
CSEF *brief*

Center for Special Education Finance

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Finance in an Inclusive System: Report from the National Association of State Boards of Education

Abstract

This brief summarizes and contains excerpts from the report *Winners All: A Call for Inclusive Schools*, published in October 1992, by the National Association of State Boards of Education (NASBE). It focuses on Chapter 6 of *Winners All*, which discusses state-level special education finance in the context of education reform. The brief describes how traditional ways of funding special education create incentives for overidentification and restrictive placement of students in special education; presents alternative approaches to special education funding; and discusses several strategies for improving the education of all students including linking special education and general education reform, creating incentives for inclusion, and using a variety of funding sources. The brief also presents NASBE's recommendation that "State boards, with state departments of education, should sever the link between funding, placement and [disability] label. Funding requirements should not drive programming and placement decisions for students."

Mission of NASBE Study Group

In the fall of 1990, The National Association of State Boards of Education (NASBE) appointed a Study Group on Special Education, comprised of 17 state board of education members. Its mission was to conduct a two-year study of the status of special education, particularly in the context of the education reform movement, and to make recommendations to fellow state board members and other policymakers, practitioners, and parents. As a result of this study, the

group called for creating a more inclusive education system that works better for *all* students. One of the major areas addressed by *Winners All* is finance in an inclusive system—the subject of this *CSEF Brief*. In summarizing and excerpting from *Winners All*, this brief provides insight into how current finance systems for special education might be adapted to create more inclusive, effective education systems for all students.

The key to reform in the finance of special education is to ensure that students receive the services they need, while not mistakenly identify-

ing students for special services or identifying students in ways that have detrimental consequences. Funding formulas should not encourage local districts to overidentify students, nor should they encourage a restrictive school placement over a regular school placement. However, current state financing systems for special education often drive dual systems of general and special education, creating barriers to the establishment of inclusive education systems for all students.

Traditional Funding of Special Education

Special education has traditionally been a separate, categorically funded program. In order to obtain additional support for students with special learning needs, states and local districts are required to identify children and youth for services. Most frequently, educators assign disability labels to children in order to identify them for services. Labeling and special placement of students often "trigger" the flow of extra dollars to school systems, regardless of whether students' learning outcomes are advanced. These funding practices were developed to ensure that every identified student received service and that more expensive forms of service received more financial support.

However, these funding practices have also contributed to the segregation of students into isolated programs and have served as an incentive for overidentification of students so that school districts could receive

more support from the state and federal governments. Those districts that do attempt to provide for the education needs of their students without labeling them for special education are subsequently punished by losing special education funds. Hence, while a district is often rewarded monetarily for placing students in highly restrictive environments, it is also penalized monetarily for trying to meet the needs of students without specifically identifying them as disabled for placement and program purposes. *As a result, many state funding mechanisms serve as a double disincentive for districts to meet the educational needs of their students under least restrictive conditions.*

Labeling students for special education has had several detrimental effects. At a minimum, it has driven local districts to assign disability labels to students that often remain with them throughout their education careers. At its worst, it has encouraged districts to place students in highly restrictive educational placements in order to receive the maximum amount of funding possible from the state and federal governments. Many state special education funding formulas provide additional assistance for students in special and regional facilities, while providing less funding for students served in their home districts. Additionally, some states *forward fund* school districts for expensive, restrictive out-of-district placements and *reimburse* districts at the end of the academic year for expenses accrued in district-based special education programs. This practice creates an incentive for districts to place students in the forward-funded, highly segregated programs rather than risk partial reimbursement for less restrictive placements.

Most states use child counts, weighted formulas, or excess cost formulas to fund special education.

When child counts are used—that is, when the number of dollars awarded to a district is based on the number of children identified for special education—there is an incentive to identify more students. When weighted formulas are used, more students are likely to be identified and placed into categories that have heavier reimbursement weights. Excess cost formulas can lead to overclassification when districts are reimbursed regardless of the number of programs implemented and regardless of total expenditures.

Alternative Funding Approaches

Several approaches to funding can be used to reduce these inappropriate incentives.

■ **Flat-Funding.** Under flat-funding reimbursement, state funding for special education is not affected by the number of children actually receiving special education or the nature of the services provided. With a flat-funding formula (see box below), variation in the amount of special education aid is based on overall district enrollment (or average daily membership). Several states, including Massachusetts, Vermont, and Pennsylvania, have instituted variations of a flat-funding formula; others are

considering similar changes to their funding formulas. Such a funding model generally creates incentives for districts to reduce the number of students classified as having disabilities, and generally allows for greater flexibility in the use of district funds. For example, special education dollars may be used to support special educators or team teachers in regular education classrooms.

■ **Personnel Reimbursement.** It is possible to link special funding to special programming rather than to labeled children. For instance, districts could be reimbursed per hour of remedial instruction, individualized tutoring, or psychological services provided. Alternatively, districts could be reimbursed a percentage of the costs of employing specialists such as social workers and specially prepared teachers. School districts could qualify for reimbursement dollars on the basis of a plan that shows how personnel would be used to serve the needs of pupils who are in need of extra assistance or a plan that shows how they will support fully integrated school programs. In this model, money flow is triggered by programmatic considerations and not in accordance with numbers of labeled students. Minnesota operates a version of such a personnel reimbursement system.

As part of this effort, educators and

Example of a Flat-Funding Formula

District funds for special education = $ADM \times 12\% \times F$

Where: ADM = average daily membership
12% = assessed percentage of students with disabilities
F = amount of state special education funding per student

Example: Districts with the same ADM get equal amounts of state special education aid irrespective of the number or percent of students identified for special education.

Linking Special Education and General Education Finance Reform

The categorical nature of special education funding formulas may cause special education and general education advocates to work against one another in the race for tight dollars in the state legislature. Special education funding formulas that are independent of the states' general education funding mechanisms encourage an "us against them" mentality among education advocates, which in some states has fueled a backlash against special education.

Linking special education finance reform to general education finance reform can help diffuse this competition. Ideally, special education funding should not be separate, but rather should depend directly on the per pupil funding levels for general education, thus forcing the two advocacy groups to work together. For example, if special education funding is held to some fixed percentage of the general education funding formula, then special education advocates wishing to increase the amount of money allocated to special education are forced to call for higher overall funding levels for education.

In order to further encourage an inclusive system, funding streams from the state should be focused on the local district. By giving *all* pass-through special education funds to local education agencies, districts are encouraged to operate programs for *all* children. The districts are still provided the option for contracting with an intermediate district or unit for assistance (in those states where they exist), but the responsibility for providing educational programs rests clearly with the local school district. In addition, the intermediate school district is likely to be more responsive to the needs of the local districts it

NASBE recommended that "State boards, with state departments of education, should sever the link between funding, placement and [disability] label. Funding requirements should not drive programming and placement decisions for students."

serves, rather than developing services and programs that may or may not be needed by local districts.

Creating Special Incentives for Inclusion

A few states have begun their integration efforts by first eliciting the support of volunteer districts for pilot projects, and moving on to other less willing districts after successful models are in place. California used the pilot project approach with "Every Student Succeeds," the state restructuring initiative (SB 1274) to ensure success for students at risk. The state awards *demonstration grants* to those local districts that have proposed projects that are most likely to increase district capacity to meet the needs of all learners. The intent is to provide maximum latitude and flexibility to schools and districts in designing comprehensive and integrated restructuring demonstrations that will dramatically improve learning for students. Six elements guide the initiative: (1) success for every student in learning a rich core curriculum; (2) a preventive versus remedial approach; (3) an integrated total program for each student; (4) effective staff development; (5) planning, implementing and evaluating the total school program; and, (6) doing whatever else it takes for every student to succeed.

For these six guiding elements to be met, new roles are anticipated for classroom teachers, specialists, classi-

fied staff, principals, district office staff, and parents, families, and community members. All staff will be involved in developing an integrated, comprehensive plan for each child. Initiatives such as these aim to meet the needs of each child by breaking down the barriers between categorical and regular education, and creating in its place a unified education system in which all categorical program staff and regular education staff work together.

Using a Variety of Funding Sources

Creating an inclusive system means going beyond coordination among educators to creating a network of professionals, volunteers, community members, and parents to support all children. In recent years, education reformers have increasingly sought linkages with other child and family agencies in an effort to create a "seamless web" of services tailored to the individual needs of students and their families. Public, family-serving agencies increasingly are trying to coordinate their efforts and deliver services in a collaborative fashion. Some education reformers refer to this as a shift in the role of school staff from being "deliverers" of education services to being "brokers" of the multiple services that can be used to achieve the functions previously filled by disjointed public and private agencies.

policymakers are looking into combining various funding streams to support programs that are delivered in or near schools. Federal programs that may be linked include Medicaid, Chapter 1, Head Start, and the Social Services Block Grant (Title XX). Local providers have commented that, to the extent the state can integrate funding sources *before* they reach the community, the community will be able to remain focused on service provision rather than billing procedures.

The health and education systems in many states are exploring linkages through Medicaid reimbursable services that may be provided in schools. Many of the services that children and youth in special education are entitled to under the Individuals with Disabilities Education Act (IDEA), such as physical and occupational therapy, may be reimbursed through Medicaid. In fact, health-related services written into a student's Individual Education Program (IEP) are eligible for Medicaid under current interpretation of federal law. Hence, Medicaid represents one nontraditional source of federal money that states may wish to draw upon to provide special services to students. Several states, including

Louisiana, Arkansas, and Connecticut, have already developed a program for providing Medicaid-covered health care services to children at a school site and have received reimbursements from the federal government for the services delivered. Other states are still in the planning process.

Blending various sources of education funds can also help to create more inclusive schools. For example, inclusive teacher training programs that are jointly funded by (and include teachers from) special education, Chapter 1, migrant education, and general education (Chapter 2) have the potential to be more comprehensive because of the greater overall funding of the program. Such training programs can also provide a model for the type of collaboration that must take place in the school and classroom in order to create a more inclusive system.

Conclusion

In examining state-level special education finance in an inclusive system, the NASBE Study Group concluded that a general redeployment of education resources was warranted, focusing on creating greater support in the

classroom. Its major recommendation regarding funding special education is highlighted on page 3 of this brief.



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A copy of the full report, *Winners All: A Call for Inclusive Schools*, is available for \$10.00 from: **NASBE Publications, National Association of State Boards of Education, 1012 Cameron Street, Alexandria, Virginia 22314, phone: 1/800/522-5183.** Orders under \$100 must be prepaid.