

Review of Special Education Funding Research

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Executive Summary

This report is a review of research on special education funding strategies completed by Tom Delaney (MN-CFL, Division of Special Education) for the Minnesota State Special Education Director, in July of 2000.

A. Major Issues

This report identifies the major issues in special education funding:

1. Concern over controlling the growth in special education identification rates.
2. Concern for the rising overall costs of special education.
3. The desire for greater flexibility in the provision of special education services.
4. The desire to remove fiscal incentives for restrictive placements.
5. Finance goals of increasing the accountability, adequacy, and equity of funding systems.

B. Special Education Funding Strategy Comparisons

This report also includes a comparison of the inherent incentives and disincentives for various special education practices, and reviews comparative research on special education funding formulas in six areas:

1. Addressing variance in special education costs to produce equity.
2. Effects on inclusion practices and placement of students with disabilities in least restrictive environments.
3. Containing special education costs and the cost-efficiency effects of changes in special education practices.
4. Flexibility and utility of funds for local decision making.
5. Coordinated services strategies for special education funding.
6. Goals and outcomes as funding strategy determinants.

C. Findings & Recommendations

This report concludes that the significance and bias of the incentives and disincentives inherent in any special education funding strategy should be evaluated on macroeconomic and microeconomic levels, with attention to factors and the variance of factors at each level:

1. Macroeconomic Level of Analysis

- a. Overall costs (economy) and funding of special education services.
- b. National policies and goals for special education services.
- c. Proportional cost burden to states and marginal costs after federal financial participation.

2. Microeconomic Level of Analysis

- a. State and local education agencies' economies of special education services.
- b. State and local policies and goals for special education services.
- c. Proportional cost burden to local education agencies and marginal costs.

Three considerations for addressing special education funding reform are proposed:

1. All special education funding formulas are ultimately cost-reimbursement strategies.
2. Cost containment should be distinguished from purchasing control ("control" defined as a managerial function of promoting success through measuring performance and aligning resources).
3. Information is as equally important as funding for cost-reimbursement.

Complete citations and references are included in this report.

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Background

In Spring of 2000, a work group composed by the Governor of Minnesota's Task Force on School Governance and Finance was charged to develop at least two alternative models for governance and finance of special education. The two models proposed by this subgroup were a census-based funding approach involving multiple agencies, and a pupil-weighted funding approach involving multiple agencies. These models were proposed as alternatives to Minnesota's current special education funding system wherein the state reimburses local education agencies for proportions of their eligible expenses in different areas.

On May 2, 2000, Norena Hale, State Special Education Director, requested that I complete a search and review of relevant research literature concerning the implications of "weighted" funding approaches and categorical special education funding by July 1, 2000. In the latter part of June, I completed a search and review of relevant literature, and present the highlights of this literature here. I have copies of all of the articles that are referenced and am able to generate citations or summaries as may be helpful or necessary in the future.

I chose articles for review with the criteria that they address special education finance issues, especially comparisons between weighted and cost-reimbursement funding approaches, and with the criteria that they have been published in the previous 20 years. A 20-year perspective maintains both a historical and contemporary perspective of special education costs and financing, considering that Chaikind, Danielson, and Brauen observed in 1993:

Although special education costs have represented a growing share of overall elementary and secondary school spending over the last 20 years, the ratio of average cost for all special education students to the average per-student cost in regular education appears to be remarkably consistent over the same time span. This indicates that changes in overall special education costs are more affected by the changing number of students served and by the composition of student needs than by any extraordinary increase for each student with similar needs receiving services. (p. 345)

Many states have changed their special education funding strategies in the period between 1980 and 2000. It is important to consider any researcher's observations of the effectiveness of any particular state's special education financing strategy in light of the year in which that research was completed.

This review presents the most significant findings of the research reviewed, with consideration of the weighted funding model and the categorization of special education finance. The intent of this document is to present a summary of major findings and research and identify future areas for inquiry or policy development.

Introduction: Reform Issues

The convention of the special education subgroup by the Task Force on School Governance and Finance communicates that Minnesota is involved in the national discussion, involving virtually every state, of special education funding reform.

Chambers, Parrish, & Hikido (1996) and Parrish (1996) identify the major issues that drive discussions of special education funding reform as:

1. Concern over controlling the growth in special education identification rates.
2. Concern for the rising overall costs of special education.
3. The desire for greater flexibility in the provision of special education services.
4. The desire to remove fiscal incentives for restrictive placements.
5. Finance goals of increasing the accountability, adequacy, and equity of funding systems.

There is some commonality between these issues and the specific background issues of the subgroup: special education cost increases; formulary tie-in to salary costs; cross-subsidy; and school district bill-backs.

The special education subgroup proposed policy considerations which emphasized use of a per-pupil formula, and proposed an alternative special education funding model employing pupil-weighted funding. The proposed model is an alternative to Minnesota's cost reimbursement system for consideration.

Hartman (1980) differentiated between pupil-weighted and cost-reimbursement special education funding approaches. The pupil-weighted formula is "child based" in that is based on the number and type of children served with regulations on the cost and

use of resources. In this approach, an amount of money is provided for each child with a disability equal to the regular per pupil reimbursement multiplied by a factor or weight typically varying by disability category. The cost-reimbursement formula is “cost based” in that it is based on costs with regulations on the children served and use of resources. In this approach, a percentage of approved costs of educating children with disabilities is provided.

Hartman noted that both funding formulas can be made to yield the same amount of money with regulations, guidelines, and constraints. He implied that the choice of which formula to employ is important in so far as its incentives and disincentives for school districts to provide adequate and appropriate programs and services for children with disabilities. He also stated that a special education funding formula should provide a straightforward and logical a connection between special education programs and their funding and provide adequate funds for the placement of students with disabilities in least restrictive environments. In Tables 1 and 2, I present my own brief encapsulation of the benefits and liabilities Hartman identified in pupil-weighted and cost reimbursement funding formulas.

Table 1. Possible Benefits and Liabilities of the Pupil Weighted Funding Formula.

Pupil Weighted Funding Formula	
Possible Benefits	Possible Liabilities
<i>Outreach</i> Service provided to new populations.	<i>Biased</i> Incentives to classify for reimbursement.
<i>Inclusive</i> Funding provided for mainstreaming.	<i>Misplaced</i> Placement in programs to maximize reimbursement or minimize costs.
<i>Informative</i> Maintenance requires information of types of students and programs.	<i>Congestive</i> Maximizing class sizes and caseloads to minimize local share of expenses.
	<i>Categorical</i> Labeling necessary for eligibility.
	<i>Inequitable</i> Inadequate funding to small school districts with few students.
	<i>Complex</i> Requires accurate data on number and types of children and time in programs.
	<i>Removed</i> Program planning based on costs not needs.
	<i>Unspecific</i> Limited information of child and program specific funding and expenditures.
	<i>Insensitive</i> Updating of funding provision is complex or arbitrary.
	<i>Unresponsive</i> Not responsive to wide variation in costs.

Table 2. Possible Benefits and Liabilities of the Cost-Reimbursement Funding Formula.

Cost-Reimbursement Funding Formula	
<i>Inclusive</i> Approved costs of mainstreaming programs are approved.	<i>Congestive</i> Promotes maximizing of class sizes to reduce local share of expenses <u>except</u> where excess costs are funded.
<i>Individual</i> Labeling not necessary for eligibility.	<i>Complex</i> Requires accurate data on expenditures.
<i>Accurate</i> Minimizes overclassification.	
<i>Equitable</i> Small school districts with small student numbers can be effectively funded.	
<i>Informative</i> Maintenance requires information of actual costs and expenditures.	
<i>Responsive</i> Responds to wide variation in costs.	

Hartman's original comparison of these funding formulas did not employ the adjectives I use as headers here, however some number of these adjectives are the criteria and discussion terms one encounters in reports of special education funding research.

Currently Minnesota operates with a cost-reimbursement special education funding formula, and has for some time now. The significance of the identified special education funding reform issues in Minnesota has promoted consideration as to the possible benefits of alternative funding strategies, such as weighted (whether by service category or by level of service) and census-based strategies. Hartman's (1980) evaluative comparison of funding formulas was to some extent theoretical, although based on sound logic. Other research has examined select aspects of special education funding and considered cases of states' employment of differing strategies.

Cost Variance & Equity

Special education funding approaches may be evaluated in terms of their ability to respond to variance in the costs of special education. Significant variance in costs has been observed between school sites and within categories of special education service.

Raphael, Singer and Walker (1985) studied five select metropolitan school districts in the United States and suggest there is variance between school districts in costs of providing special education services. They also found variance in costs within disability categories at the sites they studied, which might be accounted for by placement (level of service). They concluded that average per pupil expenditures for all special education students are the result of: variance in populations, variance in input costs (notably salaries), and variance in provided educational resources (including its relative impact on a large highly supported school district's finances versus those of a smaller less resource rich school district).

Chaikind, et al (1993), reviewed national data over 20 years and observed cost variance within disability service categories attributable to placements. They also suggested significant differences among districts in the mix of placement by program types, providers, and related supplemental services received which are reflected in cost variance. They observed that the costs for non-instructional services (e.g. special vocational services, assessment, transportation, or related services) can vary widely for each disability. They also implicated the role of the state special education funding formula as a cause of variance in costs:

The special education finance formula selected by each state and the goals the state hopes to achieve by selecting the formula – including objectives of equity, local control of special education programs, and efficiency of service delivery.

(p. 346)

They also examined variance in special education marginal costs, and its sources of variance in a plethora of factors including: extent of the child's disability; placement policies of the school district; and the location and size of the school district. At the school district level, the authors stated that special education costs vary between and within school districts based on: individualized needs of children with disabilities; placement policies that affect marginal costs; local decisions on student-teacher ratios in programs; social or economic (budgetary) circumstances of school districts; and equity goals within and between districts.

The research on special education cost variance and equity leads me to conclude that a state special education funding approach must address variance in:

1. Economies of scale.
2. Individual needs of children and youth with disabilities
3. Capacities of districts to provide a range of programs and services.

These must be addressed in order to produce a funding resource that is equitable and effective. It would not be sufficient for a pupil-weighted approach to address the diversity of special education service categories. It must also address the range in levels of service within categories, economy of scale differences between districts, marginal costs, and equity goals. This might only be accomplishable through an exceedingly complex system of weights designed to address a large number of possible scenarios and

occurrences of variance in costs. The pupil-weighted formula has been identified by other research as unresponsive to wide variations in program costs (Thomas, 1973).

The cost-reimbursement approach seems to inherently and more simply address variance in costs through establishment of a limited number of proportions for reimbursement of costs. This approach's effectiveness at addressing variance in costs led to it being suggested by Chambers, Parrish, and Hikido (1996), as a "safety net" option for Massachusetts to augment its census-based funding system. The authors point out that such an application of cost-reimbursement would have the additional benefit of addressing variance while also not penalizing school districts for assigning less restrictive placements for high cost students.

Minnesota's mode of employing a cost-reimbursement formula for special education funding has the advantage of being able to address variance through use of proportions rather than the categorical increments of a weighted system. In this system, equity is sought through sharing the costs of special education with school districts according to consistent statewide proportions. A disadvantage of this system is that there are occasions when the district's share of the costs of providing special education services to an individual student is a large proportion of a small district's special education budget. However, the same expenses may be a smaller portion in a larger or more supported district. The same interdistrict economic disparities creating these equity dilemmas in the employment of a cost-reimbursement formula may also cause as significant problems with a weighted special education system. The employment of a weighted formula has the added liability of difficulties with addressing variance of costs within categories of special education service.

Inclusion

Special education funding approaches may be evaluated in terms of the inherent incentives and disincentives they present for the labeling and placement of students with disabilities in general education settings and in separate settings. An important consideration is that the Individuals with Disabilities Education Act (IDEA) mandates the independence of eligibility and placement decisions from finance.

Jordan, Weiner, and Jordan (1997) completed an extensive review of literature which links state special education funding policies to states' inclusion practices. They specifically cited Massachusetts, Montana, North Dakota, Pennsylvania, and Vermont, and concluded their review with the determination that current approaches to special education funding are insufficient to meet the demands of contemporary education reforms demanding increased inclusion of students with disabilities in general education settings. They proposed three alternative models: delivery system weighted funding; population based funding; and education overburden index funding;.

Brody Hasazi, Johnston, Liggett, and Schattman (1994) conducted a qualitative policy study in six states from 1989 to 1992. They found that special education funding provision was a significant determinant of the strategies by which LRE measures were implemented in school districts of different states. All of the states they studied employed special education funding approaches with inherent financial incentives to place students with disabilities into separate programs. States and districts with different levels of use of separate sites employed special education funding with different strategies.

Dempsey and Fuchs (1993) studied longitudinal data (1979 to 1988) of Tennessee's change from a "flat" to "weighted" special education funding formula. They determined that the change to a weighted formula resulted in a shift in the number of student placements from lower funded (less expensive) to higher funded (more costly) service options. This shift was associated with a statistically significant decrease in less restrictive placements and a reliable increase of placements in more restrictive environments. The authors suggested that fiscal incentives may have played a role in the observed shift in placements.

In this same year, U.S. News & World Report (Shapiro, Loeb, Bowermaster, Wright, Headden, & Toch, December 13, 1993) published a scathing indictment of Tennessee:

In Tennessee, thousands of special education students who had been receiving training just a few hours a week in separate classrooms were assigned to nearly all-day classes in separate rooms. The reason: a change in the state's special education funding formula that gave school districts more money to teach special education students in separate rooms. (p. 47)

The publication of "Separate and Unequal" in U.S. News & World Report (Shapiro, et al, December 13, 1993) placed a highly critical public eye upon states that employ pupil-weighted special education funding formulas. The authors specifically cited the states of Texas and Connecticut:

Two decades ago, when most disabled kids received little or no education, "weighted" programs made sense: The financial incentives induced school districts to start providing services to children with learning problems. Now

however, such weighted formulas often serve as money magnets. By identifying students with only minor disabilities, educators can demand more money for their schools – and get it. The trouble is, besides the financial burdens created, kids can be hurt by stigmatizing special education labels. (p. 50)

Overall the article identified the issues facing special education professionals, and was highly critical of special education services. The authors' perceived intent and directions of causality in special education finance might be contradicted by more detailed articulations of special education policy and procedures.

Parrish (1995) evaluated special education funding in all states and reported that states with pupil-weighted special education funding formulas tended to favor placements in separate classrooms, schools or facilities. He also asserted that a pupil-weighted special education funding formula could be problematic in its creation of fiscal incentives for higher cost placements, usually in separate classrooms or facilities. In a later study he (Parrish, 1996) reported Florida's efforts to negate incentives for restrictive placements in its weighted state formula through implementation of additional "mainstreaming weights." These weights were not based on the actual costs of mainstreaming students, but were associated with basic program weights, such that revenues were not tracked back to special education and need not necessarily be spent for special education services. In this same article, Parrish describes Florida's "Exceptional Student Education Finance Program Model" and focused on other facets of Florida's special education programs.

Minnesota's currently employs a cost-reimbursement special education funding formula. None of the research I reviewed cited poor inclusion practices in Minnesota. A 1999 congressional report (U.S. Department of Education, 1999) states that 65% of

Minnesota's children with disabilities age six to 21 years were served in regular classrooms in the 1996-1997 school year. The mean percent for the United States was a significantly lower 46%. Only 22% of Minnesota's students with disabilities age 6 to 21 were served in resource room settings, and only 8% in separate classrooms.

Neither Minnesota nor any other state employing a cost-reimbursement special education funding formula were cited in the literature I reviewed as having poor inclusive special education practices or results. Researchers would seem to highly recommend extreme caution in consideration of switching to a weighted special education funding formula. There are numerous states whose use of a weighted special education funding approach has been indicted for resulting in more restrictive placements for students. Maximal inclusion of students with disabilities in general education settings is a stated goal of Minnesota's special education system (Minnesota Department of Children, Families, & Learning, 2000). Accomplishing this goal might be better served by maintenance of the current cost-reimbursement special education funding approach rather than a weighted special education funding approach.

Cost Containment

A motivation for employing a pupil-weighted special education funding formula instead of a cost-reimbursement formula is that the former establishes a finite fund, given type and level of special education service (e.g. multiplying per-pupil general education aid with a factor determined by type and level of service). The cost-reimbursement formula is suspect for its establishment of a finite proportion for reimbursement in lieu of finite categorical funds. It is important to note that the established proportion of cost burden between a state and a local school district can have a significant cost-containment effect. The motivation of containing special education costs through a pupil-weighted formula may not be warranted given that (at least nationally) the ratio of average cost for all special education students to the average per-student cost in regular education has been consistent in the past 27 years (Chaikind, et al, 1993). In addition, the inherent risk of pupil-weighted formulas to provide funding in an inequitable and ineffective way which does not address variance in special education costs further relegates this option. The role of the cost-reimbursement funding approach is most evident where districts have an incentive to hold down costs to the extent that their own funds are involved (Hartman, 1980). This is the current scenario in Minnesota, where the local school districts share the costs of special education services with the state, according to certain established proportions. Hartman (1980) asserted that special education funding formulas of any kind can be managed and regulated to provide identical amounts of funding. He concluded that "by itself a particular funding formula cannot control special education costs.(p. 143)"

Hartman and Fay (1996) raised the question of whether attention might be better paid to increasing the cost effectiveness of special education programs, rather than seeking to contain costs through funding formulas. The authors demonstrated that implementation of special education practices such as prereferral intervention can effect higher levels of cost-effectiveness. They defined a program as being more cost effective if it can produce the same outputs at a lower cost, or if it can produce greater outputs at the same cost. In their study, the practice of Instructional Service Teams (IST's) in Pennsylvania resulted in equal (but not greater) costs as the "traditional program" while providing more and better services to students. The IST's resulted in a reduction of the number of students placed in special education, while at the same time providing more extensive and successful instructional services to many more children in regular education. The authors noted:

It did this at a cost that was no greater than the traditional program over a 5- to 10-year period. Consequently, with the costs approximately equal to the traditional program and with greater effectiveness for students, the conclusion is that the IST program is cost effective. (p. 580)

Hartman and Fay's research causes me to consider whether changes to special education funding may not be the sole methods to contain costs or attain cost effectiveness, and may in fact be a misplaced effort. Changes to the delivery of special education services are another option.

In summary, there seem to be few if any advantages in cost containment with weighted special education funding formulas as compared to cost-reimbursement formulas, as currently employed in Minnesota. Some research also provokes me to

consider whether, in the quest of containing the costs of special education, it might also be worthwhile to consider possible changes in the delivery of special education services which might increase cost effectiveness of special education. Prereferral intervention services have also been implemented in some Minnesota school districts so as to increase the continuum of services available to students. These preferral intervention programs are additional services implemented without added cost to special education funds (i.e. special education funds are not used to support these services in schools).

Minnesota's Child and Teen Checkups program (the state's federal Early and Periodic Screening, Diagnosis, and Treatment program) is an example of a practice purposed to some extent for the longitudinal reduction of expenditures for special education related services through early identification and intervention. Special education related services include, but are not limited to: health services, mental health services, care and treatment, and early intervention services.).

The costs of these services, and the amount of special education funds expended to compensate these costs, has dramatically risen in the previous five years, especially in the high-cost fields of medical and mental health services. For example, I analyzed the percent increase in Minnesota special education salary expenditures in Education Data Reporting System (EDRS) data from fiscal years 1996 to 2000. I found that salary expenditures for personnel (including instructional and non-instructional personnel) categorized as working with children with an emotional/behavior disorder rose 23% from 1996 to 2000 (i.e. during the fiscal years of 1996 through 1999). This growth is significant in the context that salary expenditures in this category are the second highest in Minnesota of all of the special education service categories. A component of this

growth are the salary expenditures for professionals (i.e. non-instructional personnel) providing services related to special education (“related services” as per IDEA).

IDEA entitlements requiring the provision of related services is expanding the responsibilities of school districts. The Child and Teen Checkups program may coordinate early intervention services for children and youth with disabilities such that adverse outcomes necessitating more costly services might be prevented through this early intervention.

Overall, research on special education funding indicates the importance of changes to both funding and service delivery as means of cost containment, and some research suggests that students may receive greater benefit from changes in the latter.

Flexibility

One of the identified major issues promoting reform of special education funding is the desire for greater flexibility in the provision of special education services (Chambers, et al, 1996). Weighted and cost-reimbursement approaches may be compared as to the extent to which either affords greater flexibility in local decision making.

In a study of Massachusetts special education funding, Chambers, et, al (1996) identify allocations based on type of student placement as permitting the least flexibility to local decision makers. Based on this, pupil-weighted special education funding approaches might be expected to be adverse to local decision making. The authors also pointed out that cost-reimbursement funding approaches do not offer the promise of greater flexibility in local decision making when the state restricts expenditures of special education funds to purposes of providing special education services to students. However, the authors also stated that this type of cost-reimbursement approach does favor fiscal accountability. The authors were highly critical of the use of weighted special education funding systems when expenditures of funds are restricted to special education purposes:

In many state funding systems, revenues are generated on the basis of counts of students in certain types of placements, or the acquisition of prespecified types of resources within a limited list of possible settings. Special education administrators increasingly cite such highly prescriptive funding models as creating considerable difficulties in districts and states wishing to be more inventive in the types of instructional service models employed, especially as they relate to the provision of more inclusive special education services. (p.530)

This statement by the authors particularly highlights that restricted weighted special education funding approaches have adverse effects in both the areas of innovation in special education services, and implementation or maintenance of inclusive special education services.

Other research has proposed alternatives to revamping weighted and cost-reimbursement special education funding formulas. Exemplary alternatives are the “blended services” approach proposed by Verstegen (1996) and interagency funding strategies being considered by Minnesota’s Division of Special Education in the state’s Department of Children, Families and Learning.

Coordinated Services

The major issues cited by advocates for special education funding reform have been bases for revamping of current funding practices and for proposing creation of novel approaches to special education funding. Jordan, Weiner, and Jordan (1997) concluded their extensive literature review of the interaction between state special education policies and funding practices saying:

Pressures from inclusion, a reduction in labeling, and the need for reform in special education funding systems suggest the need for a new paradigm in financing systems for special education that is less manipulable by local school districts, less dependent on traditional classification and program delivery systems, more supportive of placing students in the general classroom, and more responsive to identifiable differences in the student population and district sociodemographic conditions. (p.68)

This conclusion by the authors identified four imperatives for new approaches to special education funding. These imperatives pair a decrease in the emphasis of categorization of funds with an increased emphasis of inclusion and effective responsiveness to students' needs in various settings.

Research has identified the interdependence of the special education funding formula and special education policy in providing funding to programs. Hartman (1980) stated:

It is important to note at the outset...that any funding formula for special education is simply a mechanism for transferring dollars earmarked from educating handicapped students from one governmental unit to another (that is state or federal to school district). The amount of money transferred is not an inherent characteristic of the formula itself, but rather is a product of all of the educational and policy decisions that surround the formula. (p. 138)

The observation that special education funding formulas are simply mechanisms for transferring funds from one area of government to another provides an avenue for addressing the imperatives cited by Jordan, Weiner, and Jordan (1997). This avenue involves the removal of categorical divisions in special education funding.

Researchers have previously advocated for the consolidation of categorical services to decrease their fragmentation (McLaughlin, 1996; Verstegen, 1996).

Verstegen (1996) identified five adverse effects of categorical funding which are the bases for considering consolidation in possible special education funding reforms. These effects were:

1. The fragmentation of services to children with special needs that often defies efforts to coordinate them with the core instructional program. Critical factors are:
 - a. leadership variables
 - b. attitudinal barriers
 - c. architectural barriers
 - d. institutional barriers
 - e. legal decisions
 - f. inadequate funding
 - g. differing philosophies and local practices
 - h. fiscal accountability requirements
2. A crisis orientation that fails to address problems when they are most responsive to remediation.
3. A piecemeal approach to the needs of children when a more holistic and comprehensive focus might be more effective, especially for children with multiple needs.
4. The isolation of children in schools from their classmates, whether or not this is explicitly required by legislation or is the most effective instructional technique.
5. The creation of parallel systems of education for multiple categories of special needs students and their peers in general education programs.

Some of advocates for consolidation propose “blended services” approaches that combine resources from both special and general education systems, in order for schools

to achieve a more unified approach to serving all students' needs in the most appropriate settings, as well as enhance results in education for all children.

Verstegen noted that "blended service" approaches characteristically integrate programs and services but keep funding streams separate. She described that in a blended service approach, children receiving services from several categorical programs are provided a single, integrated, and coherent program in an appropriate setting. Funding follows the child to the setting in which services are provided because it is "placement neutral." Separate audit trails are required when more than one funding source supports a given student, due to excess costs and "supplement-not-supplant" provisions that prohibit commingling of funds. Therefore, she stated, individual services from several categorical programs are blended, but funding streams are kept separate. Verstegen cited the Mukilteo School District in Everett, Washington, as an example of the blended service model.

Verstegen provided a summary of the general strengths and weaknesses of the blended service approach:

Table 3. Benefits and Challenges of the Blended Services Approach.

Blended Services Approach	
Benefits	Challenges
More comprehensive, coordinated services can be created for all children, without making any substantial changes in the rules or regulations that govern the receipt of aid under separate funding streams.	Teachers responsible for core programs and specialize services will need support, staff development, and time to plan and coordinate lessons, which is unaccounted for in current budgets.
Professionals are allowed to coordinate services to meet the needs of the child in the regular classroom.	Because a teacher supported by multiple funds may legitimately deliver almost any given service, it is difficult to judge whether program beneficiaries are receiving the services to which they are entitled.
Individualized instructional techniques of special service personnel may spillover to regular classroom teachers and core instruction.	Delivering more services to children in the regular classroom will require the restructuring of roles and responsibilities of teachers and administrators.
A teacher whose time is supported by several categorical aid programs and general district funds can be assigned to a wide variety of tasks, increasing flexibility.	The current lock-step method of instruction will need to be adopted to accommodate the diverse learning requirements of all students. Lock-step instruction is based on the assumption
Educating more children together in the regular classroom has the potential to reduce the possible stigmatization of children with special needs.	Providing blended services in the general classroom will require administrative time and expertise to learn about and account for separate categorical expenditures.
Allocating funds for special programs to the school building level can increase ownership and create more flexibility in meeting the diverse needs of the special and regular student population.	The intensity of services may be reduced to due to diseconomies of scale associated with decentralized "pull in" programs.

(Reproduced from Verstegen (1996), p. 492.)

Verstegen's summary included recognition of important systemic obstacles to implementing blended services. Importantly, she stated that some amount of categorization in funds is necessary and appropriate as a means of ensuring that they are allocated to programs serving children with disabilities, i.e. a matter of sustaining these

services. However, she was very clear that surmounting these obstacles is a positive aspect of reform, and can result in significant benefits.

Minnesota's Division of Special Education in the state's Department of Children, Families and Learning is considering strategies for special education funding which coordinate the separate funds of multiple agencies. This involves an interagency approach to service provision (variously termed "multiple agency participatory funding" (MAP) or "cross-agency voucher") where the Individual Interagency Intervention Plan (IIIP) functions almost as a purchase voucher to the agencies listed as funding sources for programmed services. This strategy's interagency perspective on special education funding concurs with Hartman's (1980) observation that provision of funds for special education services is as much a matter of interagency policies as it is a matter of formula. The Task Force on School Governance and Finance special education study subgroup integrated this perspective as far as a model of governance for its proposed alternative special education funding models. This method of integration results in an interagency governance strategy, leaving some remaining untapped potential for the coordination of funds for services as envisioned in the Division of Special Education's MAP/Cross-Agency strategy for funding special education services.

Goals & Outcomes

The conclusion that new approaches to special education funding are necessary is not rare in research. A few authors have added the special importance of goals for driving special education programs as well as special education funding reform. Verstegen (1996)

wrote:

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. (p. 478)

Verstegen's supposed goal of a coherent, coordinated, comprehensive education system where all children learn together with a focus on attaining outcomes addresses both programmatic and individual aspects of special education policy, and areas of special education funding application.

Other researchers have also highlighted the importance of programmatic goals for special education services at all levels as a means of driving special education funding reform. Parrish (1995) particularly addressed the programmatic dimension of inclusion

practices (whose relationship to special education funding was previously discussed in this document) and the possible fiscal incentives or disincentives in any funding strategy which must be aligned with overall goals for special education services. He stated:

What is needed are state and federal fiscal policies that fully consider the desired balance between the sometimes competing needs of LRE and the continuum of services requirements under IDEA....in considering alternative fiscal policies, a conscious effort should be made to consider the placement incentives associated with each alternative and to develop future fiscal provisions with their relationship to program goals clearly in mind. (p.26)

Parrish implied that special education funding reform should be goal-driven, with funding strategies chosen on the basis of their alignment with goals for LRE and service continuum implementation.

Researchers have also pointed to the important role of goals for the performance of individual students when choosing a special education funding strategy. McLaughlin (1996) studied local efforts to consolidate categorical education programs in California, Maryland, and Massachusetts. She concluded:

Through both program and fiscal audits, school districts have been held closely accountable for ensuring that eligible students were indeed receiving extra educational services. Now, however, under the aegis of school reform, a more powerful type of accountability is emerging, that is, accountability for improved student performance on critical educational outcomes. (p. 526)

McLaughlin's conclusion tied special education funding accountability to the accountability measures currently underway or being considered with regard to student performance.

Researchers have recognized the relationship between program and student performance and urge that goals for both be considered in the selection of a special education funding formula and related strategies. Goals and outcomes have already been identified for special education services in Minnesota. Accountability measures for student performance are already operating in many school districts by implementation of the Minnesota Graduation Standards. School and program accountability is a constant topic of research and discussion. In summary, Minnesota has all of the necessary components to achieve a goal-driven special education funding system. Research and consideration may conclude that the current cost-based reimbursement special education funding formula best addresses the goals for special education services in Minnesota, or it might not. It is possible that elements of the described coordinated services strategies might augment state special education funding in a way which better aligns it with goals for special education. The key is to evaluate state special education funding in terms of the state's goals for special education services.

Conclusion

Based on my review of special education funding research, I propose that the significance and bias of any incentives or disincentives in Minnesota's (or any state's) existing special education funding formula, or in alternative options being considered, should be evaluated on both macroeconomic and microeconomic levels of analyses. These analyses should be conducted with due consideration of: prior research and case studies of states and existent state economic data, especially with regard to differences between the regional variance in costs of providing special education services and regional variance in economic welfare and stability.

At the macroeconomic level of analysis are factors, and variance of these factors, mitigating or exacerbating the significance and bias of any special education funding formula. These include: the overall costs (or economy) and available funding of special education services; national policies and goals for special education services; and the proportional cost burden to states and marginal costs to states remaining after federal financial participation. The commitment of the Governor of Minnesota to increase the federal share of special education funding, and concurrent discussions in congress, are examples of macroeconomic analysis.

At the microeconomic level of analysis are also factors, and factor variance, mitigating or exacerbating the significance and bias of any special education funding formula. These include: the state and local education agencies' economies of special education services; state and local policies and goals for special education services (including funding effects on caseloads and arrays and continuums of service as well as

the possible cost-efficiencies of coordinated services, prereferral intervention, and other practices); the proportional cost burden to local education agencies as well as marginal costs. An example of a microeconomic analysis would be examining whether the apparent incentive for school districts to expend special education funds posed by Minnesota's cost-reimbursement formula is mitigated by the proportional share of special education expenses that school districts bear. An example of a microeconomic marginal cost analysis can be found in Rothstein's (2000) recent editorial where he proposed:

If states stop paying for added specialists when pupils are termed learning-disabled, districts might consider alternatives. Perhaps lowering class size and training regular teachers to individualize early grade instruction will be enough for some special needs children.

One may consider Rothstein's proposal and whether the marginal costs (defined as the costs associated with adding an additional unit or service) of added specialists is greater than the costs of lowering class sizes and training regular teachers.

The major issues identified in the beginning of this review are the recurrent themes in this discussion. This review has also presented the diversity of responses by states to these challenges, as well as some proposals from researchers in the field. In addition to all of these considerations, I would like to add three:

All Tracks Lead to Cost-Reimbursement

Ultimately, all special education funding formulas are cost-reimbursement strategies.

The necessity of compensating costs with expenditures of funds provided by any funding

means, is inescapable. Special education funds may arrive to school districts by many different means, but they are all employed (and have no value for purposes other than) for what they purchase.

Containment vs. Control

Cost containment needs to be distinguished from spending control (i.e. purchase control). For states, cost containment is inextricably linked to spending decisions by school districts. Special education funding reform should include a consideration of “control” in its sense of managerial cost accounting and purchase authority, not restriction as would violate IDEA (managerial accounting conceptualizations of the term “control” are different from those associated with other areas of education services). Control is described by Raam (1998) as “a management function, along with planning, organizing, staffing and directing.” (p. 10). The purpose of control is to promote success by measuring performance, effect change to correct problems, and improve performance. Raam describes control as involving four steps:

1. Measure performance of relevant performance aspects.
2. Compare measured performance with goals (set in planning).
3. Find the reason for any substantive differences
4. Take appropriate action.

Numerous documents and reports by the U.S. General Accounting Office (April and May, 2000), the Government Accounting Standards Board, the Federal Accounting Standards Advisory Board (see the “objectives” in 1997), the Association of Government

Accountants (see Raam, 1998) and other agencies might assist states in designing control measures adequate to align special education budgeting and expenditures with state goals. This alignment would require the provision of information between the state and local education agencies – an important element I will address later in this report. Where increased state control on expenditures is not appropriate or acceptable, states might also consider promotion of cost-effective practices. In summary, any discussion of state special education funding reform may benefit from examining cost containment options separately from spending containment, while still recognizing their relationship.

Money Talks

Funding in and of itself is not sufficient to compensate costs. Information is a necessary, and just as important a factor. Any economic model postulates the availability of resources as well as an important presumed level of information exchange. The implication is that the special education funding strategy adopted by any agency should not be evaluated simply on its ability to create capacity for funding, but also should consider the strategy's requirements and ability to employ information for the securing and distribution of funding as a resource. This type of information is also extraordinarily important for aligning special education expenditures with state goals for special education services. In essence, funding movement should communicate necessary information, and will if employed with that purpose. This is an element of the managerial cost accounting concept of control described earlier. A significant advantage of Minnesota's current-cost reimbursement funding formula is the information this

strategy generates concerning the actual costs of special education services in the state, as well as what is being purchased with special education funding.

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