.39	2.39
2008	1.00	2.50	1.50	3.48	2.48
2009	1.00	2.50	1.50	3.57	2.57
2010	1.00	2.50	1.50	3.66	2.66
2011	1.00	2.50	1.50	3.75	2.75
2012	1.00	2.50	1.50	3.85	2.85
2013	1.00	2.50	1.50	3.95	2.95
2014	1.00	2.50	1.50	4.06	3.06
2015	1.00	2.50	1.50	4.16	3.16
Ten Year Costs:	10.00	24.75	14.75	37.17	27.17

Sources: John Kerry for President. 2004. "Kerry Unveils Plan to Ease Strain on Working Families." June 16. [www.johnkerry.com](http://www.johnkerry.com), No Child Left Behind Act, and authors' calculations.

a. Funding authorized through 2007. We assume the proposal will leave spending at the 2007 level through 2015.

Table 3. *Phasing in Full-funding of Special Education 2006-15*

Fiscal Year	Per Pupil Expenditure <sup>a</sup>	Special Education Enrollment <sup>a</sup>	Total Enrollment <sup>b</sup>	Fully Funding IDEA Phase-in to 40% <sup>c</sup> (Billions)	Spending at Current Levels (18%) (Billions)	Additional Federal Spending (Billions)
2006	\$8,795	6,918,907	48,304,000	\$11.0	\$11.0	\$0.0
2007	\$9,145	7,051,200	48,524,000	\$13.5	\$11.6	\$1.9
2008	\$9,509	7,170,543	48,640,000	\$16.4	\$12.3	\$4.1
2009	\$9,888	7,281,994	48,690,000	\$19.4	\$13.0	\$6.5
2010	\$10,281	7,398,356	48,761,000	\$22.8	\$13.7	\$9.1
2011	\$10,690	7,525,488	48,890,000	\$26.5	\$14.5	\$12.1
2012	\$11,116	7,664,903	49,084,000	\$30.7	\$15.3	\$15.3
2013	\$11,558	7,820,878	49,367,000	\$35.3	\$16.3	\$19.0
2014	\$12,018	7,993,747	49,737,000	\$38.4	\$17.3	\$21.1
2015	\$12,496	8,109,656	49,737,000	\$40.5	\$18.2	\$22.3
Ten Year						
Costs:				\$254.6	\$143.1	\$111.5

Sources: Digest of Education Statistics 2002, Projections of Education Statistics to 2013, and National Education Association, "IDEA Funding Coalition Offers Proposal" [[www.nea.org/specialed/coalitionfunding2002.html](http://www.nea.org/specialed/coalitionfunding2002.html)].

- a. Special ed enrollment and annual spending growth rate predicted based on growth since 1990. Annual spending growth over the period including inflation is 3.98%. Growth in percent of children considered special ed is 1.45 percentage points annually.
- b. Total enrollment for 2015 is set equal to previous year due to lack of data.
- c. Full funding is phased in over 10 years at 3 percentage points annual increase from 18% to 40%.

Table 4. *Additional Higher Education Spending 2006-15*  
*Billions of dollars*

Fiscal Year	College Tax Credit <sup>a</sup>	Service for College <sup>b</sup>	Total Additional Spending
2006	4.45	0.13	4.57
2007	5.18	0.27	5.45
2008	6.05	0.43	6.48
2009	7.00	0.60	7.60
2010	7.88	0.80	8.68
2011	8.79	1.03	9.81
2012	9.53	1.27	10.81
2013	10.33	1.55	11.88
2014	11.11	1.86	12.96
2015	11.82	2.20	14.02
Ten Year Costs:	82.14	10.13	92.27

Sources: OMB Analytical Perspectives 2005, Projections of Education Statistics to 2013, National Center for Education Statistics IPEDS, and authors' calculations.

a. Assumes costs of the Lifetime Learning Credit will be cut by 75% because users will shift to the new credit under the Kerry proposal and the Kerry tax credit will replace the HOPE credit.

b. Assumes students who serve full-time receive amount of average public school tuition for that year and students who serve part-time receive one-fifth of average public school tuition for that year. Service plan is phased in at 10 percentage points a year.