

SECTION THREE: THE MULTIPLE LAYERS OF SPECIAL EDUCATION FINANCING

By Thomas B. Parrish & Madge Alberts

Funding for Special Education

The financing of special education is a complex combination of federal, state and local monies using a variety of formulas and adjustments.

Although it is extremely difficult to obtain accurate data to compile national averages for spending on special education due to the wide range of

accounting procedures and reporting by individual states, there have been several attempts to collect data nationwide. Based on the most recent national information available (from 1999-2000), spending for special education students averaged \$12,474, as compared to \$6,556 for students not receiving any supplemental services.⁸ This

figure is more than double the average special education expenditure (in constant dollars) since the late 1960s when it was first calculated.²⁰

In Minnesota, the cost of special education and special transportation per special education student averaged \$12,371 in 2006-07. This excludes the cost of general education services provided to special education students, many of whom are served in the regular classroom for most of the school day. The actual per student cost of special education and special transportation varies widely, depending on the unique needs of the child as spelled out in the IEP. State and federal categorical special education aid provided an average of \$6,873 per special education student in 2006-07. School districts funded

the remaining cost, at an average of \$5,498 per special education student, from state and local general education revenues.*

The average general fund cost per student for 2006-07, including special education, was \$9,364.

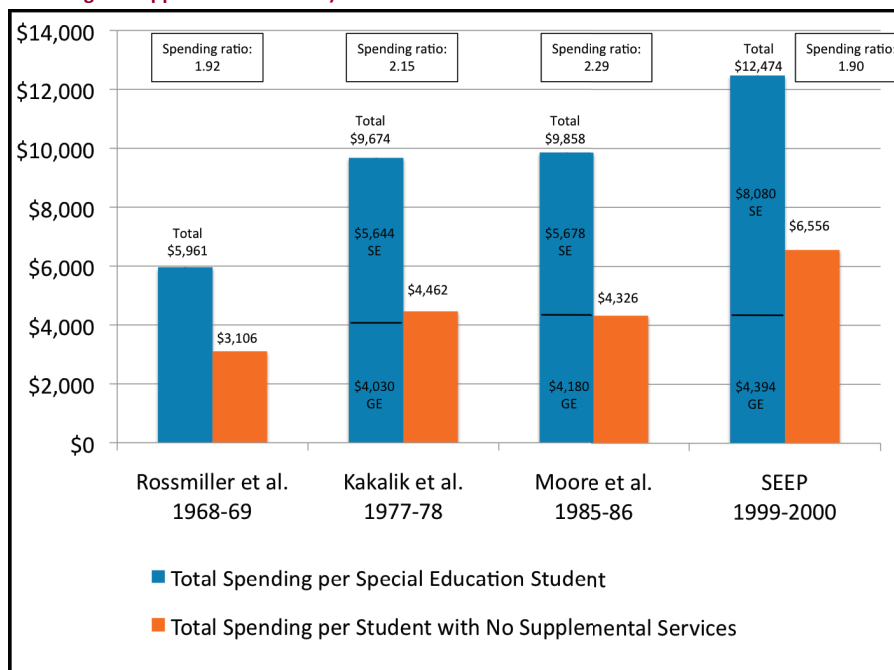
Excluding special education and special transportation, the average general fund cost per student for all students was \$7,545 for 2006-07.*

While the costs of educating special education students have increased substantially over time, the cost per general education student has increased at a comparable rate so that the ratio of total spending

per special education and general education student has remained fairly constant over time at about two to one (see graph above).⁸ Thus, increases in total special education spending appear to be due more to the increase in special education as a percentage of total enrollment than other factors.

When responding to a national survey about the most crucial issues regarding funding for special education, the majority of states identified four major themes: overall inadequate funding, inadequate funding for students with particularly high cost needs, the failure of the federal government to reach the 40% spending target (more detail on this in the following section), and the difficulty local school districts face in providing services to the increasing number of high needs students.²⁰

Total Spending per Special Education Student Over Time (in Comparison to the Average Student Receiving No Supplemental Services)



Source: Thomas Parrish

*Information provided by the Minnesota Department of Education

Special Education Formula Types

- Census-based: Funding is based on a specific amount of funding per student, counting all students in a district (or total enrollment). The primary advantage cited for this approach is that its detachment from any count of special education students, needs, or services reduces fiscal incentives that may be associated with increased identification or certain types of placement.⁸ The disadvantage is that it does not account for the higher costs associated with certain disabilities.
- Percentage Reimbursement: Funding is based on actual district special education spending with eligible expenses determined by the state. The district is then reimbursed for a set percentage of this amount. There may be caps on the total amount reimbursed to a district, or the number of students who can be claimed. The advantage of percentage reimbursement is that it accounts for the varied costs of different categories of disabilities. A possible disadvantage is that the required cost accounting may be considered somewhat burdensome by districts.
- Pupil Weights: Funding is allocated per student, and is based on “some characteristics of the special education student, such as category of disability, location of primary placement, or a combination.”⁸ The benefit of this formula is that it recognizes the difference in cost to districts depending on factors such as the disability of the child or the setting where most of their education services are provided.⁸ Possible disadvantages are that the higher reimbursement rates for some disabilities may create incentives to over-identify those disabilities or to place students in higher cost (which may also be more restrictive) settings.
- Resource-based: Funding is based on the resources used to serve students with disabilities, such as teacher or aide salaries and supplies. This method takes into consideration the varying costs that depend on type of disability or placement.

Two lesser used formulas, flat grant and variable block grant, are not included here but can be found in the glossary.

Allocation of Special Education Funding

Six different funding formulas are used to calculate special education money distribution. The four primary formulas are shown in a box to the left. States use one or a combination of these formulas in allocating funding.

Federal Funding*

Prior to 1997, federal funding was based on the actual special education child count of a state. In 1997, it was changed to a census-type system (see funding formula types). Under this type of system, the funding to states and districts generally is the same: the federal government distributes 85% of the IDEA grants to the states according to the total age-relevant population, with and without disabilities. The remaining 15% are allocated according to the relative degree of poverty in the state.⁸ The funding to states and districts is the same regardless of the count of students in special education or the nature of the services received.⁸ Since this change had a significant effect on the funding received by some states, a transition period was established to lessen any negative impact.

A recurring issue related to federal funding is that when the IDEA was first passed, it authorized the federal government to appropriate funding for each special education student up to a level of 40% of the average per pupil expenditure (APPE). Note that this is *not* per special education student, but rather 40% of the average cost across all students, including those in special education. While it has increased somewhat in recent years, it is still estimated to be less than about 20%.⁸ “Full funding” of special education is a recurrent policy discussion at the federal level.

Prior to the 2004 IDEA reauthorization, districts could not use federal funds to take the place of state and local funds. IDEA 2004 allows some of the *increase* in federal funding to be used to offset local special education spending.⁸

The federal special education funding for Minnesota is based on the Child Count Report prepared by the Minnesota Department of Education. Funding for the current year is based on the previous year’s report. For instance, funding for 2008 is based on the 2007 report.¹²

The federal funding is paid directly to the state. A portion of it is used for administration and state level activities including monitoring, enforcement, complaint investigation, mediation, technology development and technical assistance to support the special education community. The balance is distributed monthly to local districts based on the formula (see Minnesota section, next page), and the eligible expenditures they report to MDE. Allocations for poverty and enrollment also come from federal dollars.

**The last paragraph of this section summarized from information provided by the Minnesota Department of Education (MDE).*

Minnesota Funding *

Minnesota special education funding to local districts has several parts.

1) Districts receive the same “per student” allotment for special education students that they receive for all students in the district.

2) Next, Minnesota uses the percentage of expenditure formula to calculate special education aid for districts based on their actual allowable special education costs submitted to MDE. The following are some of the eligible expenses and the percentage of those expenditures that comprise initial aid for districts:

- **Salaries:** 68% of special education based salaries of teachers, instructional aides, and other staff providing direct services to students (only salary; not benefits).
- **Supplies:** 47% of supplies and materials used for special education, up to \$47 per student.
- **Equipment:** 47% of equipment, with no cap.
- **Contracted services:**
 - ◆ 52% of the amount spent for “supplementary special education provided through a contract with an agency other than the school district;”²⁶
 - ◆ 52% of the “difference between the contract amount for special instruction and services and the general education revenue allowance for pupils who receive special education through a contract with an agency other than a school district.”²⁶
 - ◆ 52% of contracted services with other school districts for vocational evaluation.
- **Transportation costs:** A portion of transportation costs including buses and travel for teachers to transition sites.
- **Transition programs** for children with disabilities.

The sum of the items above makes up a district’s initial special education aid. However, the total amount of special education aid provided by the state is capped as the result of state statute (\$694 million for fiscal year 2008). If the total initial aid to districts is less than the cap, each district receives an inflationary increase. If the total initial aid to districts is more than the cap (which is currently the case), districts receive a deflationary decrease. The statewide adjustment factor is projected to be .86 for FY 2008 and .85 for FY 2009.

3) There is also an excess cost provision intended to give additional funding to districts that have high levels of unreimbursed special education expenses. For fiscal year 2008, the excess cost aid is 75% of the district’s unreimbursed costs minus 4.36% of the district’s general education revenue.¹¹ There is a state cap on the amount available for excess cost aid. The statewide adjustment factor for excess cost aid is projected to be .74 for FY 08 and .65 for FY 09.

Local funding

Since the 1999-2000 school year, special education revenue has been provided to districts through state and federal reimbursements, and thus districts have not had a local levy component for special education. Expenditures for special education programs provided by local school districts, charter schools, intermediate school districts and special education cooperatives, are funded with a combination of state and federal aid,

Examples of Possible Fiscal Disincentives From Selected States

- GA: Complexity and rigidity of special education funding provisions may limit more inclusive student placements
- NY: Higher funding weights for certain types of instructional settings were thought to drive more restrictive placements
- DC: Funding based on hours of direct service from a special education professional may drive service provision in separate special education classes
- CA: Fiscal incentives were found to be driving the placement of children in foster care into private special education schools
- MO: Full special education transportation reimbursement by the state sometimes made separate special education schools appear more “cost effective” than neighborhood placements

Source: Parrish, Thomas. “Considering Special Education Funding in Nevada: State and National Trends.” State Advisory Committee Meeting, Nevada. 11 Dec. 2008.

* Most of this section is summarized from information provided by the Minnesota Department of Education (MDE).

third party billing revenues and state and local general education revenues.^{25, 26}

Local school districts are reimbursed for special education costs as described in the Minnesota section, but a portion of the expenses must be borne by the district. It is increasingly the case that districts must dip into their general education budgets to cover special education costs – referred to as cross-subsidy or encroachment. In Minnesota, cross-subsidy is the difference in actual special education expenses and special education revenue. This difference is due to a variety of factors – increasing numbers of special education students, increasing special education costs overall, districts providing more services than are actually required, and state and federal funding that does not keep up with the actual costs. Some districts that have a very high percentage of special education students, or high number of students with disability categories that are more costly to serve, may have much higher unfunded costs per student.

SECTION FOUR: COST DEFERMENT, EQUITY AND SAVINGS ISSUES

By Karen Cadigan

This section touches on special education cost deferment, equity, and savings issues that are not directly related to the structure of the formula.

Cost Deferment: Third Party Billing

IDEA and Minnesota statutes require school districts to seek payments from a student's health plan when assessments and other services are covered by that plan. To accomplish this mandate, districts must integrate complex health plan requirements with the intricate details of IDEA. Since July, 2000 Minnesota districts have been mandated to access liable third parties. Primarily, these recouped dollars come from federal Medicaid revenue when districts submit claims to Minnesota Health Care Programs (MHCP). According to the Minnesota Department of Education, the total amount Minnesota school districts received from third party billing has increased from \$541,966 in the 2000-2001 school year to \$22,147,406 in the 2007-2008 school year. These amounts are a small percentage of actual expenditures. The net cost recouped can be reduced significantly by the cost of documenting and processing correct paperwork for the many varied health plans. Some districts use outside contractors for the paperwork and this can help reduce the cost of doing third party reimbursement. While these school-based services do not count toward Medicaid or Medicare service limits, they may impact service limits and fees for some private insurance providers. It should also be noted that when the costs are reimbursed by public health plans, it is not a pure cost savings to the public system, rather a deferment from education to health.

Cost Equity: Open Enrolled and Charter School Students

Minnesota's public school system increasingly offers parent and student choice (e.g., charter schools, open enrollment, post-secondary enrollment options). While there are certainly benefits to this model, a consequence for special education funding is that resident districts have little control over what services and what spending occurs in out-of-district and charter school placements, even though resident districts still pay the bill. Those settings are permitted to bill back the resident district whatever costs are not covered by the state. This is different from students enrolled in parochial schools, where the resident district is still the lead in deciding services (and costs) for special education students.

Minnesota Snapshot: Forest Lake

Forest Lake Area Schools has approximately 1000 students who either attend a charter school or are open enrolled into 25 different school districts. Approximately 150 of those students have Individual Education Programs (IEPs).

Although Forest Lake is financially accountable for their programs we have little voice in how those services are delivered. Tuition bills are calculated by MDE based on data that are submitted through MARSS and student IEPs and resident districts are required to pay the "excess cost" or the unreimbursed cost. What that cost is, is unpredictable.

*Deb Wall, Director of Special Education, Forest Lake Area Schools,
President, Minnesota Administrators for Special Education*