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Perspectives on Special Education Funding

In Minnesota

In this Age of Educational Reform

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ABSTRACT

In this era of heightened attention to school performance, when words like accountability, results and reform are commonplace in mainstream media's educational reporting, and the federal government seems increasingly involved in education issues, the funding of special education has become an increasingly important topic. Special education may be approaching a crossroads; prompted by the combination of pressure from some to reform the federal Individuals with Disabilities Education Act (IDEA, 1997) that mandates special education, and the significant budget deficits most states are experiencing. With the recent publication of a large study on special education expenditures (Chambers et al., 2002) and the impending reauthorization of IDEA, and the passage of the controversial reauthorization of the Elementary and Secondary Education Act (ESEA, 2002), known as No Child Left Behind, it is time to examine special education funding in relation to emerging priorities in special education. How should we reexamine the way special education is funded as we move forward in this age of educational reform? How can one state analyze trends in educational reform, and its own special education priorities and use this information to re-align special education funding systems? The purpose of this paper is to guide the reader through examination of the larger special education reform issues in order to get to specific understanding of the relationship between the larger issues and the very specific issue of special education funding in one state, Minnesota. This analysis is accomplished first through examination of the larger educational reform trends, then current and emerging issues in special education and its anticipated reform, an understanding of

the foundation and evolution of special education funding, and finally a look at how the information presented should be used as policy-makers in Minnesota think about the way special education is funded. This paper consists of a review of recent literature on special education funding for American public schools, current special education policy issues, and how funding and policy are related. Some of the special education policy issues considered, in relationship to funding are teacher quality, vouchers and caseload. It concludes with a focus on issues presented, as they might relate specifically to the future of funding special education in Minnesota.

INTRODUCTION AND BACKGROUND

In this paper my goal is to provide information that will guide the reader on a journey about how to think about the very specific topic of funding special education, given the backdrop of current education reform efforts. I also hope to compel the reader to understand that we must examine attitudes about special education funding. The way we think about the funding of special education services is a critical component of improving educational results for America's children and youth with disabilities. Children and youth served in special education have real disabilities that impair their participation in school, and the funding is critical.

To find the origin of funding for special education one can go all the way back to the passage of the Education for All Handicapped Children Act in 1975 (Public Law 94.142). At that time the federal government began to require an annual count of children being served in special education and it provided small grants to states, based on the count, to help states provide access to school. Historically states have had to provide most of the funding for special education, with the federal share only recently exceeding 10 percent of the excess costs of providing special education (Yell, 1998). More detail on the specifics of special education funding will be provided later in the paper, in the context of larger programmatic discussions. Before the programmatic context is explored, the political context that surrounds our journey must be defined.

Before the impending war with Iraq began to take over the media, education issues seemed to be on everybody's mind. During the presidential campaign three years ago candidates George Bush and Al Gore kept education issues at the forefront of their campaigns. Andrew Rotherham, who was formerly President Clinton's educational policy advisor and now the

director of the Progressive Policy Institute, was quoted in a St. Paul Pioneer Press article, written by Washington Correspondent Tom Webb, "We're at a very transforming period right now in the federal role (for education). Generally speaking—and this excludes some Republicans in Congress—but there seems to be a consensus that the federal role needs to be expanded" (Webb, 2000, p. B1).

This trend that Rotherham brought to our attention has continued and expanded. Following Bush's election to the presidency his administration passed one of the most sweeping education reform laws in the history of this country when they reauthorized the Elementary and Secondary Education Act (ESEA). The law, now known as "No Child Left Behind," promises to hold schools accountable for the success of every child, requiring that teachers are highly qualified and that states have in place high academic standards and assessments at every grade level. The federal government has never been so prescriptive with states on specific education requirements as it is with this law.

The increased federal government attention to education reform is also being played out in states like Minnesota. During Minnesota's recent Gubernatorial campaign the four major party candidates, Tim Pawlenty (Republican), Roger Moe (Democrat), Tim Penny (Independent) and Ken Pentel (Green), each developed their own education message. According to the Pioneer Press in 2002, Minnesota gubernatorial candidates are making education a top issue in their campaigns (Welch, 2002). The now Governor, Tim Pawlenty, has indicated he would like Minnesota education to get back to basics, and he has said he wants to reform school funding in addition to academic standards.

School funding is a topic that is inextricable from the topic of school reform. Politicians at the state and federal level have taken specific stands on education funding. The St. Paul

Pioneer Press reported that all of the gubernatorial candidates were making school funding an issue, and the article described Pawlenty's campaign promise to increase education funding, even in the face of Minnesota's largest projected budget shortfall ever and his own no-new-taxes pledge. The now deceased U.S. Senator Paul Wellstone had planned to increase funding for schools and spoke often of the importance of school funding (Welch, 2002).

Special education has not been left out of the school reform discussion. The federal Individuals with Disabilities in Education Act (IDEA) is up for reauthorization; and many of the same themes of results and accountability are turning up in discussions focused on how to reform special education. In an editorial published in 2001, Andrew Rotherham claims that "despite the importance of special education, there is no other federal program as contentious as IDEA, nor so in need of reform" (¶ 2). Later, in April, 2002, as he testified before the U.S. Senate Appropriations Subcommittee for the District of Columbia, Mr. Rotherham spoke of a new publication, edited by experts from the Thomas B. Fordham Foundation and the Progressive Policy Institute, called *Rethinking Special Education for a New Century*. In his testimony, Rotherham focuses on three areas from the book that he believes the nation should be concerned about: over-identification for special education, student performance, and costs (Rotherham, 2002, April). Over-identification and student performance will be addressed in this paper, but only as they are related to costs.

A clear understanding of the policy issues in special education is vital to any authentic examination of special education funding. Inquiry into the costs of special education often leads to debate about what determines adequate funding. At the forefront of special education reform efforts is renewed interest in the ongoing debate about adequate funding. The issues surrounding adequate funding are even more prevalent in the special education reform discussions because

special education is known to be expensive and under-funded. While schools are struggling to meet new requirements under No Child Left Behind, they wonder how they are to include special education in their efforts, and how special education funding can help.

Former Minnesota Governor Ventura brought the issue of what is now called full funding of special education to the public's attention. During the presidential campaign he even brought Democratic nominee Al Gore to Minnesota to talk about special education funding, and specifically Mr. Gore's campaign promise to increase federal funding for special education. The St. Paul Pioneer Press highlighted Ventura's issue by noting that the federal government has not made good on its promise from 25 years ago to pay 40 percent of special education costs. The federal government's failure to fund special education at that level is estimated to cause a \$250 million annual shortage for Minnesota schools trying to fund special education. In the same article Republican Senator Rod Grams complains that "for every \$100 that Minnesotans send to Washington for education Minnesota's elementary and secondary schools get \$60" (Webb, 2000, p. B1).

In an Education Week article called "The Politics of IDEA Funding," Rotherham describes the bizarre flip-flops of the Democratic and Republican positions on special education funding, and provides this advice: "First, both Democrats and Republicans must acknowledge that special education is expensive, and that the chronic under-funding adversely effects school district budgets" (Rotherham, 2002, October, p. 1). Much recent writing about IDEA echoes two observations, that it is heavily regulated and grossly under-funded (Pardini, 2002). Current writings on this harsh reality, and its relationship to education reform, will be explored over the next fifty-some pages in this paper. The focus on special education funding is most productive

when the purpose of special education is kept in the foreground: to provide access to education for children and youth with disabilities.

This paper will first frame the discussion, examining the relationships between special education funding and special education reform, and then will largely focus on the costs of special education, estimated to be \$50 billion annually, and the role finance plays in the complexity of special education (Chambers, J.G., Parrish, T., & Harr, J.J., 2002). In order to get past the sound-bite media image of special education being too costly, and engage the reader in a meaningful examination of issues, this paper will provide a review of relevant literature and an analysis of special education costs as they relate to performance, accountability and education reform. It will examine funding as it relates to results, reform, testing, access to the general curriculum, IDEA reauthorization, flexibility of funds, federal requirements, special education funding models, and aligning special education finance with excellence in education. Lastly, this paper will examine the above, in specific relation to special education in Minnesota.

SPECIAL EDUCATION REFORM

First we must talk more about this concept of reforming special education. This section introduces the ideas of groups who are viewed as critical of the existing IDEA. Since its reauthorization in 1997, IDEA has been contentious to some and strongly supported by others. Many parents and advocates are pushing for reform, while others are afraid that reform efforts will undo progress that has been made over the past twenty-five years. Rotherham, in his October 31, 2001 editorial, talks about the taboo surrounding any questioning of IDEA.

Why do these issues remain largely unheralded and not addressed? In large part because two false choices permeate the debate over IDEA, contributing to a hostile climate for reform. First, many charge that anyone who questions IDEA is hostile to the disabled.

Second, many frame the issue as a choice between the pre-1975 status quo and the current program (Rotherham, 2001, p. A 16).

President Bush formed a special commission, The President's Commission on Excellence in Special Education (PCESE), to study special education and make recommendations for the upcoming reauthorization of IDEA. Their recommendations were delivered to the President July 1, 2002 in a report called *A New Era: Revitalizing Special Education for Children and their Families*, herein referred to as the PCESE report. The PCESE report indicates concern about continued conflict between parents and schools, sometimes leading to litigation, excessive paperwork and complexity in regulations, poor performance of students in special education including dismal graduation and drop-out statistics, discipline, and concerns related to funding. The major recommendations of the PCESE report were summarized in their report: (a) focus on results-not on process; (b) embrace a model of prevention, not a model of failure; and (c) consider children with disabilities as general education children first (PCESE Report, 2002).

Additionally, the president is seeking advice from public policy groups, such as the Progressive Policy Institute and the Thomas B. Fordham Foundation. These two groups have published a book called *Rethinking Special Education for a New Century* (Finn, C.E., Jr., Rotherham, A.J., & Hokanson, C.R., Jr., eds. 2001). These groups are viewed as "vocal critics of IDEA" and are "leading the charge against full funding of IDEA", according to the online journal, *Rethinking Schools* (Pardini, 2002, 'Awesome' or 'Broken'? section, ¶ 4.). The Council for Exceptional Children (CEC) disagrees with Finn et al.'s claim that special education is broken. In the Pardini article a Council for Exceptional Children (CEC) spokeswoman cited examples of the success of IDEA, including a 31 percent increase in the high school graduation rate for children with disabilities and a doubling of the number who go on to college.

The PCESE Report did not delve deeply into the topic of funding. They did recommend a second bipartisan commission be formed to look specifically at the topic of funding special education. The recommendations they did make will be discussed later in this paper; however, a constructive analysis of funding issues in special education today must be undertaken from its relationship to these recommendations, as well as other current writings on special education reform, and indeed, education reform as a whole.

Below the three major recommendations of the President's Commission (PCESE, 2002) are examined using a review of current literature relative to the issues. Note the complexities of the issues and the contradictions in the priorities that emerge. Leaders' positions on these issues are pivotal to policy implications for funding special education in its new reformed state.

Focus on Results-Not on Process

The idea of focusing on educational results is what our students might call a no-brainer. Most educators and policy makers can agree that improving results for children and youth with disabilities should be our ultimate goal. In this age of accountability and information most educators also accept the idea that results should be documented and decision-making about education should be based on data. This first PCESE recommendation of three is examined below. The key issues to consider when thinking about this recommendation are (a) what to do about special education paperwork; (b) how results are determined; (c) what does accountability mean to special education; (d) what role does teacher quality play; and (e) will vouchers achieve results. What are the costs associated with each issue raised? How much or how little should government hold schools accountable for spending to achieve results for special education students?

Paperwork. One current criticism of special education is that it has become mired in paperwork and litigation and has lost sight of the overall purpose of improving educational results for children with disabilities. Edgar, E., Patton, J.M., & Day-Vines, N. (2002) give voice to this concern, "We are also convinced that the structure of special education is in serious disarray. The Individuals with Disabilities Education Act (IDEA) has become far too prescriptive and intrusive" (p. 232). They go on to describe ideological battles that distract educators and parents from their common goals. Further, they state their concern that many practices have been added to special education services based on preferences of parents and teachers, rather than actual needs of the children.

A big part of the results versus process issue is related to inadequate funding. David Egnor, senior director of public policy for the CEC, has said that without adequate funding, Congress can't ever expect to get true compliance with the law, no matter what it requires. "You get what I call symbols and ceremonies of compliance: more paperwork and meetings. You know you're not serving kids as well as you should be, so you spend all your time doing paperwork to cover yourself in case you get sued" (Pardini, 2002, ¶ 4).

Results. How should results be calculated? What results should we be achieving for children and youth in special education? Educational policy-makers use indicators such as graduation and dropout rates to quantify success of special education programs. The federal office of special education programs is now using data, such as those listed below, to make judgments about the results states are achieving. Education Week has recently published data from the Department of Education's annual report to congress indicating positive results; more special education students are graduating and fewer are dropping out than ever before (Fine, 2002, p. 24). The graduation rate has increased from 51.9 percent to 57.4 percent in five years,

and the dropout rate has decreased from 34.5 percent to 28.9 in the same time period from 1993-94 to 1998-99.

Data presented in a booklet published by the Minnesota Department of Children, Families and Learning is presented in Table 1 and indicates that the graduation rate for special education students has been rising since 1997 and the dropout rate is inconclusive.

Table 1. Minnesota's Special Education Dropout and Graduation Rates

Year	1997	1998	1999	2000	2001
Dropout	1778	1670	1796	1822	1746
Graduation	3577	4053	4396	4306	4991

Note. This table contains actual numbers of students with disabilities reported as exiting from special education in either of the two categories. For context, there were 112,000 students with disabilities in Minnesota in 2001. From "Minnesota Children and Youth with Disabilities, A Focused Analysis of Instructional Setting, Performance on Statewide Assessments, and Graduation and Dropout Rates in Minnesota's Special Education Programs," Minnesota Department of Children, Families and Learning, 2003, Roseville, MN.

It is difficult to analyze dropout and graduation rates alone to determine the results of special education. Many school districts under-report dropouts because special education students often don't formally drop out; they more typically come and go, taking advantage of the many school choice options Minnesota offers, making it difficult to track their whereabouts. Also, as students are helped enough by special education, by the time they graduate they may be discharged from special education because they no longer need it. Minnesota does not have a system to track those students graduating with a diploma, students for whom special education

may have played a role in their educational successes but who are no longer receiving special education (Minnesota Children and Youth with Disabilities, 2003).

Statistics, such as dropout and graduation rates can be used in combination with accountability measures, such as test scores and other performance data to provide a larger picture of results. However, some of the increasing pressure for accountability in education has the potential to influence the results achieved by special education. Next is a short discussion of education's current buzzword, accountability, and its relationship to special education funding.

Accountability. When education leaders talk about a focus on accountability these days they are often referring to performance on tests. In this era of high standards and high stakes testing, many experts fear that low performing students will be pushed into special education and prevented from participating. When this does occur, special education enrollment is increased. In states where this fear is being realized, costs of special education are naturally being affected. There is also growing concern, validated by statements from school officials, that some states' accountability systems set up schools to look the other way when students drop out when they are slow learners and poor test takers, which clearly means that children will be left behind.

Evidence of how schools have pushed children into special education in order to make general education test scores look better can be seen in a study conducted by the National Bureau of Economic Research. The authors have used highly detailed student-level data to find that following the introduction of one state's accountability system "low performing students and students from low socioeconomic backgrounds were significantly and substantively more likely to be reclassified into disability categories exempted from the accountability system" (Figlio, D.N., & Getzler, L.S., 2002, p. 11). (In the subject's state, certain disability classifications are exempt from statewide testing.) Numbers of students eligible for and receiving special education

services in the state also increased significantly in those exempted categories (Figlio, D.N., & Getzler, L.S., 2002). Similar data is emerging in at least two other states, where other researchers are studying the same set of concerns.

Greene and Forster, in their study, *Effects of Funding Incentives on Special Education Enrollment*, (2002) found contrary evidence, that indicates no statistically significant connection overall between high stakes testing and increased special education enrollment. Given the contradictory findings it is clear that potential for effects of statewide testing on special education enrollment is largely a factor of individual states' testing systems and their special education eligibility criteria. There is, however, an acknowledgement that states' accountability systems have the potential to influence special education enrollment, and consequently the costs of special education. Another factor that influences referrals to special education is teacher quality.

Teacher Quality. In considering the costs of special education one must consider many aspects of teacher quality, the most significant being the quality of teaching each child receives. There are multiple ways to think about teacher quality when it comes to special education: (a) the quality of teaching a child receives prior to referral to special education; (b) the quality of general education teachers who are teaching special education students; (c) the quality of the special education teachers; and finally (d) the cost of preparing and retaining highly qualified teachers.

No Child Left Behind adds new rigorous requirements for states to improve teacher quality. The PCESE Report highlighted the need for teachers to have more training and for research-based practices to be implemented in special education services. The National Association of State Directors of Special Education (NASDSE) supports many of the teacher

quality recommendations found in the report. However, NASDSE is critical of the PCESE's failure to address the issue of teacher shortage in special education. In a letter expressing their response to the report, NASDSE (2002) asserts the need for teachers in general education to have more training about working with students with disabilities. Bill East, president, adds "NASDSE has been working with the Council of Chief State School Officers (CCSSO) to implement a set of standards for all teachers with respect to working with students with disabilities" (NASDSE, 2002, p.2).

In June of 2001 a national symposium was held to address the issue of high quality teachers for children and youth with disabilities. Research shows that the number one factor in improving special education students' success in school is teacher quality (Council for Exceptional Children, 2001). The first keynote speaker, Linda Darling-Hammond, executive director, National Commission on Teaching and America's Future, offered the following statistic, "Research has shown that having a professionally trained teacher can mean the difference of 50 percentile points in a student's achievement- the difference between being placed in a gifted or remedial track" (Council for Exceptional Children, 2001, p. 9). She went on to list five recommendations to improve teacher quality in special education. Her first recommendation was to provide adequate funding for special education services and special education teachers. Keynote speakers at the symposium spoke of the need for schools to be willing to educate all students, even those who lower a school's overall test scores (Council for Exceptional Children, 2001) and to increase the use of research-based practices in the classroom.

In considering how special education funding should be reexamined in this age of educational reform teacher quality is an often overlooked but critical area. Teacher retention and shortage issues are tied to teacher quality issues. Targeting funding toward improving teacher

quality could slow cost growth in special education by improving general education and special education teachers' capacity to educate all students and potentially reduce the need for special education (Rothstein, 2000). Public schools require that teachers be appropriately licensed. Each state's teacher certification process provides a foundation for which improvements in teacher quality will be built. Up to this point this paper has focused on issues specific to funding and reform in public schools. The next section describes a trend that brings private schools into the discussion.

Vouchers. The most controversial new idea in special education funding is the concept of vouchers. This concept is being debated in education policy discussions across the country. Although there are variations on the theme, the basic concept of vouchers for special education is to give the special education funding to the parents so that they can seek services from private schools when they are not happy with public schools. The PCESE report found limited options available for parents who are dissatisfied with their child's progress in special education. They recommend increasing parent choice options, including a general recommendation that vouchers be "available to parents of special education students if their children are not making progress toward their educational goals" (Goldstein, 2002, p. 21).

The concept of vouchers for special education essentially encourages students to take their portion of the funds and see what kind of results money can buy in the private schools. Proponents believe that the competition for special education students and fear of loss of funding will spur public schools to improve services for students with disabilities. To many, vouchers are an extreme example of a new twist on the relationship between funding and reform. Vouchers for public school children to attend private schools at public expense began in Milwaukee in 1990, and now a number of states have voucher programs specifically for special education.

One state, Florida, already has a three-year-old voucher program for students with disabilities, called the John M. McKay Scholarships for Students with Disabilities Program (The 2002 Florida Education Statutes, 1002.39). This program allows parents of special education students to enroll their children in approved private schools, at public expense. The public school district provides a scholarship to the parent, which must be signed over to the private school, for an amount equivalent to what the child's school district would have spent on the child's special education program.

Critics of the voucher idea raise the following concerns. "If there's a clamoring for reform via vouchers, it's most certainly not coming from the vast majority of parents of children who are IDEA students," according to Kim Anderson, National Education Association (Prah, 2003, Stateline.org, <http://www.stateline.org/story.do?storyId=288364>). "Conservatives have seized on the undeniable problems in our public schools, particularly in urban areas. They are using vouchers and the seductive rhetoric of 'choice' to further their goal of privatizing our schools and removing them from public oversight and responsibility" ("False choices," 2002, Conservatives and Vouchers section, ¶ 1). Two organizations, the People for the American Way Foundation (PFAWF) and the Disability Rights Education and Defense Fund (DREDF), released a report in March 2003, which examined Florida's program. The report concludes that it is "and Educational Edsel—a cynical 'model' that would only lead the nation's parents, students and teachers down a dangerous path" (Analysis of IDEA Vouchers, 2003, p. 1). The report is called *Jeopardizing a Legacy*, and it highlights the following concerns: (a) McKay vouchers have drained millions of tax dollars from public schools; (b) undermined the rights of parents; and (c) failed to hold private schools accountable.

This program is estimated to cost \$56 million in the 2002-2003 school year, serving about 9,000 students. The program more than doubled in size from last year when Florida spent an average of \$6,000 per student on the 4,000 participants (Fine, 2002). That is a substantial percentage of Florida's special education budget. Republican Senator Judd Gregg of New Hampshire and chair of the US Senate Health, Education, Labor and Pensions Committee, has proposed that 6.5 million in IDEA funding be available to states for special education voucher programs ("Vouchers for Special Education," 2002, www.csmonitor.com/2002). But former chair Senator Edward Kennedy (D-Mass) was quoted just a few months prior saying "It [vouchers for special education] won't be in the bill if it's a bipartisan bill." Similar proposals are being heard in state legislatures across the country, including Minnesota. It is difficult to predict how much a voucher program like this would cost Minnesota because there is no way to estimate the number of students who would participate.

Critics of vouchers offer analysis that contradicts Greene and Forster's belief that they will help alleviate the problem of perverse funding incentives. In the article, "False Choices: Vouchers, Public Schools, and our Children's Future," the following arguments against vouchers and the false premise that they will fix our schools are summarized.

Vouchers are a diversion; ...taxation without representation;... based on the marketplace, not the public good; ... violate the separation of church and state;... about privatization, not opportunity;...siphon off money needed by public schools;... cream off 'desirable' students and leave those they don't want for the public schools ("False choices," 2002, Why Vouchers Won't Fix our Schools section, ¶ 2).

The most fundamentally controversial points are the two raised by the Christian Science Monitor: Private schools do not have to respect all the constitutional rights of students; and vouchers stand in opposition to our democratic vision (“Vouchers for Special Education,” 2002).

Finally, NASDSE is concerned that allowing parents to take sole responsibility for placement decisions “[flies] in the face of long-standing provisions of IDEA that call for these decisions to be made by the IEP team” (National Association of State Directors of Special Education, 2002, p.6). Currently under IDEA, there is already flexibility for the LEA to pay if the IEP makes recommendation for placement in another school, including a private school.

This section has been devoted to some of the issues and controversy in special education that must be considered in the discussion of the PCESE Report’s recommendation, focus on results, not process. The issues were chosen because of their interconnectedness with special education funding policy. Topics discussed were paperwork, results, accountability, teacher quality and vouchers. Next we will explore current writings to be considered under the PCESE Report’s second recommendation, embrace a model of prevention, not a model of failure.

Embrace a Model of Prevention, Not a Model of Failure

The PCESE recommendation, embrace a model of prevention, not a model of failure, is somewhat mysterious to those who believe that most disabilities cannot be prevented, and who believe it is the job of general education to prevent the need for special education. There is vast disagreement among stakeholders related to this recommendation. For the purpose of this paper, only the sub-topics of specific learning disability and caseload will be discussed since they are two areas of consideration under the recommendation and they have significant fiscal implications.

Specific Learning Disability. In their response to the PCESE Report, the National Association of State Directors of Special Education (NASDSE) expressed concerns about the Commission's recommendation that assumes IDEA operates on a model of failure. NASDE calls this an overgeneralization and attributes it to growing focus on the eligibility criteria for one disability area, Specific Learning Disability (SLD), to include documented discrepancy between achievement and ability. The national association representing the state directors of special education disagrees with the PCESE's conclusion that special education uses a model for failure, citing child find activities and successful early intervention activities, especially with the Section 619 (preschool) and Part C (birth through age two) programs (National Association of State Directors of Special Education, 2002).

Recent publications, including *Rethinking Special Education for a New Century* (Finn, C.E., Jr., Rotherham, A.J., & Hokanson, C.R., Jr. eds., 2001) and the PCESE Report call attention to issues surrounding the Special Education category of SLD. SLD has been the largest area of growth in special education over the past decade, now accounting for more than 50 percent of all special education students. There is some concern that these students are only in special education because general education has failed them. According to Rotherham, "millions of children are needlessly referred into special education because they haven't been taught to read well or benefited from early-intervention and prevention programs" (Rotherham, 2002, April, p. 1). At the center of this argument is the proposition that if fewer students with SLD were in special education it would cost less.

Although seemingly contradictory, this idea that some need for special education can be prevented is often proposed by the same groups who advocate for a more flexible approach to the provision of special education, one that considers consolidation of services for students who are

performing poorly and “at risk” students, such as Title I, Limited English Proficiency and Special Education. The consolidation of services will be discussed in more detail later in the paper as it relates to flexibility of funding. Additionally, the concern over growth in SLD is related to debate over the assessment techniques used to determine students’ eligibility under this disability, specifically an argument over the use of I.Q. tests, which are believed by some to be racially biased.

Some suggest that if general education teachers had small class sizes and individualized instruction in the early grades less children would need special education (Rotherstein, 2000). Others who support the current process for identification of students argue that true learning disabilities cannot be prevented but their effects can be mitigated with specialized instruction. Regardless, there is a clear conflict between the concept of prevention and the concept of cost containment because prevention involves improved practices in general education, which is sure to require more funding. There is also a conflict between this notion of including at-risk students in special education and narrowing the definition of learning disabilities. Finally there is conflict between class size reduction for general education and class size/caseload reduction for special education.

Caseload. Even though neither the PCESE Report, nor NASDSE, in its response, addresses the issue directly, class size/caseload has received some attention lately from leaders in special education. Caseload, often defined as the number of individualized education plans (IEPs) a special education teacher manages, must be considered in any discussion of funding because teacher salaries represent a large share of the cost of special education. What is the point of balance between effective caseload size and cost containment? What is the relationship

between general education class size and student performance? For special education students, what are the costs and results of being served in an inclusion model, versus pullout?

The issue of class size/caseload in special education cannot be ignored in a discussion of reform, especially as highly qualified special education teachers are in increasingly short supply and so much attention has been paid to general education class size. "Indeed, there is widespread recognition that, to be meaningful, special education policies must respond to classroom conditions that limit teachers' effectiveness - in particular problems such as inadequate training, unmanageable caseloads, and too much paperwork" (Pardini, 2002, ¶ 9). Some states have enacted rules limiting caseload size; Minnesota does not have caseload limits in law. As resources become more scarce it becomes increasingly difficult to engage policy makers in a discussion of reducing special education caseloads, even though research shows that this issue is of primary importance in the discussion of teacher retention and student performance.

There is little existing information on special education caseload. A review of the limited research on special education caseload in the past ten years reveals three dynamic factors crucial to this discussion of special education reform and funding. What are the factors? Caseload, in the form of smaller class size is one of the main motivating reasons behind decisions about a child's instructional setting. This factor is likely influenced by improved achievement in math and reading scores that correlates positively with smaller special education class sizes. Finally, special education teachers leave the field at a higher rate than general education teachers. Those who leave the field rate high caseloads as factors in their attrition (Russ et al., 2001). Some are leaving special education to teach in general education classes, where class size reduction has been a budget priority. Regardless of the way a state funds special education a reduction in special education caseloads would likely result in increased costs.

Consideration of the costs of inclusion versus pullout, and how class size and caseload are related to effectiveness of instruction in either environment, leads to questions of a school's attitude towards special education students. The last of the PCESE Report recommendations addresses the issue of thinking of our special education students as just students first.

Consider Children with Disabilities as General Education Children First

Fundamentally, this recommendation is a deciding factor in what a person believes regarding special education in general, and special education funding in particular. If a person believes that all children have a right to participate in school, and that special education is about access to education, there is a logical progression to the idea that some degree of expense is to be expected in order to provide the access to children with disabilities. Those who do not fully believe in this principle will think about funding for special education in a different way. Under the recommendation, consider children with disabilities as general education children first, we will learn about some exemplars and explore the relationship of federal instructional setting to this recommendation. Both topics must be considered when we talk about funding because of two questions: 1) how much does it cost to achieve great results for children with disabilities?, and 2) what are the cost implications for education in the least restrictive environment?

Exemplars. A recent study, funded by the U.S. Office of Special Education Programs (OSEP, 2001) looked at research-based practices in special education and their sustainability. Three schools were identified as Beacons of Excellence as a result, and were recently highlighted by The Council for Exceptional Children. The schools are recognized not only for high achievement of students with disabilities, but also for committed staff, community support, and student and family satisfaction. The schools, an elementary, a middle school and a high school all have some common elements. All three schools are truly committed to an inclusion model so

students with disabilities participate to the greatest extent possible in the high academic standards of the general curriculum.

Related to a focus on inclusion is a common commitment to team planning, team teaching and team problem solving. The schools place a high priority on professional development for staff and pair that priority with reflective practice. One school has “ ‘passion’ groups, in which teachers study an area they are passionate about” (Exemplary schools, 2001, p. 5). The article did not include specific information on funding, but funding priorities are evidenced in the schools’ commitments to inclusion and staff development.

Instructional Setting. The President’s Commission on reauthorizing IDEA recommends that we consider children with disabilities as general education children first. This recommendation is in line with the IDEA mandate to serve students in the least restrictive environment. Education Week has reported that almost half of all students with disabilities, ages 6-21, spend more than 80 percent of the school day in regular classes (Fine, 2002). For some states, like Minnesota, that figure is considerably higher. Minnesota has historically been a leader in inclusion, meaning placement of special education students in general education classes with supports as determined by the individualized plan. Almost three quarters of Minnesota’s K-12 special education students spend more than 80 percent of their school day with their general education peers (see Table 2). More than 90 percent of Minnesota’s special education students participate in high stakes testing, with less than five percent requiring an alternate assessment. The tests considered high stakes in Minnesota are the math and reading tests taken first in eighth grade, and the writing test, taken first in tenth grade (Minnesota Children, 2003).

Table 2. Minnesota Instructional Settings 2001-2002

Grade	Regular Class	Resource	Sep. Class	Sep. Facility
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Age 3-5	30%	43%	20%	6%
K-2 nd grade	76%	15%	7%	2%
3 rd -5 th grade	73%	18%	6%	2%
6 th -8 th grade	62%	24%	8%	6%
9 th -12 th grade	50%	24%	12%	14%

Note. From “Minnesota Children and Youth with Disabilities, A Focused Analysis of Instructional Setting, Performance on Statewide Assessments, and Graduation and Dropout Rates in Minnesota’s Special Education Programs,” Minnesota Department of Children, Families and Learning, 2003, Roseville, MN.

It is incorrect to assume that full time placement in general education classes is the answer for all students. Many will succeed if special education services are focused on improving access to the general curriculum and delivered in conjunction with a regular class. But, special education teachers and paraprofessionals can’t attend every regular class with every special education student. Some students’ needs are greater than can be met by the regular classroom teacher alone. And sometimes, even with supports, the regular classroom is not the best setting for a special education student.

“It can be overwhelming for a special ed student to be in that big room,” said Claudia Morris, a special education teacher at Clement J. Zablocki School on Milwaukee's South Side. “Some students just need more attention than you can give them in a large group setting.” Ms. Morris has 25 years experience teaching special education in a self-contained classroom for students with emotional and behavioral problems and knows that academically some belong in the regular classroom but there is a line to be drawn somewhere when the disruptions caused by

behavioral outbursts outweigh the benefit. Despite these students' severe emotional handicap, many have average or above average intelligence. "Once you get them in a small class where they can get the individual attention they need, their achievement soars. That's what keeps me going. That's why I love my job" (Pardini, 2002, Demystifying Special Ed section, ¶9).

To truly consider special education children as general education children first, and this recommendation has widespread support across stakeholder groups, schools often must dedicate more monetary and staff resources to the cause than if they continue to provide special education in isolation. It is an unavoidable fact that implementation of special education, in a way that carries out the intent of the law, can be costly. Funding, therefore, is a key component of any discussion of special education.

FUNDING SPECIAL EDUCATION

An article on special education in the online journal, *Rethinking Schools, An Urban Education Resource*, Pardini (2002) reported that school administrators were surveyed for a study completed in 2001, by a non-profit, non-partisan group called Public Agenda. The study found that eight in 10 school administrators say they have to use a disproportionate amount of money on special education. The article goes on to say that many groups representing school administrators have made increased federal funding of special education a priority on their legislative agendas. Principals interviewed for this article indicated overwhelmingly that they support the educational ideals mandated by IDEA but the funding isn't adequate to follow all the regulations and achieve desired results.

So far in this paper, the groundwork has been laid to think about special education funding not just as the way schools get money to provide special education, but also as a way to

refine our vision of what we are trying to accomplish. If the goals of special education are clear the funding systems should clearly support the goals (Verstegen, 1996).

In this third section of the paper I present detailed information on what is known about the actual costs of special education, including information of federal grants and historical spending data. I outline specific ways in which special education can be funded and provide ways to evaluate the various models. Minnesota's funding model is described in detail and it is evaluated with the tools presented. There is currently a push for increased flexibility of funds for special education. The pros and cons of increasing flexibility are described. Two additional trends, the interagency approach and third party funding, are described as well. Finally I provide a synthesis of issues presented throughout the paper for policy-makers in Minnesota to consider as they think about the future of special education funding in this state.

Cost of Special Education

There has been one large study on special education funding completed recently, called the Special Education Expenditure Project, or SEEP (Chambers, J.G., Parrish, T., & Harr, J.J., 2002); and a smaller study called Effects of Funding Incentives on Special Education Enrollment. The first was completed by the Center for Special Education Finance and American Institutes for Research, under contract with Office of Special Education Programs (OSEP) and funded by the US Department of Education. Jay P. Greene and Greg Forster, of the Manhattan Institute for Policy Research, completed the second, a smaller project (Greene, J.P. & Forster, G., 2002).

Much of the literature on special education funding over the past ten years has been written, at least in part by Jay G. Chambers and Thomas B. Parrish, often in the context of their work at the Center for Special Education Finance (CSEF). The federal Office of Special

Education Programs (OSEP) funds CSEF, which is located in Palo Alto, CA. According to Parrish, special education costs and enrollments have risen faster than general education costs and enrollments over the past ten years (Parrish, 2000). In 1999-2000 states spent about \$50 billion on special education services, with the federal government contributing \$3.7 billion (Chambers et al., 2002). At the same time, between 1993 and 1999 states reduced their contribution to special education (55% to 47%), causing more of the burden to fall to local school districts. Even though the federal government has provided unprecedented increases in the past two years, with another large increase for 2003-2004 proposed, funding has not kept up with rising costs nationally (Parrish, 2000).

Over the past four years the federal government has provided substantial increases in the grant called Part B. Part B funds are for the excess costs of providing special education to eligible children aged 3 through 21. Part C, for children birth through age two, and Part 619, for children aged 3 through 6, has been relatively flat-funded. Part B increases are expected in the grant awards states will receive by July 1, 2003 for use in the 2003-2004 school year. Minnesota is expecting a \$21 million dollar increase in Part B funds for 2003-04.

Parrish notes that the growth in special education enrollment has been largely in the less severe disability categories. These students, largely students with specific learning disabilities and emotional/behavioral disturbances, are thought by some to need special education because of a failure of general education to “accommodate a higher degree of learning diversity” (Parrish, 2000, p. 2). “Growing special education enrollments are the major factor driving rising costs. Therefore, without comprehensive reform that encompasses general and special education, these trends of rising enrollments and costs are likely to continue.” While this assertion may be true for many states, such as Wisconsin where special education enrollments doubled between 1990 and

2000, it is not true for other states, such as Minnesota, where special education enrollment has grown by less than 3% since 1990. See Table 3 for information on special education spending over the period from 1982-83 to 1998-99. Given the increases in numbers of students identified for special education and the advances in assistive technology over the past 20 years these increases do not seem excessive.

Table 3. Special Education Spending per Student Over Time (Expressed in 1998-99 dollars)

1982-83	1987-88	1993-94	1998-99
\$5,010	\$6,210	\$6,453	\$7,612

Note. From “Who’s Paying the Rising cost of Special Education?,” by T. Parrish, 2000, *Journal of Education Leadership*, 14, p. 1.

There is some disagreement in the research on whether to blame cost increases on increases in enrollment, which has largely been in the areas of relatively milder disabilities, or on “more children with more severe special education needs entering public schools” (Parrish, 2000, p. 8) as seems to be the case in both Massachusetts and Minnesota. Regardless of the reasons for the rising costs, Parrish’s conclusion that “we need a better understanding of why increasing numbers of children are not finding success within general” (p. 14) makes sense, and should be a primary driving force in education reform. Hopefully, policy makers had this very idea in mind when they voted “yes” for No Child Left Behind.

In an article written for Education Week, Jay P. Greene, a senior research fellow at the Manhattan Institute for Policy Research, took a closer look at actual special education enrollment data. He found that “almost the entire increase in special education enrollments since 1976 can be attributed to a rise in one category, called specific learning disability, which has more than tripled, from 1.8 percent of the student population in 1976-77 to 6 percent in 1998-99” (Greene,

2002, p. 2). In Minnesota, comparable data on specific learning disability is not available before 1992-1993; however, numbers of students categorized as specific learning disability has increased from 32,789 in 1992-93 to 39,170 in 1998-99 (Minnesota Department, 2003). There have also been significant increases in the categories of Autism Spectrum Disorder, Other Health Disabilities and Traumatic Brain Injury. While services for children with these disabilities are often costly, the percentage of students with these disabilities is still relatively small.

The authors of one chapter of *Rethinking Special Education for a New Century* are convinced that “the increases schools have been experiencing have not been caused by district policy and practice. These cost increases have primarily been due to the increased numbers of children with more significant needs who require more costly services” (Berman, Davis, Koufman-Frederick, and Urion, 2001, p. 183). This argument is at the root of the hot topic mentioned earlier, regarding the assessment methods used for identification of students with learning disabilities. On one side there is the argument that schools are doing a better job with identifying students with learning disabilities. This group sees SLD as a legitimate disability under IDEA. The other side believes that some of the students in this category were not taught to read properly, and that better early literacy efforts will prevent continued growth in this classification in the future (NASDSE, 2002, PCESE Report, 2002, Rotherham, 2002). Regardless of where a person stands on this issue, there is widespread support for improvements in general education’s capacity to achieve results with these students.

Although there is conflicting evidence in the literature about causes of increased costs, Jay P. Greene, in his Education Week article, *The Myth of the Special Education Burden*, points out “money devoted to special education should not be viewed as money taken away from the general education of students” (p. 5). If schools have shifted more students into special

education that previously would have been in general education they have been given additional money over time to educate these students (Greene, 2002).

The Special Education Expenditure Project (SEEP), mentioned at the beginning of this section, consists of eleven reports. They address questions about what we are spending on various aspects of special education. One of the reports is entitled, *How Does Special Education Spending Vary Across States Classified by Funding Formula, Student Poverty, Special Education Enrollment Levels, and Income Levels?* (Chambers et al., 2002). All of the reports use data from 1999-2000. The SEEP used 23 different surveys and other requested data sets from states and sampled 10,000 students with disabilities, 10,000 teachers (half special education and half general education), and more than 1,300 local education agencies (schools, special education cooperatives, etc.).

The following highlights are reproduced verbatim from the SEEP Report, *What Are We Spending On Special Education Services For Students With Disabilities?* (p. vi).

- **Total Special Education Spending.** During the 1999-2000 school year, the 50 states and the District of Columbia spent approximately \$50 billion on special education services, amounting to \$8,080 per special education student.
- **Total regular and special education spending on students with disabilities.** The total spending to provide a combination of regular and special education services to students with disabilities amounted to \$77.3 billion, or an average of \$12,474 per student. An additional one billion dollars was expended on students with disabilities for other special needs programs (e.g. Title I, English language learners, or gifted and talented students), bringing the per student amount to \$12,639.

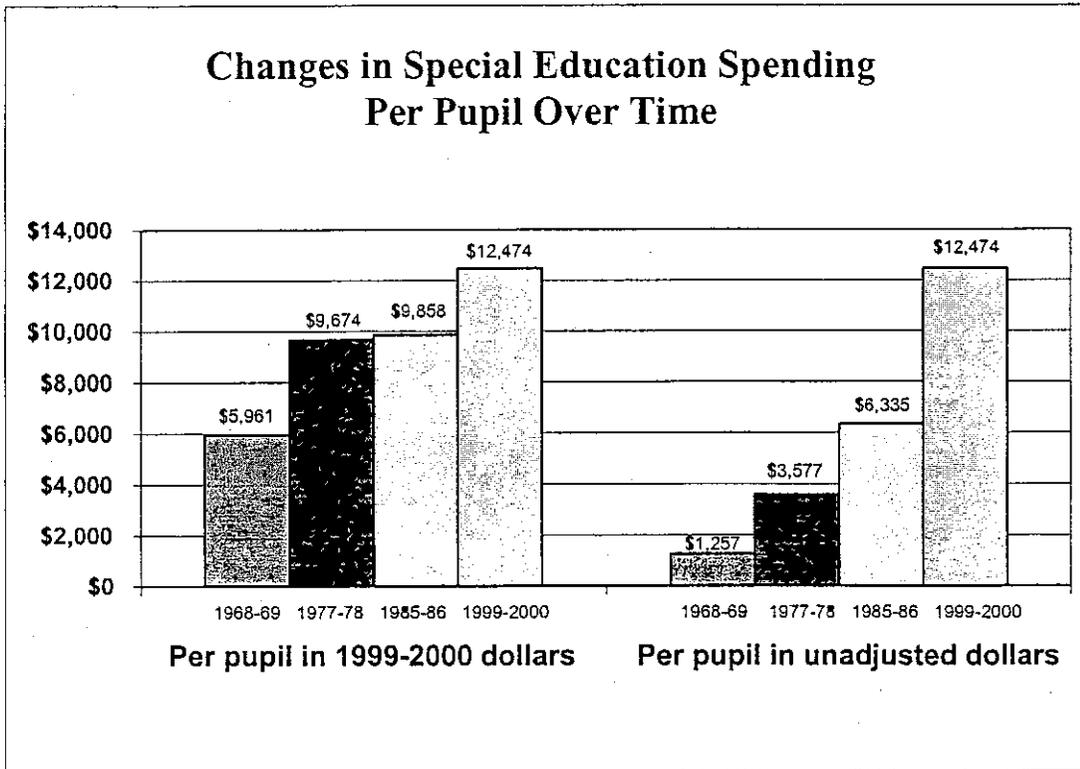
- **Additional expenditure on special education students.** The additional expenditure to educate the average student with a disability is estimated to be \$5,918 per student. This is the difference between the total expenditure per student eligible for special education services (\$12,474) and the total expenditure per regular education student (\$6,556).
- **Percent of total expenditure.** The total regular and special education expenditure for students with disabilities represents over 21 percent of the 1999-2000 spending on all elementary and secondary educational services in the U.S.
- **Total spending ratio.** Based on 1999-2000 school year data, the total expenditure to educate the average student with disabilities is an estimated *1.90 times* that expended to educate the typical regular education student with no special needs.
- **Total current spending ratio.** Excluding expenditures on school facilities, the ratio of current operating expenditures on the typical special education student is *2.08 times* that expended on the typical regular education student with no special needs.
- **Federal funding.** Local education agencies received \$3.7 billion in federal IDEA funding in 1999-2000, accounting for 10.2 percent of the additional total expenditure on special education students (or \$605 per special education student), and about 7.5 percent of total special education spending. If Medicaid funds are included, federal funding covers 12 percent of the total additional expenditure on special education students (i.e., 10.2 percent from IDEA and 1.8 percent from Medicaid) (Chambers et al., 2002, p. vi).

To give some historical perspective to the discussion of special education funding, the SEEP looked back at the earliest study of special education expenditure, which was conducted in 1968-69. Table 4, taken from the SEEP (2002, p. 6), shows the history of spending on special education since that early study. At the time total per pupil spending on special education was \$1,257, which equals \$5,961 in 1999-2000 dollars. Total per pupil spending for all students in public schools, K-12 was \$3,106, adjusted to 1999-2000. Given the 1999-2000 average per pupil expenditures of \$12,474 for special education and \$7,597 for all students, "the total per pupil spending on the average special education student has increased by 110 percent, while total per pupil spending on *all* elementary and secondary students has increased by 140 percent" (Chambers et al., 2002, p. 5). Since the special education enrollment has grown faster than the general education enrollment during this time period, special education enrollment alone accounts for the increase in spending. The key concept above is the fact that the rate of education spending growth for all students is substantially higher than the rate of spending growth in special education.

The SEEP also looked at the ratio of total expenditure to educate a student with a disability to the total expenditure to educate the typical regular education student, and found that while it was on the rise, and has been thought to be 2.28 since the last major study in 1985-86, it has actually declined. The current ratio is calculated to be 1.90. Some factors that are likely to have lowered the ratio over the past 15 years include the substantial increase in identification of students whose special education needs are minimal. The number of students reported as eligible for special education over a 22-year period from 1977-78 to 1999-2000 nationwide increased from 8.5 to 13 percent of the total enrollment (Chambers et al., 2002). But, what seems more

relevant is that since 1999-2000 the percent of incidence of special education in the total population has remained largely flat at 13 percent.

Table 4. Changes in Special Education Spending Per Pupil Over Time



Note. Table 4 reads: In constant dollars, special education spending increased from an average \$9,858 per pupil in 1985-86 to \$12,474 per pupil in 1999-2000. From “Special Education Expenditure Project,” by J.C. Chambers, T.B. Parrish, & J.J. Harr, 2002, U.S. Department of Education, p. 6.

Recent studies have attempted to link the increased enrollment in special education with increasing costs (Greene & Forster, 2002, Chambers et al., 2002). They challenge the idea that increased special education enrollment is based on increasing incidence of disabilities in children. Some of the reasons identified for the increase in special education enrollment offered are: (a) the incidence of disabilities in children is actually rising; (b) increased accountability measures, such as high-stakes testing, has caused schools to push more students into special

education; (c) schools perceive there is financial benefit from classifying children as special education; (d) the field, as a whole is improving in its ability to identify and assess children, therefore doing a better job finding those who have a disability and whose disability adversely affects education (Chambers et al., 2002).

Others have written about the growth in special education and attributed it to societal issues, such as increased childhood poverty, increased numbers of children living due to medical technology, who might have died five to ten years ago, and deinstitutionalization (Finn, Rotherham & Hokanson, 2001). While Greene and Forster (2002) discount these reasons, citing some data on mental retardation, they do not consider the fastest growing areas of Autism Spectrum Disorder, Traumatic Brain Injury and Other Health Disability in their analysis. Analysis of Minnesota's data indicates that increases in special education expenditures have largely been for related services, especially for the few students with the most significant needs.

Special Education Funding Models

From the formal beginning of special education in 1975 with the passage of P. L. 94-142, Education for All Handicapped Children, the federal government has recognized the need for additional funding. Over time, the federal government has provided increased funding to states and has provided regulations about how the money must be spent. States have developed increasingly sophisticated ways to fund special education programs. (Yell, 1998). There has been a growing acceptance that these children are entitled to an education. According to Verstegen it is time now to examine a second generation of issues that go beyond the common understanding of entitlement that has been achieved in thirty-some years (twenty years at the time she was writing) (Verstegen, 1996). If we are moving into a second generation of special

education we need to think about how our state and federal funding formulas can avoid the generation gap.

In 1997 when IDEA was amended increased emphasis was placed on fiscal responsibility. The federal funding formula was redesigned because the existing system required state states receive their allocations based on their special education child count, which may have created a fiscal incentive for states to over-identify students for special education. As a result the federal formula is now based on a state's entire school-aged population. This is called a census-based approach.

The 1997 amendment added complexity to what had previously been a simple per child amount formula. NASDSE, (2002) in a policy analysis of the new IDEA 97 funding provisions, explained the formula as repeated below. The new formula specifically requires that the federal funds be distributed in the following manner:

Under the new formula, first the amount each state received for the base year, the year before the formula went into effect, is allocated to each state. Then, any new federal dollars beyond the base amount, 85 percent are distributed on the basis of the state's relative population of children aged 2-21 (population factor) and 15 percent are distributed on the basis of a poverty factor (NASDSE, 2003, 34 CFR 300.706 (a)).

In response to other concerns, amendments to IDEA now emphasize placement-neutral funding. IDEA requires that if a state uses a finance formula in which special education funds are distributed based on the types of service received, the State must have policies and procedures in place to ensure that the child is not served in a more restrictive environment (i.e., more costly) than is necessary. If the state does not have any policies and procedures in place it must provide the Secretary of Education with an assurance that it will revise its funding

mechanism as soon as feasible to ensure that it does not result in higher level placements than necessary (34 CFR 300.130).

Greene and Forster, (2002) in their report called *Effects of Funding Incentives on Special Education Enrollment* criticize certain states' funding models, calling them "bounties" and accusing them of creating financial incentives to place students in special education. Their study finds that "funding systems have a dramatic effect on special education enrollment" (Greene & Forster, 2002, p. 11). The authors have labeled each state's funding system as either bounty or lump sum. They argue in favor of a lump-sum funding model, based on the idea that funding is not based on a per-child amount of funding, so therefore, does not encourage higher rates of identification for special education. They reject the first two reasons mentioned above, and fail to mention the forth.

Professional response to this article has been critical. Many are offended by the term *bounty* and the study's complete disregard for states' objective eligibility criteria. Some find the language manipulative and alarmist, such as in this passage:

We estimate that in the states that adhere to the traditional bounty system, over the last decade the rate of special education enrollment grew a total of 1.24 percentage points more than it would have if these states had lump-sum funding systems, accounting for a full 62% of these states' total increase in special education enrollment. This represents approximately 390,000 extra students placed in special education because of the bounty system, resulting in additional spending of over \$2.3 billion per year. Using another method that is more sensitive to the timing of changes in states' funding systems, we estimate that if all bounty states had switched to lump-sum states in the 1994-95 school year, their special education enrollments in the 2000-2001 school year would have been

lowered by an average of 0.82 percentage points. This margin represents a difference of roughly 258,000 students and over \$1.5 billion per year in extra spending. In light of these findings, reforms that would remove the perverse incentives of bounty funding systems-such as switching to lump-sum systems or offering private school scholarships to disabled children-are urgently needed (Greene & Forster, 2002, pp. 3,4).

Others argue that by providing a lump-sum, states are not tying funding to actual need or expenditures, rather they are merely providing a specific amount, which may be exceed or fall short of the actual amount needed. Although Greene and Forster have some data that correlates slowed enrollment rates with states that use a lump-sum funding model, they have not demonstrated any cause and effect relationship.

The Center for Special Education Finance (CSEF), in an earlier study of special education finance systems, 1994-95 (Parrish et al., 1997) used four broad categories of classification: pupil weights; flat grant; resource-based; and percent reimbursement (pp. 5-9). The authors observe that there is much overlap among these four categories and that each state has distinct variations. The CSEF study uses the categories of flat grant, resource-based, percent reimbursement and pupil weights. Parrish and his colleagues have developed the following criteria, included in Table 5, as a way to evaluate special education funding. When considering these criteria, the larger mission of special education, rather than the more focused financial perspective should be used as a backdrop.

Table 5. Criteria for Evaluating State Special Education Funding Formulas

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 equality: 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.

Adequate

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

Predictable

- Local education agencies (LEAs) know allocations in time to plan for local services.
- The system produces predictable demands for state funding.
- State and local education agencies can count on stable funding across years.

Flexible

- Local agencies are given latitude to deal with unique 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, record keeping, 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.

Cost-Based

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

Cost Control

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

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.

Outcomes Accountability

- State monitoring of local agencies is based on various measures of student outcomes.
 - A statewide system for demonstrating a satisfactory progress for all students in all schools is developed.
-

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.
-

Note. From “Adapted from State Funding Models for Special Education” (Hartman, 1992) and “Removing Incentives for Restrictive Placements” (Parrish, 1994).

Minnesota’s Special Education Funding. Minnesota uses a special education funding model that reimburses school districts partially for special education and related services they provide. Greene and Foster have labeled this type of special education funding model a Bounty system, meaning it is actually a model that many view as one not likely to provide incentives or disincentives to serve. IDEA requires states to have funding systems that are placement-neutral (34 CFR 300.130). Minnesota reimburses school districts for a percentage of their expenditures for special education and related services. The state’s percentage reimbursement only covers fifty to sixty percent of eligible costs, so the district makes a local commitment to partially fund each expenditure. Since Minnesota provides reimbursement based on services provided, there is no incentive to identify more students. A teacher with a caseload of five is reimbursed in the same manner as a teacher with a case load of twenty-five. This system does not seem to support Greene and Forster’s assertion that states “receive a bounty for each child they place in special education” (Greene & Forster, 2002, p. 3).

Percentage reimbursement formulas, like Minnesota’s are least likely to influence the identification process or placement decisions, since funding is not linked to specific disabilities

or levels of service. Cost control is only achieved when reimbursement percentage is reasonably low, yet reimbursement must be high enough to adequately fund special education. CSEF noted that this type of model has potential to be administratively burdensome. Their survey responses regarding this model indicated that the most frequently reported weaknesses of this type of formula include that it is not linked to student outcomes, is not adequately funded, and includes no cost control mechanisms (Parrish et al., 1997).

Analysis of Minnesota's funding system, based on criteria in Table 5, and was completed in March 2002 by the Division of Special Education, Minnesota Department of Children, Families and Learning. Minnesota's reimbursement model fared well in eleven out of the fourteen evaluation criteria, and is believed to be strong in its ability to be cost-based, identification and placement neutral, and responsive to fiscal accountability. Three areas where some room for improvement is noted include outcome accountability, connection to general education funding and political acceptability. Minnesota's current special education funding model was also evaluated on five criteria, which were identified by staff from relevant Government Accounting Standards (GAO), U.S. Office of Management and Budget resources (OMB), and principles of IDEA. The evaluative dimensions are outlined in Table 6 below. These evaluative concepts offer a common sense tool that an administrator or legislator could use, especially when considering a change from an existing model. The dimensions outlined in Table 6 are less technical than the criteria in Table 5, yet they fit well with the current education reform language.

Table 6. Evaluation Areas for Special Education Funding Approaches

Evaluation Areas	Evaluative Dimensions
"Accountability"	The extent to which the funding approach addresses actual expenses and promotes the practice of making necessary and appropriate expenditures and reporting information on these accurately. (See <i>Government Accounting Standards Board Statement No. 34</i> and other resources.)
"Equity"	The extent to which the funding approach equitably and fairly funds school districts based on their actual expenses.
"Responsibility"	The extent to which the basis for funding promotes and supports fulfillment of the legal and ethical responsibilities of federal, state and local agencies. (See <i>Individuals with Disabilities Education Act (IDEA, Public Law 105-17)</i> , the <i>Interagency Services for Children with Disabilities Act (ISCDA, M.S. 125A.023 & 125A.027</i> , and the U.S. Office of Special Education Programs resources).
"Results	The extent to which the basis for funding promotes and supports
Manageability"	results-oriented financial management. (See <i>Government Accounting Standards Board</i> and <i>U.S. Office of Management and Budget</i> resources.)
"Utility"	The extent to which the basis for funding is flexible in application, presents low opportunity costs or other costs for administration, and supports efforts and initiatives in other areas.

Note. From “Summary and Evaluation of Special Education Funding Approaches” by T. Delaney, Minnesota Department of Children, Families and Learning, Division of Special Education, Roseville, MN, 2000, p. 1.

Increase Flexibility of Funding

The other general tone in the PCESE Report and in much of the current literature (Greene & Forster, 2002, Verstegen, 1996) is increase flexibility of funding. The President’s Commission Finding 3 implicates special education funding, or actually the idea of it, as a cause of treating special education and general education as two separate systems. Because we think about the cost of special education separately, children with disabilities are not thought of as general education students first. The Commission goes so far as to say that the way we think about the cost creates “incentive for misclassification and academic isolation-preventing the pooling of all available resources to aid learning” (PCESE Report, 2002, p. 3).

Other recent research has focused on special education funding in this context, too. Many recent journal articles note the fragmentation that is encouraged by the many state and federal aid programs designed for children who have conditions that cause special learning needs, including special education (IDEA), poverty (Title I and Title VII, Improving America’s Schools Act [IASA]) and limited-English proficiency. One recommendation is to focus on reimbursement for results and to increase the flexibility of federal IDEA funds. The logic put forth in these articles is that pooling or blending of resources is necessary to focus on results for all students because these programs can work more effectively together (McLaughlin & Verstegen, 1998, Verstegen, 1996). It is important to think about two issues when considering increased flexibility. What goal is to be accomplished by increasing the flexibility? Would the change compromise the original goal of the funding system?

Although finance systems can create effective obstacles to reform, they can also be powerful tools for fostering more fully integrated learning experiences and achieving enhanced results in education for all children and at all schools. Developing or refining a strategy for a new special education finance system, therefore requires a clear vision of what is to be accomplished and how to reach that goal. If the goal is a coherent, coordinated, comprehensive education system where all children learn together with a focus on upgraded outcomes, then related funding systems should support these objectives. The assumption is that program improvements and finance reforms work more effectively together than either would alone (Verstegen, 1996, p. 478).

A 1998 study of the perceptions of federal, state and local special education leaders found evidence supporting the need for increased flexibility. In many cases, perceived restrictions relating to the supplement-not-supplant and non-commingling of funds provisions often defined schools' service delivery models, resulting in fragmentation of services (McLaughlin & Verstegen, 1998). There is a perception of "lack of coordination between program expectations and goals of administrators and the fiscal and program monitoring staff at federal and state levels" (p. 376). At the same time, there is a fear associated with increasing flexibility that "special education will encroach on other resources in consolidated models because these students have an entitlement. Conversely, consolidation is a smokescreen for redirecting funds away from children with disabilities to all children. Funds will not reach targeted students; Safeguards and due process procedures not maintained" (p. 376).

Some increased flexibility and decreased regulation can be seen in other federal programs such as Goals 2000: Educate America Act, Title VI of the IASA and the School-to-Work Opportunities Act. Each act contains waiver opportunities designed to "spur creative and

innovative approaches by individual schools to help all students achieve internationally competitive standards” (Goals 2000, Sec. 20.301; 1994). In a Policy Update, the National Association of State Boards of Education, *Special Education Funding*, summarizes some of Tom Parrish’s recommendations from the March 2002 SEEP Report. Parrish recommends reconsideration of restrictions on funding use. He notes that strict categorization of IDEA funds for use on the special education population only can hamper use of the inclusion model, and other current reform efforts. “Reformers believe that there can be more focus on each student’s progress if schools are given the flexibility to integrate the services rather than being held accountable for keeping each category of services separate” (“Special Education Funding,” 2002, p. 1).

IDEA has been mostly excluded from these waiver provisions, with the exception of one such provision that allows 20 percent of the annual increase in IDEA funds to be used for local costs of special education. In other words, the supplement-not-supplant rule is waived for this amount (34 CFR 300.153). There is talk of increasing the percentage that can be used in this flexible manner when IDEA is reauthorized. Additionally, proposed language includes a provision that up to 15 percent of IDEA funds be spent on prevention and pre-referral interventions. “These changes in federal education policy signal the interest on the part of policymakers to encourage local innovation in exchange for greater accountability within the broad parameters defined by a system of standards and assessments” (McLaughlin & Verstegen, 1998, p. 374).

Increasing the flexibility of funds has the potential to maximize resources for children and youth with disabilities or to render specific programs ineffective as they become watered down. The trend described in the next section has the same dilemma. If implemented correctly,

the interagency approach will maximize funds and improve overall results for children. But efforts can easily get bogged down in any number of issues explored below, and services can be negatively impacted.

Interagency Approach to Serving Children and Youth With Disabilities, Birth

Through Age Twenty-One. The concept of coordination of services for children and youth with disabilities who receive services from more than one agency is described as the interagency approach. The PCESE made recommendations to expand the New Freedom Initiative, which addresses interagency programs and activities that work to improve results for special education students. NASDSE supports this recommendation and adds, “The federal government should model intra- and interagency collaboration as a first step towards making it a reality at the state and local levels. Inter- and intra-agency coordination is critical to insure that all children and youth with disabilities receive the educational supports and services that they need in order to make progress” (National Association of State Directors of Special Education, 2002, p.7).

Minnesota has a strong commitment to move forward with interagency collaboration. The state has embarked on a bold journey to serve children and youth with disabilities in an interagency collaborative model when they receive services from two or more agencies. The state took its innovative, popular and successful model for serving the birth through two-population, and is now implementing it in stages, up through the age of twenty-one. Specific direction was laid out in 1998 legislation (Minn. Stat. 125A.023) requiring interagency collaboration up to age 5 by 2000, age 9 by 2001, age 14 by 2002 and age 21 by 2003. One of the biggest challenges to successful implementation of this initiative is determining who pays for what. Another challenge is determining whose rules and funding systems should be used.

Forms have been developed and are in use to provide a single plan that pulls the Individualized Education Plan (IEP) required by IDEA together with other plans and services to achieve what former Governor Ventura called one-stop shopping for parents and service providers of special education children. These interagency IEPs are called the Individual Family Service Plan (IFSP) for young children, and the Individual Interagency Intervention Plan (IIIP) for older children. Along with this interagency initiative have come policy discussions on service coordination, revenue options, role definitions, and system changes for the purpose of building capacity to implement the interagency legislation.

IDEA requires service coordination (34 CFR 302.12 (a) (1997)), as does Minnesota Rule (Minn. R. 3525.0550 (2001)). Service coordination is a larger concept than case management as defined by special education or county social work. Service coordination for interagency collaboration for children and youth in special education includes such responsibilities as: (a) coordinating all services across agency lines; (b) coordinating performance reviews and evaluations; (c) coordinating with medical and health providers; (d) assisting parents with gaining access to services; and (d) facilitating all aspects of the IEP process (IFSPs and IIIPs) (Delaney, 2002, p. 2). Service coordination has the potential to streamline administrative requirements and minimize duplicative services so that more resources are available for children and families. Service coordination is a key component to interagency collaboration; without it attempts to collaborate with other agencies flounder.

The Minnesota legislature required the formation of a committee, Minnesota's State Interagency Committee (MnSIC), to develop and implement interagency systems. As a part of the mission of MnSIC, a subcommittee called the Revenue Options Leadership Committee was formed to study revenue options for service coordination. The committee identified thirty-one

separate state and federal funding sources for which service coordination for children and youth with disabilities is an eligible expenditure. Most of these funding sources flow through the Minnesota Department of Human Services. One goal of this committee is that “the local process of determining the dedication of funding and fiscal responsibility for IIP service coordination includes consideration of the funds identified by the committee.” They go on to recommend that decisions about the location of fiscal responsibility be made with the idea of maximizing available funding (Delaney, 2002, p. 4).

Third Party Funding. Amendments to the IDEA in 1997 added a requirement that school districts bill private insurance and medical assistance for health related services provided as part of a child’s IEP. Minnesota has also enacted a statute requiring school districts to bill Medical Assistance and other third parties as of July 1, 2000 (Minn. Stat. 125A.21). According to the Minnesota Department of Human Services, in 2000-2001 Minnesota school districts generated slightly over one million dollars in third party revenue, almost exclusively from Medical Assistance payments. Final figures are not available for 2001-02 yet but preliminary information indicates that figure has doubled. This is an area of interest by legislators at the state and federal level, although it has been wrought with implementation challenges.

Third party billing has raised some fundamental concerns for educators and policy makers. One set of questions comes from the clash between the educational model and the medical model. In order to generate the most third party revenue, schools have to translate educational services into medical services. This medical model thinking is often frustrating for educators because it can be rigid and seems to discourage a whole-child approach. Another concern comes from added paperwork, bureaucracy and administration necessary to access these funds. Many wonder if the effort is worth the result, and what it says about the future of

education. A third concern gets at the question, "What is the role of special education?" In other words, as the medical model is applied to special education there is a natural conflict because the two worlds are so different. A new way to approach funding is described next. This approach might bridge some gaps created by interagency and third party billing efforts.

Multi-Agency Participatory Funding. The Multi-Agency Participatory funding approach is a concept that was developed by policy-makers in the Division of Special Education at the MN Department of Children, Families and Learning. It is simply the act of listing the number of students eligible for any particular service or provider and multiplying by the allocation process (rate, percentage, per capita) of the coinciding agency. This formula should be completed for the entire range of potential funding sources for the special education population in a school district. The idea for developing this approach came from the realization that the number one barrier to moving forward with interagency service coordination for students with disabilities is confusion about funding requirements of various service providers, and responsibility for payment. Its purpose is to provide a new framework for school districts to identify funding for special education services from multiple sources. A key concept of this approach is that the funding sources have roots in coordinated and cross-accountable agencies. The Multi-Agency Participatory Funding Approach does not change existing funding models; it simply enhances their utility, and focuses on the interagency collaboration that is clearly necessary for the future success of special education. See Table 7 for an evaluation of the Multi-Agency Participatory Funding Approach, using the dimensions from Table 6

Use of this approach at the local level can open up opportunities for discussion by explicitly outlining the participants and resources for any child or set of services. This approach has the potential to allow a child's service providers, IEP team members or agency decision-

makers to consider all available funding sources in an objective and systematic manner, which is less likely to trigger typical “turf” responses among agencies. This is done by summation (not integration) of their multiple separate funding functions (formulae) in the coordination and cross-accountability between the multiple funding agencies.

The following formula for Multi-Agency Participatory Funding and evaluation of the approach was taken from *Summary and Evaluation of Special Education Funding Approaches*, Division of Special Education, Minnesota Department of Children, Families & Learning, March 20, 2000, p. 1:

$$\text{Sum of } [(\text{Number of Provider Z-Eligible Students}) (\$ \text{ Z-Allocation})] = \$ \text{ Total Funding}$$

Where: Z = Numeric Range of Funding Agencies

Z-Allocation = rate, percentage, per capita, or other linear or curvilinear function.

Table 7. Evaluation of Multi-Agency Participatory Special Education Funding.

POSSIBLE ADVANTAGES	POSSIBLE DISADVANTAGES
<input type="checkbox"/> Responsibility – Supports education agencies at all levels in their establishment of capacities necessary for increased entitlements related to health services, for the purpose of benefiting children and youth with disabilities. (<i>IDEA P.L. 105-17, and ISCDA M.S. 125A.023 & 125A.027</i>).	<input type="checkbox"/> Responsibility – Depending on the reimbursement proportions and rates established by state agencies, it might provide a financial incentive for placing students in more or less expensive settings and service categories.
<input type="checkbox"/> Accountability – Supports results-oriented financial management as state funding is based on actual expense information provided to the state, and individual districts’ management decisions are an effective factor in the funding they receive.	<input type="checkbox"/> Utility – Possibly poor utility and robustness as a predictive funding model of costs if shifts in service demand across agencies occur, i.e. unless corrective procedures are used to account for variance.
<input type="checkbox"/> Results Manageability – Funding can be tied or aligned with continuous improvement for special education in Minnesota as communicated to OSEP	<input type="checkbox"/> Utility – Implementation requires high effort to cause policy change, coordinated governance procedures, and interagency agreements at various levels (federal,

<p>and other local, state, and federal agencies.</p> <p><input type="checkbox"/> Utility – Uniformity with other cost-based and fee-for-service procedures in education and other service providers’ (e.g. medical assistance) funding.</p> <p><input type="checkbox"/> Equity – School districts receive funding based on funding strategies for services and outcomes, for all school districts, identified by the multiple agency providers in their interagency agreements.</p> <p><input type="checkbox"/> Accountability – Accounts for variance in service demand and funding provision across agencies addressing expenses. Capitalizes on and generalizes the benefits of each agency’s funding mechanisms.</p> <p><input type="checkbox"/> Equity – Maximized congruence and responsiveness of funding to variation in individual school districts’ actual expenses.</p> <p><input type="checkbox"/> Accountability – Monitoring and analyzing individual or categorized expenditures is unified with reporting and procuring revenue.</p> <p><input type="checkbox"/> Utility – Adaptable to variance in service demand and funding provision across agencies.</p> <p><input type="checkbox"/> Accountability – Capitalizes on and generalizes the benefits of each agency’s funding mechanisms.</p>	<p>state, interagency, and local).</p> <p><input type="checkbox"/> Accountability – May provide a weak incentive for cost-containment, depending on the reimbursement proportions and rates established by state agencies.</p> <p><input type="checkbox"/> Utility – Administration requires involved monitoring, recording and reporting procedures.</p>
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Note. From “Summary and Evaluation of Special Education Funding Approaches, Division of Special Education,” by T. Delaney, 2000, Minnesota Department of Children, Families & Learning, Division of Special Education, p. 1.

Future Issues for Minnesota

As Minnesota moves forward with implementation of requirements under No Child Left Behind and forthcoming requirements of a reauthorized IDEA, and continues implementation of

requirements for interagency collaboration and third party billing, current funding systems need to be evaluated for alignment with new directions. As pressure mounts for special education to produce measurable results, there is a concern that the concept of interagency collaboration will be left by the wayside in favor of going back to clearly defined turf. But, these times of accountability are unfortunately also times of limited resources. The Division of Special Education at the Minnesota Department of Children, Families and Learning has developed a concept, a lens to use, as special education funding systems are re-examined.

As noted above one of the biggest barriers to interagency collaboration is confusion and disagreement about responsibility for provision of services and payment for services. One example of this dilemma is children's mental health services. In Minnesota, counties are responsible for screening and identification of children's mental health needs. In addition, they are required to assure that mental health services, including day treatment, are available to children and youth living in their boundaries. At the same time, schools are responsible to provide related service, including counseling, to children and youth with disabilities, if that related service is necessary for the child to benefit from specialized instruction.

The provision of mental health services to children and youth is challenging in itself for many reasons. Children and families are often in denial, or resistant to agree to services. There continues to be a stigma attached to mental illness. And, financial and professional resources are often limited. Even when these challenges are overcome, one remaining set of challenges is determination of who is responsible for the provision of services, who will pay and how a particular service is coordinated with other services a child might be receiving. Schools, counties and state agencies know all too well the difficulties in negotiating through the various,

and often conflicting laws, mandates, funding streams and bureaucracies of the various agencies that may be responsible.

Minnesota will probably re-evaluate its special education funding model in the near future. How we think about the way special education is funded is dependent on the goals of special education and continued analysis of trends in education reform. Minnesota's own special education priorities, as established through the continuous improvement process, reauthorization of IDEA and emerging policy clarification on No Child Left Behind should set the direction. Some of the specific considerations in any analysis are: (a) the multi-agency participatory approach; (b) how third party billing and revenue relates; (c) increased flexibility may be a future direction; (d) results of the SEEP; (e) interagency services and service coordination are priorities; and (f) other issues mentioned in this paper, like caseload, teacher quality, paperwork, etc.

The strengths and weaknesses of the existing model should be weighed in relation to the future of special education in Minnesota, and in relation to other proposed changes to school funding. Three areas that Minnesota's special education model is potentially weak are outcome accountability, connection to general education funding and political acceptability. Three areas of strength are the model's ability to be cost-based, identification and placement neutral, and responsive to fiscal accountability (Department of Children, Families and Learning in 2002).

CONCLUSION

Policy-makers have a responsibility to make sure that the way special education is funded allows for optimal benefit for our children and youth with disabilities. Currently, three significant events: the awaited reauthorization of IDEA, the new requirements under No Child Left Behind, and the recently released Special Education Expenditure project, have prompted

renewed interest in looking at how special education is funded, and how much money is spent on special education. The President authorized a commission to study special education and issue recommendations for congress to consider when it reauthorizes IDEA. Although the Commission's report does not go into detail on funding, it makes reform recommendations that are directly tied to funding, like paperwork, caseload, SLD, vouchers, accountability and results. Additional issues like adequate funding levels and flexibility are topics of debate. The inherent challenge of providing special education is amplified by current reform efforts mentioned above that carry with them conflicting messages. Conflicting information on the direction special education reform should take makes it difficult to have a clear vision of what needs to be accomplished by the special education funding system. There is no consensus on many of the issues discussed in this research. Public opinion on the topics mentioned above is often polarized by misconceptions and emotional reactions caused by anecdotal stories of extreme examples that somehow become part of the folklore of special education. The funding of special education programs in states and schools is a complicated business. States' funding formulas must be evaluated for their effectiveness using multiple criteria. In addition, political issues at the local, state and federal level play a role in how we think about special education funding. Minnesota faces its own additional challenges, especially as it moves forward with its priorities of interagency services for children and youth with disabilities and prepares to re-examine its school funding system. In Minnesota we have the responsibility to achieve real results for 115,000 children and youth with disabilities who are entitled to a free and appropriate public education. Policy-makers need us to consider all of these issues carefully in making decisions about how special education and related services are funded because children and youth with disabilities are entitled to our very best.

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