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ABSTRACT

This issue paper focuses on financial aspects of special education, with implications for state and local education policymakers. Background information is supplied on the mandate for free appropriate public education contained in P.L. 94-142, The Education For All Handicapped Children Act. Subsequent sections address the following topics: the cost of special education (difficulties with estimates, national estimates based on a 1981 Rand Corporation study, trends in special education finance); federal and state support of special education (factors influencing each, discrepancies between federal authorization and appropriation levels); and distribution of special education funds (incentives and disincentives of pupil-based, resource-based, and cost-based approaches). Implications of the funding formulas for policymakers are addressed in terms of decisionmaking needs, appropriate education placement, equitable treatment of districts, and efficient administrative and cost-containment practices. (CL)

RESEARCH & RESOURCES ON SPECIAL EDUCATION

ISSUE III
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FINANCING FREE AND APPROPRIATE PUBLIC EDUCATION FOR HANDICAPPED STUDENTS

During the past twenty years, and particularly since the passage of Public Law 94-142, The Education For All Handicapped Children Act of 1975, state and local education agencies have dramatically increased their programmatic commitment to the education of handicapped students. This commitment has necessitated large-scale growth in funds to develop and support special education programs and services. As the growth in special education programs continues, education policymakers must consider a number of issues and options as they endeavor to ensure effective programming during times of fiscal retrenchment and competing priorities. This is the first in a series of issue briefs examining the findings and conclusions of recent research on special education finance. In particular, this brief reviews the following questions and their implications for state and local education policymakers:

- WHAT DOES SPECIAL EDUCATION COST?
- HOW DO THE STATES DISTRIBUTE FUNDS FOR SPECIAL EDUCATION?
- WHAT ARE THE INCENTIVES AND DISINCENTIVES OF VARIOUS FUNDING FORMULAS?

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BACKGROUND

Public education has undergone significant change during recent years with the enactment of state and federal law designed to guarantee the right of all handicapped children to equal educational opportunity. Particularly with the passage of The Education for All Handicapped Children Act of 1975 (Public Law 94-142), as well as a growing body of court decisions, all school-age handicapped children are guaranteed the right to a free appropriate public education. This includes a right to an individualized education program, related services, and the right to be educated in the least restrictive environment to the maximum extent appropriate.

As a result of public education's increased responsibility for the education of handicapped children, the number of children receiving special education services continues to grow. Accomplishments across states have been considerable:

- From 1976-77 to 1980-81, children served by special education programs increased from 7.25% to 8.6% of the school-aged population;
- In 1980-81, the states served nearly 41,000 more handicapped preschoolers and nearly 43,000 18-21 year-old handicapped students than in 1976-77; and
- From 1975-76 to 1981-82, special education revenues increased by 84% from approximately $2.1 billion to $3.7 billion.

The enactment of comprehensive state and federal law has affected not only the number of students receiving special education and related services; it has dramatically affected the nature and extent of the services provided to these students. It is widely recognized that the costs of educating these students are greater than the costs of educating their nonhandicapped peers. Indeed, this is the very reason for categorical special education funding. However, this generalization should not cloud the fact that there are specific programmatic justifications for increased costs. Greater costs for special education are caused by the greater educational needs and requirements of handicapped children. There are a variety of fiscal choices and decisions which can greatly influence the impact of funding for special education. These choices must be based on an understanding of the close relationships between programmatic decisions and the financial implications of these decisions.

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This brief provides a general review of special education finance. The next finance brief will examine specifically the issue of interagency coordination and how states have used that option to help alleviate the problems associated with financing programs for handicapped students.

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ABOUT THE PROJECT

This material is made available through NASBE's Special Education Dissemination Project. Working in cooperation with the Council of Chief State School Officers, National Conference of State Legislatures, and American Association of School Administrators, NASBE has undertaken a variety of activities aimed at providing education policymakers with research and practice-based information on special education.

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For more information about the project, contact Roberta Felker, Dinah Wiley or Cynthia Chambers at NASBE.

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THE COST OF SPECIAL EDUCATION

Accurate estimates of the costs of special education and related services help policymakers to make objective, informed decisions when allocating funds. However, estimating the costs of special education programs is a difficult and uncertain process. One difficulty is determining exactly what costs are being sought -- overall costs, added costs, related services, instructional or administrative costs or some combination of these. Experts can develop estimates of the cost of special education, but these costs are neither fixed nor totally impervious to the decisions of state and local policymakers.

National Estimates

National cost estimates usually have been based on averages derived from local districts' expenditures. Since state special education policies and practices vary along with location and economic conditions, national estimates may not be sufficient for answering state policymakers' questions, but are nonetheless somewhat useful as a benchmark.

In response to the weaknesses in past research, as well as to the rapid expansion of special education programs in recent years, The Rand Corporation completed a study in 1981 of the costs of special education. Supported by the U.S. Department of Education, the study was designed to assist in the formulation of policies and allocation of resources. In general, Rand found that:

- The added cost of direct instructional services is proportionate to the severity of the handicap.
  - -- The average instructional cost for a blind student was reported to be $2,516 and for a deaf student $2,336, as compared to $813 for a learning disabled student and $897 for a mentally retarded student.
- The more restrictive the environment, the more costly the instructional service.
  - -- On the average, instructional costs for a full-time placement in a special class were found to be higher per handicapped student ($1,578) than for a regular class placement with a part-time special class ($794).

Specifically, the study used data collected from a nationally representative sample of localities of various sizes during the 1977-78 school year. For that period, the study concluded that the total nationwide expenditure for the added cost of special education was over $7 billion.

The study also estimated per-child costs nationwide. As noted above, the range of costs for specific handicapped children varies greatly with the nature and severity of the handicap and the location in which services are provided.

Thus, the estimated per-child costs are average figures and cannot be assumed to apply evenly throughout the country. With these caveats in mind, in 1977-78:

- The total cost of special education and related services per handicapped child was an estimated $3,577, approximately 2.17 times greater than the cost of regular education per non-handicapped child.

- The added cost of special education and related services above the cost of regular education was estimated as $1,927 per handicapped child.

While barriers to accurate cost information exist, the data that are available coupled with local and state agency experience and expertise can be of assistance to policymakers. In developing fiscal policies that match the unique circumstances of a state, policymakers must determine when national estimates or those based on expert opinion will suffice and when district cost reports and surveys are most useful. Their conclusions will vary according to the political culture, traditions and policy needs of their state.

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FEDERAL AND STATE SUPPORT OF SPECIAL EDUCATION

Federal Support

Federal legislation has had a major impact on the way in which the states educate handicapped children. Yet the federal government's financial role has been secondary to that of the states and local districts. While the states anticipated federal revenues to match the P.L. 94-142 authorization levels, the actual appropriations have remained at a far lower level:

- As the authorized level has reached the full 40% of average per-pupil expenditure specified in the statute, actual appropriations have risen only modestly.
- Even with the increases in federal support since 1976, it is unlikely that the current federal share exceeds 15% of the total costs of special education.
- In contrast to the original $1.2 billion authorization, Congress appropriated only $804 million in 1980.

The discrepancy between federal authorization and appropriation levels, though common across many federal programs, has caused considerable friction between federal policymakers and those at the state and local level. From the perspective of those who view the guarantees of P.L. 94-142 as essential, the law is a civil rights mandate which incorporates the states' own statutes and which needs to be implemented regardless of the level of federal funding. Although federal funding has never reached the levels originally authorized in terms of percentage growth, such funds have increased appreciably.

State Support

All fifty states provide funds to local school systems to help defray the costs associated with educating handicapped children. However, estimating the average state support for special education and related services has been problematic for policymakers and researchers alike. Many states report state legislative budget marks rather than actual expenditures. Further, the states vary in the categories of support they report; for example, some state estimates include special education transportation revenues while others do not. State estimates may exclude funds contributed from general education programs as well as revenues available from other state and federal sources such as mental health, medicaid and social security. Although state estimates are imprecise, estimates that have been calculated in recent years are impressive:

- The total state contribution to special education in 1979-80 has been estimated at $3.4 billion and the number of children served at 4.1 million.

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From 1975-76 to 1978-79:

- 34 states reported an increase in special education's share of the total state revenue.
- 41 states reported a positive annual growth rate in revenues allocated to special education.

Among states reporting for 1978-79:

- State support for special education varied from a high of 98% in Montana to a low of 17% in Oklahoma.
- At least 22 states contributed 50% or more of the total fiscal resources for special education.

State support for special education programs is influenced by a number of factors -- size, wealth, political climate, structures used to provide basic financial support to local school systems, and relative prominence of the state contribution to the total funds available for public schools. As local and state officials are confronted with declining fiscal resources and increasing fiscal demands, it becomes important to examine not only current levels of local, state and federal revenues for special education but also revenues beyond those budgeted for special education. These include general education aid, and support from other public agencies and private sources. Consideration of these many variables should help clarify the wide range of issues and choices currently facing policymakers. These and related issues will be discussed in forthcoming issue briefs.

REFERENCE:

Moore, Mary T., Walker, Lisa J., and Holland, Richard P. Finetuning Special Education Finance: A Guide for State Policymakers (ED Contract No. 400-80-0041). Washington, DC: Education Policy Research Institute, Educational Testing Service, July, 1982.

HOW ARE SPECIAL EDUCATION FUNDS DISTRIBUTED?

Increased services for handicapped students has meant an increase in the levels of local, state and federal expenditures for special education programs. As this trend continues, it becomes increasingly important to understand the way in which these funds are distributed.

Funding Approaches

Although there was considerable diversity from state to state in special education legislation prior to the passage of P.L. 94-142, many states have found it necessary to revise their legislation to ensure consistency with federal requirements. Consequently, special education laws across states are now more similar than different. The states' basic approach to funding, however, can and does vary.

Special education funding formulas have been described simply as mechanisms for transferring dollars earmarked for educating handicapped students from one governmental level to another (i.e., state or federal to school district). However, they are more than a technical computation of state aid:

> A funding formula encompasses the mandated procedures, prorating provisions, administrative guidelines, and exceptions or exclusions that determine and regulate the allocation of state (and federal) funds to districts. The actual impact of a particular procedure cannot be determined without reference to all the other factors -- legal, political, social, educational -- that interact with its operation. (Bernstein, et. al., 1976)

In general, states use one of three basic approaches to fund special education programs:

- Pupil-based
- Resource-based
- Cost-based

Pupil-Based: All states which currently employ a pupil-based approach use a weighting scheme to allocate special education funds. The amount of money provided for each handicapped child is based on the dollar amount provided per pupil in regular school programs. This base amount is multiplied by a factor or "weight" that usually varies according to handicapping condition or the type of service provided. Thirteen states use pupil-weighting approaches. Another option which states might pursue under the pupil-based approach is to allocate a flat grant or straight sum, whereby a fixed amount of money is provided for each handicapped child. However, flat grant per pupil formulas currently are not used by any state for allocating special education funds.

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Resource-Based: In a resource-based formula, the main factor used to determine the state aid allocation is the level of resources (e.g., teaching staff, auxiliary personnel, equipment) required to provide the desired level of services. A dollar amount is provided per special education teacher or classroom devoted to special education instruction. Fourteen states use the teacher unit or classroom unit for allocating funds. Allocations per unit may be tied to specific requirements for class size and/or minimum schedules for teacher salaries.

Cost-Based: Under this approach, states reimburse local districts for special education on either a percentage or excess cost basis. Districts are reimbursed for all or a portion of the total costs of providing special education services, or are reimbursed for all or a portion of the excess cost incurred beyond those costs associated with regular education programs. Fifteen states provide aid for special education on either a percentage or excess cost basis.

It is important to note that these funding approaches are not mutually exclusive. Many states have modified a given formula, combined various portions of different formulas, or used different formulas for different programs, thus creating some mix of these approaches. For example:

- Kansas: Districts receive a dollar amount for each teacher unit and are reimbursed for 80 percent of the transportation costs for special education programs -- a combination of resource-based and cost-based formulas.

- Ohio: Combining resource-based and pupil-based approaches, Ohio allocates a specific dollar amount per classroom unit and awards per pupil grants for transportation, home instruction, teacher training and other specialized instructional services.

- Virginia: Using both cost-based and student-based funding, Virginia provides per student allocations based on its determination of the excess costs for programs serving different handicapping conditions.

Mixed approaches attempt to accommodate variations in the number and handicapping conditions of students needing services, the programs prescribed for these students, and the cost of services and staff resources. The impact of each of the principal funding approaches on significant policy issues is discussed in subsequent sections of this brief.

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STATES USING DIFFERENT FUNDING FORMULAS

Flat Grant Per Pupil	Pupil Weighting	Flat Grant Per Teacher or Classroom Unit	Percentage of Teacher/ Personnel Salaries	Weighted Teacher Classroom Units	Percentage Cost or Excess Cost
	Arizona	Alabama	Idaho[4]	Alaska	Arkansas
	Florida	Illinois	Minnesota	California[6]	Colorado
	Hawaii[1]	Kansas	Ohio	Delaware	Connecticut
	Indiana	Mississippi	Vermont[5]	Georgia	Maine
	Iowa	Nevada		Kentucky	Maryland
	Massachusetts	No.Carolina		Louisiana	Michigan
	New Jersey			Missouri	Montana
	New Mexico			Texas	Nebraska
	New York[2]			Washington[7]	N.Hampshire
	Oklahoma			Wyoming	North Dakota
	So.Carolina				Oregon
	So.Dakota				Pennsylvania
	Tennessee				Rhode Island
	Utah				Virginia
	W.Virginia[3]				Wisconsin

[1]Hawaii centrally funds all education in the state; Hawaii's Education Department negotiates special education funds using a number of considerations, especially the number of full-time equivalent students enrolled in special education.

[2]New York calls its funding formula excess cost because the weightings and district cost factors are designed to approximate the average costs of educating a handicapped child.

[3]West Virginia weights handicapped students in the foundation formula as well as provides some salary support for special education.

[4]Idaho also provides for an additional weighting for exceptional students in its foundation support program.

[5]Vermont also pays costs of special education that exceed the average per pupil cost of a district.

[6]California employs a hybrid formula that takes 10% of a district's ALM to determine maximum teacher units available to a district. Teacher units are then distributed across program placements and adjusted for district cost factors.

[7]Washington designs its formula to cover the base costs and the excess costs of special education.

Sources: Developed from descriptions of finance formulas used by individual states in Tron, Esther (ed.). Public School Finance Formulas 1978-79. Washington, D.C.: Government Printing Office, 1980; McGuire, K., Augenblick, J., and Hermond, J. School Finance at a Fifth Glance. Denver, CO: Education Commission of the States; Winslow, H.R. and Peterson, S.M. State Initiatives for Special Needs Populations. Palo Alto, CA: Bay Area Research Group, September 1981; and select individual state documents.

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SUMMARY OF INCENTIVES AND DISINCENTIVES OF SPECIAL EDUCATION FUNDING FORMULAS

Program and Management Issues	Type of Funding Formula		
	Resource-Based	Pupil/Child-Based	Cost-Based
Classification of handicapped children	Less direct incentive for overclassification Straight sum encourages more mildly and fewer severely handicapped children	Encourage more children to be served, may lead to overclassification.	Least effect on overclassification
Choice of appropriate program	Personnel formula may bias toward greate use of personnel	Encourage placement in higher reimbursement or lower cost programs	Depends upon district share of costs
Change of educational program	Less direct incentive for keeping children in special education	Encourage keeping children in special education and in higher reimbursement programs	Depends upon district share of costs
Class size or caseload	Encourages maximum class size to reduce costs Full funding can encourage minimum class sizes	Encourage maximum class size	Encourage maximum class size (except fully funded excess costs)
Labeling of handicapped children	Labeling not needed by funding formula Can fund for program and personnel units	Formula generally requires labeling in order to qualify for funding	Labeling not needed by funding formula
Support of mainstreaming costs	Must include mainstreaming units or personnel as acceptable for funding	Funding provided for children in mainstreaming programs	Reimburse approved costs of mainstreaming programs
Ability of small districts to provide programs	Full funding amount with minimum number of students, but no funding below this level	Inadequate funding with minimum number of students, but some funding below this level	Governed by regulations, not the funding formula

Program and Management Issues	Type of Funding Formula		
	Resource-Based	Pupil/Child-Based	Cost-Based
Record keeping and reporting requirements	Little information needed beyond normal pupil, personnel, and cost records and reports	Need accurate data on number of children, may required great detail to obtain time spent in different programs	Require detailed cost records, submission and approval of expenditure reports, and greater involvement and control by funding agency
Program and fiscal planning	Most fitted to planning sequence; based on student needs with funding an automatic calculation	Less direct process; tends to be based on available dollars, not educational needs	Fits planning sequence, but available dollars are an early planning factor
Control of costs	Done through regulation	Done through regulations	Percentage formula may help hold down costs through requiring district share
Obtaining state and federal priorities	Higher funding levels for certain program units or personnel can encourage these programs	Differential funding amounts can encourage service to certain students	Priority on higher funding for certain items/programs can encourage these programs
Tracking special education funds	Simple to track funding to expenditures	Not as possible to trace individual child funding and expenditures, must be done on an aggregate basis	Most direct connections between funding and expenditures
Incorporation of future changes	Updating funding amounts is straightforward, changes apparent	Updating of funding amounts more difficult to explain; may become arbitrary	Updating of funding amounts tied to cost changes

Reference:

Hartman, William T., Policy Effects of Special Education Funding Formulas. Stanford, CA: Institute for Research on Educational Finance and Governance, Stanford University, January, 1980.

CONSIDERATIONS FOR POLICYMAKERS

Although the financing of special education poses many considerations, the issues surrounding various funding formulas emerge as particularly significant.

- **Policymakers' decision-making needs**

  1. Compatibility with other state funding policies and practices: Policymakers generally seek funding arrangements that do not differ significantly from existing state approaches. Such capability allows programs to be interrelated and provides a more comprehensive picture of education aid.

  2. Rationality and simplicity: Funding formulas should present relatively logical, straightforward relationships among the policy elements of major importance -- for example, numbers of handicapped children, classrooms needed, and other actual costs of educating handicapped children.

  3. Ease of modification: Funding formulas should be capable of being easily modified in response to economic changes or to new knowledge regarding costs and/or needs. The more complex the formula, the more likely it is that any single change will require reworking the whole formula.

- **Appropriate education placements**

  1. Minimized misclassification: Funding formulas should not create financial incentives to place children in particular programs simply because the state reimburses proportionately more for some programs than it does for others. Similarly, formulas should not create incentives to maintain children in particular program placements when these programs are no longer appropriate. Funding formulas must permit adequate support for the most appropriate placement.

  2. Reinforcement of least restrictive environment placements: One misclassification concerns the placement of handicapped children in more restrictive settings when less restrictive settings would suffice. Funding formulas can influence such placements because of higher proportionate reimbursements for more restrictive placements.

  3. Avoidance of stigmatizing labels: Most funding formulas address the issue of whether students should be specifically labeled by handicapping condition as part of the funding process (as opposed to labeling for purposes of establishing eligibility). Because labels have been found to be more stigmatizing than the special education program in which the student participates, several states have chosen to categorize by placement (e.g., resource room, self-contained) rather than by handicapping condition. Other states have adopted more generalized, less descriptive categories for handicapping conditions which help eliminate the stigma associated with more traditional labels.

- **Equitable treatment of districts**

1. Accommodation of varying student needs across district: Districts differ in the numbers and characteristics of students that require special education. Formulas that base funds on an equal percentage of students qualifying as handicapped, or on total student enrollment are often viewed as inequitable because they do not target funds to districts where students are located. However, some argue that such formulas are more equitable because they provide all districts with an equal capacity to serve the same proportion of students.

2. Accommodations of cost variations: Several factors can cause district costs to vary for the same type of student or program -- e.g. price variations, economies of scale and different conceptions of best practice. Policymakers may place a high priority on formulas that accommodate all or some of these variables.

3. Adjustments for fiscal capacity: When states support the total cost of special education, equalizing for district fiscal capacity is not a significant priority. Because most states do not support total costs, however, variations in district fiscal capacity often constitutes a source of inequity.

- **Efficient administrative and cost-containment practices**

1. Funding predictability: Predictability fosters planning and public confidence. It permits policymakers to estimate and obtain appropriate levels of support from taxpayers and other revenue sources without losing credibility. Because many special education costs are unpredictable (e.g., children identified in the middle of the year), districts prefer state funding formulas that accommodate variability and ensure their own budget predictability. Cost-based formulas may offer the greatest predictability for districts and the least for states.

2. Containment of special education costs: While policies that place some of the cost burden on local districts aid cost containment, formulas can also influence how efficiently districts operate their special education budgets. Funding formula provisions for administrative and direct costs, ceilings, and allowed-cost categories all influence cost-containment situation.

3. Minimized reports, recordkeeping, and state administration: Virtually all formulas require some measure of reporting and state monitoring if districts are to account for state funds. However, the question is one of degree: will the formula be too burdensome?

Obviously there are clear trade-offs with each funding formula or combination of formulas. The more simple a formula, the less likely it will be to distinguish among district needs. The more predictable a formula for ensuring the stability of state budgets, the more districts will bear unpredictable costs. The more it serves to contain costs, the less it will accommodate the full range of different district costs. Policymakers must weigh these trade-offs against the particular needs of their state as they strive to develop funding policies which effectively and efficiently govern special education expenditures.

REFERENCE:

Moore, Mary T., Walker, Lisa J., and Holland, Richard P. Finetuning Special Education Finance: A Guide for State Policymakers (ED Contract No. 400-80-0041). Washington, DC: Education Policy Research Institute, Educational Testing Service, July, 1982.

	Pupil-Based	Resource-Based	Cost-Based
IV. Efficient Administrative and Cost Containment Practices			
A. Funding predictability	Flat grants per student are highly predictable for states but do not cover unpredictable local costs. Pupil weighting formulas are fairly predictable for states but are less predictable for districts faced with changing costs or need to start entirely new classes because of a few additional students.	Flat grants per teacher or classroom are very predictable for states but do not cover unpredictable local costs. Percentage salary reimbursement formulas are less predictable for states if no statewide salary exists but are fairly predictable for districts. Weighted teacher or classroom formulas are predictable for districts because they accommodate districts' needs to form new classes. They are moderately predictable for states.	Percentage cost and excess cost formulas are less predictable for states but more predictable for districts. The use of cost reimbursement ceilings offers states more predictability and districts less.
B. Containment of Cost	Flat grants per student encourage low-cost programs yet may also encourage the over-enrollment of mildly handicapped pupils. Pupil weighting formulas if accurately weighted do not encourage cost expansion.	Resource-based formulas are relatively neutral with respect to escalating district costs.	Percentage cost and excess cost formulas can encourage an expansion in special education costs if allowable cost categories are broadly defined. Ceilings and monitoring allowable costs improve cost containment.
C. Minimized reports, record keeping and	Flat grants per student are fairly unburdensome to administer. Pupil weighting formulas require student-level record keeping. Some formulas (but by no means all) require fairly detailed accounting of pupils' time and programs. Some state oversight of district enrollment practices generally accompanies these formulas.	Resource-based formulas are generally not perceived as burdensome because they require a planning sequence (e.g., staff assignments, student assignments) that most districts regularly use. Some state oversight may be necessary to verify counts of pupils for generating units.	Percentage cost and excess cost formulas usually require individual district cost records, submission and approval of expenditure reports, and fiscal oversight by the state or regional offices.

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Moore, Mary T., Walker, Lisa J., and Holland, Richard P. Finetuning Special Education Finance: A Guide for State Policymakers (Ed Contract No. 400-80-0041). Washington, DC: Education Policy Research Institute, Educational Testing Service, July, 1982.

	Pupil-Based	Resource-Based	Cost-Based
III. Equitable Treatment of Districts			
A. Accommodate varying student needs	Flat grants per student make no accommodation for different types of students but do adjust for different numbers. Pupil weighting formulas accommodate a range of different student programming needs. The more weights used, the more needs are accommodated. They also accommodate handicapped population size difference among districts	Flat grants per teacher or classroom do not accommodate different student needs but may accommodate different numbers of students. Percentage salary reimbursement formulas usually accommodate district differences in numbers and frequently types of handicapped pupils. Weighted teacher or classroom unit formulas accommodate district differences in numbers and types of handicapped pupils.	Percentage cost and excess cost formulas accommodate district differences in numbers and types of handicapped pupils.
B. Accommodate cost variations	Flat grants per student do not provide for cost variations among districts. Pupil weighting formulas do not specifically adjust for cost variations because weights are uniform for all districts. Cost-of-living adjustments can be added. Pupil weights limit small districts from offering their own programs for small numbers of handicapped children and encourage interdistrict cooperative programs.	Resource-based formulas do not automatically adjust for cost variations among districts but may incorporate additional factors to reflect price differences or to allow small districts to qualify for units with less-than-minimum class sizes.	Percentage cost and excess formulas accommodate cost variations among districts if they reimburse on individual costs. Ceilings may penalize districts facing high costs.
C. Adjust for varying fiscal capacity	Flat grants per student contain no provision for fiscal capacity. Pupil weighting formulas usually include an equalization factor to adjust for fiscal capacity.	Resource-based formulas do not adjust for district differences in fiscal capacity. Special adjustments must be added.	Percentage costs and excess cost formulas do not adjust for fiscal capacity differences without the inclusion of special equalization factors. Pure cost-based formulas can reward high-wealth districts that choose to spend their revenues on special education.

	Pupil-Based	Resource-Based	Cost-Based
II. Appropriate Educational Placements			
A. Minimized misclassification	Flat grants per student formulas, through over funding low-cost placements and under funding high-cost placements, risk a fair degree of misclassification of students into low-cost placements. Pupil weighting formulas contain incentives to place students in higher reimbursement categories. Activation of these incentives depends on the discretion allowed districts in serving students and the relative costs of different programs to the districts. Pupil weighting formulas also encourage filling classes to maximize class size.	Resource-based formulas indirectly encourage misclassification because they contain incentives to classify children in ways that maximize resources. Flat grants per teacher or classroom formulas tend to encourage lower cost placement for students. Percentage personnel and weighted teacher or classroom unit formulas encourage misclassification when they disproportionally reimburse specific special education categories (e.g., 70% of resource room teachers; 50% of special class teachers)	Percentage cost and excess cost formulas are neutral in encouraging misclassification if they reimburse all categories proportionally the same.
B. Reinforcement of least restrictive placement	Flat grants per student may encourage undesireable mainstreaming approaches such as placing handicapped students in regular classrooms as a low-cost approach. Pupil weighting formulas reinforce least restrictive placements if they contain appropriate weights for such placements.	Resource-based formulas reinforce least restrictive placements if they include mainstreaming units or personnel as accepteable for funding. Without these adaptations they encourage self-contained classes and resource rooms.	Percentage cost and excess cost formulas usually reinforce least restrictive placements by including such programs in the allowed costs.
C. Avoidance of stigmatizing labels	Flat grants per student do not necessarily require specific handicapping conditions or placement labels. Pupil weighting formulas generally require student labelling but may use labels which refer to the type of placement instead of the type of handicapping condition.	Flat grants per teacher or classroom do not necessarily require handicapping conditions or placement labels for students. Percentage salary reimbursement formulas do not necessarily require individual student labels but may require children to be identified by placement categories or handicapping condition categories. Weighted teacher or classroom unit formulas usually require placement labels for students but not condition labels.	Percentage cost and excess cost formulas do not necessarily require condition or placement labels but frequently require some student categorization in order to set cost ceilings.

COMPARISON OF FUNDING FORMULA TYPES ACROSS DIMENSIONS IMPORTANT TO STATE POLICYMAKERS

	Pupil-Based	Resources-Based	Cost-Based
I. Policymakers' Decision-making Needs			
A. Compatibility with other state funding	Flat grants per student formulas frequently are used in state categorical programs for compensatory education.	Resource-based funding formulas form the basis of many states' foundation support programs.	Percentage cost and excess cost formulas are infrequently used to finance other education programs in a state.
B. Rationality and simplicity	Flat grants per student are highly straightforward but are not highly logical because they pay districts the same amount for handicapped children whose programs cost different amounts. Pupil weighting formulas logically relate the costs of special education programs to a base amount. They can be extremely simple or quite complicated -- using many weights and full-time equivalent student counts.	Flat grants per teacher or classroom are simple to comprehend, but they have no logical relation to costs. Percentage salary reimbursement formulas are understandable to state policymakers, but they can become complex if many salary categories and additional factors are included. Weighted personnel or classroom unit formulas logically relate special education resource needs to regular education program needs. Their simplicity diminishes as full-time equivalent conversions and additional factors are included.	Percentage cost and excess cost formulas are logical because they reimburse districts a portion of the costs of educating handicapped children. Their simplicity varies depending on the number of allowed-cost categories, ceilings and whether they include computations that approximate costs.
C. Ease of modification	Flat grants per student must be modified by legislative action; they do not adjust for cost or inflation changes. Pupil weighting formulas use a base value and weights that must be adjusted by the legislature if new cost information comes to light. If the base is derived from an element of costs for a regular student, inflation is likely to be automatically accommodated.	Flat grants per teacher or classroom do not adjust for cost or inflation and must be modified legislatively. Percentage salary reimbursement formulas automatically adjust for cost changes that relate to staff salaries but they do not adjust for other cost changes. Weighted personnel or classroom unit formulas can adjust for inflation through the base but must be legislatively altered to adjust for changed cost configurations among programs.	Percentage cost and excess cost formulas automatically adjust for cost changes and inflation when they are based on actual district costs. Costs ceilings can limit this adjustment process. Cost ceilings and formulas that approximate excess cost usually require legislative change to reflect new cost relationships.