DOCUMENT RESUME

ED 381 934 EC 303 880

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TITLE Criteria for Effective Special Education Funding Formulas. Policy Abstract.
INSTITUTION American Institutes for Research in the Behavioral Sciences, Palo Alto, CA. Center for Special Education Finance.
PUB DATE Feb 95
NOTE 8p.; This brief is abstracted from "Removing Incentives for Restrictive Placements. Fiscal Issues in Special Education. CSEF Policy Paper No. 4," see ED 377 608.
PUB TYPE Viewpoints (Opinion/Position Papers, Essays, etc.) (120) -- Guides - Non-Classroom Use (055)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Disabilities; Disability Identification; *Educational Finance; Educational Principles; Elementary Secondary Education; Finance Reform; *Financial Policy; Resource Allocation; *Special Education; *State Aid; State Standards; Student Placement
IDENTIFIERS *Funding Formulas

ABSTRACT

This paper offers criteria for states attempting to develop more effective special education funding formulas. It notes that balancing criteria to meet program objectives is difficult, with a major focus on one criterion often coming at the expense of other criteria. An effective formula should be: understandable, equitable. adequate, predictable, flexible, neutral as regards specific disability identification, reasonable in reporting requirements, fiscally accountable, cost-based, neutral regarding type of educational placement, lead to stabilized costs, accountable for outcomes, connectable to general education funding, and acceptable politically. State fiscal policies that foster least restrictive placement are identified. including: (1) removal of fiscal incentives favoring segregated and separate placements; (2) decisions by states addressing the extent to which they encourage private special education placements; (3) funding systems which allow dollars to follow students as they move to less restrictive placements; (4) support by states of direct training for program interventions which stress integrated service systems; and (5) funding and encouragement by states of intervention systems for all students. The paper points out that the specific provisions underlying educational financing mechanisms may be as important in affecting program provision as the amounts allocated. (DB)

CSEF

Center for Special Education Finance

Criteria for Effective Special Education Funding Formulas

Policy Abstract
February 1995

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Criteria for Effective Special Education Funding Formulas[1]

More than half of the states are currently pursuing special education finance reform. The level of activity in this area is at its height since the passage of the Individuals with Disabilities Education Act (IDEA). An important factor underlying this wave of reform is that critical linkages between program and funding policy are becoming increasingly apparent as the states become actively engaged in special education evaluation and reform. For example, many traditional state funding formulas provide incentives for placing children with disabilities in segregated, restrictive settings. Such practice runs counter to the spirit and intent of least restrictive environment (LRE) guidelines under the IDEA. As a result, funding reforms are being developed in many states to eliminate such incentives by becoming more neutral with respect to program placement for children with disabilities.

Given this unprecedented level of state funding reform, what criteria might be used to determine and evaluate state special education funding formulas?

Balancing Criteria to Meet Program Objectives

The accompanying table presents a set of criteria, or standards, that have traditionally been used in considering alternative ways of allocating special education aid to local jurisdictions. State policymakers may find value in each of these criteria. However, in adopting state funding reform, it is essential to realize that while these criteria are not mutually exclusive, *a major focus on one criterion may come at the expense of one or more of the others.*

For example, depending exactly on how fairness is defined, a highly equitable system might be considered to be one in which state aid allocations are tightly linked to variations in the local cost of providing special education services. Districts that spend more on special education services because their resource costs are higher, because they serve more students, or because they serve students with more severe needs, would receive more state aid under such systems in recognition of these cost differentials. On the other hand, such a system may also have a fairly substantial reporting burden, may lack flexibility, and may not be placement neutral.

Conversely, a system in which special education funds are allocated only on the basis of total district enrollment (e.g., as in Pennsylvania, Massachusetts, Vermont, and Montana) will be identification and placement neutral. Yet, such a system may also be perceived as quite inequitable because it fails to link aid allocations to local variations in pupil need. A

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[1] This brief is abstracted from Parrish, T.B. (1994). *Fiscal issues in special education: Removing incentives for restrictive placements (CSEF Policy Paper No. 4).* Palo Alto, CA: American Institutes for Research, Center for Special Education Finance.

system that is fully adequate and predictable may have problems related to cost control, and so on. Thus, in attempting to develop an ideal set of special education funding provisions for a given state, it is essential that policymakers choose the criteria they wish to foster from among these alternatives, and recognize that no system, no matter how simple, will be incentive free.

As an example, the federal funding system is considered to be placement neutral because the amount of funding allocated is the same regardless of how students are served. While many may believe this to be a desirable attribute, this type of system *does* contain a fiscal incentive. Because the funding level will be the same regardless of the level of service provided, the fiscal incentive is to provide *less* service at a *lower* cost. Similarly, so-called "identification neutral" systems, like those in Massachusetts and Pennsylvania, actually contain fiscal incentives *not* to label students for special education, as districts will receive the same level of funding regardless of the number of students identified. While this may be the policy objective in some of these states, it is essential to realize the incentive and disincentive structures embodied in alternative funding systems. *As funding provisions will have a direct influence on program policies, decisionmakers must identify the policies they wish to promote and adopt a funding system that will foster, or at least not inhibit, them.*

Criteria for Effective State Special Education Funding Formulas[2]

UNDERSTANDABLE

- The funding system and its underlying policy objectives are understandable by all concerned parties (legislators, legislative staff, state department personnel, local administrators, and advocates).

- The concepts underlying the formula and the procedures to implement it are straightforward and "avoid unnecessary complexity."

EQUITABLE

- Student equity: Dollars are distributed to ensure comparable program quality regardless of district assignment.

- Wealth equity: Availability of overall funding is not correlated with local wealth.

- District-to-district fairness: All districts receive comparable resources for comparable students.

(continued)

[2] Adapted from Hartman, W.T. (1992). State funding models for special education, *Remedial and Special Education*, 13(6), 47-58.

ADEQUATE

- Funding is sufficient for all districts to provide appropriate programs for special education students.

PREDICTABLE

- LEAs know allocations in time to plan for local services.
- The system produces predictable demands for state funding.
- SEA and LEAs can count on stable funding across years.

FLEXIBLE

- Local agencies are given latitude to deal with unique local conditions in an appropriate and cost-effective manner.
- Changes that affect programs and costs can be incorporated into the funding system with minimum disruption.
- Local agencies are given maximum latitude in use of resources in exchange for outcome accountability.

IDENTIFICATION NEUTRAL

- The number of students identified as eligible for special education is not the only, or primary, basis for determining the amount of special education funding to be received.
- Students do not have to be labeled "disabled" (or any other label) in order to receive services.

REASONABLE REPORTING BURDEN

- Costs to maintain the funding system are minimized at both local and state levels.
- Data requirements, recordkeeping, and reporting are kept at a reasonable level.

FISCAL ACCOUNTABILITY

- Conventional accounting procedures are followed to assure that special education funds are spent in an authorized manner.
- Procedures are included to contain excessive or inappropriate special education costs.

(continued)

Criteria for Effective State Special Education Funding Formulas (continued)

COST-BASED

- Funding received by districts for the provision of special education programs is linked to the costs they face in providing these programs.

PLACEMENT NEUTRAL

- District funding for special education is not based on type of educational placement.
- District funding for special education is not based on disability label.

COST CONTROL

- Patterns of growth in special education costs statewide are stabilized over time.
- Patterns of growth in special education identification rates statewide are stabilized over time.

OUTCOME ACCOUNTABILITY

- State monitoring of local agencies is based on various measures of student outcomes.
- A statewide system for demonstrating satisfactory progress for all students in all schools is developed.
- Schools showing positive results for students are given maximum program and fiscal latitude to continue producing them.

CONNECTION TO GENERAL EDUCATION FUNDING

- The special education funding formula should have a clear conceptual link to the general education finance system.
- Integration of funding will be likely to lead to integration of services

POLITICAL ACCEPTABILITY

- Implementation avoids any major short-term loss of funds.
- Implementation involves no major disruption of existing services.

State Fiscal Policies That Foster Least Restrictive Placement (LRE)

As discussed earlier, federal special education law under IDEA states that special education students should be served in the least restrictive environment. Although interpretations differ regarding the exact types of placement procedures that are required under IDEA, a general preference for less restrictive placements is clear. *Given this policy objective, what types of fiscal policies can states adopt to foster less restrictive placements and more integrated special education services?*

First, fiscal incentives favoring segregated and separate placements must be removed. Theoretically this could be achieved under any type of special education funding system. Even systems that are driven by type of student placement could conceivably develop a weighting structure that would foster greater integration through the creation of larger weights for an array of higher and lower cost general education placements. Thus far, however, the states attempting to reduce the number of restrictive placements have shown a greater inclination to move toward funding systems that do not differentiate funding based on student placement.

Second, states must make decisions about the extent to which they wish to encourage private special education placements. Some states may decide that private, as opposed to public, placements are more restrictive under any circumstance and may wish to create fiscal disincentives for their use. Other states may decide that private placements are an integral component of the continuum of available placements for their special education students and that these types of placements should not be discouraged. Regardless, it is difficult for states to rationalize fiscal incentives *favoring* private placements (i.e., state funding systems with incentives for the use of private over comparable public placements). In some states, however, this is clearly in place. Although comparable public services currently may not be available in these states, in some cases this is simply because districts have never been allowed the option of taking the state aid they are allotted in support of private tuition to develop comparable public services.

Third, the private schooling issue provides an example of the importance of developing funding systems in which dollars follow students as they move to less restrictive placements. Another example, as cited earlier, is the need for savings in transportation costs to follow special education students to their neighborhood schools to offset other types of costs associated with this type of move. This is an issue for states as they try to foster integrated program practices and for districts as they try to implement them. Districts may have internal mechanisms for resource allocation in place that support places rather than students. As students move from specialized to neighborhood schools, districts will also need to rethink their internal systems for allocating resources.

Fourth, states reporting the most success in fostering more integrated service systems point to the need to support direct training for these types of program interventions. As fiscal disincentives favoring segregated services are removed, districts must be provided with training and assistance in overcoming the many practical difficulties associated with making changes of this type.

Fifth, states should fund and encourage intervention systems for all students. Students who are identified as eligible for special education because identification is the only way to provide them with remedial services have had the service options restricted. As the spirit of greater program integration would seem to include retaining students in general education who do not require the additional protections and legal guarantees associated with special education, state funding systems that actively support alternative interventions for all students will be less likely to lead to program placements that are unnecessarily restrictive.

Relating Finance to Program Reform

The concept that appropriate instructional programs and related services cannot be provided without adequate financial support has long been recognized. A newer concept, but one that is becoming widely recognized, is that *the specific provisions underlying educational financing mechanisms may be as important in affecting program provision as the amounts allocated.* Even the simplest funding systems contain incentives and disincentives that directly influence the orientation, quantities, and types of services to be provided at the local level.

As mentioned earlier, an unprecedented level of special education finance reform is now occurring in the states. States increasingly realize that program policies and guidelines, training, and support will have little impact on program provision while appreciable *fiscal disincentives* remain in place. This is especially true in the current era of increasing fiscal constraint, in which local decisionmakers are hard pressed to pursue reform initiatives that will reduce the financial support they receive from state and federal sources. Furthermore, the policy messages from state and federal governments are clearly mixed. Local districts are sometimes asked to do one thing, while they receive financial encouragement to do just the opposite.

However, it is also clear that changes in fiscal policy alone will be insufficient to result in program change. States reporting the most success in coordinating program and fiscal reform emphasize the need for financial incentives, or at least the removal of disincentives, as well as the provision of a comprehensive system of professional development and ongoing support to effect the desired changes.