Chapter 1

Introduction

Background/Problem

In 1994, the voters of the state of Michigan approved by a two-to-one margin a constitutional amendment called Proposal A that converted the way local school districts received funding to operate schools (Addonizio, Kearney & Prince, 1995; Courant, Gramlich, & Loeb, 1995; Kearney & Addonizio, 2003; Sielke, 1996). The goals of this reform effort were to reduce property taxes, increase the state's share of total K-12 revenues, establish a minimum level of per-pupil revenue for all school districts in the state and achieve equity for pupils in the state's public schools (Kearney & Addonizio, 2003). Also, under this new plan the Michigan sales tax would increase from 4% to 6%, with the revenue raised from this increase in the sales tax being allocated for school funding purposes (Prince, 1997). The rationale for this legislation was that there was a great disparity amongst school funding in the state of Michigan (Vergari, 1995). This disparity allowed wealthier districts the ability to raise additional revenue to fund their schools based on property taxes, while poorer districts were unable to raise money through an increase in property taxes because property values within the district were lesser value. In addition, the closing of the Kalkaska school district in the northern part of the state before the end of the school year, due to lack of operational funds, forced legislators to re-analyze the way that schools are funded across the state (Prince, 1997).

The primary purpose of Proposal A was also to bring every district in the state to a minimum basic foundation allowance that every district would be at or above to operate their schools (Addonizio et al., 1995). School districts would also receive an increase in their foundation allowance based on a prescribed state formula each succeeding academic

year. In the school year 1993-94, the state's share of K-12 revenue was 31%; presently it is about 75% (Kearney & Addonizio, 2003).

In addition, although the primary purpose of Proposal A was to have every district in the state at a minimum level of funding and to reduce disparities in the distribution of per-pupil revenue across local districts, this legislation has its limitations (Addonizio et al., 1995). One limitation is that the funding is predicated on the sales tax, which is associated with the Michigan economy. If the economy in the state is stable, ample monetary resources can be expected for the schools. However, if there is a downturn in the economy, the schools may suffer because monies that were earmarked for schools may not be present and "…state General Fund/General Purpose revenue will need to be transferred to the School Aid Fund to meet the financial needs for 1996-97 and beyond" (Addonizio et al., 1995, p. 252). Secondly, as part of the change in funding, the state required local school districts to be responsible for paying all mandated FICA benefits and pay for retirement for their workers (Sielke, 1996). Third and most importantly, Proposal A limited the ability of districts in the state of Michigan to raise additional revenue outside of the foundation allowance to operate their schools if the funding allowance did not provide enough monetary assistance. "The substitution of sales tax revenue for property tax revenue is likely to impair the long-run stability of school revenue in Michigan. It is well established that sales tax revenue is more income-elastic than property tax revenue and thus more volatile over the economic cycle" (Kearney & Addonizio, 2003, p. 40).

Unfortunately, Kearney and Addonizio's (2003) prediction of the fiscal instability of funding schools via the use of property tax is now a reality. Newly elected Governor Jennifer Granholm instituted Executive Order Number 2003-3 on January 16, 2003 which

gave detailed fiscal cuts to departments and agencies of state government due to the state's economic peril (J.M. Granholm, personal communication, January 16, 2003). As this relates to financing of public K-12 funding throughout the state, the governor enacted PA 522 of 2002 which reduced the remaining funding for schools in Michigan by $1,084,184 immediately for the remainder of the 2002-03 school year. The total reductions made by the governor for various state agencies came to $125,481,146. The Office of State Budget then informed superintendents across the state that reduction payments to school districts would be prorated beginning with the March 2003 payment based on the current fiscal revenues of the state School Aid Fund (M.A. Lannoye, personal communication, January 16, 2003). The prorated reduction was 3.8% and it was applied to all spending categories. In this letter to local school district superintendents across the state, they were informed that the fiscal year 2004 school aid budget will have an estimated revenue shortage of $365 million, which will be an 11% reduction in spending for K-12 education for the 2003-04 school year. However, local school districts did receive some good news concerning the budget situation for the 2003-04 school year when Governor Granholm stated that the state basic foundation allowance would remain at its present level of $6,700, with hold harmless districts remaining at their present level.

Furthermore, in the state of Michigan, school districts are obligated to fulfill requirements of the state as they relate to education. However, the Michigan constitution Article 9 Section 29, which is part of the 1978 Headlee Amendment, states:

> The state is hereby prohibited from reducing the state financed proportion of the necessary costs of any existing activity or service required of units of Local Government by state law. A new activity or service beyond that required by existing law shall not be required by the legislature or any state agency of a unit of Local Government, unless a state appropriation is made and distributed to pay the unit of Local Government for any necessary increased costs. The provision of this section shall not apply to

> costs incurred pursuant to Article VI, Section 18. (Legislative Council of the State of Michigan, 2002).

In laymen's term, this section of the Headlee Amendment, also known as the Maintenance-of-Support Clause (Adair v. State of Michigan, 2001/2002), requires that the state fund all mandated programs that they require local units of government in Michigan to implement. "This section that prohibited state policymakers from shifting to units of local government responsibility for services previously provided by the state was thought to be necessary because a companion section of the Headlee Amendment (Section 26) limited total state tax revenue in any fiscal year to a fixed percentage of total personal income in Michigan" (Kearney & Addonizio, 2003, p. 63). However, some may argue (Adair, et. al.; Durant v. State of Michigan, 1998; Keep The Promise of Michigan Children, 2002) the state is in direct violation of this legislation, specifically in the area of special education funding reimbursement to local school districts.

As it relates to special education funding, the Headlee Amendment mandates that the state is constitutionally responsible for funding special education (Keep The Promise of Michigan Children, 2002; Sielke, 1999). The Michigan Court of Appeals in the first Durant (1994/1995) litigation declared that the state is required to reimburse local school districts 28.6% of the cost for special education services provided by the district and 70.4% of transportation costs the local school district incur for special education students (Durant, et. al.; Keep The Promise of Michigan Children, 2002). These percentages were based on what the State of Michigan paid to local school districts for these programs in the year 1978-79 based on the provisions of the Headlee Amendment (Durant v. Michigan, 1994/1995). This disparity is the reason 84 school districts across the state of Michigan filed a lawsuit, Durant v. State of Michigan (1980), which argued that the state violated Section 29 of the Headlee Amendment by reducing the proportion of education

costs paid by the state to a level below that which the state paid in 1978-79, which was the year the Amendment took effect (Kearney & Addonizio, 2003). Plaintiffs also argued that the state was underfunding special education programs, which is a direct violation of the Headlee Amendment. Seventeen years after the lawsuit was filed, in July 1997, the state Supreme Court ruled in favor of the 84 school districts by stating that special education programs are a state mandate and that the state had failed to fund these programs at appropriate levels and that the state owed approximately $212 million to local school districts (Kearney & Addonizio, 2003; Sielke, 1999).

In addition, knowing that non-plaintiff districts would likely demand compensation under the Durant (1997/1998) ruling, the Michigan legislature approved payments to both plaintiff and non-plaintiff districts across the state. The funds for the settlement were taken from the state's Budget Stabilization Fund. In order for districts to participate in this settlement, they had to agree to waive any claim against the state; in return each district would receive a payment equal to the award it would have received had the district been a plaintiff in the suit (Kearney & Addonizio, 2003).

However, since the state is the primary funding source for schooling in Michigan, a plan had to be implemented to address this settlement and provide funding for local districts without discontinuing other services throughout the state. The first proposal to assist in paying for the $212 million to each of the 84 filing districts was to cut state categorical aid to some school districts, commonly referred to as "at-risk "state aid and use money from the general foundation allowance to pay for this settlement (Durant v. State of Michigan, 1994/1995; Keep The Promise to Michigan Children, 2002). However, the state Supreme Court declared that the state of Michigan must pay the full share of costs for mandated programs local school districts operated for only the 1991-

1994 school years. Although the Durant v. State of Michigan case was seventeen years in duration, the court limited damages only from 1991-1994 for two primary reasons. First, the state's obligation to pay these costs was clear once the Court of Appeals issued its 1990 ruling that special education and other services were protected by the Headlee Amendment. Thus, damages should begin in 1991. Secondly, after the adoption of Proposal A, local taxpayers' burden to compensate for the state underfunding of its share of mandated educational costs to local school districts was greatly decreased (Sielke, 1999). Since Proposal A lowered property taxes and dramatically increased state aid to local school districts, the court decided damages should end in 1994 which was year Proposal A was made law. According to Addonizio et al., (1995), "undoubtedly, local school districts must direct some of their general fund dollars to support special needs programs (p. 262).

Furthermore, in June 1999 various school districts in Michigan filed a second lawsuit under the Durant umbrella of litigation. In the Durant II (1999/2000) case, local districts sued the state again concerning the issue of the state inadequately financing the cost of special education at an appropriate level by failing to apply the 1997 ruling to allocate funds to local school districts. As stated earlier, with the implementation of Proposal A, the state became the primary source of per-pupil revenue for local school districts (Kearney & Addonizio, 2003). The state argued that since it allocated revenues to districts via Proposal A, it had satisfied its obligation to local school districts across the state under the Headlee Amendment. Oddly, the Court of Appeals agreed with the Durant plaintiffs, but ruled that the state had only to change its accounting procedures to distinguish accurately between regular and special education aid. The Michigan Supreme

Court agreed with the Court of Appeals ruling that the state of Michigan's funding system did not violate the Michigan Constitution.

In addition, the persistent local school districts of the state of Michigan in September 2001 submitted a third suit against the state in regards to the Durant litigation. The local school districts argued that the state had utilized state foundation allowance revenue guaranteed to school districts in Michigan (Proposal A) to satisfy its constitutional obligation under the Headlee Amendment to provide funding for special education programs and services. The plaintiffs argued that the state had underfunded special education services across the state of Michigan because the state has used Proposal A dollars to fund their Headlee Amendment special education financing obligation to local school districts (Durant v. State of Michigan, 2001/2002; Kearney & Addonizio, 2003).

However, the state Supreme Court disagreed with the plaintiff districts. The state Supreme Court decided that Proposal A only guarantees local school districts a basic foundation allowance revenue level not less than the 1994-95 total state and local per pupil revenue for school operating purposes for each particular school district based on the Michigan Constitution. In the 1994-95 fiscal year, the "per membership pupil amount" was $5,000 (Courant, Gramlich, & Loeb, 1995; Durant v. State of Michigan, 2001/2002). With the enactment of Public Act 297 of 2000, the Michigan Legislature implemented a tripartite funding mechanism. The first part of this funding system allocated appropriations for the state's share of its Proposal A obligation at the 1994-95 level. The second part of this funding system allocated the appropriations for the Headlee

Amendment obligation at the state financed proportions for special education services.[1] The final part of the funding system allocates discretionary payments to school districts across the state if they agree to administer a standardized department-approved assessment of basic educational skills for students in grades first through fifth. Thus, the state had met its Headlee Amendment requirement because of the current state funding system. As a result of this litigation, local school districts in the state of Michigan have to fund the additional costs of special education services with their own general fund dollars.

One would think that with the defeats experienced by local school districts with the Durant litigation that school districts across the state of Michigan would surrender to the will of the state as it relates to unfunded mandates that local school districts have to implement. However, this was not the case. In October 2001, school districts in the state of Michigan filed a lawsuit in the Court of Appeals claiming that the state had violated the second sentence of the Article 9, Section 29 of the Headlee Amendment which relates to services and activities the state obligates local school districts to provide. For example, plaintiffs in this lawsuit argued that the state implemented a variety of administrative rules between 1979 and 1995 that require a variety of new special education activities and services for which the state has failed to provide the necessary funding for implementation. They also argued that the state has mandated an increase in the level of staffing necessary to provide existing activities and services and that the state has failed to reimburse the necessary costs of providing these mandates as required by the Prohibition-of-Unfunded-Mandates (POUM) clause of the Headlee Amendment (Adair

[1] Section 51c allocates an amount to meet the Headlee obligation equal to 28.61 % of a district's special education costs plus 70.41% of a district's special education transportation costs (Durant v. State of Michigan, 2001/2002).

v. State of Michigan, 2001/2002). This case is Adair v. State of Michigan (et. al.).

The section in the Headlee Amendment that school districts proclaim the state violates in the Adair v. State of Michigan litigation (2001/2002) is the second sentence of Article 9, Section 29 which stated,

> …A new activity or service beyond that required by existing law shall not be required by the legislature or any state agency of unit of Local Government, unless a state appropriation is made and distributed to pay the unit of Local Government for any necessary increased costs. (Adair v. State of Michigan, 2001).

This part of the Amendment (POUM) calls for the state to fund any additional necessary costs of newly mandated activities or services. The plaintiffs also claimed that since the Durant litigation (1997/1998, 1999/2000, 2001/2002) was based on the Maintenance-of-Support clause of the Headlee Amendment, they were not restricted from filing suit against the state. However, one needs to recall that as part of the settlement in the Durant cases, local school districts agreed to a statement that they would:

> . . . waive any right or interest in a claim or potential claim, similar to the claim litigated, through September 1997, relating to the amount of funding it was entitled to receive under the state school aid act of 1979 or another source of state funding by reason of the Headlee Amendment. (Adair v. State of Michigan, 1997/1998, p. 1)

This statement meant that local school districts were prohibited from filing future litigation against the state in regards to school funding (Durant v. State of Michigan, 1997/1998).

In the Adair v. State of Michigan (2001/2002) litigation, school districts argued that the state enacted numerous administrative rules which required local school districts to provide a variety of general and special education services that the state did not provide funding to implement. For example:

> …the state increased the number of hours of pupil instruction required for each school year. The state also mandated school districts have an annual

> financial records audit by a certified public accountant, implement the instruction of students regarding dangerous communicable diseases, specialized training for teachers regarding human immunodeficiency virus infection, the provision of a breakfast program, the annual development and implementation of a three-to-five year school improvement plan, the development of a continuing school improvement process, the provision of a core academic curriculum, the administration of state assessment tests to high school pupils, the provision of remedial education services and periodic retesting for pupils who fail the required assessment tests, the accreditation of school buildings, the provision of learning processes and special and sufficient assistance to each pupil in order to enable each pupil to achieve a state-endorsed diploma, the provision of summer school classes for pupils who fail to meet standards for basic literacy skills or basic mathematics skills by the end of the third grade year, the provision of a minimum of four days of teacher professional development in 2000-01 school year and a minimum of five days in the maintenance of data on essential student data elements and the transmission of this data through the Internet in a standardized form to the Department of Education and the provision of compensation to school bus drivers for time spent attending various training sessions. (Adair v. State of Michigan, 2001/2002, p.6)

School districts also argued that the state required increased levels of staffing to implement special education services and required school districts to increase the number of hours of pupil instruction. The primary basis of this case was that their claim against the state addresses unfunded mandates that were imposed by the state after the first Durant suit was filed. Thus, Michigan school districts should be able to sue the state in order to be reimbursed for the services the state is requiring them to implement (Adair et al., 2001/2002).

However valid the school districts' claims in the Adair case were, the Court of Appeals ruled against them. The court said that since these districts received payments from the Durant (1994/1995) case they were not allowed to sue the state for compensation for implementation of new services except in the area of record keeping (Adair v. State of Michigan, 2001/2002). The Court stated that all of the concerns brought forth through this litigation could have been argued during the seventeen years of litigation of Durant. Since the complaints were not argued during this time, they can not

be addressed in future litigation. The Court of Appeals ruled in favor of the state. As a result of this defeat, local school districts have to use their own operational funds to finance various Special Education mandates required by the state.

Summation

The verdicts of the Durant II, III (1999/2000, 2001/2002) and Adair (2001/2002) cases resulted in local school districts being held responsible for implementing and financing state mandated Special Education services. Although Michigan's Supreme and Appellate courts ruled that the state legislature and Department of Education did not violate the Constitution by enacting unfunded mandates on local school districts, it can be argued that these mandates have had a negative impact on the general operating funds of school districts across the state of Michigan. Local school districts have had to use their own general operating funds to implement, enhance and sustain programs, especially in the area of special education, without additional financial assistance from the state of Michigan.

Definition of Terms

Proposal A- The constitutional amendment which switched funding from local school districts to the state for funding schools. This amendment resulted in home owners receiving a property tax break and an increase in the state sales tax from 4% to 6% with revenue earned from this increase being earmarked to fund public schooling across the state.

Basic Foundation Allowance-The minimal amount of general per pupil funding a local school district will receive for an academic school year.

Article 6-Section 29 of Michigan Constitution- This section of the Michigan Constitution which requires the state to provide funding to local units of government for implementing programs mandated by the state.

Fiscal impact- the percentage of school district operating expenditures allocated to support special education services.

Purpose Statement

The purpose of this study was to investigate the fiscal impact limited state financing of special education services has on school districts in Macomb, Oakland and Wayne counties in southeastern Michigan.

Major Research Question:

What was the fiscal impact of special education services on school districts expenditures?

Specific Questions

1. How have special education services impacted total operating expenditures of school districts located in Macomb, Oakland and Wayne Counties?
2. What are the determinants of local school districts' change in relative expenditures on general and special education?

Chapter 2

Literature Review

A comprehensive review of the literature related to school finance was conducted for this study. The literature falls into the following categories: court mandated school finance reform, special education finance litigation, national analysis of state special education finance systems, states' special education funding analysis, Michigan finance reform, and education policy issues.

Court Mandated School Reform

Often, when disparities arise in school funding at the local school level, individuals seek reform via the court system to ensure that inequities do not continue. Court mandated school reform initiatives have been the major reason for educational finance reform in the past twenty years (Dayton, 2000; Evans, Murray & Schwab, 1999; Goertz & Natriello, 1999). The major ground breaking court case that changed school financing occurred in California with the Serrano v. Priest litigation (1971). This was the first state supreme court to strike down a school finance system for violating the federal or state constitution. The California Supreme Court ruled that the state's school finance system was unconstitutional because school funding was primarily based on the taxable wealth of a child's school district (National Center for Education Statistics, 2003). In California during this time period, property taxes were the major source of local revenues for schools; thus the measure of a school district's taxable wealth primarily determined how much they would receive for per pupil school funding. The court ruled in this case that wealth-based inequalities violate the equal protection provisions of both the federal and state constitutions. As a result of this case, the Serrano principle or the fiscal neutrality standard came into existence (Dayton, 2000). The fiscal neutrality standard

proposes that the level of educational opportunities for a child may not depend on the taxable wealth of that child's particular school district, but must be a function of the taxable wealth of the state as a whole (National Center for Education Statistics, 2003). The verdict in this case condemned a particular type of fiscal inequality that was based primarily on unequal district taxable wealth.

At the federal level, litigation began with the landmark Supreme Court case of Rodriguez v. San Antonio in 1973. In this case, parents of the Edgewood Independent School District argued that local property tax wealth should not be the primarily catalyst to determine the quality of education students receive (Rebell, 2001). This argument originated because the citizens of the Edgewood District, who were primarily Mexican-American, taxed themselves at a higher rate than their neighbor district of Alamo Heights, which was predominately white, but still had less money per pupil to spend on students due to great disparities in the property values in both communities (Dayton, 2000). The federal district court ruled that the state's education finance system violated the federal equal protection clause. However, once this case got to the Supreme Court, this decision was reversed. The Supreme Court in 1973 ruled that neither the poverty of the plaintiffs nor the importance of education would justify applying the equal protection standard to its review of the Texas education finance system (Serrano v. Priest, 1971). The high court also retorted that wealth-based inequalities in the ability of local residents to make educational choices affecting their children was not sufficient basis for striking down an entire state's educational finance system (Rebell, 2001). Thus, the verdict in Rodriguez v. San Antonio confirmed that education is not a fundamental right under the federal constitution and that the Texas educational finance system did not violate the equal protection clause of the Constitution. Based on this decision, virtually all school

finance litigation shifted to the state courts to be decided based on their state constitutions. “By 1998, supreme courts in 43 states had heard cases on the unconstitutionality of school finance systems (Evans, Murray & Schwab, p. 72) and have found the majority of the state school finance mechanisms across the country unconstitutional” (Dayton, 2000). However as of 2002, state finance litigation cases have found school funding systems unconstitutional only 50% of the time (ACCESS, 2003).

As a result of the Rodriguez v. San Antonio verdict of 1973 which determined that public education was not guaranteed under the equal protection clause in the Constitution, many questioned whether Serrano v. Priest (1971) was still good law. Thus in 1976, the California Supreme Court reaffirmed its original verdict in the Serrano II case based solely on the equal protection provisions of the California Constitution.

Another important state supreme court case that influenced state school financing was the Robinson v. Cahill decision by the New Jersey Supreme Court in 1973 (National Center for Education Statistics, 2003). In this case, the state Supreme Court of New Jersey found the school finance system that was in place was unconstitutional. This case also challenged fiscal and educational inequalities resulting from disparities in tax bases among school districts. The difference however between this case and the Serrano cases was that this case was not based on the state finance system violating the equal protection provisions of the New Jersey state constitution. In this case, the Court found that deficiencies in the New Jersey school finance system violated the education article of the state constitution which required a “thorough and efficient” system of public education be in place throughout the state. The court stated that a thorough and efficient system of education must provide the level of educational opportunity needed in the contemporary setting to equip children for their roles as citizens (Rebell, 2001). Thus, the state was

constitutionally obligated to ensure that neither inadequate local tax bases, nor school districts' decision to underfund schools would be permitted to interfere with this obligation (National Center for Education Statistics, 2003). The court ordered the state legislature and Department of Education to define the required level of educational opportunity and fund this system.

Influenced by the Serrano cases, state supreme courts overturned school finance systems in several other states, namely Kentucky, New Jersey and Texas just to name a few. The verdicts of the state supreme courts within these specific states resulted in the common theme of state finance systems toward local schools being inequitable and inadequate (Goertz & Natriello, 1999). For example, in the Kentucky case of Rose v. Council for Better Education (1989), the state Supreme Court upheld the trial court's statement that an efficient system of education must be uniform, adequate and unitary (Verstegen, 1998). Thus the state high court called for a funding system that would provide equal educational opportunity for all children in the state. In New Jersey, in the case of Abbott v. Burke (1990), the state high court focused on inequities between poor urban and wealthy suburban school districts. The court in New Jersey ordered the legislature in this case to create an equalized educational funding system that benefited both rich and poor school districts throughout the state (Goertz & Edwards, 1999).

In addition, in the Texas case of Edgewood v. Kirby (1989), the state court ordered the legislature to provide a state school finance system that promoted fiscal neutrality by which all districts have equal access to similar revenues per pupil at similar levels of tax effort. Kentucky, New Jersey, and Texas increased state aid significantly between 1992-93 after the court ordered reforms occurred (Goertz & Natriello, 1999), and the overall impact of court mandated reform on local schools was that they led to

increased funding for education by state governments (Evans, Murry, & Schwab, 1999). Furthermore, the result of many of the court mandated school finance reforms was a focus on both horizontal equity, in which courts ordered equal distribution of resources in an absolute sense, and vertical equity, which refers to the distribution of revenue in pursuit of equality while considering differences among types of districts and equal opportunity amongst local school districts (Hadderman, 2000; Verstegon, 1998).

In addition, the U.S. Constitution contains no provisions concerning education, thus the issue of education is reserved for the states to address (Finn, 1995; Theobald & Bardzell, 2000). All 50 states recognized in their constitutions that public education is the responsibility of state government; however states have traditionally allowed broad local control of educational matters, especially in the area of local school funding (Dayton, 2000). This local control has often led to substantial school funding inequities between wealthy and poor school districts in the same state. Thus, three decades after the Serrano and the Robinson verdicts, school funding litigation continues across the United States.

Special Education Finance Litigation (Past to the Present)

Beginning in the 1960s, Congress, state legislatures, and the federal courts began to pass laws mandating, promoting, and funding special education programs (Martin, Martin, & Terman, 1996; Verstegen, 1998). From the initiation of the Education of all Handicapped Children Act (1970) to the present, federal and state statutes regarding special education services have been implemented across the United States. However appropriate and noble the effort to create appropriate special education services have been, there also has been funding issues raised concerning special education.

Through federal mandates and funding, special education programming became available to citizens in the United States. In 1966, Congress created the Bureau of

Education for the Handicapped, within the Department of Education, to provide grant funding for educating children with disabilities (Martin, Martin, & Terman, 1996). This legislation was known as Title VI and was the first education of the handicapped legislation. This legislation also stimulated many federal programs aimed at various special education populations. However, funding for special education services diminished over time and as a result, advocates for the special needs population pursued general education revenues to help fund special education programs (Martin, et. al.). As more dollars earmarked for general education purposes began to be reverted to initiate and/or sustain special education services at this time, the Bureau of Education of the Handicapped recommended that, "…existing federal programs be codified into a more comprehensive Education for the Handicapped Act" (Martin, et. al. p. 27). This recommendation led to Congress passing the Education for the Handicapped Act in 1970.

In addition, prior to federal legislation being enacted, no state educated all its children with disabilities until parents sought new laws protecting their children (Martinet al., 1996). The new laws concentrated primarily on providing partial funding from state legislatures and local school districts to offer special education programming to students with disabilities. However, many of the newly created laws had loopholes in them which allowed local school districts some discretion about how they could educate their special education populations. Also, many state laws lacked provisions for funding appropriate special education programs, thus many school districts were reluctant to reallocate general education funds for special education services. However, the landmark case of Pennsylvania Association for Retarded Children (PARC) v. Commonwealth of Pennsylvania (1971) contested state practices of allowing local school district to deny services to special needs children (Martin, et. al.; Verstegen, 1998). In this case, the state

agreed to provide free public education to all children with disabilities between the ages of 5 to 21. This case also established the standard of appropriateness, which refers to each child being offered an education appropriate to his or her learning capacities and promoted the idea of a least restrictive placement for special needs children.

In addition, in Washington D. C. the case of Mills v. Board of Education (1972) addressed the issue of special needs students receiving an appropriate public school education. In this case, the District of Columbia's public schools were sued by the parents of mentally impaired and behaviorally impaired children because the public schools refused to enroll some students with disabilities and expelled other students with disabilities based on their impairments (Martin, Martin, & Terman, 1996). The District Court ruled that school districts were prohibited from deciding that they had inadequate resources to serve children with disabilities because the equal protection clause of the 14th Amendment to the Constitution would not allow funding to be an issue that could deny special needs children the right to their placement in public schools and their ability to be removed from the educational setting. These protections were eventually incorporated into the Education for the Handicapped Act and its present day revision, the Individual with Disabilities Education Act (1992).

Furthermore, the passage of the Education for the Handicapped Act and the Individuals with Disabilities Education Act (IDEA) mandated funding for state departments of education and local school districts to create, "a system of child-find to locate all students with disabilities, perform evaluations to determine the effect of the disability on educational performance, conduct annual meetings which produced an individualized education plan (IEP) for each student with disabilities, and ensure that the plan was carried out in a least restrictive educational environment" (Martin, Martin, &

Terman, 1996, p. 30). IDEA also provides detailed mandates for services to all children with disabilities. Funding through IDEA provides reimbursement to state and local education agencies based on the number of children with disabilities served in special education.

As stated before, the judicial branch of government has also been instrumental in determining the meaning and requirements associated with state and federal legislation in special education (Verstegen, 1999). The courts have also aided in determining legitimate cost requirements imposed on states and local school districts which are consistent with the requirements of federal and state statutes for free and appropriate education for all children with disabilities. Court decisions that have occurred since 1989 have been referred to as the third wave or new wave of school finance litigation (Verstegen, 1998; Verstegen, 1999). The first wave of school finance litigation occurred during1960-1972 in which plaintiffs asserted that school districts' finance disparities constituted violations of the equal protection clause of the United States Constitution.

The second wave of cases, from 1972-1988, were based on equity guarantees in state constitutions and/or state education articles. The new wave of litigation, 1989-present, centers around plaintiffs alleging violations of the state constitution based on the issues of equity and adequacy. The last wave of cases have also called for systemic reforms and have included finance systems, specifically those that relate to urban schools and programs for children with special needs (Verstegen, 1998; 1999). "State supreme courts in Alabama, Wyoming and Ohio have addressed not only the constitutionality of the general finance systems, but also whether the special education finance systems passed constitutional muster" (Verstegen, 1998, p. 279). These court decisions suggested that inequitable special education finance systems across the United States are vulnerable

to future court challenges because they could possibly prevent the availability of a free and appropriate education for children with disabilities and restrict equal opportunities.

Thus, based on the verdicts of recent special education finance litigation, in order for special education finance reforms to be appropriate, the finance system must be cost-based, equitable, and provide a means to achieve fair and adequate funding of educational programs and services for all children with disabilities (Verstegen, 1999). Cost-based special education finance reforms refer to the costs of providing appropriate educational services to children based on empirical research (Verstegen, 1998). With cost-based reform, school districts receive funds for special education programs based on the costs they face for providing these programs (Parrish & Wolman, 1999). These services must be legitimate and justifiable (Verstegen, 1998).

National Special Education Finance System

The federal government funds special education grants to all 50 states, the District of Columbia, Puerto Rico, and Outlying Areas in meeting the excess costs of providing special education and related services to children with disabilities (Office of Special Education Programs, 1998). In order to be eligible for full funding of special education programs, states must serve all children with disabilities ages 3 to 21 years (Michigan's range is from birth to graduation or to age 25). Funds are distributed based on the number of children with disabilities to whom the states provide a free appropriate public education (FAPE). Yearly, each state is allocated a dollar amount equal to the amount that it received in the prior year with 85% of the remaining funds to be allocated based on the number of children in the general population age range for which the states guarantee FAPE to children with disabilities (Office of Special Education, 1998.). Fifteen percent of the remaining funds would be allocated based on the number of children living in

poverty in the age range for which the individual state guarantees FAPE to children with disabilities.

Furthermore, most federal funds to states must be passed on to local educational agencies (Office of Special Education, 1998) with a portion of the funds possibly being used for state-level activities.

> The maximum amount of funds that can be retained by a state for state-level activities is an amount equal to 25 percent of the amount it received for the previous funded year under the "Grants to States" program adjusted upward each year by the lesser of the rate of increase in the state allocation or the rate of inflation. (Office of Special Education et al., 1998, p. 1)

Funds that are not used for state-level activities must be passed through to local educational agencies either by formula or as special sub-grants for capacity building and improvement.

In addition, a current examination of special education cost is imperative from a policy perspective as a means for understanding the nature of special education services and their cost requirements (Chaikind, Danielson, & Brauen, 1993). Costs for special education services primarily focus on state and local educational agencies complying with federal mandates for special education. Cost analysis derives from a variety of factors. First, the amount of federal dollars that is reimbursed to a district along with the state and local educational agencies cost for implementing mandated services affects the costs of special education services (Parrish & Wolman, 1999; Sielke & Russo, 1999). The cost of implementing the Individuals with Disabilities Education Act (IDEA) and various special education finance formulas from states affects the cost of special education services as well.

The federal government assists states with special education program costs by appropriating funds to states and local school districts. Federal funds are allocated to

states based on a formula that provides a percentage of average per pupil expenditures multiplied by the number of children served (Chaikind, Danielson, & Brauen, 1993). There are also excess costs that determine funding levels in special education programming. One of these excess costs is supplemental costs, which are services that are in addition to regular education program costs. Another excess cost comes in the form of replacement costs, which are costs of programs and services provided instead of regular education. An example of replacement costs would be the cost associated with implementing a self-contained special education classroom for a child to receive educational services instead of placing that child in a regular education classroom.

Additionally, studies have been conducted at the national level to determine the overall costs of special education services. These studies specifically examine information concerning specific program costs and data that is reported by states which is mandated by IDEA (Chaikind, Danielson, & Brauen, 1993). The Office of Special Education Programs in the U.S. Department of Education uses state data to create an Expenditure Survey to determine the national cost of special education (Chaikind et al.). The Expenditure Survey collects data on a school district's range of programs, placements, and services provided to children with disabilities. This study also gathers data to estimate the per-pupil costs for both special and regular education. To determine the total cost, resource quantities were multiplied by their individual costs and summed, resulting in a total cost estimate for each type of special education program. Using this methodology, in 1990 dollars using a 1.25% annual real growth rate, the national cost of special education programming per student came to about $4,480 while the general education cost per student was only $3,413 (Chaikind, et. al.). "Although the average cost does not seem overwhelming, many argue that the mandate to provide special education

services to all students with disabilities leads to some extraordinary financial burdens on local school districts (Chaikind, et. al., p. 35).

Approximately 12% of K-12 public education budgets are allocated to special education with the cost per student being 2.3 times the cost of regular education (Parrish & Chambers, 1996). The special education funding breakdown is as follows: federal government (8%), state government (47%), and the local school agencies (45%; Parrish, 2001). Many states have adopted, by the recommendation of the federal Department of Education, special education funding based on census counts of total school populations rather than on the number of students identified for special education services (Parrish).

Furthermore, state special education funding costs across the nation vary dramatically. "In a recent survey conducted by the Center for Special Education Finance, fewer than one-half of the states had in place fiscal reporting systems that break out separately all expenditures related to special education" (Parrish & Chambers, 1996, p. 122). The largest variable affecting special education cost is the use of personnel. Data from 1985-86 studies report that 62% of special education dollars went to direct instruction, 13% to special education assessment involving special and general education students, 11% for support services, 10% for physical therapy and social work services and 4 % to transportation costs (Parrish & Chambers et al.).

Also, all states have provisions in the public school funding formulas that acknowledge the costs of educating special education students. Categorical funding for special education comes in the form of fixed reimbursement of special education expenditures, pupil weighting, where special education students generate a fixed multiple of general education pupil allocation, fixed dollar grants per student that fund specific education resources, and newly implemented census-based funding formulas, which use

the count of all students in a district rather than just the special education students (Parrish & Wolman, 1999). The bases on which state special education funding allocations are made are important to an understanding of the policy implications of special education funding alternatives. For example, some states require special education funds to be exclusively spent on special education students, while other states allow flexibility in the use of special education funding (Parrish & Wolman).

Primarily, special education funding reform is being driven by the rising costs of special education services and high special education pupil enrollments (Chambers, Parrish, Liebermann, & Wolman, 1998; Parrish, 2001). Due to these factors, many states are creating special education funding mechanisms that promote more restrictive placements for students. These types of incentives for restrictive placements are primarily found in funding systems that are tied to the location where services are provided (Parrish, 2001). For example, if a district received full state support for placing a child in a high cost and more restrictive environment, but only partial payment support for a less restrictive placement, the cost to the district is minimized through the high cost placement. As part of state special education funding reforms, many states are in the process of reviewing the special education funding formulas to ensure that they are not promoting restrictive placements for special education students.

In addition, due to the minimal levels of federal and state funding for special education services, local school districts have been active in promoting special education finance reforms (Parrish, 2001). In Vermont, school districts created a Blue Ribbon Committee to assess special education cost on local districts and determined that special education costs for local school districts were rising at a rate school districts could not handle. In California, local school districts filed a $2 billion claim against the state for

insufficiently funding special education programming. In Wisconsin, an evaluation of special education funding determined that there were definite increases in special education spending by local school districts. Also, in Massachusetts, the Association of School Superintendents determined that the state's new school finance formula negatively impacted special education funding to local schools (Parrish, 2001). Nationally, the state share of special education funding has decreased from 56% to 47%, while the local share of funding for special education services has increased from 37% to 45% which results in the cost impact of special education implementation primarily being felt by local school districts (Parrish).

> Unless the states are willing to substantially increase their share or the federal contribution is increased to the allowable allocation of 40% of the nation's average per pupil expenditure, the additional funds needed for special education will come from local sources. (Parrish, 2001, p. 7)

Furthermore, special education programs occupy a large percentage of local school district's budgets. Between 1991-1997 special education spending rose nearly 17.8% nationally and consumed 40% of new spending for schools (Rothstein, 1997). In contrast, regular education financing for programs has fallen during this same time period. Due to the federal mandates for special education services for students diagnosed with disabilities, special education financing has legal priority over regular education in regards to funds earmarked for schools.

Rothstein (1997) also reported that in the last five years all special education spending in comparison to regular education spending has continued to grow at an average rate of 2.2% per year. From these data, one could be led to believe that the constant growth in special education spending is coming at the expense of regular education spending. Increased cost of special education could be occurring for several reasons. One reason is that the requests by parents to have their children tested for special

education service eligibility have increased in the past decade (Rothstein). Another reason could possibly be that many districts are increasingly diagnosing at risk students with special education labels. Special education expenditures could be even higher if school districts factored in the economic impact special education services have on local school districts in regards to the consumption of time regular education personnel spend addressing special education issues.

Although special education costs have been consistently rising, there is research that posits that an encroachment fiscally has not occurred on general education (Parrish, 2001; Parrish & Wolman, 1999). In the last 15 years, general education spending has risen by an estimated 69% (Parrish & Wolman, 1999). The reason many theorize that increased special education costs has come at the expense of general education is because general education costs are not growing at as fast a rate as special education spending (Parrish & Wolman, 1999). They stated that: "…real gains in general education spending occurred despite the fact that most costly-to-educate students were increasingly being pulled out of general education to receive customized instruction in special education" (p. 3). These data supported the argument that despite the considerable expansion of special education programs in the United States over the past 15 years, general education programs also have received considerable additional support and special education programs have not substantially encroached on general education spending (Parrish, 2001).

In addition, various special education funding formulas are used by states to distribute funds for special education services. These formulas are both unique, complex and in many instance overlapping. State funding formulas are basically divided into four categories: pupil weighted formulas, flat grant formulas, resource based formulas and

percentage reimbursement formulas (Oswald, 1997; Parrish & Chambers, 1996; Parrish & Wolman, 1999). In a pupil-weighted system, special education students generate a fixed multiple of the general education pupil allocation. For example, one special education student is calculated as a double allocation when compared to a single regular education student. Flat grant formulas refer to fixed funding amounts per student or per unit (Oswald et al., 1997). The total state funding available for special education is divided by the special education count for the state to determine the amount of state aid to be received by districts per special education student. Resource based formulas are based on an allocation of specific education resources, such as teacher or specific special education classroom programming or units. The allocation for resource based funding is derived from prescribed staff-student ratios by disability condition or type of placement (Parrish & Chambers, 1996; Parrish & Wolman, 1999). Finally, percentage reimbursement formula refers to the fixed percentage of actual special education expenditures that districts can be reimbursed for operating (Parrish & Chambers, 1996). Districts can be reimbursed up to 100% for their program expenditures.

No single funding formula can be considered better than another. All of the funding systems have their benefits and limitations. As it relates to flat grants, the strengths of this type of formula are that it does not encourage over-identification of students for special education and students do not need to receive services in a specific location in order for the local education agency to receive its funding (Parrish & Wolman, 1999). The weaknesses of this type of funding program are that the grant does not always adequately fund the state or local agencies' special education programs and they are not linked to the actual cost of providing a specific program. Relating to pupil weighting formulas, the benefit of this type of program is they provide equitable funding

to states and local agencies. However, depending on the weighing system used, incentives can be created to misclassify students into specific types of placements or categories of disability that receive higher reimbursements. Concerning percentage reimbursement formulas, its primary benefit is that this type of funding formula is least likely to create incentives to misclassify students because the label assigned to a student does not affect funding or provide an incentive for a particular type of student placement (Parrish & Wolman, 1999). The downside of this type of funding system is that it can be administratively burdensome and result in difficulties with cost control unless cost ceilings are used or the reimbursable percentage is relatively low.

Based on fiscal and programming concerns regarding the traditional formulas for funding special education services, many states are promoting special education funding reform by promoting the use of census-based funding formulas (Parrish & Chambers, 1996; Parrish & Wolman, 1999). Census-based funding formulas are based primarily on a district's total student enrollment and not only its special education student population. The primary advantage of using this type of funding system is that it reduces the need for formal procedures for determining program eligibility, meaning students can be served outside of special education classrooms and still obtain their appropriate funding allowance. Other advantages of a census-based funding formula are that it saves money because students do not have to be regularly identified and assessed to determine if they are eligible to receive special education services, the resources that are being funded can be totally focused on instructional and related educational services and increased flexibility for local educational agencies. Opponents of this type of funding system suggest that census-based formulas encourage non-assessment and support of students with legitimate needs for specific special education programming (Parrish & Chambers,

1996). Detractors of this type of formula also suggest that current special education funding levels may drop if these funds are continuously integrated into regular education. Regardless of what funding mechanism that is used by various states to support special education programming, it is not sufficient to support the total cost of operating various special education programs. Thus, local school districts are forced to use their operational budgets to fund the majority of special education services.

The state of Michigan's special education funding for special education programming is based on allowable percentage reimbursement of services by local school districts (Parrish & Wolman, 1999). The state of Michigan reimburses local education agencies that provide free and appropriate education (FAPE) services to children at a rate of 28.6138% of total program costs. This percentage is based on the verdict of the Durant v. State of Michigan (1994/1995) verdict. School districts in the state of Michigan received this reimbursement rate regardless of the programs they offer. The only variance to this reimbursement occurs when local school districts sent their students to center-based programs outside of their district. They received additional monies to pay for the tuition costs of sending their students outside of their district to receive educational support. Thus in the state of Michigan, all special education programming is reimbursed at the same rate making it non-beneficial to over-classify students for special education services because the districts could lose money to offer services to newly identified special education students.

In addition, the states of Maine, Nebraska, South Dakota and Wisconsin also use allowable percentage reimbursement formulas. "Based on ratings from states using allowable percentage reimbursement funding, these formulas appear to be the least likely to create incentives to misclassify students because the label assigned to a student does

not affect funding" (Parrish, 2001, p. 211). However, these systems can be administratively burdensome and result in difficulties with cost control unless cost ceilings are used or the reimbursement percentage is relatively low. Of the states that use allowable percentage reimbursement formulas, Michigan's local school districts pay the highest percentage of the costs for special education services (Parrish, 2001).

Analysis of States' Special Education Funding Programs

> …the shortfall between promised and actual federal financial support, the relative state and local share of special education expenditures, and the particular funding formulas used by a state to support special education may function as fiscal incentives or disincentives to full identification and provision of services for special needs students. (Oswald, 1997, p. 3)

Special education placement issues for students are often based on state funding criteria. Some of the factors that influence how state special education dollars are disbursed are school enrollment, school age populations and the number of specialized students in a relative district (Parrish, 1993). Funding issues have also dictated the placement options of special needs students. In states that use cost-based funding formulas, such as Michigan, special education costs are reimbursed to local districts on a partial percentage or the actual costs of providing the educational service (Oswald, 1997). He also stated that virtually no empirical research had been conducted to test the validity of hypothesized effects of various funding formulas on statewide placements and service provisions.

As stated earlier, Michigan, Maine, Nebraska, South Dakota and Wisconsin used partial reimbursement formulas to fund special education services to their local school districts (Parrish & Wolman, 1999). In the state of Maine, the total state share of special education funding is 13.6% based on 1998-99 data (Dow, Watkins, Leighton, & Comerat, 2001). School districts in this state are responsible for paying for the remainder of the

costs for special education services by using their general fund dollars. In the state of Nebraska, the state share of total special education funding is 17.9%, which includes funding for transportation of special needs students. For children age 5 to 21, local districts are reimbursed for allowable excess costs for students receiving special education services (LaCost, Inbody, & Knoche, 2001). Districts are reimbursed the following school year on a prorated basis for approved special education appropriations as well. Districts then assume the costs not reimbursed by the state (LaCost et al.). In regards to special education transportation funding in the state of Nebraska, districts were reimbursed for 90% of the allowable costs of transporting eligible children with disabilities. Nebraska school districts are also reimbursed for the allowable costs of transporting eligible children with disabilities from the age of 5 to 21 on a prorated basis.

Furthermore, in the state of South Dakota, the state pays about 13% of the total cost for special education services. Transportation costs are included in the basic school finance formula for school districts. South Dakota's method of distribution of state aid for special education is based on a per student classification formula (Gatje, 2001). The higher a student's classification, the more money the district is able to be reimbursed for special education services. In 1998-99, local school districts in South Dakota spent $83 million on special education services.

The state of Wisconsin pays 6.9% of the total state special education aid. Local school districts in this state provide special education services to students with disabilities within the respective district's schools and through cooperative programs from neighboring districts (Larsen & Luppnow, 2001). The state reimburses districts for a portion of their prior year costs for educating and transporting students involved in

special education programs. Furthermore, the state pays a fixed percentage of the cost of special education services regardless of the amount spend by the school districts.

Finally, in the state of Michigan, the total percentage of state aid towards special education costs is 7.7% (Addonizio, Mills, & Kearney, 2001). Michigan funds special education in three ways. The first method is through the foundation allowance schools receive from the state which reimburses districts for the costs of special education services. This method was updated after the Durant v. Michigan (1998/1999) litigation. The second component reimburses local and intermediate districts for 100% of the costs of additional special education programs and services for low incidence special education pupils. The third program equalizes intermediate district millages levied for special education purposes.

Furthermore, in Michigan, under the first plan the foundation formula guarantees that the state would cover a minimum of 28.6% of local and intermediate districts special education costs and 70.4% of special education pupil transportation costs (Addonizio et al., 2001). Also, the foundation allowance payments for special education pupils are also counted toward the required reimbursement percentage of the state toward local and intermediate school districts. The second program reimburses local and intermediate districts for 100% of the cost of educating a small segment of special education pupils using Section 51a allocations and categorical funds that are reimbursed to local and intermediate school districts (Addonizio, et. al.). The third program provides equalization funding for intermediate districts' special education millages. Funding for local and intermediate school districts through the millage is dictated by a equalization formula. Funding under this plan is capped.

Michigan School Finance Reform Efforts

The Michigan school finance reform initiatives are unique in the fact that the legislative branch, not the judicial branch, mandated educational finance reform (Sielke, 1996; Vergari, 1995). Prior to 1994, Michigan local school districts funded public education at a rate of 65% by using property taxes (Addonizio, Kearney, & Prince, 1995; Vergari, 1995). Michigan used a power equalization formula of school financing prior to 1994 that allowed local school districts to choose the rate they wanted to tax themselves. The more mills a local district levied, the more revenue per pupil it was able to generate. With the state government failing to assume a larger responsibility for K-12 public education, local school district inequity started to increase between districts. This continued to create great disparity among local school districts (Vergari, 1995).

In addition, in 1993, to help solve the school finance dilemma, the Michigan legislature voted to eliminate property taxes to fund public schools and decided to pursue an amendment to the state constitution that would eliminate the use of local property taxes for school operations and place a ballot issue before Michigan voters to decide how schools in the state would be funded (Addonizio et al., 1995; Prince, 1997; Vergari, 1995). The purpose of the school finance reform was to reduce property taxes since it was the major resource used to fund schools and reduce fiscal disparities amongst school districts (Prince, 1997). Michigan voters approved a constitutional amendment in 1994 that increased the state sales tax by two cents, with this increase being earmarked to the School Aid Fund to fund public education in the state (Sielke, 1996). Local property taxes that were previously used to fund schools were now either captured by the state and these revenues were placed in the School Aid Fund or were simply eliminated. Eighty percent of the funding for public education in Michigan now came from the state.

Also, with the legislative reforms made in 1993-94, Michigan switched from a district power equalization school funding mechanism to a foundation plan of school funding in which school districts received a minimum dollar amount for school funding and receive a fixed monetary increase every year (Addonizio et al., 1995). At the same time, this constitutional amendment, known as Proposal A, cut operational property taxes by about 50% (Prince, 1997). The intent of the legislation was to create a school finance system that promoted horizontal equity. As of the fiscal year 1997, the new funding system has improved equity in terms of fiscal inputs when the rank-order foundation allowances are examined (Prince, 1997; Sielke, 1996; Vergari, 1995). Michigan has moved in a direction of greater horizontal pupil equity which was a key objective of the school funding side of its finance reform (Prince, 1997).

However, there is a major concern regarding the new funding system Michigan has adopted. Unlike property taxes, which are a constant and reliable source of revenue, the states' economy is very unstable. A downturn in the economy would result in lower sales tax revenues and hamper the states' ability to fund schools at their projected level of school funding (Sielke, 1996). If this situation occurs, the Michigan School Aid Fund would not have enough funds to provide districts with an increase in the foundation allowance, thus the funding for public education would be tumultuous.

Educational Policy Issues

State legislative mandates on local school districts have existed since states were given the responsibility to educate the populous (Theobald & Bardzell, 2000). Recent state mandates on class size in certain states have placed a substantial finance burden on local school districts across the country because often times state legislatures do not appropriate funding to carry out their mandates (Sielke, 1999). Many state legislatures

have also created mandates regarding minimum competency testing for all students who attend state public schools (Pipho, 1980). While many believe that state mandates on local schools is an erosion of local control, state lawmakers often postulate that it is the legislature's responsibility to ensure that all students in every state are being educated in the best manner possible (Pipho, 1980).

Also, "besides the reimbursement issue, mandates are opposed by local school districts because they restrict the decision-making authority of school officials" (Advisory Commission on Intergovernmental Relations, 1990, p. 5). Often, state mandates on local school districts are enacted without informing districts about the possible fiscal impact they may have on their general operating budgets.

In addition, over the past three decades state officials have often dominated the education reform agenda without consulting local school districts (Malone & Murray, 2000). By taking on the role as the major force in enacting educational reform, state legislatures have effectively narrowed local school autonomy in many ways. Although local school districts may have control over their general operating budgets and discretionary funds, state legislatures control school funding appropriations. As well, the state can retract powers of local school districts; thus school autonomy in regards to finance control is often contingent on the will of the state legislatures.

State legislative mandates often hamper school district autonomy through requiring district level accountability and obligations. According to Malone and Murray (2000):

> States chose to hold schools accountable to state articulated standards through an array of monitoring and sanctioning tactics such as publicizing test scores, labeling and ranking schools, issuing bonuses to high performing schools and placing struggling schools on a watch list. (p. 217)

By enacting such stringent standards, one could conclude that the state legislatures have become directly involved in the hiring and firing of educators because these methods often lead to individuals losing their jobs if their school districts do not meet state criteria.

As local school districts offer specialized programming such as magnet schools, vocational education programs and English as a Second Language courses, they become obligated to meet federal mandates regarding these programs (U.S. General Accounting Office, 1998). While federal funds only account for about 8% of total educational spending, the federal government enacts mandates on local school districts that must be met. Although the federal government allows some flexibility to school districts in regards to applying for exemptions and waivers for enacting certain programs, federal flexibility opportunities do not reduce local districts' obligations to meet federal standards or provide additional dollars to carry out their mandates. For example, the federal government created mandates to improve instructional quality in the areas of science and math to local school districts, but have provided minimal financial support to local school districts to implement their mandates. Although the federal government gives a small portion to local districts to carry out their mandates, it establishes very strict provisions on how federal monies can be spent at the local district level (U.S. General Accounting Office, et. al.). "Program costs in areas such as special education, environmental requirements, accessibility and nutrition standards greatly exceed federal assistance" (U.S. General Accounting Office, p. 37).

Summary

The relevant literature on court-mandated school reform, special education finance litigation, the federal special education finance system, state special education funding analysis, Michigan finance reform, and education policy issues were studied. The

fiscal issues that affected school financing within these categories were analyzed as well. Through court litigation, systemic reform efforts and the constant change in educational policy, financing of special education has been a constant concern for policymakers, educators and educational stakeholders. These areas of relevant literature directly and indirectly allowed this researcher to theorize that these reforms have definitely led to fiscal issues in public funding for special education programming as well. Thus, the review of the literature dictates a definite need to examine the fiscal impact limited state financing of special education mandates has on suburban school districts.

However, aforementioned literature does not explain how specific school districts are impacted fiscally by state mandates regarding special education programming. Because of this lack of information, the major research question for this study is:

> What is the impact of state mandates on school districts in the area of general and special education program expenditures?

The present research investigated the impact of special education mandated services in three neighboring counties in the state of Michigan. This research demonstrated how individual districts are impacted fiscally by providing special education programming to disabled students with minimal state financial assistance. The researcher also analyzed how these districts used their general funds dollars to pay for special education programming. By using this methodology, the researcher was able to analyze how providing special education services with limited state financial assistance has impacted specific suburban school districts' total operating and educational expenditures.

Chapter 3

Methodology

The methodology that was used in this study is presented in this chapter. The topics that are included are a restatement of the problem, research design, setting, population/sample, data collection procedures, variables, and data analysis.

Restatement of Problem

The increased costs of unfunded state mandates on local school districts and the subsequent verdicts of the Durant II, III (1999/2000, 2001/2002) and Adair (2001/2002) cases have resulted in local school districts being responsible for implementing and financing state special education services. Although Michigan's Supreme and Appellate courts ruled that the state legislature and Department of Education did not violate the Constitution by enacting unfunded mandates on local school districts, it can be argued that these mandates have had a negative impact on the general operating funds of school districts across the state of Michigan. Local school districts have had to use their own general operating funds to implement, enhance and sustain programs, especially in the area of special education, without additional financial assistance from the state of Michigan.

Research Design

A nonexperimental, exploratory research design was used in this study. The data used to address the research questions were obtained from Standard and Poor's School Evaluation Services and the Office of Special Education in the Michigan Department of Education. These data contain demographic, financial, and special education placement information for each of the school districts in this study. This type of research design is appropriate when the dependent variable is not being manipulated and no intervention or

treatment is provided to participants in the study. The purpose of this study is to investigate the fiscal impact of special education services on school districts in the area of general and special education programs. The term "fiscal impact" refers to the percentage of school districts' total operating expenditures allocated to special education. To address this research topic, two specific questions were analyzed during this study.

The first question focused on how special education services have impacted total operating expenditures of school districts in Macomb, Oakland and Wayne counties. The "impact" of these expenditures was measured by analyzing two specific variables that affect local school district finances which relate to special education spending. The dependent variable for this model was the ratio of total special education expenditures per student to total operating expenditures per student respectively. The independent variables in this model were total district pupil population, percentage of population that receives special education services, the state foundation allowance per pupil, percentage of students who qualify for free or reduced lunch, the percentage of Limited English Proficient (LEP) students for the 2001 school year, the percentage of students who were identified as cognitive impaired (CI) and learning disabled (LD) that were included in regular education classrooms 60 to 100% of the time, and the average teacher salaries per school district. These independent variables were chosen because each one is expected to affect school districts' total operating expenditures. Also, concerning the LEP variable, the 2001school year was the only year that data was available for this variable so no other year was included in this model. This research question posits that these independent variables: total district pupil population, percentage of population that receives special education services, percentage of students who qualify for free or reduced lunch, the percentage of Limited English Proficient (LEP) students for the 2001 school year, and the

percentage of students who were identified as cognitive impaired (CI) and learning disabled (LD) that were included in regular education classrooms 60 to 100% of the time, should have a positive relationship with the dependent variable in this study. This positive relationship should exist because each variable aids in the determination of a school districts' total special education expenditures and/or a total operating expenditures. However, the independent variables: state foundation allowance and average teacher salaries per school district should have a negative effect on the dependent variable in this study.

The second question researched during this investigation focused on the determinants of local districts' change in relative expenditures on general and special education for the school years FY 1998 to FY 2001. The model used the following dependent variable to address this research question: percent change in the ratio of special education expenditures per pupil for all students for the fiscal years 1998 to 2001 to total district operating expenditures per pupil for the fiscal years 1998 to 2001. This dependent variable was used because it directly related to school districts' expenditures for general and special education services and it showed a trend in the ratio of special education expenditures to districts' total operating expenditures over a four year period. The independent variables related to this question were: change in total district enrollment, change in the state per pupil foundation allowance, change in the percentage of students who were identified as cognitive impaired (CI) and learning disabled (LD) that were included in regular education classrooms 60 to 100% of the time, the change in the percentage of enrollment eligibility for free/reduced lunch for the fiscal years 1998 to 2001 and the change in average salaries for the teachers in the respective districts in the three counties. By analyzing change factors for each of these variables that have been

previously addressed and using this specific research model, the researcher was able to determine the effect these variables had on change in the ratio of special education to regular education expenditures over time.

Setting for the Study

The setting for this research was the school districts that comprise the counties of Macomb, Oakland, and Wayne, which are located in the southeastern portion of the state of Michigan. Each county has unique demographic characteristics that allow the researcher to make appropriate assumptions concerning the school districts in these counties. In addition, this demographic data is representative of the various school districts in these counties. The demographic data for these specific counties was retrieved from the U.S. Census Department's website, http://quickfacts.census.gov/qfd/states/26/26099.html, and is the most recent data available. The following paragraphs of this section give specific demographic information for the counties selected for this study.

The county of Macomb is comprised of 21 school districts. These districts can primarily be described as rural, suburban, and urban. Macomb County has a population of 799,954. The racial composition is as follows: Whites (92.7%), Blacks (2.7%), American Indian/Alaskan Native persons (0.3), Asians (2.1%), and persons of Hispanic or Latino origin (1.6%). The high school graduation rate for individuals in this county is 82.9% while the rate of individuals in the county who posses a Bachelor's degree or higher is 17.6%. The median home value in the county is $139,200 with the median income per household being $52,102. The percentage of persons living below poverty in Macomb County is 5.6%.

Oakland County has 28 school districts. These school districts can be described primarily as a combination of rural, suburban, and urban respectively. Oakland County's population is about 1,198,593. The racial composition of the county is as follows: Whites (82.8%), Blacks (10.1%), American Indian/Alaskan Native persons (0.3%), Asian persons (4.1%), and persons of Hispanic or Latino origin (2.4%). The high school graduation rate for individuals in this county is 89.3%, while the rate of individuals in the county who posses a Bachelor's degree or higher is 38.2%. The median home value in the county is $181,200 with the median income per household being $61,907. The overall percentage of persons living below poverty in Oakland County is 5.5%.

Wayne County is comprised of 34 school districts. As with districts in Oakland and Macomb Counties, these school districts have rural, suburban and urban compositions. Wayne County, however, is much more diverse. The county's population is approximately 2,045,473. The racial composition of the county is as follows: Whites (51.7%), Blacks (42.2%), American Indian/Alaska Native persons (0.4%), Asian persons (1.7%) and persons of Hispanic or Latino origin (3.7%). This high school graduation rate for individuals in this county is 77%, while the rate of individuals in the county who posses a Bachelor's degree or higher is 17.2%. The median home value in the county is $99,400 with the median income per household being $40,776. The overall rate of individuals living below poverty in Wayne County is 16.4%.

Participants

School districts in three counties, Macomb, Oakland, and Wayne, were the population defined for this study. Data from the 83 school districts located in the three counties were used in this study. As the information is freely available on the Internet and

through the Michigan Department of Education's Office of Special Education, permission to use this data by the researcher is not necessary.

The school districts included in the study represent a cross-section geographically, ranging from urban to rural. The sizes of the school districts range from 1,047 to 150,000 students. The range of locations and sizes of the school districts make this sample representative of all school districts in the state of Michigan.

Data Collection Procedures

As information used in this study is available on the Internet and through the Michigan Department of Education's Office of Special Education, no formal questionnaire or information collection form was used. The data from both sources were entered into a spreadsheet (e.g., Excel) to ensure consistency in data recording. A four-year period from 1998 through 2001 was included in the data collection to show change over time.

Data Analysis

Data obtained from the Standard and Poor's Evaluation Services and the state Office of Special Education were entered into a data file for analysis using SPSS – Windows, version 12.0. Descriptive statistics, including crosstabulations, frequency distributions and measures of central tendency and dispersion were used to describe the school districts in terms of location, student characteristics and district resources. Specifically, school district's student population, percentage of students receiving special education services, and the percentage of students who are identified as cognitive impaired (CI) and learning disabled (LD) that are included in regular education classrooms 60 to 100% of the time were researched for this study. In addition, per pupil foundation allowance, average teacher salaries, total operating expenditures per pupil,

special education expenditures per pupil, and the percentage of students who qualified for free/reduced lunch, were analyzed.

As it relates to the independent variables in the research models in this study, school districts' total population was used because it was a measure of how many students each school district serviced annually. The student population directly affects total operating expenditures for a school district. This variable also allows for a test of the presence of economics of scale in the provision of educational services. The regression equations are estimated by weighted least squares, where the weighting factor is the square root of the districts' total enrollment.

The percentage of students that receive special education services directly affects school districts' total operating expenditures because school districts are required to implement special education programs that are not fully reimbursed by the state or federal government. The state foundation allowance directly affects the total operating expenditures for school districts because it is the monetary allotment distributed by the state that districts use to fund their schools. The percentage of students who qualify for free or reduced lunch affects the total operating expenditures because these students may require ancillary services to be successful in school. However, school districts with this population are eligible for federal Title I and state Section 31A monies to help subsidize the expense of providing services to these students. This added expense may affect school districts' total operating expenditures. The percentage of students who were identified as cognitive impaired (CI) or learning disabled (LD) that were included in regular education classrooms 60 to 100% of the time were included in the research models to determine if placement is an issue in relation to special education expenditures. These two categories were used because they represent the majority of the population that receives special

education services. The percentage of limited English proficient (LEP) students for the 2001 school year was included in the first research model because of the expense that this population brings to a relative district. The 2001 school year was the first year that data were available for this variable. The average teacher salaries per school district were included in this model because this variable affects the total operating expenditures for every district in this study.

The research questions were addressed using inferential statistical analyses, including stepwise multiple linear regression analysis to determine which of the independent variables can be used to predict the dependent variables. A criterion alpha level of .05 was used to make decisions regarding the statistical significance of the findings. Figure 1 presents statistical analyses that were used to address each research question.

Figure 1

Statistical Analyses

Research Question	Variables	Statistical Analysis
1. How have special education services impacted operating expenditures of school districts located in Macomb, Oakland, and Wayne Counties?	Dependent Variable Ratio of Total special education expenditures to Total operating expenditures per pupil. Independent Variables • Total district pupil population • Percentage of population that is receiving special education services • Foundation allowance per pupil • Percentage of students who qualify for free or reduced lunch • Special education expenditures Per Pupil (all students) • Average teacher salaries • Percentage of students who are identified as cognitive impaired (CI) and are included in regular education classrooms 60 to 100% of the time. • Percentage of students who are learning disabled (LD) and are included in regular education	Separate stepwise multiple linear regression analysis was used to determine which of the independent variables can be used to predict operating expenditures by pupil for each of the four years.

Research Question	Variables	Statistical Analysis
	classrooms 60 to 100% of the time. • Percentage of students with limited English proficiency (2001 only)	

Figure continues

2. What are the determinants of local school districts' change in relative expenditures on general and special education?	Dependent Variable Change in ratio of total special education expenditures to total operating expenditures per pupil from FY 1998 to FY 2001. Independent Variables • Change in total district pupil population • Change in foundation allowance • Change in the percentage of enrollment of number of students qualifying for free or reduced lunch for FY 1998 to FY 2001 • Change in percentage of students who are identified as cognitive impaired (CI) and are included in regular education classrooms 60 to 100% of the time. • Change in percentage of students who are learning disabled (LD) and are included in regular education classrooms 60 to 100% of the time. • Change in average teacher salaries for FY 1998	A stepwise multiple linear regression analyses were used to determine which of the independent variables can be used to predict change in percentage of total operating expenditures for special education.

Chapter 4

Results of Data Analysis

This chapter presents results of the data analysis that was used to describe the sample and address the two research questions posed for this study. Measures of central tendency and dispersion were used to describe the school districts in the three counties, Macomb, Oakland, and Wayne, included in the study. Stepwise multiple linear regression analyses were used to address the two research questions.

The purpose of this study was to investigate the fiscal impact limited state financing of special education services has on school districts in Macomb, Oakland and Wayne counties in southeastern Michigan.

Data for the years 1998 through 2001 from all 83 school districts in the three counties on student population, school foundation allowances, total and special education school expenditures, and special education placements were collected from Standard & Poors School Evaluation Services and the Michigan Department of Education, Office of Special Education.[2] These data were entered into a computer file and analyzed using SPSS – Windows, ver 12.0.

Description of the School Districts

The student populations in the school districts for the years 1998 through 2001 were summarized using descriptive statistics. The results of this analysis are presented in Table 1.

[2] Charter schools, referred to as Public School Academies in Michigan, were not included in this study. These schools provide very few special education programs. (Reference: Michigan Charter School Commission Report, 2002).

Table 1

Descriptive Statistics
Student Population – 1998 through 2001

County	Mean	SD	Median	Range	
				Minimum	Maximum
Macomb (n=21)					
1998	5,763.24	5,675.83	3,253.00	1,101	25,708
1999	5,836.43	5,872.97	3,318.00	1,052	26,399
2000	5,884.48	5,939.92	3,356.00	1,112	26,925
2001	6,019.05	6,181.94	3,252.00	1,143	27,882
Oakland (n=28)					
1998	6,510.79	3,649.92	5,514.00	1,724	13,073
1999	6,600.96	3,717.45	5,747.00	1,708	13,495
2000	6,632.32	3,764.48	5,886.50	1,519	13,965
2001	6,693.64	3,803.87	5,965.50	1,506	14,384
Wayne (n=34)					
1998	10,187.82	29,722.79	3,399.50	1,107	176,432
1999	10,189.12	29,591.72	3,445.00	1,093	175,653
2000	10,015.50	28,526.26	3,514.00	1,075	169,363
2001	9,910.59	27,696.58	3,580.50	1,047	164,506

Student population growth is most apparent in Macomb County, with the mean number of students increasing from 5,763.24 (sd=5,675.83) in 1998 to 6,019.05 (sd=6,181.94) in 2001. Oakland County experienced an increase from 6,510.79 (sd=3,649.92) in 1998 to 6,634.64 (sd=3,803.87) in 2001. Wayne County experienced a decrease in student enrollment from 1998 (m=10,187.82, sd=29,722.79) to 2001 (m=9,910.59, sd=27,696.58). The largest school district in Macomb County experienced an increase of 2,174 students over the four years, compared to an increase of 1,311 students in the largest school district in Oakland County and a decrease of 11,926 students in the largest school district in Wayne County. The Detroit Public Schools district is not only the largest school district in Wayne County, but is the largest school district in the state with approximately 164,506 students.

The foundation allowances for each school district for the four years included in the study were summarized using descriptive statistics. The results by county are

presented in Table 2.

Table 2

Descriptive Statistics
Foundation Allowance Per Student – 1998 through 2001

County	Mean	SD	Median	Range	
				Minimum	Maximum
Macomb (n=21)					
1998	6580.14	854.17	6361.00	5462.00	8507.00
1999	6580.14	854.17	6361.00	5462.00	8507.00
2000	6797.33	817.41	6599.00	5700.00	8643.00
2001	7074.95	777.99	6900.00	6000.00	8834.00
Oakland (n=28)					
1998	7180.14	1561.86	6744.50	5462.00	10916.00
1999	7180.14	1561.86	6744.50	5462.00	10916.00
2000	7375.04	1530.49	6982.50	5700.00	11091.00
2001	7628.64	1501.03	7283.00	6000.00	11335.00
Wayne (n=34)					
1998	6554.91	834.84	6353.00	5462.00	8855.00
1999	6554.91	834.84	6353.00	5462.00	8855.00
2000	6764.38	807.34	6591.00	5700.00	8997.00
2001	7044.29	766.52	6903.00	6000.00	9195.00

The minimum foundation allowance per student was the same for all four years in school districts located in the three counties. School districts in Oakland County had higher mean foundation allowances than those in either Wayne or Macomb Counties. Foundation allowances for 1998 and 1999 were exactly the same for all school districts in the three counties because of the Durant I settlement. The Supreme Court of the state of Michigan in 1997 declared that the state had failed to fund special education programs at appropriate levels. As a result of this verdict, the state owed local school districts across the state approximately $212 million. However, the court limited damages to the plaintiff's school districts from 1991 to 1994. The state's obligation to pay these costs was evident once the Court of Appeals issued its 1990 ruling that special education and other services were protected by the Headlee Amendment. In addition, the adoption of

Proposal A in 1994, decreased taxpayers' burden to compensate local school districts for the state underfunding of its share of mandated educational costs (Sielke, 1999). The Michigan legislature approved payments to school districts across the state in order to meet this financial obligation.

The operating expenditures per student were obtained from Standard and Poors School Evaluation Services. These expenditures were summarized using descriptive statistics for presentation in Table 3.

Table 3

Descriptive Statistics
Operating Expenditures per Student – 1998 through 2001

County	Mean	SD	Median	Range	
				Minimum	Maximum
Macomb (n=21)					
1998	6866.57	777.46	6784.00	5669.00	8463.00
1999	7090.05	780.18	6992.00	5892.00	8835.00
2000	7454.71	847.71	7332.00	6186.00	9329.00
2001	7927.76	862.69	7932.00	6734.00	9394.00
Oakland (n=28)					
1998	7499.61	1337.38	7438.00	5716.00	11034.00
1999	7825.54	1328.67	7701.50	5924.00	11313.00
2000	8291.64	1426.91	8043.50	6363.00	11776.00
2001	8588.04	1508.48	8599.00	6293.00	11857.00
Wayne (n=34)					
1998	6995.85	863.70	6859.50	5532.00	9246.00
1999	7222.32	884.53	7176.00	5499.00	9202.00
2000	7615.50	885.33	7482.00	6036.00	9511.00
2001	7893.50	847.10	7734.00	6451.00	9536.00

Operating expenditures per student are increasing every year for school districts in the three counties. Operating expenditures are the dollar amount spent on instruction, administration, operations and maintenance, transportation, food services, compensation, purchased services, supplies and materials and other daily expenses that are reported on a per-student basis. When examined separately, Oakland County school districts appear to

have higher mean operating expenditures per student than either Macomb or Wayne Counties. In contrast to higher per pupil foundation allowances in Macomb County as compared to Wayne County, school districts in Wayne County had higher operating expenditures per student than school districts in Macomb County, reflecting the higher levels of categorical funding in Wayne County.

The average teacher salaries from 1998 to 2001 were obtained from the Standard and Poors School Evaluation Reports. The results of the descriptive statistics used to summarize these data are presented in Table 4.

Table 4

Descriptive Statistics
Average Teacher Salaries – 1998 through 2001

County	Mean	SD	Median	Range	
				Minimum	Maximum
Macomb (n=21)					
1998	53355.62	5540.52	52306.00	44130.00	64290.00
1999	52899.71	4781.78	51819.00	46341.00	61234.00
2000	53632.95	4941.62	53869.00	43341.00	63361.00
2001	55039.38	5501.02	54169.00	43534.00	66138.00
Oakland (n=28)					
1998	52501.14	5139.79	52733.50	44899.00	64670.00
1999	53663.46	5652.62	53522.00	43487.00	67500.00
2000	53700.21	6153.59	53463.00	44218.00	69699.00
2001	54637.54	5768.87	55408.00	44723.00	67743.00
Wayne (n=34)					
1998	52743.85	5340.60	52156.50	38576.00	62860.00
1999	52783.65	5029.10	52799.50	40128.00	62993.00
2000	53684.97	4749.34	54318.50	42774.00	61100.00
2001	54620.41	4816.25	55436.50	42707.00	62699.00

While some fluctuation was noted in average teacher salaries across the three counties, the overall results indicated general stability, with minimal increases each year in Wayne and Oakland Counties. Average teacher salaries in Macomb County decreased from 1998 (m=53355.62, sd=5540.52) to 1999 (m=52899.71, sd=4781.78) and then

showed small increases for 2000 (m=53632.95, sd=4941.62) and a larger increase for 2001 (m=55039.38, sd=5501.16). The decline in teacher salaries in Macomb County could be attributed to teachers with higher salaries retiring and new teachers who make less money being hired.

The percentage of students qualifying for free or reduced lunch is a measure of the socioeconomic status of a school district. The data for this variable were obtained from the Standard and Poors School Evaluation Reports. Table 5 presents the results of the descriptive statistics that were used to summarize these data.

Table 5

Descriptive Statistics
Percent of Students Qualifying for Free or Reduced Lunch – 1998 through 2001

County	Mean	SD	Median	Range	
				Minimum	Maximum
Macomb (n=21)					
1998	21.10	13.46	14.00	7.00	56.00
1999	22.10	15.43	15.00	6.00	63.00
2000	20.57	14.35	15.00	4.00	53.00
2001	21.19	14.65	15.00	4.00	57.00
Oakland (n=28)					
1998	16.21	15.78	10.00	2.00	65.00
1999	17.00	17.09	10.00	2.00	65.00
2000	16.43	16.65	9.00	2.00	64.00
2001	16.39	15.85	9.50	1.00	62.00
Wayne (n=34)					
1998	29.18	24.57	23.50	1.00	88.00
1999	29.59	24.09	23.00	1.00	81.00
2000	29.85	24.77	22.00	2.00	87.00
2001	29.76	24.78	22.00	2.00	80.00

For the four years of the study, Wayne County school districts had the highest percentage of students qualifying for free or reduced lunch, followed by Macomb and then Oakland Counties. While the mean percentage of students qualifying for free or reduced lunch is lower in Oakland County than Macomb County, the maximum

percentage of students qualifying for this program is higher in Oakland County than in Macomb County.

Special education expenditures per student were obtained from Standard and Poors School Evaluation Reports. These expenditures were determined by dividing the total special education expenditures by the total number of students in the school district. The results of the descriptive statistics that were used to summarize these data are presented in Table 6.

Table 6

Descriptive Statistics
Special Education Expenditures per Student – 1998 through 2001

				Range	
County	Mean	SD	Median	Minimum	Maximum
Macomb (n=21)					
1998	471.81	147.18	497.00	114.00	760.00
1999	499.52	158.43	487.00	169.00	793.00
2000	512.86	146.11	485.00	156.00	796.00
2001	573.05	155.02	608.00	268.00	863.00
Oakland (n=28)					
1998	519.82	186.30	460.50	257.00	1025.00
1999	523.11	166.85	487.50	305.00	935.00
2000	569.92	168.88	525.50	345.00	938.00
2001	620.89	187.71	579.50	402.00	1091.00
Wayne (n=34)					
1998	483.74	296.65	405.50	238.00	1870.00
1999	512.03	316.23	422.50	231.00	1985.00
2000	559.09	332.66	465.00	254.00	2071.00
2001	596.50	404.63	486.00	185.00	2460.00

Wayne County school districts had the highest maximum special education expenditures per student than either Oakland or Macomb Counties, although Oakland County school districts had the highest mean special education expenditures for the four years, when compared to Macomb and Wayne counties. The average annual compound growth rate for mean special education spending per pupil in Macomb and Wayne

Counties was .06 and in Oakland County it was .05. In all three counties, special education expenditures grew by small amounts over the four years in the study.

The percentage of students receiving special education services were summarized using descriptive statistics. Table 7 presents results of this analysis.

Table 7

Descriptive Statistics
Percentage of Students Receiving Special Education Services – 1998 through 2001

County	Mean	SD	Median	Range	
				Minimum	Maximum
Macomb (n=21)					
1998	13.57	3.09	13.00	9.00	20.00
1999	13.95	3.14	13.00	9.00	19.00
2000	13.86	2.95	14.00	9.00	19.00
2001	14.10	3.15	14.00	9.00	20.00
Oakland (n=28)					
1998	12.04	2.93	11.50	8.00	18.00
1999	12.11	2.95	12.00	8.00	18.00
2000	12.07	3.01	12.00	8.00	18.00
2001	12.54	2.99	12.00	8.00	19.00
Wayne (n=34)					
1998	13.59	4.24	13.00	7.00	26.00
1999	13.59	4.43	13.50	7.00	28.00
2000	13.62	4.60	13.50	6.00	28.00
2001	13.62	4.83	13.50	6.00	28.00

The percentage of students receiving special education services has remained consistent over the four years included in the study. The percentage of students receiving special education services is lowest in Oakland County Schools and highest in Macomb County Schools, although the school district with the highest percentage of special education students is located in Wayne County.

The percentage of students with cognitive impairments who were placed in regular education environments 60% to 100% of their school time was obtained from the Michigan Department of Education, Office of Special Education. These data were

summarized using descriptive statistics. The results of this analysis are presented in Table 8. Cognitively impaired students traditionally score at least two standard deviations below the mean on IQ tests. They usually have a cumulative IQ score of 70 or below. Cognitively impaired students also may demonstrate adaptive behavior impairments.

Table 8

Descriptive Statistics
Percent of Students with Cognitive Impairments
Placed in Regular Education Environments 60% to 100% of Their School Time
– 1998 through 2001

				Range	
County	Mean	SD	Median	Minimum	Maximum
Macomb (n=21)					
1998	4.90	3.39	5.00	1.00	14.00
1999	5.14	4.49	5.00	1.00	18.00
2000	4.67	3.89	3.00	<1.00	14.00
2001	4.71	3.72	4.00	1.00	14.00
Oakland (n=28)					
1998	3.50	4.30	2.00	<1.00	20.00
1999	3.50	3.97	2.00	<1.00	18.00
2000	3.57	3.73	2.00	<1.00	16.00
2001	3.54	3.90	2.00	<1.00	17.00
Wayne (n=34)					
1998	2.79	13.31	0.00	<1.00	78.00
1999	2.88	14.18	0.00	<1.00	83.00
2000	2.85	13.48	0.00	<1.00	79.00
2001	2.94	13.46	0.00	<1.00	79.00

Macomb County has the highest percentage of students with cognitive impairments who are placed in regular education environments 60 to 100% of their school time. This percentage peaked at 5.14% (sd=4.49%) \in 1998 and has been stable for 2000 (m=4.67%, sd=3.89%) and 2001 (m=4.71%, sd=3.72%). Wayne County has the lowest percentage of students with cognitive impairments, although this percentage has shown small percentage increases over the four years. Oakland County's percentage of students with cognitive impairments has remained stable over the four years, although the

highest percentage was noted in 2000 (m=3.57%, sd=3.73%). These low percentages indicate that few school districts in Macomb, Oakland, and Wayne Counties place their cognitive impaired students in regular education settings. The majority of the school districts placed these identified students in self-contained in-district classrooms or used district/county center programs to educate their cognitive impaired students. Thus, the procedure of placing cognitive impaired students in full inclusion settings is not occurring to a high degree in the three counties.

The number of students receiving services for learning disabilities who are placed in regular education environments 60% to 100% of their school time was obtained from the Michigan Department of Education, Office of Special Education for the years from 1998 through 2001. Descriptive statistics were used to summarize these data for presentation in Table 9. Learning disabled students are primarily identified by their demonstration of a significant discrepancy between cognitive ability (i.e. IQ scores) and an area of academic achievement. The primary areas of academic achievement that are tested are oral expression, listening comprehension, basic reading, math reasoning, math calculation, written expression, and reading comprehension. Learning disabled students typically demonstrate processing problems in these primary areas.

Table 9

Descriptive Statistics
Percent of Students with Learning Disabilities
Placed in Regular Education Environments 60% to 100% of Their School Time
– 1998 through 2001

County	Mean	SD	Median	Range	
				Minimum	Maximum
Macomb (n=21)					
1998	4.76	4.23	4.00	<1.00	16.00
1999	4.81	4.73	4.00	<1.00	18.00
2000	4.71	4.28	4.00	<1.00	17.00
2001	4.86	4.42	4.00	<1.00	18.00
Oakland (n=28)					
1998	3.57	6.53	1.00	<1.00	33.00
1999	3.57	6.64	1.00	<1.00	27.00
2000	3.54	5.85	1.00	<1.00	33.00
2001	3.57	7.04	1.00	<1.00	33.00
Wayne (n=34)					
1998	2.94	12.62	.50	<1.00	74.00
1999	2.94	13.67	.00	<1.00	80.00
2000	2.82	12.80	.00	<1.00	75.00
2001	2.91	12.62	.00	<1.00	74.00

The highest percentage of students with learning disabilities who are placed in regular education environments 60 to 100% of their school time was highest in Macomb County. This percentage remained stable across the four years, ranging from a mean of 4.71% (sd=4.28%) in 2000 to 4.86% (sd=4.42%) in 2001. Wayne County had the lowest percentage of students categorized as learning disabled in regular education classrooms for 60 to 100% of their school time. The percentage of students with learning disabilities in Oakland County remained stable over the four years of the study. As with the cognitive impaired population, these low percentages indicate that few school districts in Macomb, Oakland, and Wayne Counties place their learning disabled students in regular education settings. The majorities of the school districts placed these identified students in self-contained in-district classrooms within the students' home school to receive their

instruction. This also shows that the procedure of placing learning disabled students in full inclusion settings is not taking place to a high degree in the three counties in this study.

The ratios of special education expenditures to total operating expenditures for the four years included in the study and the change in the ratio of special education expenditures to total operating expenditures from 1998 to 2001 were analyzed using descriptive statistics. The results of these analyses for the three counties included in the study are presented in Table 10.

Table 10

Descriptive Statistics
Ratio of Special Education Expenditures to Total Operating Expenditures
1998 through 2001 and Change in Ratio of Special Education Expenditures to
Total Operating Expenditures from 1998 to 2001

County	Mean	SD	Median	Range	
				Minimum	Maximum
Macomb (n=21)					
1998	.06	.01	.06	.03	.08
1999	.05	.01	.05	.02	.08
2000	.05	.02	.05	.02	.10
2001	.05	.01	.05	.01	.08
Change from 1998 to 2001	-.17	1.06	.03	-4.82	.22
Oakland (n=28)					
1998	.05	.02	.06	.03	.10
1999	.05	.01	.05	.02	.08
2000	.05	.02	.04	.03	.11
2001	.05	.02	.05	.02	.11
Change from 1998 to 2001	.00	.19	.01	-.59	.18
Wayne (n=34)					
1998	.07	.04	.06	.02	.27
1999	.06	.03	.05	.02	.25
2000	.05	.04	.05	.01	.26
2001	.06	.04	.05	.01	.26
Change from 1998 to 2001	-.14	4.42	.03	-4.82	39.90

The mean scores for the ratio of special education expenditures to total operating expenditures remained almost constant for Macomb and Oakland counties. Some

fluctuation was noted for Wayne County, although this fluctuation was minimal. However, when the change in the ratio of special education expenditures to total operating expenditures from 1998 to 2001 was examined, the changes were more varied. Among the local districts in Macomb County, the change in the ratio of special education expenditures to total operating expenditures ranged from -4.82 to .22, with a mean change of -.17 (sd=1.06). A smaller change was found in the ratio of special education expenditures to total operating expenditures from 1998 to 2001 for Oakland County. The mean change in the ratio was .00 (sd=.19), with changes in these ratios ranging from -.59 to .18. Wayne County experienced the greatest mean change in the ratio of special education expenditures to total operating expenditures from 1998 to 2001. The mean change in the ratio was -.14 (sd=4.42). The changes in these ratios for districts in Wayne County were from -4.82 to 39.90. One school district in Wayne County had increased total operating expenditures by $10.00 per student from 1998 to 2001, while they increased their special education expenditures by $399.00 per pupil, resulting in the ratio of 39.90. The ratios of special education expenditures to total operating expenditures were negligible. The total operating expenditures had increased at a consistent rate over the four years as had the expenditures for special education services.

Research Questions

Two research questions were developed for this study. Each of these questions was addressed using inferential statistical analyses, with all decisions on the statistical significance of the findings made using an alpha level of .05.

> *Research Question 1*. How have special education services impacted the composition of total operating expenditures of school districts located in Macomb, Oakland, and Wayne Counties?

A stepwise multiple linear regression analysis was used to determine the impact

of special education mandated services on the ratio of special education expenditures per student to total expenditures per student of school districts in Macomb, Oakland, and Wayne Counties across the four years of the study, 1998, 1999, 2000, and 2001. The independent variables in these analyses included student headcount (transformed), percentage of students receiving special education services, percentage of students qualifying for free or reduced lunch programs, foundation allowance, expenditures for special education services, average teacher salaries, percentage of students with cognitive impairments who were placed into regular education classes 60 to 100% of their school time, and percentage of students with learning disabilities who were placed into regular education classes 60 to 100% of their school time. The dependent variable in each of these analyses was the ratio of special education operating expenditures per student to total operating expenditures per student as reported by Standard and Poors School Evaluation Services. Table 11 presents results of the analysis for 1998.

Table 11

Stepwise Multiple Linear Regression Analysis
Ratio of Special Education Operating Expenditures to
Total Operating Expenditures per Student, 1998

Independent Variables	Constant	b-Weight	B- Weight	r^2 Value	t-Value	Sig of t
Included Variables						
Percent of students with cognitive impairments who are in a regular education environment for 60 to 100% of their school time, 1998	.047	.01	.604	.36	6.81	<.001
Excluded Variables						
Free/reduced lunch, 1998			.11		1.22	.225
Percent of students with learning disabilities who are in a regular education environment for 60 to 100% of their school time, 1998			.04		.14	.893
Average teacher salaries, 1998			-.06		-.68	.502
Foundation allowance, 1998			-.02		-.19	.853
Student population, 1998			.22		1.28	.206
Multiple R .60 Multiple R^2 .36 F Ratio 46.42 DF 1, 81 Sig of F <.001						

One independent variable, percentage of students with cognitive impairments who were placed into regular education classes 60 to 100% of their school time, was statistically significant, explaining 36% of the variance in ratio of special education operating expenditures to total operating expenditures per student for 1998 $F (1, 81) = 46.42$, $p < .001$. The positive relationship between these two variables indicated that as the percentage of students with cognitive impairments who were placed into regular education classes 60 to 100% of their school time increased, the ratio of special education expenditures to total operating expenditures per student also increased. Students with cognitive impairments require additional educational supports (e.g., trained aides, special equipment, adaptive classroom, and adaptive technology) to obtain quality educational experiences than other special education students. These required educational supports

are paid for through special education expenditures. Thus, school districts with higher populations of cognitively impaired students are more likely to have higher special education expenditures. The process of inclusion may result in an increase in special education spending as it relates to total operation expenditures.

The remaining independent variables did not enter the stepwise multiple linear regression equation. These variables were not statistically significant predictors of the ratio of special education expenditures per student to total expenditures per student for 1998.

The same set of independent variables for 1999 was used in a second stepwise multiple linear regression analysis. Table 12 presents results of this analysis.

Table 12

Stepwise Multiple Linear Regression Analysis
Ratio of Special Education Operating Expenditures
to Total Operating Expenditures Per Student, 1999

Independent Variables	Constant	b-Weight	B- Weight	r^2 Value	t-Value	Sig of t
Included Variables						
Percent of students with cognitive impairments who are in a regular education environment for 60 to 100% of their school time, 1999	.039	.01	.56	.37	6.19	<.001
Free/reduced lunch, 1999		.01	.19	.03	2.12	.037
Excluded Variables						
Percent of students with learning disabilities who are in a regular education environment for 60 to 100% of their school time, 1999			.08		.28	.782
Average teacher salaries, 1999			-.03		-.30	.763
Foundation allowance, 1999			.01		.03	.974
Student population, 1999			.34		1.84	.069
Multiple R .63 Multiple R^2 .40 F Ratio 26.76 DF 2, 80 Sig of F <.001						

The ratio of special education expenditures per student to total expenditures per student for 1999 could be explained by two independent variables; percent of students with cognitive impairments who are in a regular education environment for 60 to 100% of their school time and percentage of students qualifying for free or reduced lunch. These variables were explaining 40% of the variance in the ratio of special education expenditures per student to total expenditures per student for 1999 $F (3, 79) = 26.76$, $p < .001$.

Percent of students with cognitive impairments who were in a regular education environment for 60 to 100% of their school time for the 1999 school year entered the stepwise multiple linear regression equation, explaining 37% of the variance in the ratio

of special education expenditures per student to total expenditures per student for 1999 $t = 6.19$, $p < .001$. The positive relationship between the two variables indicated that school districts with a higher percent of students with cognitive impairments who were in regular education environments for 60 to 100% of their school time in 1999 tended to have a higher ratio of special education expenditures per student to total expenditures per student for 1999.

An additional 3% of the variance in the ratio of special education expenditures per student to total expenditures per student for 1999 was explained by percentage of students qualifying for free or reduced lunch in 1999 $t = 2.12$, $p < .037$. School districts with higher percentages of students qualifying for free or reduced lunch were more likely to have higher ratios of special education expenditures per student to total expenditures per student for 1999. This finding supported Berman and Urion's (2003) research which posited that increases in special education costs were primarily due to economic and social factors, such as the increasing number of children in poverty qualifying for special education services and the growing number of families experiencing social and economic stress.

Student population in 1999 was approaching statistical significance as a predictor of the ratio of special education expenditures per student to total expenditures per student for 1999 $t = 1.84$, $p < .069$. This finding indicated that school districts with larger student populations were more likely to have higher ratios of special education expenditures per student to total expenditures per student for 1999. Increases in special education enrollments reflect the needs of the overall student population matriculating in public schools (Berman & Urion, 2003).

The remaining independent variables; percent of students with learning

disabilities who are in a regular education environment for 60 to 100% of their school time in 1999, average teacher salaries for 1999, foundation allowance per student for 1999, and student population for 1999; did not enter the stepwise multiple linear regression equation. These variables were not statistically significant predictors of the ratio of special education expenditures per student to total expenditures per student for 1999.

A stepwise multiple linear regression analysis was used to determine which of the independent variables could be used to predict the ratio of special education expenditures per student to total expenditures per student for 2000. The results of this analysis are presented in Table 13.

Table 13

Stepwise Multiple Linear Regression Analysis
Ratio of Special Education Operating Expenditures
to Total Operating Expenditures Per Student, 2000

Independent Variables	Constant	b-Weight	B- Weight	r^2 Value	t-Value	Sig of t
Included Variables						
Percent of students with cognitive impairments who are in a regular education environment for 60 to 100% of their school time, 2000	.05	.01	.58	.33	6.38	<.001
Excluded Variables						
Free/reduced lunch, 2000			.10		1.07	.287
Percent of students with learning disabilities who are in a regular education environment for 60 to 100% of their school time, 2000			.06		.22	.826
Average teacher salaries, 2000			-.03		-.36	.717
Foundation allowance, 2000			-.05		-.57	.571
Student population, 2000			.25		1.36	.177
Multiple R .58 Multiple R^2 .33 F Ratio 40.65 DF 1, 81 Sig of F <.001						

One independent variable, percent of students with cognitive impairments who are in a regular education environment for 60 to 100% of their school time, 2000, entered the stepwise multiple linear regression equation, accounting for 33% of the variance in the ratio of special education expenditures per student to total expenditures per student for 2000 $F (1, 81) = 40.65$, $p < .001$. This result provided evidence that the percent of students with cognitive impairments who were in regular education environments for 60 to 100% of their school time during 2000 was explaining a statistically significant amount of variance in the ratio of special education expenditures per student to operating expenditures per student for 2000.

The remaining independent variables did not enter the stepwise multiple linear regression equation. This finding showed that these variables were not statistically significant predictors of the ratio of special education expenditures per student to total expenditures per student for 2000.

The ratio of special education expenditures per student to total expenditures per student for 2001 was used as the dependent variable in a stepwise multiple linear regression analysis. Data on the percent of students who had limited English proficiencies was available only for 2000-2001 school year. This independent variable was included in the 2001 stepwise multiple linear regression analysis. Table 14 presents results of this analysis.

Table 14

Stepwise Multiple Linear Regression Analysis
Ratio of Special Education Expenditures per Student
to Total Expenditures Per Student – 2001

Independent Variables	Constant	b-Weight	B- Weight	r^2 Value	t-Value	Sig of t
Included Variables						
Percent of students with limited English Proficiency	.05	.01	.83	.69	13.54	<.001
Excluded Variables						
Free/reduced lunch, 2001			.02		.23	.818
Percent of students with cognitive impairments who are in a regular education environment for 60 to 100% of their school time, 2001			-.07		-.78	.440
Percent of students with learning disabilities who are in a regular education environment for 60 to 100% of their school time, 2001			-.05		-.60	.549
Average teacher salaries, 2001			.03		.48	.635
Foundation allowance, 2001			-.09		-1.47	.146
Student population, 2001			-.16		-.168	.096
Multiple R .83 Multiple R^2 .69 F Ratio 183.35 DF 1, 81 Sig of F <.001						

One independent variable, percent of students with limited English proficiency, was statistically significant, accounting for fully 69% of the variance in the ratio of special education expenditures per student to total expenditures per student for 2001 $F (1, 81) = 183.35$, $p < .001$. The strong positive relationship between the two variables indicated that school districts with higher percentages of students with limited English proficiency for 2001 were more likely to have higher ratios of special education expenditures per student to total expenditures per student for 2001, which is primarily due to the cost of operating LEP programs. A certified bilingual teacher is required by the State of Michigan for every LEP class. In addition, the school district has to provide a language tutor to provide individualized instruction for every language spoken by

students in a LEP program setting. School districts with higher percentages of immigrants among their student populations tend to spend more money on the LEP program. LEP students cannot be certified in an area of special education while they are enrolled in bilingual education classes. However, the positive relationship between LEP and increases in the ratio of special education expenditures to total operating expenditures indicated that school districts may be providing special education services to LEP students, although these students have not been officially certified as qualifying for these services (Klinger & Artiles, 2003). Expenses related to these special education services for nonqualified students are classified as special education expenditures for accounting purposes. This finding of a strong, positive relationship between the incidence of LEP students and the ratio of special education spending to total spending raises a question about the logic of separating LEP and special education children into mutually exclusive certification categories.

The remaining independent variables did not enter the stepwise multiple linear regression equation. Based on this finding, they do not appear to be a statistically significant predictor of the ratio of special education expenditures per student to total expenditures per student for 2001. The significance of the LEP variable and the insignificance of the "inclusion" variables suggest that findings of the regressions for previous years were spurious. The percent LEP and the poverty rate are the major determinants of the composition of school spending. Inclusion is not significant, either statistically or from a policy standpoint. As previously stated, although these students are placed in regular education settings, they still receive special education services that are accounted for under special education spending.

Research Question 2. What are the determinants of local school districts' change in relative expenditures on general and special education?

The change in the ratio of special education expenditures per student to total expenditures per student between 1998 and 2001 was used as the dependent variable in a stepwise multiple linear regression analysis. The independent variables in this analysis were changes from 1998 to 2001 for: student population (transformed), foundation allowance per student, percentage of students qualifying for free or reduced lunch, average teacher salary, changes in special education populations, percentage of students with cognitive impairments who are in a regular education environment for 60 to 100% of their school time, and percentage of students with learning disabilities who are in a regular education environment for 60 to 100% of their school time. Table 15 presents results of this analysis.

Table 15

Stepwise Multiple Linear Regression Analysis
Change in Ratio of Special Education Expenditures per Student
to Total Expenditures Per Student – 1998 - 2001

Independent Variables	Constant	b-Weight	B- Weight	r^2 Value	t-Value	Sig of t
Included Variables						
Change in free/reduced lunch, 1998 - 2001	.32	.31	.29	.08	2.72	.008
Excluded Variables						
Change in percent of students with cognitive impairments who are in a regular education environment for 60 to 100% of their school time, 1998 - 2001			.09		.85	.396
Change in percent of students with learning disabilities who are in a regular education environment for 60 to 100% of their school time, 1998 - 2001			.09		.82	.414
Change in student population, 1998 - 2001			.101		.94	.105
Change in foundation allowance, 1998 - 2001			-.19		-1.56	.123
Change in average teacher salaries, 1998 - 2001			.06		.54	.594
Change in percent of students receiving special education services 1998- 2001			.04		.41	.686
Multiple R .29 Multiple R^2 .08 F Ratio 7.41 DF 1, 81 Sig of F .008						

One independent variable, changes in the percentage of students qualifying for free or reduced lunch from 1998 to 2001, entered the stepwise multiple linear regression equation, explaining 8% of the variance in change in ratio of special education expenditures per student to total expenditures per student from 1998 to 2001 $F(1, 81) = 63.83$, $p < .001$. The positive relationship between the two variables indicated that schools with higher changes in the percentage of students who qualify for free or reduced lunch from 1998 to 2001 were more likely to have higher changes in ratio of special education expenditures per student to total expenditures per student from 1998 to 2001.

The remaining independent variables did not enter the stepwise multiple linear regression equation, indicating they were not statistically significant predictors of changes in the ratio of special education expenditures per student to total expenditures per student from 1998 to 2001.

The real determinant may be the change in percent LEP, but data for this variable was not available prior to 2001. The correlation of .28 between the percentage of students qualifying for free or reduced lunch and the percentage of students with LEP for the 2001 school year was statistically significant at an alpha level of .05. Students who qualify for LEP services generally are new immigrants. Their family incomes are generally at or below the poverty level as their parents become proficient in English and are able to obtain jobs. As a result, these students participate in LEP classes and qualify for free or reduced lunch programs.

Summary

Results of the statistical analyses that were used to describe the data and address the research questions have been presented in this chapter. No major changes in special education law, policy, or practice were made between 1998 and 2001. The share of district operating expenditures allocated to special education depends on law, policy, practice, and proportion of students who are poor and may not depend on the level of categorical aid allocated to local school districts by state or federal governments. Special education services are mandated by state and federal governments, and the level of state and federal categorical aid may or may not influence special education spending. Specifically, when categorical aid covers only a small percentage of actual special education expenditures, local districts have little incentive to increase these expenditures since they must be covered, in large part, with unrestricted general fund revenue. With no

substantial changes in law, policy and levels of categorical aid enacted over the period examined, relative spending levels on regular and special education changed little as well. Conclusions and recommendations based on these findings can be found in Chapter 5..

Chapter 5

Summary, Conclusions, and Recommendations

Summary

The purpose of this study was to investigate the fiscal impact that limited state financing of special education services had on school districts in Macomb, Oakland and Wayne counties in southeastern Michigan. Specifically, this research sought to determine the fiscal impact of special education services on school districts expenditures for the school districts in this study.

The impact that Proposal A has had on Michigan school funding has been enormous. The goal of having every district in the state at or above a minimum level of funding has been achieved through this legislation. By switching from a guaranteed tax base form of funding to a foundation allowance form of funding, this legislation has also made the state the primary source of funding for Michigan schools (Addonizio, Kearney, & Prince, 1995). However, this change in the manner school districts receive funding has severely limited local school districts abilities to raise additional revenue to support their schools if the foundation allocation is less than what is needed to successfully operate their school districts. With this change in funding, the sales tax became the primary resource for school funding in Michigan. The problem with this type of funding was that when the economy was in a recession, monies that were established for public education might not be available. As a result of the present decline in the Michigan economy, the governor made a $74 per pupil mid-year reduction in school aid payments to local school districts and public school academies across the state for the 2003-04 school year (D. Hanrahan, personal communication, February 13, 2004).

However, Intermediate School Districts (ISDs) can raise additional sources of revenue through special education millages to help local school districts with the costs of special education services. To pass a special education millage, the ISD Board of Education requests an election to pass a proposal for a special education millage increase to be presented to the voters in the county. The limit of the millage depends on the existing mill level a school district has and how many additional mills they are allowed to levy to increase their mill rate. If voters in a county approve a millage increase, the increased monies can be spent only for special education services that are governed by federal and state legislatures and administrative rules (C. Klenow, personal communication, February 25, 2004). Specific language concerning the usage of monies raised by a millage increase is explained in the ballot proposal presented to voters. The ISD collects and governs monies raised through the millage and returns it to the local school districts. However, if an ISD operates center-based programs that school districts throughout the county use, a portion of monies raised through a millage increase remains with the ISD.

Revenue raised by such special education millages are, in effect, general education resources. That is, monies that individual school districts would have spent from their general budgets to cover special education costs are replaced by monies obtained from the special education millage increase. Thus, special education millages allow local school districts to keep monies in their general fund that would have been spent providing special education services.

The claim of inadequacy by the local and intermediate school districts against the state of Michigan to properly fund special education services has occurred since the original Durant v State of Michigan (1994/1995) to the present day Adair v. State of

Michigan (2001/2002). In response to these claims, the state of Michigan's Supreme Court ruled that the state has not underfunded special education to school districts (Adair et al., Durant v. Michigan, 2001/2002). The result of this litigation was that the public school districts across the state of Michigan have had to pay for the remainder of the costs of special education services that are not reimbursed by the state. Regardless of the status of the Michigan economy or the result of the unsuccessful litigation by local school districts against the state, local school districts remain obligated to fulfill educational requirements regarding special education services to identified special needs students.

School districts in the state of Michigan are in a severe financial predicament. They are required to finance the majority of the costs for special education services to a growing body of students without any additional support from the state. They are also severely limited in their ability to raise additional funds to buffer these and other districts' inflationary costs because of the parameters Proposal A. The end result is that districts across the state are using their reserve funds to support programs and they are not receiving additional financial support from the state of Michigan. As districts deplete their fund balances, program cuts will be inflicted on general education programs, while mandated special education services' share of total operating expenditures will rise.

The challenge for the governor, state legislators, and local school district officials is to devise a more efficient and equitable method of supporting local school districts so they will not be negatively affected by underfunded state mandates in regards to special education. The powers-that-be need to create a uniform method of subsidizing the costs of special education services so local school districts do not bear the brunt of this financial burden. Legislators should allow school districts to tax their constituents at a minimal level to raise monies for their general funds. Local school districts had this

authority until 1997 when they were allowed to tax themselves a maximum of three mills. By allowing millage elections, local school districts could have necessary financial resources to effectively and efficiently operate their schools. This additional revenue also could minimize the fiscal effect that special education services have on general funds of local school districts. Unless some change occurs in the manner in which school districts can raise additional revenue to operate their schools, local school districts will continuously be shortchanged financially relative to special education funding.

There are two major arguments against the recommendation of permitting local school districts to tax their constituents at a minimal level in order to raise money for school districts general operating funds. The first argument is that Proposal A, the present Michigan school funding system, was designed to lower property taxes to homeowners across the state. Allowing school districts to levy additional mills to residents contradicts the intentions of Proposal A. The second argument against this recommendation is that the equity gap will widen between school districts that have higher property values to those school districts that have lower property values. If the property value within a school district is high, they will receive more money per mill than a school district that has lesser property value within its borders even though both districts may levy the same number of mills against their tax payers.

The arguments against allowing school districts to levy additional mills to taxpayers in order to raise money for their general funds are valid. However, it is also important to understand that some adjustment in Proposal A has to occur to allow school to raise additional funds to operate their schools. If taxpayers approve a millage increase, this means they are in support of taxing themselves to assist their school district

financially. Taxpayers should be allowed to do this. Also, equity will not be an issue if school districts have to cut programs and services because of budget shortfalls.

Findings

Two research questions were posed for this study. Each of these questions was addressed using inferential statistical analyses, with all decisions on the statistical significance of the findings made using a criterion alpha level of .05.

> *Research Question 1*. How have special education services impacted total operating expenditures of school districts located in Macomb, Oakland, and Wayne Counties?

Separate stepwise multiple linear regression analyses were used to determine which of the independent variables (student headcount, percentage of students receiving special education services, percentage of students qualifying for free or reduced lunch programs, foundation allowance per student, expenditures for special education services per student, average teacher salaries, percent of students with cognitive impairments who are in a regular education environment for 60 to 100% of their school time, and percent of students with learning disabilities who are in a regular education environment for 60 to 100% of their school time) was associated with the ratio of special education expenditures per student to total expenditures per student for each of the four years (1998, 1999, 2000, and 2001) included in the study. For the 2001 academic year only, an additional independent variable, percent of students with limited English proficiency, was included in the analysis. Data on this variable had not been collected prior to 2001.

For 1998, the ratio of special education operating expenditures to total operating expenditures per student was significantly related to the percent of students with cognitive impairments who are in a regular education environment for 60 to 100% of their school time. The same variable entered the stepwise multiple linear regression

equation for 1999 and 2000 academic years. In addition, the percentage of students qualifying for free or reduced lunch entered the stepwise multiple linear regression equation in 1999 as a statistically significant predictor of the ratio of special education operating expenditures to total operating expenditures per student. The positive relationships on these analyses indicated that higher percentages of students with cognitive impairments who were in a regular education environment for 60 to 100% of their school time were associated with higher ratios of special education operating expenditures to total operating expenditures for the years 1998, 1999, and 2000. As stated previously, although these students are placed in general education learning environments, they still require trained aides and other adaptive classroom supports to receive a quality educational experience. In some full inclusion settings, a certified special education teacher is in the classroom to assist with the cognitively impaired students. These types of services are considered special education expenditures. Although these students may benefit socially by being with other students without disabilities and academically through exposure to the general education curriculum (Lipsky & Gartner, 1998; Peterson, 1998), the cost savings associated with this educational program is limited. Also, this statistical finding may reflect an administrative practice of not distributing dollars from center-based programs to regular education classrooms as special education students are placed in mainstreamed settings.

The percent of students with limited English proficiency for 2001 was a statistically significant predictor of the ratio of special education operating expenditures to total operating expenditures per student for 2001. This finding indicated that school districts with higher percentages of students with limited English proficiencies were more likely to have higher ratios of special education operating expenditures to total operating

expenditures for 2001. Also, due to the statistical significance of the LEP variable for 2001, it may be concluded that if data were available for the years 1998, 1999 and 2000, this variable could have replaced the "inclusion" variable (i.e. cognitive impaired students who were in a regular education environment for 60 to 100% of their school time) as a significant predictor. The statistically significant status of the cognitive impaired variable as a predictor of higher ratios of special education expenditures to total operating expenditures could change and become non-significant. As stated in Chapter 4, although many LEP students are not certified to receive special education services, they benefit from these services nonetheless. Many LEP students work with school psychologists, speech/language pathologists and school social workers even though they are not certified in a special education category. It is important to note that school psychologists, speech/language pathologists and social workers are only required to work with students identified to receive special education services or to assess students who possibly may qualify for special education services. These individuals' salaries are paid through special education expenditures.

> *Research Question 2*. What are the determinants of local school districts' change in relative expenditures on general and special education?

Changes in the ratio of special education expenditures per student to total expenditures per student between 1998 and 2001 was used as the dependent variable in a stepwise multiple linear regression analysis. The independent variables in this analysis included changes from 1998 to 2001 in the same independent variables used in the cross-sectional regressions reported above. The sole exception was the percentage of LEP students, which was available only for the year 2001. One independent variable, change in percentage of students qualifying for free or reduced lunch from 1998 to 2001, entered the stepwise multiple linear regression equation as a statistically significant predictor of

change in the ratio of special education expenditures per student to total expenditures per student from 1998 to 2001. The remaining independent variables did not enter the stepwise multiple linear regression equation, indicating they were not statistically significant predictors of the dependent variable.

Conclusions

Based on the data obtained from the regression model for research question one, the primary predictor that determined how special education services have impacted total operating expenditures for school districts in Macomb, Oakland and Wayne Counties was the percentage of students with cognitive impairments (CI) who are placed in a regular education environment 60 to 100% of their school time for the academic years 1998, 1999, and 2000. This relationship may reflect some economies of scale from the center-based programs. Cognitive impaired students require ancillary services, such as paraprofessional support, assistive technologies, vocational preparations and modified instructional materials. Students who are identified as cognitively impaired require full-time adult supervision inside and outside of the classroom through paraprofessional support. Many students that are cognitively impaired also require more ancillary supports such as receiving social work services, speech assistance, physical therapy and occupational therapy. Many students identified as cognitively impaired also receive more vocational education training, as compared with students with other disabilities who may be on more academic educational plans. Such vocational training is more costly than regular education programs. In summary, even though these students were placed in regular education environments 60 to 100% of their school time, these services were still necessary to be implemented for these students to be successful academically and socially in the school setting.

These findings suggest that services to this population of special education students may be less expensive in a center-based program. Again, based on economies of scale, it could be more cost efficient to have all services provided to students with special needs in a centralized location within a county than to have them dispersed across every school district within a county. By doing this, educational and ancillary services could be consolidated at a centralized location to reduce duplicate costs. This argument, however, does not speak to the issue of educational quality or effectiveness. It may be that inclusion is to be preferred on the grounds of educational effectiveness. At the same time, the finding of a positive and statistically significant relationship between the proportion of spending for special education and regular education placements of cognitively impaired students may simply reflect the administration of special education funds. Specifically, the findings are consistent with a practice of not allowing funding to follow a student who moves from a center-based program to a regular education placement. Under such a practice, the special education services required by the student placed from the center program into the regular classroom would have to be financed with additional operating revenue, thereby increasing the districts' proportion of special education spending. Further, the per pupil expenditure in the center-based program would rise. Such an explanation, of course, is quite different from the finding of economies of scale in the operation of center-based programs.

If school districts are considering increases in their inclusion programs, they need to consider changing their allocation policies to allow special education dollars to follow special education students. If this funding does not follow these children, districts must shift monies from their general operating budgets to pay for special education services. The concept of special education dollars following special education students regardless

of their education placement is a quality issue to investigate, but is beyond the scope of this dissertation. The statistical findings in this study also do not allow the researcher to draw conclusions on the merits of center-based programs versus inclusion programs. A cost-effectiveness comparison of these two approaches to special education services delivery could be a topic of further research.

Research, however, has conjectured that placement of special education students in general education settings is generally less expensive than traditional center-based programs. In Odom and Parrish's (2001) investigation of costs of inclusive and traditional special education preschool services, they found that inclusion programs had lower annual costs than traditional center-based programs. Also, Salisbury and Chambers (1994) found that after a suburban school district in northeastern New York switched from traditional center-based services for special education students to an inclusion model of services, the inclusion model was found to be less costly than traditional center-based programs. Although these studies used smaller sample sizes than this dissertation and these researchers arrived at different conclusions, it is important to understand that research supports the impression that inclusion programming is less costly than traditional center-based services. Finally, this relationship was not statistically significant in the analysis of 2001 data, which included students with limited English proficiency (LEP).

Related to the 2001academic year in the model, the percentage of students with limited English proficiency (LEP) was the statistically significant predictor of how special education services impacted total operating expenditures for the school districts included in this study. For the 2001 academic year, school districts with higher percentages of LEP students had a higher ratio of special education expenditures to total

operating expenditures. The majority of LEP programs are housed in self-contained classrooms within various school districts. They usually have a low student-to-teacher ratio in these programs as well. The LEP program's configuration consists of a certified teacher in bilingual or English Language Learner education who supervises the classroom and individual language specific tutors who individualize instruction for every language group that is in this educational setting (M. Heiderson, personal communication, January 5, 2004). Thus, the more diverse the population of LEP students, the more expensive the program becomes to operate. Although school districts can apply for various state and federal grant monies to supplement the costs of this program (i.e. Section 41 monies, Section 31a dollars, and Title I monies), school districts must use their district funds to provide this program to their district populations (M. Heiderson, et. al.). A possible explanation of this positive relationship between the LEP variable for the academic year 2001 and the ratio of special education expenditures to total operating expenditures for the 83 school districts in Macomb, Oakland and Wayne Counties is that, although these students are placed in general education learning environments, they still require additional educational supports in order to receive a quality educational experience. For accounting purposes, these supports are classified as special education expenditures.

Based on data from the regression model for Research Question Two, the statistically significant variable that was a determinant of change in relative expenditures on general and special education was the change in percentage of students qualifying for free or reduced lunch for 1998 to 2001. School districts that had higher changes in the percentage of students who qualified for free or reduced lunch from 1998 to 2001 were more likely to have higher changes in the ratio of special education expenditures to total operating expenditures from 1998 to 2001. The percentage of students qualifying for free

or reduced lunch is a quality indicator of the poverty/low income level of a school district. Students who are of low income usually require more ancillary services when they are in school setting in order to obtain a minimal level of literacy for the students. Traditionally, students who are at or below the poverty level enter schools with more deficits that school districts need to immediately address in order for these students to obtain a quality educational experience. School districts with higher percentages of lower income students usually dedicate a majority of their initial instructional time trying to get these students to a minimal level of efficiency. If these ancillary services do not get these students to a minimal level of literacy, many of them are eventually tested and/or receive special education services (Klinger & Artiles, 2003). As a result, school districts implement ancillary services, such as after school tutors in reading and math to try to get these students to a minimal level of competency. Although supplemental state and federal grants are available (for example Section 31a and Title I monies) to ease the burden of the cost of educating this population, school districts must use their own financial resources to properly educate students who come from low social-economic backgrounds. For the purpose of this study, Section 31a funding was treated as part of operating expenditures.

Recommendations for Educational Professionals

This research investigation revealed that special education costs actually decreased in comparison to total operating expenditures in Macomb and Wayne Counties, and had no change in Oakland County for the time period of this study. This is important for school officials to understand when discussions arise pertaining to the rise of special education costs in public schools. However, since local school districts still have to absorb the cost of special education services, due to limited state and federal funding,

policymakers should provide additional opportunities for school districts to obtain funding to operate costly special education and at-risk programs. By allowing local millages, the fiscal burden of local school districts can be eased because these programs and services are costly to operate. Superintendents must also realize that as the number of students who limited English proficient and of low economic status enroll in their school districts increase, costs related to special education will increase.

Recommendations for Further Research

The present study was limited to the research questions discussed above, but suggests further research regarding the fiscal impact of special education services on public school districts. These suggestions include:

- Investigate the correlation between special education population growth and the percentage of students qualifying for free or reduced lunch. If a positive correlation is found, school districts' leaders may be able to better anticipate the amount of money they will need to use from their general operating budgets to fund special education services.

- Analyze the fiscal impact, if any, that the practice of inclusion of special education students in regular education learning environments has on special education expenditures and regular education expenditures. The present research thus far provides no support for the theory that inclusion reduces costs. This may be due to an administrative practice of keeping resources at the center-based programs while children are moved to regular classrooms. While the marginal cost of adding a regular education student to a classroom is essentially zero, the marginal cost of a special education child is not. Such an analysis should examine both costs and benefits of alternative placements of special needs pupils. Consequently, a related study should determine if inclusion is more cost-effective than more traditional, center-based/self-contained classroom programming.

- Examine the relationship between LEP placement and the use of special education ancillary services more closely. The present research suggests that the percentage of LEP students was a statistically significant predictor of the ratio of special education expenditures and total operating expenditures. The research should determine if educational needs of LEP students are being meet in the traditional LEP classrooms. Thus, to help these students reach a minimum level of English language competency needed to be academically successful in a general education classroom, special education services and funding may be being used.

References

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ABSTRACT

THE FISCAL IMPACT OF SPECIAL EDUCATION SERVICES ON SCHOOL DISTRICTS' EXPENDITURES

by

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MAY 2004

Advisor: Dr. Michael Addonizio

Major: Educational Leadership and Policy Studies

Degree: Doctor of Education

The purpose of this study was to investigate the fiscal impact that limited state financing of special education services has on school districts in Macomb, Oakland, and Wayne counties in southeastern Michigan for the fiscal years 1998 through 2001. As the cost of special education services continues to rise, determining the impact these costs have on local school districts' total operating expenditures is important.

Variables effecting school districts' total operating expenditures were used to predict the ratio change special education expenditures per student to total expenditures per student for the four years included in the study. For the fiscal year 1998, the ratio change special education expenditures per student to total expenditures per student could be predicted from the percent of students with cognitive impairments who are in a regular education environment for 60% to 100% of their school time. For the fiscal year 1999, the same variable appeared as a predictor for the ratio change special education expenditures per student to total expenditures per student along with the percentage of students who qualified for free or reduced lunch. For the fiscal year 2000, the ratio change special education expenditures per student to total expenditures per student could be predicted from the percent of students with cognitive impairments who are in a regular

education environment for 60% to 100% of their school time as well. For the fiscal year 2001, the percent of students with limited English proficiency was a significant predictor of the ratio change special education expenditures per student to total expenditures per student could be predicted from the percent of students with cognitive impairments who are in a regular education environment for 60% to 100% of their school time.

Changes in the ratio of special education expenditures per student to total operating expenditures per student between 1998 and 2001 was used to analyze determinants of local school districts' change in relative expenditures on general and special education. The change in percentage of students qualifying for free or reduced lunch from 1998 to 2001 was a statistically significant predictor concerning this variable.

AUTOBIOGRAPHICAL STATEMENT

JOSHA L. TALISON

Education: Doctorate of Education-Wayne St. University
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Educational Specialist Certificate-Wayne St. University
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2001-2002 National Exemplary School
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Southfield, MI Public Schools-Levey Middle School-Sept. 1998-2000
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Detroit, MI Public Schools-August 1997-August 1998
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Cincinnati, OH Public Schools-August 1995-June 1997
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Leadership Roles: Chair-Rochester Schools Parent Involvement Task Force
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