

Special Education Funding: Issues and Options

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Since 1913, Ohio school districts have had the responsibility of operating special education programs to serve children with a variety of disabilities. The current system of funding special education – unit funding – has been in place since 1945. While Ohio’s funding system has remained unchanged for over 50 years, other states have dramatically altered their systems. Many of these changes have led to increased funding to lower wealth districts. Within the past year, Ohio also has initiated changes in its funding that attempt to provide greater equalization. This paper contrasts Ohio’s current system with recent reforms in other states and suggests a variety of options for reforming Ohio’s system. Included in the options are reforms that retain the unit method of funding, but provide for increased equalization.

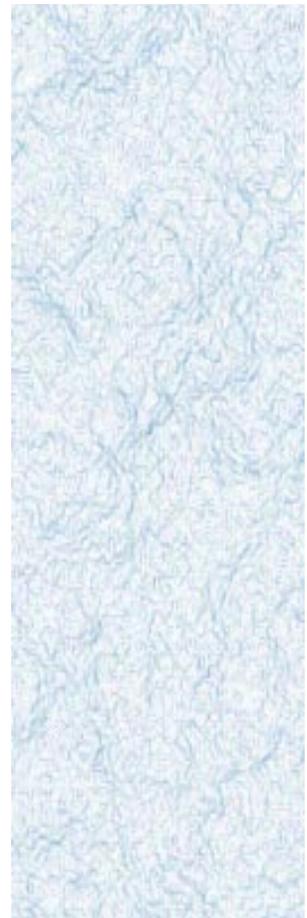
Federal Law

In 1975, federal Public Law 94-142, the Education of All Handicapped Children Act, was enacted, requiring states to develop education programs for children with disabilities that were free, public, and in the least restrictive environment possible. In 1990, the act was re-authorized as the Individuals with Disabilities Education Act (IDEA) and was again re-authorized in 1995. Many of the major provisions of the original act have remained through the re-authorizations. These major provisions include (LOEO, 1995):

- providing a free and public education to children with disabilities which is personalized and based on individual needs;
- “to the maximum extent appropriate,” children with disabilities are to be educated with non-disabled children;

- a multi-factored evaluation of the child is to be done to determine if they have a disability;
- each child with disabilities is to have an Individualized Education Program (IEP) written for them;
- procedures regarding the identification and placement of the child, as well as due process steps for handling disagreements between schools and parents.

Each state must comply with the provisions of the IDEA in order to be eligible for federal special education funds. Even if a state did not wish to receive federal funds, they would still be required to comply with the mandates, or risk being sued by the parents of students with disabilities. Every three to four years, the Office of Special Education Programs (OSEP) within the U.S. Department of Education, conducts an on-site evaluation of the program to assess



compliance. The Ohio Department of Education was last reviewed in September of 1994.

The distribution of federal funds to the states is based on a national average per-pupil expenditure for all children. Each state is entitled to receive an amount equal to 40 percent of the national average, times the number of special education students in the state. (The number of special education students used in the federal distribution formula cannot exceed 12 percent of the total enrollment of the state.) However, the federal funds available are inadequate to cover the 40 percent allowance. Therefore, the allocation to each state is reduced and currently amounts to between 7 percent and 9 percent of the national average.

Nationally, federal funds are seven to nine percent of special education expenditures.

The federal contribution to special education in Ohio was \$89,062,163 in (state) FY 1995. Of the total amount allocated from the federal government, the state is able to spend up to 5 percent on (state-level) administrative expenses, 20 percent on support services, monitoring and compliance reviews, and the remaining 75 percent must go to the school districts.

State Funding

Every state provides additional funding to their local education agencies (i.e. school districts) for special education services, programs, etc. Each state determines their own unique formula or mechanism for the distribution of such additional funds to the local education agencies, depending on particular needs and objectives. While each state has their own distinct formula, six basic formulas have been identified (O'Reilly, 1993) and can be grouped by whether they provide significant funding equalization, no equalization, or could provide equalization.

Significant Equalization

Under these formulas, poorer districts would receive more special education funds than wealthier districts; or districts with a greater percentage of ADC students receive more than districts with a low ADC percentage. These formulas combine basic aid and special education into one formula.

- *Weighted formulas:* provide funds for each child with disabilities as a multiple of the general education per pupil reimbursement. For example, districts might be awarded twice the basic aid allocation for each special education student. This would create greater equalization. The poorer districts receive more per regular education pupil, and could, therefore, receive more per special education pupil than wealthier districts.

No Significant Equalization

These formulas, in their basic form, do not take into account the differences between districts, such as wealth, location, percentage of ADC students, etc.

- *Unit formulas:* provide a fixed amount of money for each qualified unit of instruction, administration, and/or transportation. Funding is disbursed for the cost of the resources needed to operate the unit, such as salaries for teachers and aides. Regulations typically define pupil-teacher ratios or class size and caseload standards. Ohio currently uses a unit formula.
- *Personnel formulas:* provide funding for all or a portion of the salaries of personnel working with children with disabilities. No other costs are reimbursed. This can be viewed as a special case of a unit formula.

- *Straight sum or flat grant formulas:* provide a fixed amount of money for each eligible student with disabilities, regardless of disability or placement. A cap on the percentage or number of students for whom reimbursement will be provided may be applied to control costs.

Year	Resource Based (Unit, Personnel formulas)	Straight Sum, Flat Grants	Pupil Weighting	Cost Based (Percentage, Excess Cost formulas)
1982	9	18	12	11
1992	8	9	18	15

could have such equalizing factors incorporated into the formulas.

Could Provide Equalization

Depending on how the formula is designed, equalization could easily be incorporated into the formulas.

- *Percentage-based formulas:* provide to school districts a portion of approved costs of special education services. Reimbursable costs usually must be in approved categories and cost ceilings may apply. Equalization could be provided by granting lower wealth districts a greater percentage of approved costs and higher wealth districts a smaller percentage. For example, lower wealth districts could be reimbursed for 80-90 percent of their costs, and wealthier districts could receive only 10-20 percent of their costs.
- *Excess cost formulas:* used to reimburse school districts for all or part of the costs of educating children with disabilities that are over and above the cost of the regular education program. This could be equalized by providing more to the lower wealth districts than is granted to the higher wealth districts.

The basic formulas listed above serve only as frameworks of a state's funding mechanism. Many additional factors could be incorporated into the formulas (such as district wealth or population growth). Even formulas which do not provide equalization in their basic form

The table above summarizes the types of formulas used and the number of states using that formula in 1982 and 1992. As noted above, the pupil weighting and cost based formulas either provide or could provide equalization; whereas, there are no equalizing factors inherent in the resource based or flat grant formulas. As the table above shows, over the ten year period, there was a movement away formulas which do not provide equalization (resource based, flat grants), and toward formulas that do (pupil weighting, cost based).

Ohio is one of the eight states using a resource based formula. Of these eight states, five have incorporated equalizing factors into their formulas, such as population changes, cost of living or cost of education adjustments, and district wealth. As of 1992, only Ohio and Wisconsin had no such factors built into their formulas. In FY 1996, Ohio began equalizing a small portion of the special education aid.

Special Education in Ohio

Ohio's education system began serving hearing impaired children as early as 1822. By 1913, school districts were given the responsibility of operating special education programs to serve children with other disabilities.

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In 1975, the federal government issued mandates regarding how children with disabilities were to be served by the states.



The state tightened the controls over special education programs in 1972 when school districts were required to report to the Department of Education their plans for identifying and placing disabled children. In 1975, the federal government issued mandates regarding how children with disabilities were to be served by the states [see previous section, 'Federal Law']. At the time, Ohio laws were not in compliance with the new federal mandates. Therefore, in 1976, Ohio amended Chapter 3323. of the Revised Codes (Education of Handicapped Children) in order to ensure compliance and eligibility for federal funding.

Any child over the age of 5 who is disabled is required by law to be identified with a disability category. Each city, exempted village, and local school district is responsible for operating their own special education programs. Generally, a child receives special education services in the district in which the child lives; only a small percentage attends a special education program in another district or a program maintained by county boards of education or county boards of Mental Retardation and Developmentally Disabled (MR/DD). The placement of a child into an MR/DD school is determined by the local school district and the parent and is based on the services needed by the student.

When school districts first began to serve special education students, they were reimbursed by the state for the expenses of their programs on a per-

pupil basis. In 1945, the state changed to a unit funding method that is still used today.

A unit is a group of children in the same disability category. Currently, there are 12 disability categories in the state of Ohio and the number of children constituting a unit depends upon the disability category. As a result, districts are required to group and serve the children by their disability. However, districts are moving away from such grouping as a result of the options available through alternative service delivery models, depending on the individual needs of the child.

Special education has evolved as essentially a separate system from regular education. Children in special education units are not counted in the school district's average daily membership (ADM) for the purpose determining state basic aid for the district.¹ Therefore, the two programs (regular and special education) compete with each other for state and local funding from the same constrained pool of resources.

In Ohio, approximately 10 percent of the children receive special education services. Since 1977, the total number of children in public schools has dropped, while the number of children receiving special education services has risen steadily. In FY 1994, \$474.4 million was spent by the state on special education, with 12,189 units funded. In FY 1995, \$498.4 million

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¹ Districts, however, are able to count special education students as basic aid students instead if the district would receive more money by doing so.

Ohio Unit Funding Formula

Ohio school districts are allocated special education funds using a unit formula.

The formula for a special education unit is:

$$\text{Teacher Salary Allowance} + 15\% \text{ of Salary Allowance} + \text{Classroom Allowance} = 1 \text{ Unit} \\ (\text{fringe benefits})$$

The salary allowance is based on the teacher's position at the minimum salary schedule as provided for in current state law.

was spent by the state to provide funding for 13,634 units. The estimates for FY 1996 and FY 1997 are \$519.9 million and \$540.7 million, respectively, funding 13,784 and 13,934 units, respectively.

State budget requests for unit funding are based on the number of units there are currently and how many units are requested to be created. Besides the number of units being a cost driver, the teacher's position on the minimum teachers' salary schedule, the percentage allowed for fringe benefits, and the unit allowance also determine unit funding.

Costs continue to rise for the school districts for many reasons. Some special education students require short/long term residential services. However, insurance companies are no longer funding such services resulting in the districts providing services such as home instruction or aides. Districts are also encountering a growing number of students with intensive needs. At the same time, parents of special needs children are demanding more and more services. Also, there are substantial costs associated with litigation, if, for example, a parent sues a district because they do not feel their child's needs are being adequately met.

While it is fairly easy to determine the federal and state contributions to special education, it is not known how much of a district's special education costs are covered by local sources since "local" can refer to a combination of state basic aid money and local property and income taxes. When federal and state special education funds are distributed to the districts, they become a part of the district's general fund, which includes other state and local revenues as well. Most district programs and activities, including special education, are financed from this general fund, though the districts are required to

spend their special education allocation on special education services.

Ohio's special education funding system is intended to fund every unit the same, regardless of district wealth. Districts receive approximately the same per pupil overall, though units with more severely handicapped students will have fewer students than other units.

While it may seem "fair" that each district is given (approximately) the same amount per student, there are inherent differences between districts that the funding system does not account for. For instance, some districts may benefit more than other districts under this system. A district that could afford to maintain its own locally funded special education unit and a district that could not provide special education services without state funding will each receive the same amount of funding per unit. Also, teachers with a higher placement on the teachers' salary schedule (though salary will cap out at a point), will increase the unit funding for the district. At the same time, though, the state reimbursement for special education services represent a larger portion of total district special education costs for poorer districts than for wealthier districts. In addition, the Legislative Office of Education Oversight (LOEO) in their March 1995 report, "Special Education Issues for Discussion: Funding, Inclusion, and Impact", found that urban, inner city, and poor rural² districts spend a larger share of their budget on special education services than other districts.

Starting in FY 1996, the increases in unit funding were partially tied to a district's wealth. Half of the unit increase was equalized based on a district's property wealth and cost of doing business factor; the other half of the unit increase was not equalized,

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² It should be noted that these district classifications are no longer used by the Department of Education.

with each district receiving the same amount. This resulted in the poorer districts receiving a greater increase in unit funding than the wealthier districts. Districts who are not entitled to basic aid³ do not receive any of the equalized portion.

It should be noted that the state of Ohio is not required to provide complete special education funding to school districts. While the number of units funded has continued to increase, funding is not provided for all special education units. Some units are funded locally due to a shortage of state units or because a unit is not considered by the state to be a priority unit. Some districts apply year after year for additional state-funded units and are continually turned down.

Districts are struggling to meet the needs of their special education students, with rising costs a central issue. Several options are employed by school districts to control costs, though some are more desirable (and legal) than others:

- Forming a co-operative: If a small district had too few special education students to qualify as a state funded unit, the district could join with another district to share services and expenses. Often, it may be necessary to join a co-operative in order to secure federal funding as well.
- Limiting the number of children evaluated and, thus, identified as needing special education services.
- Identifying students as having a disability for which a funded unit already exists.
- Recommending the least expensive appropriate services on a child's IEP.

It has been upheld in court that service costs can be considered by a district when making decisions on student placement and services (LOEO, 1995).

The State of Other States

This section profiles three states that have recently changed their special education funding formulas: Vermont, Oregon, and Kentucky.

Vermont

In 1970, Vermont enacted a 10-year funding system using a personnel formula, designed to reimburse school districts for 75 percent of "approved mainstream special education personnel." (Montgomery, 1995) The system created incentives to hire special education personnel without consideration for student needs since it was in a district's interest to hire all approved personnel to secure the maximum amount of funding available. The system discouraged creating alternatives for students who were not in the mainstream since funding was only provided for mainstream services. Also, the system did not allow the school districts flexibility in the use of funds because special education personnel could only serve special education students.

During 1982-1987, Vermont's system of funding did not keep up with the increasing costs of special education, resulting in the withdrawal of state support for mainstream aides, mainstream special educators, and transportation services for special education students. More and more, local districts were forced to deal with the costs of mainstream special education services. This created incentives for districts to place the children in regional programs, outside of the district.

Further, the formula was not predictable. Often, the number of special education positions allowed in each district depended on the district's ability to negotiate with the state. The relationship between state and local

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³ Because of the way the basic aid formula is designed, school districts with a very high taxable valuation are not eligible to receive basic aid but receive state basic aid under the guarantee. Over the next several years, these districts will be phased off the guarantee.

administrators became more important than student needs when determining state aid allocations. Therefore, many districts were unsure about the level of funding from year to year. Another perceived flaw in the funding mechanism was that it did not take into account district wealth when determining allocations. The general consensus among stakeholders was that the system was “inflexible” and encouraged the identification and the placement of children in more restrictive environments.

In 1987, a commission was appointed and charged with determining the effects of the state’s funding system and recommending changes. New goals for the funding system were defined: predictability, flexibility, that it be based on actual costs, and that there be no discrimination against areas with low student populations.

Based on the recommendations of the commission, the stated objectives for reforming the special education funding system were (Montgomery, 1995):

- More predictability
- More equitable statewide distribution of special education funds
- Placement neutrality
- Funding based on actual expenses for special education
- Protection of small districts from catastrophic costs
- A 50/50 sharing of costs between state and local districts
- Increased flexibility in program design

In May of 1988, funding reform came in the form of Act 235, which established a system where special education costs would be shared equally between the state and local school districts. A percentage reimbursement system was used where local districts were reimbursed for a portion of their special education

expenditures. In addition, districts received a block grant based on the number of identified special education students.

In 1990, Act 230 further improved the funding system to help districts better meet the needs of all students. Since the block grant had been based on the number of “identified” special education students, there had been an incentive to identify as many eligible students as the district could. Act 230 changed the block grant to be based on total student membership instead of special education student membership. Also, Act 230 provided for staff development opportunities and added more flexibility to the funding system.

In order to prevent districts from losing state funding if their special education enrollments decreased, in 1993 a new rule allowed districts to establish “core staff levels.” Districts would be reimbursed for the salaries of these staff (through special education funding), provided they are performing either special education or remedial services. Funding for any additional staff, over the core level, was subject to state approval. At a minimum, school districts would receive the funding for their core staff, regardless of their special education enrollments.

Vermont shifted to a combination of a percentage based and excess cost formula (the result of Acts 235 and 230) which consists of three parts (Montgomery, 1995):

- Mainstream block grant: based on student enrollment and covers a portion of a districts “mainstream service cost;” may be spent on “any allowable remedial or compensatory services.”
- Extraordinary service reimbursement: an attempt to

Vermont shifted to a combination of a percentage based and excess cost formula...

protect districts from unusually expensive individual cases.

- Intensive services reimbursement: to help cover the remaining “allowable” special education costs not covered by federal, state, or local funds. This is allocated by formula and based on district wealth.

The formula was considered placement neutral...

The formula was considered placement neutral because each district would receive the same reimbursement regardless of where a special education student was placed. At the same time, the formula protected districts from “catastrophic expenses” and provided them “maximum flexibility” because funds could be used for either special education or remedial services.

Subsequent studies of the impact of Vermont’s new special education funding formula reported on some resulting conditions. A 1993 report found, in general, there was a 17 percent decrease in the number of students receiving special education services. This was attributed to more children being absorbed into the mainstream. The report also found that the roles of special educators had been expanded to the regular classroom, resulting in more students being served. A later 1995 report found that, because of the placement of special education staff in the regular classroom, regular education students benefited.

After the new formula was implemented, however, there was an unexpected large, consistent increase in expenditures. Most of the increase was attributed to the “extraordinary service reimbursement” portion of the formula because of a large increase in the number of students identified as eligible for high cost services. Also accounting for expenditure increases was the addition of more aides into the regular classroom to assist with mainstream special education students.

[However, there was] ... a large increase in the number of students identified as eligible for high cost services

Unfortunately, the local districts had to shoulder the bulk of these cost increases.

In light of the rising burden on districts, concerns arose regarding the adequacy of state funding. The 50/50 sharing of special education costs between the state and local districts has yet to occur. Also, there was concern for the training and professional development for teachers and aides, which was still perceived as inadequate, despite the changes brought by Act 230.

Despite the concerns, though, the new formula has enabled the needs of all students to be met on a higher level. Particularly because of the use of special education teachers in the regular classroom and the teaming of regular and special education teachers. Overall, stakeholders found the new funding formula to be more flexible, predictable, and placement neutral, and were supportive of the changes.

Oregon

Historically, about 80 percent of all education costs have been covered by local property taxes, with the rest provided by federal and state funds. The state provided support for special education through grants-in-aid awarded directly to local districts as reimbursement for the additional costs associated with providing special education services. The reimbursement came from two state funds and, during 1987-1991, accounted for less than 10 percent of actual costs. However, because districts were reimbursed for the additional costs of special education services, the system created incentives for the district to recommend more expensive services in order to increase their state funding.

This “excess cost model” however, had been accused of being paperwork intensive and “patchwork.” The model design resulted in higher spending districts receiving more in grants than lower spending districts because district wealth was not a factor in the formula. It was such inequity that helped pave the way for reform.

At the same time that Oregon was considering a new special education formula, Oregon voters passed a measure to limit their property taxes starting in 1990. Additional revenue could no longer be raised from property taxes, resulting in the state becoming responsible for a larger share of education costs.

Stakeholders views of the system were quite unfavorable. It was regarded as inequitable, cumbersome, complex, and not placement neutral. It was also felt that the program was severely underfunded. Because of the provision that froze property taxes, the increased reliance on the state to fund education, and stakeholder dissatisfaction, a new formula had to be developed, with “equity” a key issue.

The principal objectives of special education funding reform in Oregon included (Montgomery, 1995):

- To distribute funds to districts to serve all students without creating incentives for placement
- To reduce the paperwork burden
- To link special education funding to regular funding
- To maximize local flexibility

In 1991, Senate Bill 814 was enacted, moving Oregon from a cost-based system (the excess cost model) to one of pupil weighting. School districts were allocated two times the per pupil amount of a regular education student for a special education student (for example, if school districts were

allotted \$2,000 per regular education student, they would be allotted \$4,000 for each special education student). A cap of 11 percent of the total school population (measured as average daily membership) was placed on special education enrollments. Any district with special education enrollments greater than 11 percent of their ADM would have to apply to the state department of education for additional funds, which were distributed at a lower rate.

Some characteristics of the new system are that it is placement neutral and disability condition neutral, it has significantly reduced the paperwork requirements, and the funds do not have to be spent on students with disabilities — that is, schools are given latitude in the use of their special education funds. Also, district wealth is factored into the new formula.

The general feeling among stakeholders is that the new formula is more equitable. However, there are still many complaints that overshadow the improved equity. Specifically, there are concerns over inadequate funding and the resulting decreases in funding levels some districts have experienced as a result of the reform. There is also concern over the inadequate resources provided for staff training and development. Namely, the training of regular education teachers in dealing with special education students in their classrooms. Another common issue is how to assist the smaller, rural districts who encounter students with high cost needs.

One result of the new system has been the incentive for districts to identify up to the 11 percent ceiling in order to secure the maximum amount of funds. Also, because funding is now placement neutral and funds are not required to be spent on special education services, there has been

Oregon Special Education Reform Goals

- **Serve all without creating incentives for placement**
 - **Reduce paperwork**
 - **Link to regular funding**
 - **Maximize local flexibility**
-



concern expressed that children would be placed in cheaper, less adequate situations so districts can save money. This has required parents to be very aggressive in making sure their children receive the services they need.

Kentucky

In 1989, the elementary and secondary education system of Kentucky was ruled unconstitutional. The following year, HB 940 was enacted, establishing a new school finance system: Support Education Excellence in Kentucky (SEEK). The new system was composed of three tiers or components (Chambers, et.al., 1995), with special education funded through a weighted-pupil formula:

- *State Adjusted Base Guarantee:* a guaranteed amount of revenue per pupil to each school district. For example, each school district received \$2,495 per pupil for the 1993-94 school year. In addition, schools can receive additional funding through the use of weights and add-ons. For example, at risk students are weighted at .15; special education students are weighted depending on their classification; an additional amount per pupil is granted for home and hospital student care; and a transportation add-on. Each school district is required to levy at least 30 mills for their local share of education costs.
- *Tier I:* School districts are able to raise additional revenue, up to 15 percent of the adjusted base guarantee (the base amount plus add-ons). This component is optional. State funds are used to ensure that each district participating in this program will receive the same per pupil revenue for the same tax effort. The tax levy does not need to be approved by the voters.

- *Tier II:* This component is also optional. School districts are allowed to raise additional revenue, limited to 30 percent of the amount provided by the adjusted base guarantee and Tier I, combined. The state does not provide any funds and the tax levy must be approved by the voters.

Special education funding under the SEEK system, as indicated above, is in the form of a weighted-pupil formula. Three categories and three weights were developed. The first category, the Low Incidence Category, includes functional mental disability, deaf-blindness, hearing and visual impairments, autism, traumatic brain injury, and emotional behavior disorder. This category weights pupils at 2.34, meaning that each student in the category is counted as 2.34 students when determining the exceptional child add-on for the district. The second category, the High Incidence Category, weights pupils at 1.17 and includes such conditions as mild mental disability, orthopedic/physical disability, and developmentally delayed. The third category is the Speech or Language Impairment Only category which weights pupils at .24.

Special education funding is treated as an add-on because it provides for the *additional* costs associated with serving special needs children. The additional funds received do not have to be used for special education services, though, there are specific requirements regarding special education spending the districts must adhere to. Along with the flexibility in the use of special education funds, special education teachers are allowed to assist students without disabilities in a regular classroom.

As in many other states, the districts are concerned about insufficient state and federal funds. Also, there have

Kentucky

- Weighted-pupil formula
- 3 Special Ed. categories and weights

been complaints that the new system is based not on actual service costs but on what is available for distribution. Other concerns include: the burden of paperwork; inadequate staff development; and the problems of smaller districts serving the needs of their special education students.

The new formula is considered to be placement neutral, as funds are tied to disability and not to placement (i.e. in a unit, in the classroom). The new formula also provides the school districts with flexibility in the use of funds and in the services it provides and it is viewed by special education directors as providing incentives “to do what is best for the child.” Also, by allowing special educators to assist students without disabilities, the new system is seen to benefit all students.

A 1995 report examined the impact of the funding reforms in Kentucky. The study found that, overall, school districts’ special education revenues (from state and federal funds) are approximately the same as school districts’ special education expenditures. However, the study did note that there were sizable variations between the districts in the revenue and expenditure amounts for special education.

Also examined was the extent to which the weights assigned to the different special education classifications were representative of the actual additional costs to serve those students. Overall, revenues and expenditures in the different categories were in line but, again, it was found that there were large variations between the districts, depending on the combination of students with particular disabilities. The report concluded that if greater equity is to be a goal, a “more detailed categorization” is required where costs would be more in line with the revenues generated.

Do We Need a Change?

Ohio is increasingly in the minority with respect to the special education funding formula used. There has been no trend toward any one formula, but there has been a trend toward equalization in the nation with respect to special education funding formulas. States are either shifting to formulas which provide significant equalization, or are incorporating equalizing factors into their existing formulas. Currently, 33 states either use a formula that provides equalization and/or have incorporated equalizing factors into their formulas.

In 1992, W.T. Hartman developed a comprehensive list of criteria for consideration when evaluating or selecting a special education funding formula.

Based on some of these criteria, here is how Ohio’s special education funding formula stands up.

Ohio’s special education formula *meets* the following criteria:

- *Understandable:* The objectives and it’s implementation are both understood.
- *Predictable:* School districts are able to plan ahead and can count on state funding from year to year.
- *Fiscal accountability:* The funds are required to be spent on special education services.
- *Cost control:* Costs are controlled for the state level since funding levels are set ahead of time.
- *Politically acceptable.*

Ohio’s special education formula *does not meet* the following criteria:

Ohio is increasingly in the minority with respect to its special education funding formula.

...there has been a national trend toward equalization.

- *Cost-based:* Ohio's formula is resource-based; funding is not based on actual costs.
- *Placement neutral:* For example, the formula tends to create incentives for students to be placed in a disability category for which a unit already exists.
- *Identification neutral:* State and federal courts have said the cost of services to be considered by a district in designing a student's IEP, discouraging the use of more expensive services.
- *Connection to general education funds:* special education funding is calculated separately from basic aid and is not part of state equalization.

Depending on the goals of a state's special education program, meeting all of the criteria most likely will not be possible or desirable. Some criteria directly contradict other criteria. For example, if cost control is one of the objectives of the formula, then making the formula placement and identification neutral could work against controlling costs if the result could be more students identified and for more expensive services. Therefore, it is necessary to have a clear vision of the goals of both the special education program and the funding formula.

Policy Options

As seen in the profiles of the states that changed their special education funding formulas, some problems were solved by the new formulas, other problems were created, and still other problems persisted without improvement. Research has shown that simply changing the funding formula will not result in large changes in student placement or service delivery in special education (O'Reilly, 1995). A "new and improved" funding formula does not

mean a "new and improved" special education system.

If a new funding formula is desired in Ohio, the following is recommended.

As a first step, a commission or committee could be formed to address the issue of special education funding. The commission should consist of both special education and overall education personnel. Non-education policy makers and tax payers should be a part of the commission as well. The purpose of the commission could be to fully study the current special education funding system and determine any future directions. For example, the following recommendations could be undertaken by the commission.

The objectives for a new funding system be explicitly spelled out. This would include a complete examination of the current funding formula to determine what is working and what is not. At the same time, the funding objectives should complement the goals of the special education program so that the two are not working against each other, crippling improvement

A complete examination of the various funding formula options available as well as their respective advantages and disadvantages. This information should be compared to the stated goals of the funding reform. It is necessary to balance the reform objectives with the characteristics of the various tools.

Specifically, it is recommended that Ohio pursue equalization in special education funding. Attention should be given to both the pupil weighting and the percentage based formulas as options:

- 1) With the proper controls, the appropriate weights, and adjustments made for district wealth,

each district could have the same opportunities and resources as other districts to serve their special education children;

- 2) The percentage of costs that a district would be reimbursed for could be adjusted for district wealth. That is, the poorer districts would be reimbursed for a greater portion of their costs than wealthier districts;
- 3) Or, the current formula could be modified to provide more equalization by incorporating district wealth into the formula and then using percentage reimbursement with a sliding scale of district wealth. To illustrate: an “average” district is allocated \$38,000 from the state for their special education unit, but the actual cost of the unit is \$50,000. The state could adjust its unit allocation up to \$50,000 (the cost of an “average” unit) but district wealth would determine the actual

allocation of the district. The poorest districts would be entitled to the full \$50,000 and the wealthiest districts would be entitled to little or nothing.

Also at issue is the basic aid recalculation many districts are entitled to. School districts who would receive more funding by counting their special education students as basic aid students are able to do so to receive more money, indicating that many special education units are underfunded. If Ohio stays with unit funding or changes their funding formula, this issue should be considered and addressed.

An effective evaluation procedure should be developed to track the effects of any formula changes, and whether the formula is achieving its stated objectives. In this way, if further changes need to be made to the system, they can be determined and made in a timely manner.



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