NORTH CAROLINA CENTER FOR PUBLIC POLICY RESEARCH INC.

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For more information, call Mike McLaughlin at the N.C. Center for Public Policy Research at (919) 832-2839

Center Says Funds for Children with Special Needs Go to State Institutions, But More Served in Community-Based Programs

The number of children with special needs in North Carolina is growing faster than the state's population, and many of these young people receive services at the community level. Yet state residential institutions -- when compared to community-based programs -- continue to receive a disproportionate share of funding for the number of children with special needs they serve, says the N.C. Center for Public Policy Research in the latest edition of its journal, *North Carolina Insight*. The Center says the N.C. General Assembly should establish a study commission to review the high percentage of dollars going to state institutions that serve a declining percentage of these children.

"The state has 15 residential institutions that serve children and youth with mental health and emotional problems, juvenile offenders, and children with speech, hearing, and vision impairments," says *Insight* editor Mike McLaughlin. "The majority of the funds go to these residential institutions, while the majority of the clients are served in community-based programs. This funding imbalance was a problem when the Center last studied the issue in 1984, and it's still a problem today."

In recent years, the number of children with special needs has grown by 4 to 6 percent annually, while the state's population has increased only about 1 to 2 percent a year. The Center says this rising number of children with special needs puts extra pressure on school systems, community-based programs, and state institutions. "That's why it's important to be sure that state dollars are distributed in a balanced way," says McLaughlin.

State and federal law define children with special needs as those ages 3-21 with a disability in one of 13 categories that qualify them for special services to pursue an education. Those categories are: autistic, behaviorally-emotionally disabled, deaf/blind, hearing impaired, mentally disabled, multi-disabled, orthopedically impaired, other health impaired, preschool developmentally delayed atypical, specific learning disabled, speech-language impaired, traumatic brain injured, and visually impaired. State law also grants special services to pregnant students.

Imbalance of Funds Going to State Residential Institutions

While most children with special needs receive special education in the public schools, there also are children with mental and physical disabilities who are served in state residential institutions. These include the four regional psychiatric hospitals, two schools for emotionally disturbed children, five youth

P.O. BOX 430 RALEIGH, N.C. 27602 (919) 832-2839 FAX (919) 832-2847 http://www.nando.net/insider/nccppr

training schools, three schools for the deaf, and the Governor Morehead School for the Blind. The Center looked at the cost of serving children with special needs outside the public school setting and found an imbalance of state funds going to these state institutions compared to community-based institutions.

***Mental Health**: In the mental health system, 43 percent of the funding is spent on state institutions serving 7 percent of the clients. Yet community mental health programs -- while serving 93 percent of clients -- receive only 57 percent of the $1.4 billion spent for mental health services through the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services in the N.C. Department of Health and Human Services. The number of people served by community mental health programs in North Carolina grew 3,400 percent from 8,196 in 1960-61 to 277,943 in 1996-97, a period during which the state's population grew by only 61 percent. In 1960-61, 26 percent of all people served by public mental health, developmental disability, or substance abuse services were served in community-based programs. By 1996-97, 93 percent of the clients were served in the community. Meanwhile, the number of persons receiving institutional care in state-operated facilities actually dropped during the 36-year period -- from 23,327 in 1960-61 to 20,979 in 1996-97.

***Youth Services:** In youth services, 45 percent of the funding goes to training schools serving less than 4 percent of the youth. Five training schools account for 44.6 percent ($40.1 million) of the budget of the department's Division of Youth Services, compared to the 43.3 percent share ($38.9 million) allocated for community alternative programs. But training schools house only 3.4 percent (1,930) of the 56,344 juvenile offenders served during the course of the year. The vast majority of youth (48,000) are served in community alternative programs.

***Schools for the Deaf:** Seventy-eight percent of the Division of Services for the Deaf and Hard of Hearing's $28.1 million budget goes to North Carolina's three schools for the deaf, which serve less than a third of the state's hearing-impaired students. For each K-12 student at these schools, the cost is $40,472 to $42,159 annually, depending on which of the schools the student attends. When residential costs are excluded, the cost falls to about $27,000 annually per student. The division estimates that hearing-impaired students can be served in local schools for about $16,000 to $23,000 annually. However, the N.C. Department of Public Instruction says the average cost of educating a hearing-impaired student in the public schools is far lower.

***School for the Blind:** The price tag for educating one of the 100 residential students at the Governor Morehead School for the Blind is estimated at $21,070 annually, exclusive of residential costs. While that's less than the cost of educating a student at a residential school for the deaf, it still greatly exceeds the cost for the 572 visually impaired students in the public schools.

State institutions may cost more because they generally house people with more severe disabilities, whether mental or physical. Yet the high percentage of funds going to state institutions serving declining populations is a long-standing issue. In 1984, the Center found that 65 percent of the state's funding for mental health, mental retardation, and substance abuse services was being spent on state institutions while 85 percent of the clients were then being served at the community level.

Reasons for Growth in Number of Students with Special Needs

Experts say the number of special needs students is rising for a number of reasons. First, educators are doing a better job of identifying students in need of special education, meaning students who might once have been dismissed as slow learners now qualify for special services as children with special needs. Second, there are surging numbers of students identified with attention deficit disorder and its companion, attention deficit hyperactive disorder. Third, North Carolina's ABC accountability program provides an unintended incentive for schools to identify special needs students. Some children with special needs are exempt from taking state-mandated tests. Because schools receive a yearly report card based on the testing performance of their students, it is to the advantage of administrators and teachers to identify more exceptional children and exempt them from the process. Finally, because of increased recognition of these special needs, some of the stigma attached to them has diminished, making more parents and children willing to come forward for help.

But whatever the reason for the growth, local school systems are confronted with the extra cost of serving rising numbers of special needs students. A state-commissioned study by the private Institute for Educational Development and Training in Raleigh estimated the average cost of serving a special needs student at 2.3 times that of serving a typical public school student. State and federal funds do not come close to covering this cost. As a check on special education costs, the legislature limits the number of students who can be identified to 12.5 percent of each local school system's average daily membership. Fifty-three of the state's 118 local school systems were above the cap for the 1997-98 school year, and no state funds are allocated for students identified in excess of the 12.5 percent cap.

Previous Studies Call for Closing Institutions

Since the 1980s, periodic reviews have called for closing or downsizing state institutions. A 1993 study by KPMG Peat Marwick for the legislature's Government Performance Audit Committee, for example, recommended closing one or all of the three state schools for the deaf. More recently, these schools have been wracked by reports of poor academic performance, deteriorating physical plants, and student-on-student sexual abuse. A 1998 report also called for replacing the state's four psychiatric hospitals with smaller, less expensive facilities. That report suggested children should no longer be treated at the facilities, which prompted an outcry from professionals in the field. The 1998 General Assembly responded by appropriating $2 million to plan a smaller, but modern mental hospital on the Dorothea Dix Hospital campus in Raleigh and by appropriating $750,000 to the State Auditor's Office to study how the four psychiatric hospitals and 40 area mental health centers can work together more efficiently to provide high quality care.

During the past two decades, state institutions have shown resilience in retaining state funds even as more and more people are treated, educated, and punished or rehabilitated at the community level. This long-standing tendency of funds to stick with institutions instead of following people raises a number of questions. While it is true that some children need the higher levels of service available at state institutions such as mental hospitals, training schools, and special schools for the deaf and the blind, the Center says the high percentage of money spent at these residential institutions serving declining populations needs study by policymakers.

Center Recommendations

The Center recommends that the North Carolina General Assembly establish a study commission to examine the disproportionate share of state dollars going to state residential institutions serving declining populations compared to community-based programs serving the majority of clients with special needs. The commission should comprise not only legislators but also voting representatives from the N.C. Department of Health and Human Services' divisions of Mental Health, Developmental Disabilities, and Substance Abuse Services; Youth Services; Services for the Deaf and Hard of Hearing; Services for the Blind; and Willie M. Services Section.

The Center says the study commission should examine three questions: (1) First, it should examine whether the amount of dollars flowing to state institutions is appropriate relative to the number of children with special needs served there. (2) Second, the commission should look at ways to measure the effectiveness of both residential and community programs with a three-year trial period so that future funds can be directed to the most effective programs, whether residential or community-based. (3) Third, the study commission should examine ways to reduce further the waiting list for persons with developmental disabilities. The Center says the study commission should report to the 2000 session of the N.C. General Assembly with specific findings and recommendations.

The N.C. Center for Public Policy Research is an independent, nonpartisan, nonprofit corporation created to study public issues facing North Carolina and to evaluate state government programs. The Center's research on children with special needs was supported by a grant from the Glaxo Wellcome Foundation. The Foundation was formed in 1986 by Glaxo Wellcome Inc., a pharmaceutical research company with U.S. headquarters at Research Triangle Park, N.C. The Center receives general operating support from the Z. Smith Reynolds Foundation in Winston-Salem, 14 other foundations, 190 corporate contributors, and almost 1,000 individual and organizational members across the state. In addition to publishing *North Carolina Insight,* the Center publishes book-length research reports, a citizens' guide to the legislature, and a textbook for teachers of state and local government. The Center currently is studying higher education governance in North Carolina and recently has examined rural economic development, state job training programs, and year-round schools.

Copies of the issue of *North Carolina Insight* containing the Center's research on funding for children with special needs in North Carolina are available for $20, which includes tax, postage, and handling. To order, write the Center at P.O. Box 430, Raleigh, N.C. 27602, call (919) 832-2839, fax (919) 832-2847, or order through the Center's Website at www.nando.net/insider/nccppr.

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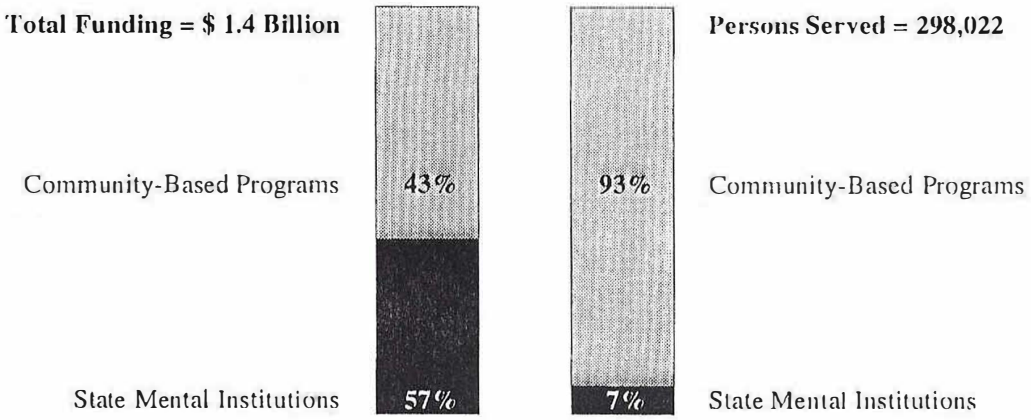
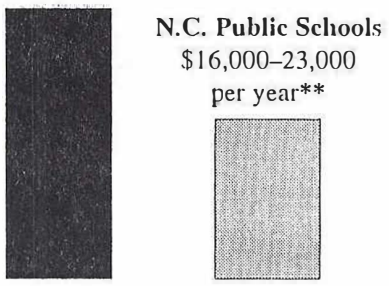
For more information on funding for children with special needs in North Carolina, contact Mike McLaughlin, editor of *North Carolina Insight*, at (919) 832-2839.

Figure 1. Proportion of Funding of State Mental Institutions and Community-Based Programs versus Number of Persons Served, 1996–97



Source: N.C. Council of Community Programs for total spending on mental health, N.C. Division of Mental Health, Developmental Disabilities and Substance Abuse Services for clients served in residential and community-based programs.

Figure 2. Cost of Attending N.C. Schools for Deaf versus Public Schools for Hearing-Impaired Students



* Minus residential costs.

** N.C. Division of Services for the Deaf and Hard of Hearing estimate. The Department of Public Instruction considers this estimate too high. See note 28, end of article, for more.

Source: N.C. Division of Services for the Deaf and Hard of Hearing.

Table 1. Number and Percentage of People Served by Community Mental Health and State Division of Mental Health, Developmental Disabilities, and Substance Abuse Services Institutions in North Carolina, 1960–61 to 1996–97

	People Receiving Institutional Care		People Receiving Community-Based Care		
	Number	Percent of Total	Number	Percent of Total	Total Persons Served
1960–61	23,327	74%	8,196	26%	31,523
1970–71	30,019	32	63,791	68	93,810
1980–81	25,658	13	171,712	87	197,370
1993–94	21,825	9	225,167	91	246,992
1996–97	20,979	7	277,043	93	298,022

Note: The figures for state-operated institutions include psychiatric hospitals, mental retardation centers, alcoholic rehabilitation centers, and other special care institutions.

Sources: Information provided to the author by Mark Botts, Institute of Government, University of North Carolina at Chapel Hill. Original sources: Data for FY 1960–61, 1970–71 and 1980–81 derived from *Strategic Plan 1983–89*, vol. 1, Quality Assurance Section, N.C. Division of Mental Health, Mental Retardation and Substance Abuse Services (Raleigh, N.C.: 1981), 39. FY 1993–94 figures provided by Deborah Merrill, Data Support Branch, N.C. Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, memorandum to M. Botts, December 8, 1994. Data for FY 1996–97 from *North Carolina Area Programs Annual Statistical Report*, Management Support Section, N.C. Division of Mental Health, Developmental Disabilities, and Substance Abuse Services (Raleigh, N.C.: 1997).

Table 3. State Funding for Training Schools and Community Services, 1996–97

	State Spending (millions)	% of Total Spent	Children Served	% of Total Served	Unit Cost
Training Schools	$39.4	57%	836 average daily population — total number served, 1,930	4%	$48,411 per bed per year
Community Services	$30.2	43%	47,919	96%	$631 per child

Note: Community service programs also receive nonstate funds. Total spending from all sources for these services in 1996–97 was $51.8 million, or $1,079 per child. The state received $681,819 in federal funds for training school use in 1996–97. This nonstate figure is not included in the $39.4 million above.

Source: Richard F. Rideout, *Division of Youth Services Sourcebook: 1997*, Raleigh, N.C., pp. 5, 29, and 34.

Table 1. Percentage of Special Education Students by State, 1995–96.

State	Percent of Students
Alabama	13.2%
Alaska	13.8
Arizona	10.2
Arkansas	11.9
California	10.2
Colorado	10.6
Connecticut	14.7
Delaware	14.4
District of Columbia	8.8
Florida	14.3
Georgia	10.3
Hawaii	8.6
Idaho	9.8
Illinois	13.2
Indiana	13.7
Iowa	13.1
Kansas	11.6
Kentucky	12.6
Louisiana	11.4
Maine	14.9
Maryland	12.5
Massachusetts	17.2
Michigan	11.5
Minnesota	11.8
Mississippi	13.2
Missouri	13.6
Montana	11.1%
Nebraska	13.5
Nevada	10.6
New Hampshire	13.0
New Jersey	16.5
New Mexico	14.4
New York	14.0
North Carolina	**12.4**
North Dakota	10.4
Ohio	12.4
Oklahoma	11.6
Oregon	12.3
Pennsylvania	11.8
Rhode Island	16.7
South Carolina	13.4
South Dakota	10.7
Tennessee	14.1
Texas	11.8
Utah	11.0
Vermont	10.6
Virginia	13.1
Washington	11.2
West Virginia	15.1
Wisconsin	12.2
Wyoming	12.6

Source: U.S. Department of Education.