

at this level seems closest to the types of base funding approaches with frozen allocations just described. Traditionally, a major point in these systems is not only to reduce allocations for districts if the number of identified students goes down but also to prevent increased allocations if the number of identified students goes up. One problem with this approach is that the base funding amount may prove problematic even in its first year of implementation, if there were inequities in the old system, and could become more problematic with changes in local conditions over time. Because it has no natural self-adjustment mechanism, it will become farther and farther removed from any measure of true student need, and therefore, some adjustment mechanism may be required over time.

What has been the experience of these census-driven-formula states? Vermont offers one example, even though it is not a pure census-based system. In addition to the census-based component, there is a reimbursement component and a third tier that relates to the extraordinary costs that individual districts may face.

Based on a phone survey administered across a sample of district administrators, state policy makers, and special education parents in the state, the overall response to the Vermont system seemed quite positive. The state also realized the expected impact of such a removal of identification incentives—there was a fairly substantial drop in the count of special education students statewide. There were also substantial increases in the numbers of students with disabilities receiving more inclusive, integrated services in their neighborhood schools since the advent of this reform. The State Director of Special Education attributes this at least partly to the change in the funding formula, which removed fiscal disincentives to such inclusive placements; he also points to the years of training necessary to prepare staff both psychologically and logistically for such a transition.¹¹

Another lesson learned from Vermont is the importance of follow-up evaluation after decoupling special education funding from a count of special education students. If this revised funding policy leads to a reduction in the number of students identified for special education, there will be questions from the state legislature about why funding for special education needs to be maintained at current levels.

The Vermont reform provided significant additional flexibility in the use of funds, as *Focus* (Fruchter et al., 1995) recommended for New

York City. Although the number of students assigned formal special education labels dropped, the number of students receiving direct services by special education staff actually increased. Thus, similar to the *Focus* recommendations, special education resources were being used in a more flexible and efficient manner to meet the needs of all students and especially students at risk. Evaluation findings showing these results were important in encouraging the state to maintain current levels of support for this program (Vermont Department of Education, 1995).

Perhaps Pennsylvania provides the most powerful example for those interested in implementing the *Focus* (Fruchter et al., 1995) recommendations in New York City schools. Prior to the Pennsylvania reform, costs and special education identification rates were rising at a steady pace, largely because the state had a full reimbursement funding system—it reimbursed districts for basically all that they spent on special education. It was no surprise that this type of blank check led to increased expenditures and referrals in the special education system. Pennsylvania also had a history of decentralization services being provided in special schools run by regional special education units. Similar to the situation in New York, this type of non-locally-based system led to relatively high levels of segregated and remote placements for students with disabilities.¹²

In response, Pennsylvania developed a new funding formula that was quite simple in its orientation but also quite controversial, because it strongly emphasized services at the local level through the redirection of funds away from the providers of regional services. Perhaps the point most important for New York to consider is that Pennsylvania now allocates state special education funds directly to local districts, whereas previously, a substantial proportion of these state funds had gone directly to regionalized service providers. This relatively simple redirection of funds altered the entire decision-making structure because districts could now decide whether to provide services themselves in the home district environment or to purchase services from the regional provider.

This decision became increasingly based on the economics of home versus remote provision and on the most appropriate alternative for each individual child. The result was that many students with special needs returned to their home districts to receive services. Regional

operators either had to shut down or change considerably the way they had been doing business. Many of these special district staff members seem to have been hired by local districts, and students with special needs seem to be receiving a less restrictive set of services in their home schooling environments.

Pennsylvania's reform also developed a statewide prereferral system based on ISTs, the same concept at the core of the *Focus* (Fruchter et al., 1995) recommendations described earlier in this chapter. The IST team in Pennsylvania is composed of the referring teacher, the IST teacher, and the school principal. The IST teacher is responsible for leading the IST process at the school and for providing any interim interventions that the team may recommend. This program also calls for the state to provide an intensive year of training for all school staff during the first year of implementation followed by a year of follow-up training. Furthermore, the program is coupled with a state aid system that contains no fiscal incentives for high-cost placements or for identifying a greater number of special education students. Thus, the entire system is designed to provide local districts with the resources, training, and discretion they need to provide a broad array of educational services to students with varying educational needs.

Although Pennsylvania requires that special education funds be spent on special education services, IST services are included in these costs for auditing purposes. The state provided for a 5-year phase-in period to develop IST teams in every school. During the phase-in, participating schools were to receive grants of \$30,000 per year to hire an IST teacher, although funds for statewide implementation of ISTs during the phase-in period were not available for all years. Consequently, establishment of ISTs in all schools was uneven.

The state anticipated that the availability of IST services and the fact that state special education aid is not tied to the number of students identified would cause the state's special education counts to drop. Consequently, after 2 years, it was expected that local districts would be able to support the cost of IST teachers through savings from this reduction of direct special education services. This expectation has not been fully realized, and full IST implementation has not occurred as quickly as had been hoped or expected. In addition, although the count of special education students in Pennsylvania has steadied, the expected appreciable decrease in the special education population statewide has thus far not occurred. One reason that the special education

counts have not dropped may be that the state still requires that special education funds be spent exclusively on special education students. Thus, flexibility in the use of funds is still limited, and it may still be difficult to get needed remedial services to students outside of special education. However, an evaluation of IST implementation in Pennsylvania found it to be a cost-effective intervention (Hartman & Fay, 1996).

Attempts to incorporate intervention systems where special education aid is directly tied to the number of students identified may face even more formidable implementation hurdles. As special education counts drop in these types of systems, local districts may stand to lose considerable state special education aid. In Oregon, for example, the funding system is based on a single weight, which is applied to all special education students up to a cap of 11%. Because there is no requirement that these funds be spent on special education services, districts have discretion to set up alternative intervention systems, such as ISTs. However, as special education counts drop in these districts, state aid is lost. As a result, phone interviews with local special education directors in Oregon revealed that some of those who had previously incorporated IST-type systems in an attempt to reduce their overall special education counts were now under pressure to get their special education counts back up to the funding ceiling of 11%. Such pressures, however, do not exist in population-based funding systems, such as those found in Pennsylvania, Vermont, Massachusetts, and Montana, because state aid is not dependent on the number of special education students identified. For a discussion and qualitative evaluation of special education finance reform in Oregon, see Montgomery (1995a).

In New York, it is unclear how the prescribed expiration of the 5-year hold-harmless provision specified in the recommendations might affect special education identification patterns. The lesson for New York City may be that the removal of fiscal incentives for the further identification of students may not be sufficient to decrease inappropriate referrals, that this removal must be accompanied by fairly extensive training and the clear establishment of alternative intervention systems for students at risk and that the temporary lifting of fiscal incentives for identification may have little effect if it appears that this is a short-term commitment (e.g., the 5-year hold-harmless period followed by a finance system with incentives to identify).

The New York State Special Education Finance Formula

Clearly, the *Focus* (Fruchter et al., 1995) recommendations must be made compatible with New York State's special education funding; otherwise, state provisions could limit the added flexibility in the use of special education funds sought by these recommendations or, in an even worse case scenario, the city could lose current levels of state support. District-level reforms that conflict with state regulations and that could result in a loss of local funds will not be likely to succeed over time. Such concern on the part of local districts has provided much of the pressure to reform what have been seen as overly restrictive and inflexible state policies.

Problems with New York State's current special education finance system have been that it has encouraged the overreferral and overplacement of students into special education and has created incentives to place students in more restrictive settings. It has not promoted placement in less restrictive settings and has not created incentives to educate students in their home schools. Short of changing the statewide system, the implementation of *Focus* (Fruchter et al., 1995) recommendations requires that the city request a waiver from the State to guarantee funding over a 5-year period and allow considerable additional flexibility in the use of funds.

In addition, New York State has received pressure from the U.S. Department of Education to change its special education funding system. A number of states have been scrutinized by federal monitors about whether their special education funding formulas contain incentives for more restrictive placements. In the U.S. Office of Special Education Programs Final Monitoring Report (1994), New York was cited based on this issue. In its response, the state refused to agree to any corrective action, because it did not believe that the federal government had authority over such areas. However, since this prior report, federal authority has been enhanced in this area through the reauthorization provisions cited earlier regarding newly placed burdens on states to demonstrate that their special education funding formulas do not promote restrictive placements.

New York State has been working over the past several years to develop alternatives to the current special education funding provi-

sions. Although the power to change the system is held primarily by the State Legislature, the State's Board of Regents has proposed funding reforms consistent with the *Focus* (Fruchter et al., 1995) recommendations described in this chapter, and these are now under review by the Legislature. According to the New York State Education Department (1996, pp. 8-14), the regents have recommended that New York State do the following:

- Provide a 100% increase (from \$40 to \$81 million) in aid for prevention and support services in general education to strengthen the capacity of school districts to provide support services and other alternatives to students experiencing learning difficulties.
- Determine the count of students with disabilities for special education aid by using a state average incidence rate of disability in school children that varies (increases) with the district's concentration of children living in poverty.
- Implement a transition to the new funding formula by maintaining the current special education funding for 1997-1998, investing dramatically in general education support and preventive services in 1997-1998 and phasing in the new funding system over 4 years beginning with the 1998-1999 year.
- Continue current laws for students with severe disabilities requiring excessive high cost aid in public schools, students with disabilities requiring summer programs, and students with disabilities educated in approved private special education schools.
- Direct the State Education Department to implement an evaluation plan to assess the effects of the new funding system.
- Under the direction of the State Education Department, implement a statewide training effort to provide special and general educators with the skills to educate students with disabilities in the least restrictive environment.

Although it is too soon to know the prospects of these reforms, clearly, they contain many of the elements in the *Focus* (Fruchter et al., 1995) recommendations, and they are consistent with reforms in other states. If implemented, they will contribute to an environment where New York City can move ahead to reform its own system.

The time may be right for New York City, the largest school district in the state and the country, to exercise leadership by encouraging the state to reform its special education funding provisions. Some of the

guiding principles presented in this chapter may provide the impetus needed to assist the state in this important area of reform. The possibility of a waiver for New York City might also be considered by the state to help pilot some of these proposals before implementation statewide.

There is clear hope for significant reform. In addition to other states, major census-based reform, as proposed for New York State, has been enacted at the federal level and in California within the past year. Pressure also seems to be continuous in many other states. In New York, the regents have proposed a plan that they believe will lead to improved outcomes, and the city schools chancellor has launched a reform initiative consistent with the *Focus* (Fruchter et al., 1995) recommendations. But as always in education reform, the struggle is to turn strong proposals into successful implementation. In New York City and New York State, the battle is far from won.

Notes

1. *Jose P. v. Ambach*, 669 F.2d 865 (2d Cir. 1982), on remand, 587 F. Supp. 1572 (E.D.N.Y. 1984).
2. The elementary and middle schools in New York City are organized into 32 community school districts with some central oversight, whereas the high schools are administered centrally.
3. For examples from New York City schools, see Lieberman, Falk, and Alexander (1994); Ancess (1995); and Falk and Darling-Howard (1993).
4. Elementary and Secondary Education Act, Pub. L. 89-313 (1966).
5. Individuals With Disabilities Education Act, Pub. L. 101-476 (1990).
6. Suppose we have a school with 750 students, 75 of whom have been classified as disabled and placed in the following configuration: 24 students in two classes of 12 with one teacher in each class and $\frac{2}{3}$ of a paraprofessional in each class, 18 students in two classes with one teacher each and one paraprofessional each, and 33 students in two resource rooms with one teacher and one paraprofessional in each. Using average salary for teachers (\$40,000) and paraprofessionals (\$15,000) the 6 teachers and 5.33 paraprofessionals would generate \$320,000. Using a 28:1 ratio in general education and a \$40,000 teacher salary, 75 students in general education would generate 75/28 or 2.67 times \$40,000 or \$107,000. This \$320,000 does not include the cost of personnel such as special education guidance counselors, speech teachers, and so on who would be assigned based on IEP requirements.
7. Transportation costs will be reduced with a higher percentage of students attending school closer to home, and we expect that informal assessment will be more cost-effective than the current formal assessment system. In addition, we call for

significant changes in the evaluation, placement, and funding of programs for pre-school and high school children with disabilities.

8. This section of the chapter is based on Parrish (1995b).
9. Although many of the issues to be discussed here will be common to multiple levels of governance, it is also important to note that most of the discussion presented is on research at state and federal levels of governance. For additional discussion of related issues as they pertain more directly to school districts, McLaughlin and Warren (1994) and McLaughlin (1995) are recommended.
10. For a full discussion of some of the pros and cons and other issues related to census-based funding systems, see Parrish and Verstegen (1994).
11. For a discussion and a qualitative evaluation of special education finance reform in Vermont, see Montgomery, 1995b.
12. For a discussion and a qualitative evaluation of special education finance reform in Pennsylvania, see Montgomery and DeSera (1996).

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PART III

TRENDS AND NEW DEVELOPMENTS