

MINUTES OF THE SENATE COMMITTEE ON EDUCATION.

The meeting was called to order by Chairman Dwayne Umbarger at 1:36 p.m. on January 16, 2002 in Room 123-S of the Capitol.

All members were present except: Senator Corbin (excused)  
Senator Hensley (excused)

Committee staff present: Ben Barrett, Legislative Research  
Carolyn Rampey, Legislative Research  
Theresa Kiernan, Revisor of Statutes  
Dale Dennis, Deputy Commissioner of Education

Conferees appearing before the committee: Cindy Lane, Associate Director, Wyandotte County Cooperative  
Deborah Haltom, Director of Special Ed Shawnee Mission  
Gerald Reynaud, Executive Director of Special Serv. Olathe  
Sue Denny, Executive Director of Student Serv., Blue Valley

Others attending: See attached list.

Chairman Umbarger introduced Cindy Lane, Associate Director of Wyandotte County Cooperative. She stated that they realize special education is just one factor in our State's current education funding challenge. The IDEA will contribute directly to the rising cost of providing quality education to all students. They have looked at funding formulas used across the country and discussed how these other funding options might impact their district and reviewed practices that contribute to the rising costs of special education. Her colleagues today will share what they have learned with the Committee today. (Attachment 1)

Deb Haltom, Director of Special Education, Shawnee Mission, spoke about the new federal law and the funding formulas. Deb shared some of the concerns they have with the formulas and shared some of the challenges they have in their districts. (Attachment 2)

Gerry Reynaud, Executive Director of Special Services, Olathe, spoke about the challenges of meeting the needs of exceptional children. Significant challenges are the passage of the new federal law itself and the expanded definition of student eligibility which over the years has added children ages 3 to 5, autism, the milder form of autism, Asperger Syndrome and children diagnosed with ADD and ADHD. This has greatly increasing the number of children qualifying for the services. The additional equipment and personnel needed is very costly. Mr. Reynaud stated that while they embrace the importance of providing a free appropriate public education for children with exceptionalities, the IDEA and Complementary State Laws have presented them with extraordinary challenges, complicated regulations and litigious due process procedures. (Attachment 3)

Sue Denny, Executive Director of Student Services, spoke about the costs of educating the special education students. Students are coming to school with severe and significant medical conditions, some of which need full time one on one nurses at a cost of \$33 per hour for the nurse alone. There are needs for interpreters, special sound amplification systems which cost \$1000 per unit, special communication devices which cost \$50,000, special forms of transportation and many more extra costs. Maintenance for this equipment is an ongoing expense. They support education of these students and feel that it is not just a cost, but an investment. This investment has resulted in students that have participated in paid employment through their transition program. (Attachment 4)

Cindy Lane gave closing remarks offering their resources in any manner deemed appropriate by the Committee. Her closing remarks are included in attachment 1 above.

Questions were answered for the Committee and the meeting adjourned 2:30 p.m.

**SENATE EDUCATION COMMITTEE GUEST LIST**

DATE - 1-16-02

<u>NAME</u>	<u>REPRESENTING</u>
Bob Vancrum	Blue Valley USD 229
Diane Gierstad	Wichita Public Schools
Elaine Frisbie	Div. of the Budget
Lynhia Lane	Wyandotte Special Education Corp.
Deborah Altom	Shawnee Mission USD 512
Sue Denny	Blue Valley Schools
Gerry Reymond	Olathe District Schools
Dale Huffman	FAMILIES TOGETHER
Jessie Torres	KCDN
JOE VANDER PLINE	DIRECTOR SPECIALLY WYANDOTTE COOP
Ben Gant	Topoka USD 501
Jacqueline Jones	SQF
Denise Aylt	KCKUSA
Alex Kotoyantz	KS. Academy of Science
Bill Brady	Schools For Fair Funding
Mark Desetti	KNET
Craig Grant	HNEA
Brad Stauffer	Topoka Public Schools USD 501
Rogene McPherson	Turner School District

**Presentation to the Senate Education Committee January 6, 2002**

Dr. Cynthia Lane, Associate Director, Wyandotte  
Special Education Cooperative

**Introductions**

We appreciate the Senate Education Committee affording us this time to share some of our perspectives of special education and the challenges around responsible spending. We are aware that funding special education is just one factor in our State's current educational funding challenge. Even though it is just one factor, the IDEA mandate has, and will, continue to have a dramatic impact on school finance at the state and local level. We support the need to find a predictable and equitable funding formula. Containing the cost for providing special education is needed. However, the funding formula is just one area that requires examination. Advocating with our legislators at the federal level may have the greatest impact on efforts to contain cost. It is the requirements of IDEA that contribute directly to the rising cost of providing quality education for all students.

I would like to introduce my colleagues who are sharing in this discussion.

Ms. Deborah Haltom, Director of Special Education, Shawnee Mission

Dr. Gerry Reynaud, Executive Director of Special Education, Olathe

Ms. Sue Denny, Executive Director of Special Education, Blue Valley

I am Dr. Cynthia Lane, Associate Director of Special Education, Wyandotte  
Cooperative

**Organization of Discussion**

The special education directors in our region are interested in studying options to fund special education. We belong to the KASEA organization. Even though we are not here representing KASEA, our organization has also taken a stance to support the study

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Attachment # 1

of funding formulas that are equitable and offer a predictable source of revenue to school districts and Cooperatives in urban and rural areas. We believe that the concerns around changing the current funding formula include the potential for local districts to be faced with less State support and experience increased demands on local budgets. These concerns can be addressed through study and discussions such as the one we are having today.

Our region has actively engaged in conversations and study around special education funding. As directors, we are engaged in on-going examination of special education practices to ensure reasonable use of public funds while meeting the legal requirements of IDEA and Kansas law. At the same time our parents, teachers, and children demand high quality services that meet the high standards of education that Kansans expect for their children. Our study has included:

- 1) Review of funding formulas used across the country
- 2) Discussion of funding systems and the potential impact on our districts
- 3) Review of practices that contribute to the ever rising cost of special education

Our discussion today is intended to highlight these areas.

According to a study conducted by Dr. Tom Parrish, the average cost for a special education student in Kansas is \$11,213. Our experience has found the average cost in some cases to be greater than Dr. Parrish's report would indicate. The funding required for some of our students can run as high as \$50,000.

Through our study of various funding formulas we have learned that 40% of the States utilize pupil weighting formulas; 60% use either flat grants, a percentage

reimbursement based on allowable or actual expenditures; or resource funding based on teacher or classroom units.

We welcome the opportunity to share what we have learned, and to express our desire to work with your committee in any manner appropriate to determine a funding formula that is equitable and provides predictable revenue. We also encourage the committee to examine the additional requirements to the special education law found in Kansas legislation. The additional requirements include Kansas's private school service and the funding of Gifted education under the special education mandate.

### **Conclusions**

From our brief discussion today, we hope we have provided some information about why the cost of special education is ever increasing. As special education directors, we are charged with meeting the requirements of the federal mandate and Kansas law while expending the allocated resources in a responsible manner. Whatever funding formula is determined best for Kansas, we would encourage the consideration of separate funding for issues such as Extended School Year; Transportation; Specialized Equipment and Catastrophic Aid. There may be other issues that district's outside our region would also deem critical to consider. The study of funding systems, in our opinion, should give consideration to alternatives for funding gifted education, and serving students in private schools following IDEA. Funding formulas should not penalize districts struggling to employ fully qualified staff. We recognize accountability must be part of the process. We must demonstrate appropriate use of funds with positive outcomes for students. However, the accountability system should be reasonable, not a

system that requires excessive documentation that impedes our ability to focus on teaching and learning.

In closing, we would like to leave with the committee a copy of the chapter written by Dr. Parrish "State Special Education Funding Formulas" summarizing various formulas and an article that summarizes factors impacting special education and an article entitled "Educating Exceptional Children: A Statistical Profile". We appreciate the opportunity to share this information with you today. We would welcome the opportunity to be involved in further study or to be a resource to this committee in any manner deemed appropriate.

We are happy to answer any questions or to respond to any comments that the committee might have. Thank you.

1. State Special Education

Funding Formulas

Under the Individuals with Disabilities Act (IDEA), states and localities have primary responsibility for providing special education programs and services to school-age children with disabilities. Based on data from 39 responding states, we estimate that states provide about 45 percent and local districts about 46 percent of the support for these programs, with the remaining 9 percent provided through federal IDEA funding. This report deals with state funding programs for special education. It focuses on the varying types of formulas used by the states to fund special education programs and provides the broadest array of information currently available on special education spending by state across the nation.

This section of the report describes the mechanisms used by states to distribute special education aid to local school districts for school-age children with disabilities for the 1999-2000 school year. It is followed by chapters on special education revenues and expenditures.

Examples of State Funding Formulas

The formulas used by states to distribute funds for special education vary considerably in their general orientation as well as in the detailed provisions. Although a number of frameworks for classifying state special education funding approaches have been suggested over the past two and a half decades, there is much overlap among categories and substantial variation among states' funding formulas within categories of classification. With these caveats in mind, we attempt to classify state funding formulas into the broad categories shown in Table 1-1. In reality, state funding formulas often utilize a combination of these approaches, as detailed in the state funding abstracts at the end of this report. Following are brief descriptions of each basic type of funding formula, with an example of a formula from a representative state.

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Attachment # 2

### ◆ Pupil Weights

Under a weighted special education funding system, state special education aid is allocated on a per student basis. The amount of aid is based on the funding “weight” associated with each special education student. Most weighting systems provide more funding for those special education students who are expected to cost more to serve by assigning them a larger funding weight. These differentials are based on *expected* costs because they may not hold true for any one special education student. **Funding weights are differentiated on the basis of student placement (e.g., pull-out, special class, private residential), disability category (as shown below for Kentucky), or some combination of the two.**

Kentucky uses a weighted pupil formula to distribute special education funds, which is integrated into the general aid formula. All students generate money for a school district based on average daily attendance (ADA). Students with disabilities, ages 5 through 20, generate an exceptional child add-on based on categories of disability. The exceptional child add-on is multiplied times the base amount awarded for ADA (determined annually by the Division of Finance, based on available funds). For the 1994–95 school year, the exceptional child add-ons were as follows:

- |  |      |
|--|------|
| • Functional Mental Disability, Hearing Impaired, Visually Impaired, Emotional Behavior Disabled, Deaf-Blind, Autistic, Traumatic Brain Injured, and Multiply Disabled | 2.35 |
| • Mild Mentally Handicapped, Orthopedically Impaired, Other Health Impaired, Specific Learning Disabled, and 5-year-old Developmentally Delayed Children               | 1.17 |
| • Speech or Language Disabled Only   | 0.24 |

◆ Flat Grant

Under this system, funding is based on a fixed funding amount per student. As shown below for North Carolina, **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.**

A variation to this approach is based on a count of all students in a district, rather than the number of special education students.<sup>1</sup> California's "census-based" approach is shown below and discussed in greater detail later in this report.

In North Carolina, state funds for special education are additional to basic education aid, which is based on average daily membership of school districts. Funds for exceptional education (which include both special education and programs for the academically gifted) are distributed on a per child basis determined by dividing the total available state exceptional children funds by the April 1 student headcounts of disabled and academically gifted students. Each district's allocation is determined by multiplying the per child amount by the total count of exceptional students.

The counts of exceptional children with disabilities in each local school district are limited to 12.5 percent of the average daily membership.

In 1997, California established a population or census-based funding formula for special education. To adjust for some of the random variation in the concentration of students with disabilities – California has a preponderance of small, rural districts – funding is calculated on the regional level, i.e., by a Special Education Local Plan Area (SELPA).

To convert to the new funding formula, the total amount of funding (state, federal, and local property tax) that all districts in a SELPA received for students with disabilities from age 5 through 22 was divided by the total enrollment for the SELPA [in California, "average daily attendance (ADA)"]. Students who resided in one SELPA but were educated by another had the funds received by the SELPA of service transferred to the SELPA of residence for the purposes of this calculation. The resulting SELPA rate per ADA formed the basis of the new formula.

<sup>1</sup> Federal funding under the IDEA was originally based on a flat grant system, in which federal aid to states was based on each state's number of children with disabilities who were receiving special education programs and services, up to 12 percent of a state's school-age population. The IDEA Amendments of 1997 (P.L. 105-17) established that funding would continue to be based on the same child-count formula until appropriations reached approximately \$4.9 billion. The new formula, which went into effect in 2000-01, is based on total student enrollment (85 percent) and poverty (15 percent) and applies to new monies in excess of the appropriation for the prior fiscal year, subject to certain limitations.

◆ **Resource-based**

Funding is based on an allocation of specific education resources, such as teachers or classroom units. Unit rates are often derived from prescribed staff/student ratios by disability condition or type of placement.

**Resource-based formulas include unit and personnel mechanisms in which distribution of funds is based on payment for specified resources**, such as teachers, aides, or equipment. In the case of Delaware, allocations are awarded based upon enrollment units.

Delaware administers a special education reimbursement program based upon enrollment units. These units are calculated by the State Board of Education and are based on the total enrollment in the district as of the last day of September. The sum of all units of all programs in a district is multiplied by 93 percent, which becomes the district's guaranteed unit count.

The teacher/pupil ratios for special education instructional units are as follows:

• Educable Mentally Handicapped	1:15
• Socially or Emotionally Maladjusted	1:10
• Learning Disabled	1:8
• Blind	1:8
• Autistic	1:4
• Severely Mentally Handicapped	1:6
• Orthopedically Handicapped	1:6
• Trainable Mentally Retarded	1:6
• Intensive Learning Center Units	1:8.6
• Partially Sighted	1:10
• Partially Blind	1:8
• Partially Deaf	1:6
• Deaf-Blind	1:4
• Homebound	

From block grant to Local Education Agencies

◆ **Percent Reimbursement**

Under a percent reimbursement system, the amount of state special education aid a district receives is directly based on its expenditure for the program. Districts may be reimbursed for 100 percent of their program expenditures (e.g., see Wyoming in Table 1-1), or for some lesser percentage as shown below for Michigan. Usually there is some basis for determining what costs are and are not allowable, and there may be overall caps on the number of special education students who can be claimed for funding purposes.

Michigan reimburses school districts 28.6138 percent of total approved costs. Total approved direct special education costs plus indirect costs for operation and maintenance (up to 15 percent of direct costs) are calculated.

### Formula Types by State

As shown in Table 1-1, almost 40 percent of the states ( $n = 19$ ) have formulas based *primarily* on pupil weights. Three states use formulas that are part of their general school aid fund. Most of the remaining states are fairly evenly distributed across flat grant ( $n = 11$ ), percentage reimbursement ( $n = 7$ ) formulas, and resource-based ( $n = 12$ ) formulas during the 1999-2000 school year.

Missouri and Vermont use a combination of funding formula approaches. In these states, different components of their special education finance systems are governed by differing bases of allocation. Half of Missouri's funding formula is governed by a resource-based approach and the other half is governed by a flat grant approach. In Vermont, some finance system components are governed by a percent reimbursement formula and others by a flat grant formula.

Table 1-1. State Special Education Funding Systems and Use of Revenues

State (n = 50)	Current Funding Formula	Basis of Allocation	Changed As Part of a Broader Program of:		Year of Reform, If Within Past 6 Years	Considering Additional Changes to Formula
			Program Reform	Finance Reform		
Alabama	Flat Grant	Average Daily Membership		Y	1995/96	Y
Alaska	Pupil Weights	Classroom Unit by Placement	Y	Y	1998/99	Y
Arizona	Pupil Weights	Disabling Condition and Type of Placement			1999/00	Y
Arkansas <sup>1</sup>	--	"Maintenance of Effort" Expenditure Requirement		Y	1997/98	
California	Flat Grant	Total District Enrollment		Y	1998/99	Y
Colorado <sup>2</sup>	Flat Grant	Special Education Enrollment			1995/96	
Connecticut <sup>7</sup>	--	Total Enrollment/Student Poverty		Y	1995/96	
Delaware	Resource-Based	Classroom Unit			--	
Florida	Pupil Weights	Student Severity/Intensity of Support	Y	Y	1997/98	
Georgia	Pupil Weights	Disabling Condition			--	Y
Hawaii	Pupil Weights	Disabling Condition and Type of Placement			--	
Idaho	Resource-Based	Units Based on Assumed Levels of Incidence (6% for elementary and 5.5% for secondary special education students)		Y	1994/95	
Illinois	Resource-Based	Type of Staff			1994/95	Y
Indiana	Pupil Weights	Disabling Condition			1995/96	
Iowa	Pupil Weights	Type of Placement	Y		--	
Kansas	Resource-Based	Number of Special Education Staff	Y		--	
Kentucky	Pupil Weights	Disabling Condition			--	
Louisiana	Pupil Weights	Per Special Education Student (single weight of 1.5)			1996/97	
Maine	% Reimbursement	Allowable Costs			--	Y
Maryland	Flat Grant	Special Education Enrollment			--	
Massachusetts	Flat Grant	Total District Enrollment			--	Y
Michigan	% Reimbursement	Allowable Costs		Y	1997/98	
Minnesota	Resource-Based	"Base-Year" Expenditures	Y	Y	1995/96	Y
Mississippi	Resource-Based	Number of Special Education Staff			--	
Missouri <sup>3</sup>	Resource-Based (1/2)/ Flat Grant (1/2)	Number of Special Education Staff & Total Enrollment	Y	Y	1998/99	
Montana	Flat Grant	Total District Enrollment			1994/95	
Nebraska	% Reimbursement	Allowable Costs			1999/00	
Nevada	Resource-Based	Classroom Unit			--	Y
New Hampshire	Pupil Weights	Type of Placement			--	Y
New Jersey	Pupil Weights	Disabling Condition and Services Received	Y	Y	1999/00	Y
New Mexico	Pupil Weights	Services Received		Y	1998/99	Y
New York	Pupil Weights	Type of Placement	Y	Y	1999/00	Y

**Table 1-1. State Special Education Funding Systems and Use of Revenues**

State (n = 50)	Current Funding Formula	Basis of Allocation	Changed As Part of a Broader Program of:		Year of Reform, If Within Past 6 Years	Considering Additional Changes to Formula
			Program Reform	Finance Reform		
North Carolina	Flat Grant	Special Education Enrollment		Y	1996/97	
North Dakota	Flat Grant	Average Daily Membership	Y	Y	1995/96	
Ohio	Resource-Based	Classroom Unit	Y	Y	1998/99	Y
Oklahoma	Pupil Weights	Disabling Condition			--	
Oregon	Pupil Weights	Special Education Enrollment		Y	--	Y
Pennsylvania <sup>4</sup>	Flat Grant	Total District Enrollment			1999/00	Y
Rhode Island <sup>1</sup>			Y		1995	
South Carolina	Pupil Weights	Disabling Condition			--	
South Dakota	% Reimbursement	Allowable Costs			--	Y
Tennessee	Resource-Based	Classroom Unit			--	
Texas	Pupil Weights	Type of Placement	Y	Y	1995/96	
Utah <sup>5</sup>	Pupil Weights	Type of Placement			--	Y
Vermont <sup>3</sup>	% Reimbursement/Flat Grant	Special Education Costs/Total District Enrollment		Y	1998/99	Y
Virginia	Resource-Based	Classroom Unit			--	
Washington	Pupil Weight (single weight to all special education students 3-21)	Special Education Enrollment	Y	Y	1995/96	
West Virginia	Resource-Based	Special Education Staff			--	
Wisconsin	% Reimbursement	Allowable Costs			--	Y
Wyoming <sup>6</sup>	% Reimbursement	100% of Actual Expenditures	Y		1999/00	

**Pupil Weights:** Funding allocated on a per special education student basis, with the amount(s) based on a multiple of regular education aid.

**Resource-Based:** On allocation of specific education resources (e.g., teachers or classroom units). Classroom units are derived from prescribed staff/student ratios by disabling condition or type of placement.

**% Reimbursement:** Funding based on a percentage of allowable or actual expenditures.

**Flat Grant:** A fixed funding amount per student or per unit.

<sup>1</sup>No funding formula specified because formula is part of general education school aid fund.

<sup>2</sup>There is a base amount for each LEA that was established by the previous percent reimbursement funding formula. Dollars beyond that base are allocated on special education enrollment. This formula changed in 1994/95.

<sup>3</sup>Different components of the finance system are governed by differing bases of allocation.

<sup>4</sup>Pennsylvania has an adjustment for high cost districts.

<sup>5</sup>Formula amounts are now frozen and are based on allocations in prior years.

<sup>6</sup>Wyoming funds all special education costs.

<sup>7</sup>In Connecticut, the bulk of funding is subsumed as part of a larger general funding formula (ECS), but there are also several grants that are distributed separate from other educational services.

## Basis of Allocation

In addition to formula type, Table 1-1 shows the basis on which the funding allocation is made. Within the context of the basic funding formula used, the allocation basis sheds further light on state special education policies and priorities. For example, **allocations based on special education student placement tend to provide local decisionmakers with less flexibility, while allocations based on more general criteria such as total district enrollment are likely to provide more local discretion in the identification and placement of students with disabilities.** In fact, by using total district enrollment as a basis for funding (described further in the next section) states are, at least to some degree, choosing to **de-link funding from special education student identification and placement.**

We use the following allocation categories to classify state funding systems:

- **Special education enrollment**—The number of children identified as eligible for special education services and for which Individual Education Programs (IEPs) are in place is the basis of allocation.
- **Total district enrollment**—Funding is based on the total number of students in the district. A percentage of this total district enrollment is assumed to represent the special education population. Also referred to as “**census-based**” funding, this uniform identification rate serves as the basis for allocation.<sup>2</sup>
- **Type of placement**—Student placement (e.g., in a regular education classroom, a resource room, a special day class, residential program) is the basis for allocation. The allocation generally increases as a function of some standardized estimate of the cost of the service or placement.
- **Disability category, Disabling condition, or Student severity** —The nature of each student’s **disability** (e.g., learning disability, serious emotional disturbance, profound mental retardation) **is the basis for allocation.** The allocation generally increases as a function of standardized estimates of the cost of the service required for children within each disability category. Kentucky’s pupil weighting system, for example, functions in this way.
- **Classroom unit, Classroom unit by placement, Intensity of support** —Districts generate funds based on a number of **authorized units.** A unit of funding may incorporate part or all of the estimated cost of a teacher, or a teacher and an aide. The classroom unit is one component of Missouri’s resource-based funding system.
- **Actual expenditures**—Allocation is based on actual special education expenditures.
- **Allowable costs**—Reimbursement can only be claimed for allowable costs, as defined, reviewed, and approved by the state.
- **Number and type of special education staff**—Allocation is based on the state numbers of various types of authorized staff (e.g., teachers, aides, therapists). Missouri’s funding system reimburses districts for numbers of aides and professional staff other than classroom teachers.
- **Services received**—Allocation for each special education child is determined from unit rates associated with the mix and quantity of individual services received (e.g., instruction, therapy, transportation).

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<sup>2</sup> The federal government has also incorporated a “census-based” approach into its special education funding formula, under IDEA ‘97. (See previous footnote.)

- **Average Daily Membership** – Allocations are based upon a percentage of the average number of daily attendance (e.g., 5 percent of average daily membership in Alabama).
- **Maintenance of Effort Expenditure Requirement** – The minimum budgeted expenditure per special education student must be equal to the expenditure requirement for the most recent fiscal year for which information is available.
- **Student poverty** – Funding is weighted for poverty (i.e., more money is allocated to poorer districts).
- **Per Special Education Student** – Allocations are determined by multiplying the number of special education students by a single weight, regardless of disabling condition.
- **Base-year Expenditures** – Allocations are calculated by taking the special education revenue for a predetermined base year and adjusting it for enrollment growth in the district and for growth in statewide special education revenue between the current and base years.
- **Special Education Costs** – Funds are provided to districts for all special education costs not covered by federal funds or state or local shares of block grants and extraordinary reimbursements.

### Special Education Finance Reform

Table 1-1 also shows that over one-half of the reporting states (29 of 46) have reformed the way they fund special education over the past six years. In addition, 46% of the reporting states (21 of 46) are considering future formula changes, and 12 of these are states that have already made changes in the past six years. States' most recent changes have been part of program reform (4 states), finance reform (10 states), or both (10 states). These numbers illustrate the dynamic nature of special education funding policy in the recent past – a trend that will apparently continue into the foreseeable future.

When asked what issues were driving special education finance reform in their states, respondents from 16 states described various aspects of their funding systems that are under consideration for reform, as shown in Table 1-2. The focus of these prospective reforms ranged from very broad reform, e.g., in Pennsylvania, to a much more specific and narrow focus on one component of the state's special education program, e.g., Utah.

Table 1-2. Areas of Finance Formula Under Consideration for Change

State (n = 16)	Areas Under Consideration for Change
Arizona	Bipartisan Legislative Subcommittee established – all areas under consideration for change.
California	Severity adjustment to state's census-based formula will be reexamined in 2003.
Illinois	Proposal to combine the private tuition and extraordinary services reimbursements, and special transportation with regular and vocational transportation, into single formula is being considered.
Maine	Special Education Task Force giving consideration to alternative approaches to funding.
Massachusetts	State is considering whether special education funding percentage should be higher and degree to which high cost students should be funded separately.
Minnesota	Considering pupil weights as an alternative funding system.
Nevada	Examining adequacy, and state versus local share, of special education funding.
New Jersey	Attempting to match aid to the actual excess cost.
New Mexico	Considering funding related services on the basis of full-time equivalencies (FTEs).
New York	Current pupil weightings must be evaluated by 2002.
Ohio	Considering changes to the number of weights and the various factors that comprise these weights, as well as separate weights for related services.
Oregon	Considering increasing the identification limit for special education funding from 11 percent to 13 percent of total enrollment. Considering modification of distribution of federal funds concerning state-operated regional programs.
Pennsylvania	Considering a broad range of issues in relation to current formula (e.g., district wealth, actual spending, local tax effort, incidence data).
Utah	Preschool count for generation of state monies is being considered.
Vermont	Developing recommendations regarding changes to provide a fiscally sustainable formula, and to address additional areas pertaining to cost containment and system improvement of special education.
Wisconsin	Alternatives are being examined in regard to special education funding (e.g., pupil weighting, capping enrollment/reimbursement for S/C & LD programs, foundation grants, special funding formulas for high-cost children).

### Census-based Funding: A Closer Look

One emerging trend at the federal and state levels is to use total district enrollment as the basis for allocating special education funds to school districts. **“Census-based” funding systems are based on total enrollment rather than on special education counts.** For example, under a state census-based funding system, districts with identical student enrollments receive the same special education aid regardless of the number of students placed in special education, the disabilities of these students, where they are placed, or how they are served. Alabama, California, Connecticut, Massachusetts, Montana, North Dakota, and Pennsylvania have implemented various forms of census-based funding systems.

Proponents of census-based funding believe that it provides maximum discretion to local districts in identification and placement of students with disabilities since it eliminates identification as a basis for funding and severs the link between placement and funding. Such advocates sometimes praise census-based systems as incentive-free.<sup>3</sup> However, critics point out that such systems simply replace one set of incentives with another (i.e., under census-based formulas the incentive is to identify *fewer* students for special education services and to place them in *lower cost* programs). They also argue that census-based funding does not accommodate the variability that exists among school districts in terms of true student need.

#### **STILL BEING REVIEWED, BASED ON DATA BY PLACEMENT FOR THESE TWO YEARS.**

Nonetheless, anecdotal evidence suggests some positive effects of enrollment-based funding systems, including increased local discretion in identification of students who are eligible for special education. Not as easily supported is the widespread belief that these systems increase flexibility in student placements and will therefore lead to decreases in the proportion of special education students served in separate settings, particularly in states where accompanying programmatic reform has not occurred. In Massachusetts, for example, program requirements still mandate that special education students be classified according to one of several placement categories (e.g., resource services, substantially separate environment). In addition, a separate funding mechanism is still in place in the state for private special education placements. Thus, the census-based funding policy in Massachusetts may be less likely to affect placement practices. This situation exemplifies the general tenet that fiscal reform that is not clearly linked to program reform may not achieve desired policy goals.

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<sup>3</sup> See, for example, National Association of State Boards of Education (NASBE, 1992).

## Criteria for Evaluating Funding Formulas

Criteria for evaluating special education funding formulas, as suggested by Hartman (1992) and expanded by Parrish (1995), appear in Table 1-3. Each of these criteria will hold value for some constituency, although there will be differences in priorities. No single funding formula can easily accommodate all of these criteria, as a focus on one criterion may come at the expense of one or more of the others.

The NASDSE/CSEF survey asked states to evaluate their special education funding formulas according to these 14 criteria. Tables 1-4 and 1-5 display the strengths and weaknesses, respectively, reported by respondents to the survey. Two major weakness reported across all formula types are the absence of a link between special education funding and student outcomes ( $n = 39$ ), and lack of cost control mechanisms ( $n = 22$ ). The data can be viewed in a variety of ways to bolster theoretical arguments about the advantages and disadvantages of each type of funding formula.

For example, respondents from states with *pupil weighting systems* describe them as being closely tied to the resource needs of districts in terms of their specific population of students with disabilities. As such, pupil weighting systems are generally held to be equitable. However, **depending on the weighting system used, incentives can be created to misclassify students into specific types of placements or into categories of disability that receive higher reimbursement** (e.g., in the case of weights based on placement into more restrictive settings that receive higher funding weights). NASDSE/CSEF survey respondents tended to confirm these notions. Of the 16 states using a pupil-weighting formula, more than 80 percent indicated that its **major strengths include understandability, equity, and predictability**. Eighty percent or more of these states also indicated as major strengths the **local flexibility** this approach allows, the flexibility in use of resources it provides, **a reasonable reporting burden, fiscal accountability, and the absence of linkages to where services are received** (see Table 1-4). At least half of these states reported the **weakness** that such formulas are not linked to student outcomes, have no cost control mechanisms, and are not based on actual costs (see Table 1-5). It should be noted here that only 8 of the 16 states using pupil-weighted funding use special education student placement as a basis for allocating state funds to school districts (see Table 1-1).

All 10 of the states currently using a *flat grant approach* reported as major strengths that the formula allows **local flexibility, does not encourage overidentification of students for special education, provides flexibility in use of resources, has reasonable reporting burden, and is understandable and predictable**. Fifty percent or more of these 10 states report that major **weaknesses** of the flat grant approach are that the **formulas are not linked to student outcomes, not adequately funded, not based on actual costs, and that they have no cost control mechanisms**.

**Table 1-3. Criteria for Evaluating State Special Education Funding Formulas****Understandable**

- The funding system and its underlying policy objectives are understandable by all concerned parties (legislators, legislative staff, state department personnel, local administrators, and advocates).
- The concepts underlying the formula and the procedures to implement it are straightforward and "avoid unnecessary complexity."

**Equitable**

- Student equity: Dollars are distributed to ensure comparable program quality regardless of district assignment.
- Wealth equity: Availability of overall funding is not correlated with local wealth.
- District-to-district fairness: All districts receive comparable resources for comparable students.

**Adequate**

- Funding is sufficient for all districts to provide appropriate programs for special education students.

**Predictable**

- LEAs know allocations in time to plan for local services.
- The system produces predictable demands for state funding.
- SEA and LEAs can count on stable funding across years.

**Flexible**

- Local agencies are given latitude to deal with unique local conditions in an appropriate and cost-effective manner.
- Changes that affect programs and costs can be incorporated into the funding system with minimum disruption.
- Local agencies are given maximum latitude in use of resources in exchange for outcome accountability.

**Identification Neutral**

- The number of students identified as eligible for special education is not the only, or primary, basis for determining the amount of special education funding to be received.
- Students do not have to be labeled "disabled" (or any other label) in order to receive services.

**Reasonable Reporting Burden**

- Costs to maintain the funding system are minimized at both local and state levels.
- Data requirements, recordkeeping, and reporting are kept at a reasonable level.

**Table 1-3. Criteria for Evaluating State Special Education Funding Formulas (continued)**

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**Fiscal Accountability**

- Conventional accounting procedures are followed to assure that special education funds are spent in an authorized manner.
- Procedures are included to contain excessive or inappropriate special education costs.

**Cost-Based**

- Funding received by districts for the provision of special education programs is linked to the costs they face in providing these programs.

**Cost Control**

- Patterns of growth in special education costs statewide are stabilized over time.
- Patterns of growth in special education identification rates statewide are stabilized over time.

**Placement Neutral**

- District funding for special education is not based on type of educational placement.
- District funding for special education is not based on disability label.

**Outcome Accountability**

- State monitoring of local agencies is based on various measures of student outcomes.
- A statewide system for demonstrating satisfactory progress for all students in all schools is developed.
- Schools showing positive results for students are given maximum program and fiscal latitude to continue producing favorable results.

**Connection to General Education Funding**

- The special education funding formula should have a clear conceptual link to the general education finance system.
- Integration of funding will be likely to lead to integration of services.

**Political Acceptability**

- Implementation avoids any major short-term loss of funds.
- Implementation involves no major disruption of existing services.

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Adapted from *State Funding Models for Special Education* (Hartman, 1992) and *Removing Incentives for Restrictive Placements* (Parrish, 1994).

**Percentage reimbursement formulas** have been reported as the least likely to create incentives to misclassify students by category of disability, since the label assigned a student does not affect funding. In addition, these formulas generally do not provide an incentive for a particular type of student placement. Although these types of formulas are often thought to be administratively burdensome and to result in difficulties with cost control unless cost ceilings are used or the reimbursable percentage is relatively low, these impressions are not borne out by the responses shown in Table 1-5. The most frequently reported weakness of this type of formula is that it is not linked to student outcomes.

**Resource-based formulas** are generally perceived as easy to administer and free of incentives for overidentification or misclassification of special education students. Among the 11 states using a resource-based formula, ease of administration and absence of incentives for overidentification are the primary strengths cited, along with flexibility and predictability.

Across all states, at least 80 percent of respondents reported that the major strengths of current state funding systems were their allowances for local flexibility (n = 42), understandability (n = 42), predictability (n = 42), provisions for flexibility in resources usage (n = 40), reasonable reporting burden (n = 40), provisions for fiscal accountability (n = 40), and equitability (n = 38). Major weaknesses most often reported were that funding is not linked to student outcomes (n = 39), and that funding systems have no cost control mechanisms (n = 22).

**Table 1-4. Strengths of Funding Formulas: Number and Percentage of States Reporting by Type of Formula\***

Strengths <sup>1</sup>	Type of Formula											
	Pupil Weights n=16 (%)		Flat Grant n=10 (%)		% Reimbursement n=5 (%)		Resource-Based n=11 (%)		Other <sup>2</sup> n=3 (%)		Total <sup>3</sup> n=45 (%)	
Allows local flexibility	14	88%	10	100%	4	80%	11	100%	3	100%	42	93%
Understandable	15	94%	10	100%	4	80%	10	91%	3	100%	42	93%
Equitable	14	88%	8	80%	4	80%	9	82%	3	100%	38	84%
Adequately funded	11	69%	4	40%	4	80%	6	55%	3	100%	28	62%
Predictable	14	88%	10	100%	4	80%	11	100%	3	100%	42	93%
Provides flexibility in use of resources	14	88%	10	100%	4	80%	9	82%	3	100%	40	89%
Does not encourage overidentification	10	63%	10	100%	5	100%	11	100%	2	67%	38	84%
Has reasonable reporting burden	14	88%	10	100%	5	100%	8	73%	3	100%	40	89%
Provides fiscal accountability	14	88%	9	90%	5	100%	9	82%	3	100%	40	89%
Based on actual cost	8	50%	4	40%	5	100%	9	82%	3	100%	29	64%
Not linked to where services received	13	81%	8	80%	5	100%	7	64%	2	67%	35	78%
Includes cost control mechanisms	5	31%	5	50%	4	80%	7	64%	2	67%	23	51%
Linked to student outcomes	2	13%	1	10%	0	0%	2	18%	1	33%	6	13%

\*Note: Due to rounding error, percentage totals in Tables 1-4 and 1-5 may not equal 100 percent.

<sup>1</sup>Answered "Yes" or "To a Limited Extent."

<sup>2</sup>The "Other" category includes three states that do not fit into the four major categories above, or have a combination of the four major categories. Missouri has a resource-based/flat grant funding system and Vermont has a percent reimbursement/flat grant funding system. In Arkansas, the special education funding formula is part of the general education school aid fund. Rhode Island's funding formula is also part of the general education school aid fund; however, they marked "not applicable" for each of these descriptions.

<sup>3</sup>Total "n" is smaller than in Table 1-1 due to incomplete state participation in survey.

**Table 1-5. Weaknesses of Funding Formulas: Number and Percentage of States Reporting by Type of Formula\***

Weaknesses	Type of Formula											
	Pupil Weights n=16 (%)		Flat Grant n=10 (%)		% Reimbursement n=5 (%)		Resource-Based n=11 (%)		Other <sup>1</sup> n=3 (%)		Total <sup>2</sup> n=45 (%)	
Does not allow local flexibility	2	13%	0	0%	1	20%	0	0%	0	0%	3	7%
Not understandable	1	6%	0	0%	1	20%	1	9%	0	0%	3	7%
Not equitable	2	13%	2	20%	1	20%	2	18%	0	0%	7	16%
Not adequately funded	5	31%	6	60%	1	20%	5	45%	0	0%	17	38%
Unpredictable	2	13%	0	0%	1	20%	0	0%	0	0%	3	7%
Lacks flexibility in use of resources	2	13%	0	0%	1	20%	2	18%	0	0%	5	11%
Encourages overidentification	6	38%	0	0%	0	0%	0	0%	1	33%	7	16%
Has unreasonable reporting burden	2	13%	0	0%	0	0%	3	27%	0	0%	5	11%
Provides no fiscal accountability	2	13%	1	10%	0	0%	2	18%	0	0%	5	11%
Not based on actual costs	8	50%	6	60%	0	0%	2	18%	0	0%	16	36%
Linked to where services received	3	19%	2	20%	0	0%	4	36%	1	33%	10	22%
No cost control mechanisms	11	69%	5	50%	1	20%	4	36%	1	33%	22	49%
Not linked to student outcomes	14	88%	9	90%	5	100%	9	81%	2	67%	39	87%

\*Note: Due to rounding error, percentage totals in Tables 1-4 and 1-5 may not equal 100 percent.

<sup>1</sup> The "Other" category includes three states that do not fit into the four major categories above, or have a combination of the four major categories. Missouri has a resource-based/flat grant funding system and Vermont has a percent reimbursement/flat grant funding system. In Arkansas, the special education funding formula is part of the general education school aid fund. Rhode Island's funding formula is also part of the general education school aid fund; however, they marked "not applicable" for each of these descriptions.

<sup>2</sup> Total "n" is smaller than in Table 1-1 due to incomplete state participation in survey.

### Adjustment Factors Used in Funding Formulas

Table 1-6 shows what factors states incorporate into their state special education funding formulas to accommodate variation in local district circumstances. These include **provisions to reimburse districts differentially for special situations related to student enrollment, such as population growth or decline, population density or sparsity, or high percentages of poverty**. Some factors address issues of funding equity and are designed to address differences among districts in wealth, or variations in cost-of-living or cost-of-education that might exist within regions of a state. The factors most likely to be included in a state's funding formula are measures of district wealth or fiscal capacity (n = 25), adjustments for cost of education (n = 17), and adjustments for population growth (n = 17). A few states include an adjustment for cost of living in their special education funding formulas (n = 5). Also, relatively few states use poverty as an adjustment factor. However, perhaps partly because of the federal government's inclusion of poverty as an adjustment factor in special education funding under the IDEA, the number of states reporting a state poverty adjustment has risen from three to eight states since the last administration of this survey in 1995-96.

In an attempt to control special education costs, **nine states also include caps on the number of students who can be identified as eligible for special education funding** (as does the federal government), or caps on the number of available state dollars. Table 1-7 shows the specific percentages and dollar amounts of those states whose funding formulas include caps or limitations on eligibility (n = 9) or revenue (n = 14).

Table 1-6. Special Funding Factors Included in State Special Education Funding Formulas

State (n = 50)	District Wealth	Population Density	Population Sparsity	Cost of Living	Cost of Education	Population Growth	Population Decline	Poverty
Alabama	Y					Y		
Alaska								
Arizona					Y	Y		
Arkansas					Y	Y	Y	
California			Y	Y	Y	Y	Y	
Colorado								
Connecticut	Y	Y			Y	Y	Y	Y
Delaware	Y							
Florida	Y	Y	Y	Y	Y	Y	Y	Y
Georgia	Y							
Hawaii	Y	Y	Y			Y	Y	
Idaho	Y		Y					
Illinois					Y			
Indiana								
Iowa					Y			
Kansas								
Kentucky								
Louisiana	Y	Y	Y		Y			Y
Maine								
Maryland	Y				Y			
Massachusetts	Y			Y	Y	Y	Y	Y
Michigan					Y			
Minnesota					Y	Y	Y	Y
Mississippi								
Missouri						Y	Y	
Montana	Y		Y		Y			
Nebraska								
Nevada								
New New Jersey	Y							
New Mexico					Y			
New York	Y							
North Carolina						Y	Y	
North Dakota								
Ohio	Y							
Oklahoma	Y	Y	Y			Y	Y	Y
Oregon	Y	Y	Y			Y	Y	Y
Pennsylvania	Y							Y
Rhode Island								
South Carolina	Y							
South Dakota	Y							
Tennessee	Y							
Texas	Y	Y	Y	Y	Y			
Utah	Y		Y			Y	Y	
Vermont					Y	Y	Y	
Virginia	Y					Y	Y	
Washington	Y			Y		Y		
West Virginia	Y	Y	Y					
Wisconsin								
Wyoming								
TOTALS:	25	8	11	5	17	17	14	8

Table 1-7. Maximum Percentages of Students Eligible to Receive State Special Education Funding and Maximum Dollars Available

State (n=22)	Student Caps	Maximum Percentage of Students	Revenue Caps	Maximum Dollar Amount
Alabama	Y	5%		
California			Y	\$1,852,023,077
Idaho	Y	6% elementary; 5.5% secondary		
Illinois			Y	Not Specified
Kansas			Y	\$228,758,744
Maryland			Y	\$81,250,000 Formula; \$75,000,000 Nonpublic
Massachusetts	Y	15%		
Michigan			Y	\$289,643,000
Minnesota			Y	\$463,000,000
Missouri			Y	\$230,000,000
Nebraska			Y	\$132,575,807
Nevada			Y	\$62,985,218
New Jersey	Y	Unspecified		
North Carolina	Y	12.5%		
North Dakota			Y	\$22,850,000
Oregon	Y	11%		
Pennsylvania			Y	\$719,500,000
Utah	Y	12.18%		
Washington	Y	12.7%	Y	Unspecified
West Virginia	Y	7.4% adjusted enrollment (74/1000)		
Wisconsin			Y	\$275,500,000
Wyoming			Y	Unspecified*
<b>TOTALS</b>	<b>9</b>		<b>14</b>	

\*Note: In Wyoming, the cap is denoted as a percentage, not a dollar amount. Wyoming did not specify the percentage.

### Separate, Additional Funding Mechanisms

Many states use separate funding mechanisms to target resources to specific populations or areas of policy concern such as extended school year services or specialized equipment. Table 1-8 shows the separate funding mechanisms used by states to provide these targeted resources. These include funds for students placed in separate public and private schools (both day and residential), services for students with serious emotional disturbance (SED), extended school year services, transportation for special education students, specialized equipment, or capital building funds.

Many states also fund preschool and early intervention services using mechanisms different from those used to fund services for school-age students with disabilities. More than a third use separate funding for 0-2 year-olds or 3-5 year-olds with disabilities (n = 19 and n = 17, respectively).

Funding for special education transportation is also commonly supported through a separate funding mechanism (n = 17). The use of these targeted funding strategies is yet another way that states respond to individual policy concerns. However, they can also add complexity and remove flexibility from the system. In the case of categorical transportation aid, districts choosing to transport students to centralized locations will receive this additional support, while districts choosing more localized service options (i.e., to invest funds to make their neighborhood schools more accessible) will not. These separate funding provisions can mask enormous variability across states in total special education expenditures if some states include these separate funding streams in calculations of total special education aid and others do not. They can also affect the incentives associated with the basic funding approach. For example, the basic special education funding system may appear to contain no placement incentives. However, when provisions for private school placement and funding, or transportation allotments in support of segregated placement options, are placed outside the basic formula, powerful incentives for their use may still be in place.

Table 1-8. Separate Funding Mechanisms Used by States for Special Education Services

State (n = 50)	Private Residen tial	Private Day	Public Residen tial	Public Region al	SED Servic es	Extended School Year	Transpo r-tation	Special Equipm ent	Capit al Fund s	3-5 Year- olds	0-2 Year- olds	High Cost Student s	Other*
Alabama													
Alaska										Y		Y	
Arizona	Y	Y	Y		Y	Y	Y		Y			Y	
Arkansas	Y		Y			Y						Y	
California			Y				Y	Y		Y	Y	Y	Y
Colorado			Y							Y	Y	Y	Y
Connecticut	Y	Y	Y	Y	Y	Y	Y	Y		Y	Y	Y	
Delaware													
Florida						Y	Y					Y	
Georgia	Y	Y			Y			Y		Y	Y	Y	
Hawaii													
Idaho							Y						
Illinois	Y	Y	Y			Y	Y		Y		Y	Y	
Indiana	Y	Y	Y	Y	Y				Y			Y	
Iowa										Y	Y	Y	
Kansas													
Kentucky							Y					Y	
Louisiana	Y	Y	Y		Y	Y	Y	Y		Y	Y		
Maine										Y	Y		
Maryland	Y	Y					Y				Y	Y	Y
Massachusetts	Y						Y	Y					
Michigan	Y		Y		Y		Y						
Minnesota							Y	Y					
Mississippi												Y	Y
Missouri	Y	Y	Y			Y	Y			Y	Y	Y	Y
Montana													
Nebraska	Y		Y				Y					Y	
Nevada													
New Hampshire					Y							Y	Y
New Jersey												Y	Y
New Mexico													
New York	Y	Y	Y			Y				Y	Y	Y	Y
North Carolina											Y	Y	Y
North Dakota											Y	Y	
Ohio										Y		Y	
Oklahoma													
Oregon	Y	Y	Y	Y						Y	Y	Y	
Pennsylvania	Y	Y				Y	Y	Y		Y	Y	Y	

Rhode Island													
South Carolina									Y				
South Dakota													
Tennessee												Y	
Texas							Y			Y			
Utah										Y		Y	
Vermont										Y		Y	
Virginia	Y	Y		Y			Y					Y	Y
Washington												Y	
West Virginia			Y										Y
Wisconsin													Y
Wyoming												Y	
<b>TOTALS:</b>	<b>16</b>	<b>12</b>	<b>13</b>	<b>4</b>	<b>7</b>	<b>9</b>	<b>17</b>	<b>5</b>	<b>4</b>	<b>17</b>	<b>19</b>	<b>31</b>	<b>12</b>

\*Other: California - Under a capacity building mechanism, the state funds "Project Workability," a job training program for students with disabilities; services and equipment for students with low-incidence disabilities; personnel development; research and training in cross-cultural evaluations; alternative dispute resolution; and local improvement grants. Maine - State wards/state agency clients. Minnesota - State Academies for Deaf and Blind; Correctional Facilities. Missouri - Funds for severely disabled. North Carolina - North Carolina Department of Health and Human Services. Oregon - Reimbursement to districts for out-of-state placements; pro-rated amount, fixed state general fund account. New Mexico - Eight state-supported education programs are funded directly by the legislature and are not part of the funding formula. Nevada - Out of district/out of state placements for FAPE. Vermont - State-placed students. West Virginia - Small dedicated special education fund for special education programs/services only, allocated based on a base amount and a per pupil amount. Total amount just over \$6 million. Wisconsin - Did not specify.

#### Funding for High Cost Students

Finally, a growing number of states have a separate funding stream that can be accessed by districts experiencing exceptionally high special education costs. Across states, the most common use of a separate funding mechanism is to provide services for "high-cost" students. The definition of "high cost" students varies from state to state, but these provisions generally entail some form of supplemental support for districts serving students whose services exceed a specified level in terms of total cost. Table 1-9 shows the specific provisions for those states that have a separate funding mechanism for especially high cost students.

Table 1-9. States' Provisions for High Cost Students\*

State (n = 17)	Description of Provisions
Alabama	The DOE maintains a separate fund (Catastrophic Trust Fund) that LEAs may apply to for financial assistance for children that are extremely costly.
Alaska	Intensive funding is provided at approximately \$21,000 per student if the student meets the seven criteria for this category.
Arkansas	A state appropriation is available to reimburse local education agencies for special education catastrophic occurrences. These funds were appropriated by the Arkansas General Assembly in 1997. Local education agencies must meet a specific set of criteria in order to see reimbursement for special education catastrophic occurrences. This part of the state funding formula took effect beginning with the 1997-98 school year.
California	Additional funds are available for districts with special circumstances.
Connecticut	Special Education Equity provides grants to towns with extraordinary special education costs. Within the \$11.5 million appropriation, towns whose prior year special education expenditures exceed the state average when such costs are compared to average spending in regular programs are reimbursed for their excess special education at the rate of their ECS base aid ratio. In addition, the Excess Cost Grant provides 100 percent of the costs of special education in excess of five times the prior year's average cost per pupil for eligible students who are placed in special education programs (in or out of the district) by the local board of education.
Florida	There is a supplement for select students when a school district has less than 10,000 FTE student enrollment and less than 3 FTE eligible students per program.
Illinois	When an individual student's costs exceed 1.5 times the district per capita tuition charge, then reimbursement is provided for the amount that is in excess of the district per capita tuition charge for the prior year or \$2,000, whichever is less.
Indiana	When a student is placed in a public residential facility under specified state procedures, the state agency operating the facility assumes the costs of room and board, special education, and related services normally provided by the residential facility.
Kansas	The school is reimbursed for 75 percent of the cost of implementing a child's IEP in excess of \$25,000 for the school year.
Maine	SAUs (LEAs) can apply once they exceed three times the secondary foundation for out of district placements. This basically is a loan program and is prorated based upon the amount appropriated by the legislature.
Missouri	All excess costs associated with educating students with severe disabilities who qualify for enrollment in the State Schools for Severely Handicapped, yet who are educated in a local school district, are paid by the State. All excess costs associated with educating students who are placed out of their domicile by juvenile courts are paid by the State. All costs on behalf of the education a student with a disability that exceed five times the average per pupil expenditure of the serving district are paid by the state.
North Dakota	The system to reimburse extraordinarily high cost cases follows an insurance-like model in reimbursing high costs that have been incurred in serving a small number of students. This extraordinary cost portion of the state funding makes up roughly 25% of the state support for special education.
Oklahoma	The Special Education Assistance Fund reimburses eligible expenses for IEP students who programs result in extraordinary costs to the providing school or district of residence. Forms must be completed for each student for whom the school district is requesting reimbursement, and each claim is reviewed on a case-by-case basis in accordance with funding priorities and are subject to proration based upon the availability of funds.
Pennsylvania	The Contingency Fund for Extraordinary Special Education Program Expenses provides partial reimbursement to school districts for the implementation of the IEP for a student with severe disabilities. A contingency fund application may be submitted for partial reimbursement of extraordinary expenses incurred in meeting the educational needs of an child with severe disabilities who requires a highly specialized program or related services in order to receive an appropriate education.
Utah	Districts submit information related to the students that they serve who cost in excess of \$15,000. Since it always totals much more than the total appropriation, the monies are prorated down according to the amount available,

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	divided by the number of students.
<b>Vermont</b>	If a school district pays more than \$50,000 for special education services for an individual student for a fiscal year, they report the cost and receive 90 percent reimbursement for the cost in excess of \$50,000.
<b>West Virginia</b>	Outside the formula, the SEA provides assistance on a percent reimbursement basis to districts for the cost of special education students in out-of-state residential placements and for students served out-of-county (district) as a result of placement by a state agency. Percentage varies with total amount available.

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**\*The following states reported that they had provisions for high cost students but did not specify what those provisions were: Arizona, Colorado, Georgia, Idaho, Maryland, Minnesota, Montana, New Jersey, New York, North Carolina, Ohio, Oregon, Tennessee, Washington, and Wyoming.**

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### **Interagency Funding Agreement**

As shown in Table 1-10, 21 of the 46 responding states also have an interagency funding mechanism in place to serve children with multiple special needs. This interagency funding mechanism is usually either legislatively mandated (n = 14), or is a voluntary program (n = 5). Some states, such as Nebraska and Nevada, have just one agency with whom they are involved in interagency funding arrangements, while other states, such as Alabama, Minnesota and Virginia, have as many as five or more agencies involved. States listed a number of different involved agencies, ranging from the Department of Juvenile Justice to the Department of Substance Abuse. More than half of the respondents reported that their state's Department of Health is included in these funding arrangements.

**Table 1-10. Interagency Funding to Serve Children with Multiple Special Needs**

<b>State (n = 21)</b>	<b>Basis of Mechanism</b>	<b>Agencies Involved in Interagency Funding Arrangements</b>	<b>Perspective on Interagency Funding Arrangement</b>
<b>Alabama</b>	Legislatively mandated	Department of Mental Health and Mental Retardation, Department of Youth Services, Department of Human Resources, Department of Public Health, Department of Education	It has resulted in shared funding of \$4,000,000 for FY99 for multiple needs students.
<b>Arizona</b>	Legislatively mandated	Arizona Department of Education, Department of Economic Security, and Department of Health Services	Arizona pays for educational costs associated with necessary residential placements through the state's formula-driven funding mechanism.
<b>Arkansas</b>	Arkansas Department of Human Services	Arkansas Department of Human Services	
<b>California</b>	Legislatively mandated	County Departments of Mental Health, Health Services, Social Services, and Probation	
<b>Hawaii</b>	Voluntary program	State of Hawaii, Department of Health	The arrangement is beneficial to both the Department of Education and the Department of Health and allows for the provision of educational services in Department of Health contracted therapeutic group type facilities.
<b>Maine</b>	Informal agreement	Departments of Mental Health, Mental Retardation, Substance Abuse, Corrections, and Human Services, Bureau of Child and Family Services, Bureau of Medical Services	Potential of shifting costs from local districts to one or more of the state agencies including the Maine Department of Education. Need clear legislative mandate, too – then agencies to fund it.
<b>Maryland</b>	Legislatively mandated	State Department of Education, Department of Health and Mental Hygiene, Department of Human Resources, Department of Juvenile Justice	Each agency funds their own child being placed in a residential setting except if the placement involves multiple special needs which results in the placement being co-funded by more than one agency. The arrangement seems fair and equitable.
<b>Minnesota</b>	Legislatively mandated	Department of Children, Families, and Learning; Department of Human Services; Department of Economic Security; Department of Commerce; Department of Human Rights; Department of Human Services; Department of Corrections; and more	The fiscal implications of this interagency funding arrangement are for increased and coordinated capabilities in the provision of funding to serve children with multiple special needs.
<b>Mississippi</b>	Legislatively mandated	Mississippi Department of Human Services, Department of Mental Health, and Families as Allies per legislative statute.	We have two funding arrangements: 1. Human Services pays all fees except education costs that are paid by the Mississippi Department of Education. 2. Mississippi Connections Project is blended funding among agencies MH, HS, MDE, the Department of Health, and Medicaid.
<b>Missouri</b>	Voluntary program	Department of Education, Department of Mental Health, Department of Social Services and Department of Health	
<b>Nebraska</b>	Legislatively mandated	Health and Human Services - Medicaid	Medicaid in Public Schools (MIPS) is limited to physical, occupational, and speech therapy services and has allowed for funding of services coordination for infants/toddlers with

**Table 1-10. Interagency Funding to Serve Children with Multiple Special Needs**

State (n = 21)	Basis of Mechanism	Agencies Involved in Interagency Funding Arrangements	Perspective on Interagency Funding Arrangement
Nevada	Legislatively mandated	Department of Human Resources	disabilities through Health and Human Services. This allows us to prioritize students who need out-of-district placements to receive FAPE for in-state placement options under the jurisdiction of DHR.
New Jersey	Legislatively mandated	Department of Human Services, Department of Corrections, Juvenile Justice, Katzenbach, A. Harry Moore, Commission for the Blind and Visually Impaired	Works okay.
New York	Legislatively mandated	Office of Children and Family Services, Office of Mental Retardation and Developmental Disabilities	These are generally arranged to service children in special residential settings.
Oregon	Legislatively mandated	State and federal pre-school providers, Oregon Youth Authority (Juvenile Corrections), statutorily recognized hospitals, vocational rehabilitation, Department of Human Services	These arrangements provide collaboration across agencies so that multiple needs of children are addressed. Fiscal responsibilities, therefore, are identified and coordinated to reach maximum efficiency while providing services.
Pennsylvania	Legislatively mandated	Department of Education, Department of Public Welfare, Department of Labor and Industry, Department of Health	Not sufficient time to collect adequate data to make a determination at this time.
Rhode Island	Voluntary program	Department for Children & Youth, Local Education Agencies	
Tennessee	Voluntary program	Department of Education, Department of Health, MHMR, and Medicare	
Utah	Voluntary program	Department of Education, Department of Health, Department of Human Services, and Workforce Services	A small amount of money. The cooperative effort is the main benefit.
Vermont	Legislatively mandated	Social Welfare and Mental Health and Education make joint decisions on residential placements and have a state level team to problem solve.	Fairly divides education, treatment and room/board costs for residential but State Team often unable to solve individual cases because of lack of funds or inflexibility of Agency rules or funding. This area remains a significant problem.
Virginia	Legislatively mandated	Department of Education, Department of Social Services, Department of Mental Health, Mental Retardation, and Substance Abuse Services, Department of Juvenile Justice, Department of Health	There is no way to determine whether costs have been better managed. However, planning for services and community awareness of service needs has been improved, and the delivery of services is more efficient.

**Allowable Uses of Special Education Funds**

States sometimes use fiscal policies to affect district practice in the provision of special education services. For example, states may use a variety of fiscal accountability mechanisms designed to control and target special education expenditures. Fiscal controls in well over a third of the states (n = 20) require that funds distributed through the state's special education finance system be spent only for eligible students with disabilities (see Table 1-11). Eleven states allow state special education funds to be used for any public education service; eight states report that funds may be spent for special education and prereferral services;

one state allows such funds to be spent for special education and remedial services; and two states report that funds distributed through their special education funding mechanism may be spent for any public purpose. Restrictions on how districts use special education funds tend to support fiscal accountability, but reduce local control.

Table 1-12 presents states' methods of distributing special education funding. Twenty-one of the 46 reporting states distribute special education funding separately from funding for other education services. Four of the responding states reported that their special education funding is part of a formula that includes funding for other categorical programs such as bilingual education, and 18 stated that their special education funding is subsumed as part of a larger general education formula. This preference for using a separate categorical mechanism for funding special education reflects the historical development of special education as an "add-on" to the regular education system. However, it may also suggest incongruity between fiscal policy and current program practices and goals. There is a natural tension between separate, highly categorical funding streams and overall education reform objectives favoring more "unified" schooling systems (McLaughlin & Warren, 1992). In such systems, the strict barriers between categorical programs begin to disappear and are replaced by a more seamless set of educational programs and services designed to meet the special needs of all students. Yet, while widespread activity currently focuses on the development of a more unified education system at the instructional level, for the most part, funding structures supporting dual systems of regular and special education remain intact.

A question confronting the development of future fiscal policy in special education is the degree to which funding should retain its categorical nature. Reform advocates sometimes question the efficiency of strict categorical distinctions, and are calling for increased flexibility through the blending of funds to best meet the needs of all students.

**Table 1-11. Fiscal Policies for the Use of State Special Education Revenues**

<b>Fiscal Policy</b>	<b>Total Number (n = 50)</b>	<b>Percentage of States</b>
Special education programs only	20	40%
Any public education service	11	22%
Special education and prereferral services	8	16%
Special education and remedial services	1	2%
Any public purpose	2	4%
Other*	8	16%

\*Other - Arkansas – Special education programs, prereferral services, services to students served under Section 504 of the Rehabilitation Act of 1973, and post-dismissal services. Florida – 80 percent of funds generated by exceptional students must be spent on exceptional students. New Mexico – All money generated by the state equalization funding formula goes into the LEA “operational pot.” Money generated by special education students is not categorical. Alaska - Vocational education, bilingual, gifted and talented education, and special education. No state money to fund state special education needs in the Department of Education Early Development. The money is all discretionary. School Boards decide how to budget the programs. Louisiana - Funding through the Minimum Foundation Program is in the form of a block grant from the state to the local districts. As such, districts are afforded local flexibility to spend these funds as they determine to be in the best interests of the district while satisfying certain state mandated requirements. Therefore, while a certain amount of money within the program is attributable to the weights assigned to special education students, these funds are integrated into the block grant and cannot be tracked directly to these children. Vermont - Special education and prereferral services and some services to non special education. Nebraska - Special education/related services and flexible funding option - not to exceed 50 percent of specific education budget. West Virginia - Public education services are specified within each step of the formula.

**Table 1-12. Methods of Special Education Funding Distribution**

State (n = 46)	Subsumed as Part of a Larger General Education Formula	Part of a Formula that Includes Funding for Other Categorical Programs	Distributed Funds Separately from Funding for Other Education Services	Other
Alabama	Y			
Alaska*				Y
Arizona		Y		
Arkansas		Y		
California			Y	
Colorado			Y	
Connecticut**				Y
Delaware			Y	
Florida	Y			
Hawaii	Y			
Idaho	Y			
Illinois			Y	
Indiana		Y		
Iowa	Y			
Kansas			Y	
Kentucky	Y			
Louisiana	Y			
Maine		Y		
Maryland			Y	
Massachusetts	Y			
Michigan			Y	
Minnesota			Y	
Mississippi			Y	
Missouri			Y	
Montana		Y		
Nebraska			Y	
Nevada				
New Hampshire	Y			
New Jersey			Y	
New Mexico	Y			
New York			Y	
North Carolina			Y	
North Dakota			Y	
Ohio	Y			
Oklahoma	Y			
Oregon	Y			
Pennsylvania			Y	
Rhode Island	Y			
Tennessee	Y			
Texas			Y	
Utah			Y	
Vermont			Y	
Virginia***				Y

Washington			Y	
West Virginia	Y			
Wisconsin			Y	
Wyoming	Y			
<b>TOTALS:</b>	<b>18</b>	<b>4</b>	<b>21</b>	<b>3</b>

\*Alaska uses a block grant.

\*\* In Connecticut, the bulk of funding is subsumed. It was part of a larger general education funding formula (ECS), but there are also several grants that are distributed separate from other educational services.

\*\*\*Virginia's special education funding is mostly subsumed as part of larger general education formula, with some funding distributed as separate categorical accounts.

Some changes have already occurred. Under Title I of the revised Elementary and Secondary Education Act (ESEA), high poverty schools have been allowed to blend funds from a variety of federal sources to make schoolwide changes for the benefit of all students. Increasing federal support for this concept is indicated by the fact that the poverty threshold eligibility for this program has been continually lowered. Similarly, under the IDEA Amendments of 1997 (P.L. 105-17), local education agencies may use IDEA funds as a part of these Title I schoolwide programs.

#### Other State Policies that Affect Special Education Services

A significant trend affecting the delivery of special education services in states across the nation relates to increased use of pre-referral intervention services (see Table 1-13). *Prereferral intervention systems* provide short-term educational interventions for students experiencing difficulties in school, some of whom might otherwise be directly referred to special education. They are designed to provide early, systematic support to students in their regular classroom environment; reduce or eliminate inappropriate referrals for testing and placement into special education; and increase the regular classroom teacher's ability to deal with children with special needs (Hartman & Fay, 1996).

As Table 1-13 shows, 32 states have established pre-referral intervention systems of some type, and almost 15 percent ( $n = 7$ ) of them report that state funds have been appropriated for these services. These changes in the delivery of services for children with special needs—driven by both programmatic and fiscal concerns—reflect reforms in special education that are integrally tied to those for the education system as a whole.

Table 1-13. Adoption of Pre-Referral Intervention Systems, by State

State (n = 50)	Established	State Funds Appropriated*
Alabama	Y	
Alaska		
Arizona		
Arkansas		
California		
Colorado	Y	
Connecticut	Y	Y
Delaware	Y	
Florida	Y	
Georgia	Y	
Hawaii	V	V
Idaho		
Illinois		
Indiana	V	
Iowa	V	
Kansas	V	
Kentucky		
Louisiana	V	V
Maine	V	
Maryland	V	
Massachusetts	V	
Michigan	V	
Minnesota	V	
Mississippi		
Missouri		
Montana		V
Nebraska		
Nevada	V	
New Hampshire	V	
New Jersey	V	
New Mexico	V	
New York	V	V
North Carolina		
North Dakota		
Ohio	V	
Oklahoma		
Oregon		
Pennsylvania	V	V
Rhode Island	V	
South Carolina		
South Dakota	V	
Tennessee		
Texas	V	
Utah	V	
Vermont	V	V
Virginia	Y	
Washington	V	
West Virginia	V	
Wisconsin		
Wyoming	Y	
<b>TOTALS:</b>	<b>32</b>	<b>7</b>

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\* Connecticut appropriated \$250,000. Hawaii appropriated an estimated \$6.9 million. Louisiana appropriated a total of \$24,327,986 (not just for special education). Montana has no earmarked money for this purpose – just an allowable cost for special education money. New York appropriated \$66,600,000. In Pennsylvania, appropriations were only available during start-up training years. In Vermont, appropriations cannot be identified as portion-funded.

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Kansas Legislative Testimony  
January 16, 2002  
Challenges-Special Education and Funding  
Presented by- Gerry Reynaud, Executive Director – Olathe District Schools

Federal and State Perspectives:

This year marked the 27<sup>th</sup> anniversary of federal legislation mandating a free appropriate public education for individuals with disabilities.

Federal funding from the 1975 legislation known as the IDEA has, just in the last few years reached a funding level of 12%----despite the U.S. Congress' 27 year promise to pay 40% of the incremental costs of educating students with disabilities.

Since 1975, the congress, Department of Education, federal courts, and States, have steadily raised the financial obligation of the State and public school district while the number of students receiving special education services have soared. In 1999-2000, 6.1 million children from ages 3 to 21 years were found eligible for special education services, representing figures that are up from the 3.7 million being served in 1976-77, an increase of 65%.

While the IDEA has provides for sweeping and needed changes in the Nation's quest to end chronic exclusion and mis-education for students with exceptional needs, it has resulted in presenting us with significant challenges because of its well know tendencies to over-regulate, over manage, and make more complex.

There are many reasons why these eligibility numbers have increased and the cost of special education under the IDEA have grown so rapidly over the past few decades.

Passage of the Act itself.

Legislators and the U.S. Department of Education have responded to pressure from advocacy groups by expanding the definition of students eligible for special education.

Children ages 3 to 5 are now eligible and receive services under IDEA Part C – Early Childhood Special Education.

Autism was added in 1994 as a new disability category. This condition, once considered a rare disorder affecting about 6 per 10,000 children, is now considered more common as a result of expanding the definition to include milder forms of autism, know as Asperger Syndrome thought to number 25 to 50 per 10,000.

Senate Education Committee

Date: 1-16-02

Attachment # 3

In 1991 the U.S. Department of Education issued a policy clarification indicating that children diagnosed with ADD and ADHD may be eligible for special education under "Other Health Impaired" category of the IDEA and Section 504 of the Rehabilitation Act.

The number of children identified as Learning Disabled has increased from 22% of the total special education population in 1966-67 to an increase of 46% by 1997-98.

Additionally, the IDEA regulations require IEP Teams to consider how children with disabilities will be educated with non-disabled peers. This section of the law is referred to as Least Restrictive Environment. (LRE) and has resulted in significant reform in general and special education, to provide exceptional students with access to the general education curriculum. While we support the concept of appropriate responsible inclusion of students with disabilities in the general education and appropriate activities, such placement often requires costly special supports including related services and assignment of para-educators to be successful.

A discussion of challenges in special education would be incomplete with out mentioning the Due Process requirements of the law. Current law contains elaborate and highly specific procedural safeguards that lay out "Due Process" requirements for settling disagreements between parents and public schools. The provisions create incentives for parents to sometimes bring frivolous claims rather than reasonable solutions, creating excessive burdens on the human and financial resources of the public system.

And last, a mention of the IDEA and Kansas Regulations related to Private/Parochial services. Provisions of Kansas law significantly add to the IDEA requirements by expanding the child find requirements to include students who may be gifted. Both regulations provide that children enrolled by parents in private/parochial schools are eligible for special education and related services. The IDEA only requires that amounts spent for these services shall be equal to a proportionate amount of federal funds available under Part B of the IDEA. The Kansas regulations expand this requirement of the public schools to provide all special education and related services that are identified by an IEP Team plus transportation whenever the parent request such services. As a result local school districts that have private or parochial schools are required to spend more than twice the amount of funds received through state or federal funding which is yet another example of a under-funded mandate.

Conclusion: While we embrace the importance of providing a free appropriate public education for children with exceptionalities, the IDEA and Complementary State Laws have presented us all with extraordinary challenges, complicated regulations, litigious due process procedures. We could refer to the IDEA as the law with unintended consequences but in reality it has been the major milestone that has opened the door to fairness and access to a free and appropriate education for the nation's students with disabilities.

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**SENATE EDUCATION COMMITTEE REPORT**  
**January 16, 2002**

We support serving the needs of all students with the expertise and equipment appropriate to their learning needs and in the environment that allows them the best opportunities for learning with their peers. We celebrate the fact that we are able to educate many children who as recently as 25 years ago were not served appropriately or at all in the public school setting.

As you have heard my colleagues say, the implementation of IDEA has increased special education costs in a number of ways. All of us could cite expenditures we are required to make in order to meet the needs of our students in compliance with state and federal law. I wanted to give you some specific examples that illustrate the ways in which we are expending funds.

- Students are coming to school with severe and significant medical conditions. In my district we currently have 3 students who require a full time one on one nurse. The average hourly rate for a nurse (salary only) is \$33.00.
- Just five years ago in Blue Valley we did not have any sign language interpreters. We now have seven and fully expect to add more interpreters next year to meet student needs.
- This year we purchased a Braille printer to give a student access to the same type of resources as his non-disabled classmates. The cost for that piece of equipment was \$10,000.
- Equipment is required to support the needs of our students with hearing impairments. A sound-field amplification system is \$1000.00 per unit. We currently have nine units and will need to add more this fall.
- For students with disabilities that limit the ways in which they can effectively communicate there is an ever-growing choice of technologies to assist them. These technological advances are a blessing for our kids; giving them opportunities to transcend their physical limitations, to share their thoughts and to let us know what they are learning. The range of costs for these devices is vast from as little as a few hundred dollars to tens of thousands of dollars. Currently in Deb's district there are three dedicated communication devices each with a \$50,000. price tag. Maintenance for all this equipment is an ongoing expense.
- Extended school year, held for several weeks each summer has expanded due to changes in eligibility requirements. In Blue Valley we served about 250 students while in Cindy's district 700 students were entitled to extended year last summer. The staff and transportation costs are tremendous for these programs.
- The number of students diagnosed with autism has more than doubled in the last four years. As we have learned more about autism spectrum disorders we are implementing intense interventions for children at a younger age using more staff.

Senate Education Committee

Date: 1-16-02

Attachment # 4

Recently we received information gleaned from the Special Education Expenditure Project in which Kansas is a participant. The average expenditure for a student in special education in Kansas is \$11, 213. The highest cost category of disabilities is autism at \$14, 283. Deb's district alone has 300 students with the autism diagnosis.

- When students with very severe emotional disabilities require a placement more restrictive than a typical school setting we seek or we create an alternative placement. The placement may range from a one on one tutor to an alternate school. Cindy's district served 80 SED students in an alternative school at a cost of 1 million dollars last year.
- Likewise, when a special education student is suspended or expelled we must continue to provide services. We do support that requirement, but it does add cost.
- IDEA requires placement in the least restrictive setting....the setting that allows a student to receive his/her education the most like non-disabled peers. In order that students are able to access general education we have added para educators who provide support and direction for special education students throughout the day.
- You likely are aware of transportation costs and requirements. Specialized buses with lifts, personalized routes and uncertain gas prices all impact the budget.
- Finally, the cost of hiring and retaining certified staff is ongoing. Usually special educators have advanced degrees or specialized certifications that move them across the salary schedule. Additionally, recruiting costs for a diminishing pool of applicants challenge us. Most districts have difficulty filling special education positions, and those that are unable to do so should not be financially penalized.

With all this cost what is the return? It is not just a cost; it is truly an investment. As an example of our investment I am pleased to report that last year in Blue Valley 63 special education students participated in paid employment through our transition program. Their combined gross wages were \$82, 437. and they paid income tax, FICA and Medicare totaling \$16, 402. The investments we have made are resulting in students who can meaningfully participate and contribute to our community.