ABSTRACT
         This one-page abstract summarizes results of a final
report of a federally funded project titled, "An Analysis of State
Special Education Finance Formulas." Five major types of formulas
were identified: flat grant, minimum foundation program, percentage
equalizing, percentage matching, and full state funding of the excess
cost of special education. Formula types were evaluated according to
the criteria of equity, administrative efficiency, adequacy,
objectivity, and flexibility. Findings indicated: the flat grant
formula appears to be efficient and objective but has few advantages
for the special education program unless funded at a high level; the
minimum foundation program is advantageous from a general education
perspective but is not sufficiently sensitive, nor provides enough
flexibility nor meets the needs of smaller districts; the percentage
equalizing formula has the potential for overcoming problems of the
minimum foundation program if cost based and funded at a substantial
state percentage; the percentage matching formula can provide
flexibility, variation with need and price, and neutrality toward
placement though low-fiscal capacity local agencies may be
disadvantaged; and full state funding of the excess cost of special
education is the most advantageous formula for special education, but
may not be politically or fiscally feasible. (DB)

ERIC/OSEP SPECIAL PROJECT ON INTERAGENCY INFORMATION DISSEMINATION

RESEARCH & RESOURCES ON SPECIAL EDUCATION

ABSTRACT II
SEPTEMBER 1985

FINANCE FORMULAS

An Analysis of State Special Education Finance Formulas is a 105-page Final Report of a research project funded by the U.S. Department of Education, Special Education Programs. Special and general education finance formulas for 1980-81 from each of the 50 states were analyzed. Major characteristics of each special education formula were charted, as well as characteristics describing its relationship to the general education finance formula, the measures of educational need employed by the formula, and the timing of funding distribution.

Five major types of formulas were identified and evaluated by the researcher and a panel of ten experts. The criteria used were *equity, administrative efficiency, adequacy, objectivity,* and *flexibility.* Results were synthesized into a comprehensive outline of the advantages and disadvantages of each major formula.

FORMULA TYPES

Major types of special education finance formulas were identified as follows:

Flat grant

1. A specified amount per unit of need is allotted. The amount of funding per unit is established by the state, and no provision is made for adjusting the local education agency's (LEA's) allocation according to its fiscal capacity.

Minimum foundation program

2. The state specifies the minimum level of education for which it will be responsible, and establishes the amount it will fund to achieve this level. LEAs are required to levy a uniform tax as their contribution to the minimum program, but may go beyond it if they choose. The state funds the amount needed to bring the local contribution up to the minimum foundation level.

Percentage equalizing

3. The state determines the LEA's level of need and then funds a percentage of this level, adjusted for LEA fiscal capacity.

Percentage matching

4. The state pays a percentage of LEA costs, which are limited only by the LEA's ability to fund its share. Typically, no minimum or upper limits on LEA expenditures are established.

Full state funding of the excess cost of special education

5. The state takes responsibility for the LEA's cost of special education over and above the costs of general education. Unlike the other types of finance formulas, the excess cost formula was developed specifically for special education.

SELECTED FINDINGS

- The flat grant (used in 18 states) and the minimum foundation program (found in 16 states) ranked first and second respectively in frequency of use as special education finance formulas in 1980-81.

- It is suggested that the flat grant formula is efficient and objective, but has few advantages for the special education program unless funded at a high level

- The minimum foundation program formula is advantageous from a general education perspective. However, it may not be sufficiently sensitive, provide enough flexibility, or meet the needs of smaller districts as well as a cost-based formula

- The percentage equalizing formula has the potential for overcoming the problems of the minimum foundation program, if cost-based and funded at a substantial state percentage.
- The percentage matching formula can provide flexibility, variation with need and price, and neutrality toward placement (i e , it does not provide financial incentives favoring one kind of special education placement over another). Low-fiscal-capacity LEAs may be disadvantaged by this formula.
- Full state funding of the excess cost of special education is seen as the most advantageous formula for special education, but may not be politically or fiscally feasible.