

## ANALYSIS OF GOVERNOR MALLOY'S SPECIAL EDUCATION FUNDING PROPOSAL<sup>1</sup>

Governor Dannel Malloy's budget proposal disentangles special education funding from the Education Cost Sharing (ECS) grant by reducing the ECS foundation amount by 22 percent, which is equal to the total amount of the ECS grant that Connecticut currently reports to the U.S. Department of Education is attributable to special education.<sup>i</sup>

The proposal also includes a \$10 million increase in special education allocations over FY'17, which is the approximate amount that state special education funding was reduced by in the 2016 Connecticut legislative session.<sup>ii</sup> The additional funding helps to ensure Connecticut's compliance with the federal Individuals with Disabilities in Education Act (IDEA), which requires that a state not reduce its support for special education from the prior year's level, known as the maintenance of support requirement.<sup>iii</sup>

In addition, the governor's proposal moves funding from the Excess Cost grant line item into the new Special Education Grant. The total amount of the new grant, comprised of the aforementioned portion of ECS, Excess Cost, and the additional \$10 million dollars, is approximately \$597.6 million. The governor proposes distributing this aid on a sliding scale of 0 percent to approximately 54 percent, based on a town's relative need as measured by a ranking of each town's adjusted equalized net grand list per capita, which serves as a proxy for a community's ability to pay special education costs from local sources.

The governor's proposal to distribute special education funding to school districts is classified as a Partial Reimbursement funding system. In Partial Reimbursement systems, districts report their special education expenses to the state and receive reimbursement for some portion of those expenses.<sup>2</sup> In the governor's proposed budget, districts will be reimbursed for a percentage of their net cost of special education services for the preceding fiscal year via a sliding scale that is based on each community's ability to pay. A local or regional board of education can apply for reimbursement, on or before September 1, for costs incurred during the prior year based on data submitted to the commissioner of the State Department of Education through its End of Year School

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<sup>1</sup> Unless otherwise cited, all proposed system funding specifications and data are retrieved from the below sources.

State of Connecticut, Office of Policy and Management. (2017). *Governor's FY 2018 - 2019 Biennial Budget*. Available from <http://www.ct.gov/opm/cwp/view.asp?a=2958&Q=590066&PM=1>. H.B. 7035, Feb. 2017, Gen. Assembly. (Ct. 2017).

<sup>2</sup> A more detailed description of Partial Reimbursement special education funding systems can be found at the below source.

Connecticut School Finance Project. (2016). *Improving How Connecticut Funds Special Education*, 18. Available from <http://ctschoolfinance.org/reports/improving-sped>.

Report (ED001).<sup>3</sup> Any audited data shall be submitted to the commissioner on or before December 31. This is in keeping with the current schedule for completing and submitting the ED001.<sup>iv</sup>

Reimbursement payments greater than \$500,000 shall be made as follows:

- 50 percent of the grant based on costs submitted in September shall be paid in October;
- The adjusted balance based on audited data submitted on or before December 31 shall be paid in April;
- Payments pursuant to this section for each estimated grant of less than \$500,000 shall be made in a single installment in April based on audited data submitted on or before December 31.

In this proposal, there is no stratification of rates based on expenditure type, although the final amount of calculated expenditures does specify the types of eligible expenditures. This reimbursement system uses the definition of net cost of special education as previously defined in Connecticut statute.<sup>v</sup>

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<sup>3</sup> The ED001 is the primary source of financial information on education in Connecticut and is used in calculating state grants and providing statistical information to local, state and federal policymakers. The information is coded uniformly across all districts in Connecticut to allow policymakers to compare the availability and use of resources across districts. For more information on the ED001 form, please visit: <http://www.sde.ct.gov/sde/cwp/view.asp?a=2634&Q=320626>.

## **Policy Analysis**

While no state has implemented a perfect model for funding special education, the governor's proposed special education finance system falls short of best practices. A comprehensive 50-state survey examining state special education finance models reveals six key principles and practices all special education finance systems should follow.<sup>vi</sup> (Note: *this is not intended to be a complete or exhaustive list of best practices, but rather, it is a group of identified best practices based on our research.*) An analysis of these best practices, how the governor's proposed system aligns with these best practices, and how Connecticut can achieve these best practices follows.

### **1. Differentiates funding based on student learning needs.**

State education aid for special education services should be differentiated based on student need. There is tremendous variation in the resources required to provide students with different disabilities and needs with a free appropriate public education, as required by IDEA. A state's special education finance system should recognize this variability in cost and attempt to differentiate the funding provided for students with disabilities accordingly. In general, as a student's learning needs increase, funding should increase.

#### ***Analysis of the governor's proposed system with this best practice:***

While the proposed system separates state special education funding from general operating funding, there is no explicit consideration of student need in this formulation. While districts with greater needs may require additional resources and may happen to receive additional state support, the proposed system is not explicitly responsive to student needs in a district. Instead, the proposed system reimburses districts for special education expenses based on a community's wealth, as measured by the adjusted equalized net grand list per capita (AENGLC) rank of the district.<sup>vii</sup> AENGLC is a measure of property wealth adjusted by the relative income wealth of a town.<sup>viii</sup>

#### ***How Connecticut can achieve this best practice:***

There are a variety of methods other states use to attempt to tie funding to special education learning needs. Whatever the method, the funding a special education student receives should be related to the services that student requires. The simplest method of ensuring each special education student receives the appropriate level of funding is to use a mechanism that reimburses districts for the actual costs associated with educating a special education student, while ensuring school districts continue to be incentivized to appropriately manage costs. Methods other states use to differentiate funding include systems that classify students based on model of service or, as a proxy, the hours required by the student's Individual Education Plan (IEP). (This is preferable to tying special education funding to a student's diagnosis, because two students diagnosed with the same disability can require very different services, depending on each student's unique needs.) Another possibility is to design a special education funding system that uses weights that increase funding as the costs of providing services increase.

**2. Distributes state funding for special education equitably.**

Whether part of a weighted student funding formula or existing as a separate funding stream, special education finance system should distribute resources equitably. As a general rule, lower-wealth districts should receive more state resources than higher-wealth districts to enable them to provide appropriate special education services.

***Analysis of the governor's proposed system with this best practice:***

The proposed new Special Education Grant reimburses towns based on their property wealth (adjusted for income wealth) per capita rank among towns in Connecticut. Therefore, towns with less wealth would receive a larger reimbursement percentage under this proposed grant. This structure is explicitly equitable. The town wealth rankings proposed for this reimbursement metric are currently used in determining the state support percentages for reimbursement under adult education, school construction, pupil transportation, and health services.<sup>ix</sup> While explicitly including equity is in support of this best practice, a fixed maximum reimbursement percentage of 53.93 percent results in an equity metric that may not respond to concentrated levels of poverty and need, as well as changes in poverty and need. It should also be noted that the minimum reimbursement percentage is set to zero. Therefore, under this proposal, one community is projected to not receive any state support for special education.

***How Connecticut can achieve this best practice:***

In any special education finance system, Connecticut should use an equity metric that properly scales state resources based on a local community's ability to pay for special education services.

**3. Provides school districts with state funding that is consistent and makes local expenses predictable.**

Currently, one of the most significant challenges faced by Connecticut school districts is that special education costs are unpredictable from year to year, making budget planning difficult for districts. A special education finance system should provide a mechanism for smoothing out the inconsistency and variability of special education costs in individual school districts.

***Analysis of the governor's proposed system with this best practice:***

The proposed system would neither ensure consistent state funding nor make local expenses predictable. While towns can understand that the state will contribute an approximate percentage of special education expenses per year, this mechanism is not reactive to local decision-making, and can be prorated if the total amount of funding requested for reimbursement exceeds available appropriations. In addition, this system does not aggregate special education costs, and does not separate funding for districts experiencing per student costs in excess of many multiples of average costs.

***How Connecticut can achieve this best practice:***

Special education costs should be aggregated, either at the state or regional level, to increase the total pool of students, which will have the effect of

“smoothing out” the inconsistency and variability of special education costs in individual school districts. Additionally, the special education finance system should allow districts to know what their local contribution to special education costs will be no later than the end of January of the prior school year so they can accurately account for special education costs as part of the open and transparent budgeting process.

#### **4. Controls costs.**

The special education finance system should give all districts a stake in appropriately controlling total special education costs, without incentivizing the under-identification or misdiagnosis of students with disabilities.

##### ***Analysis of the governor’s proposed system with this best practice:***

The governor’s proposed system does not give districts a stake in controlling total special education costs without incentivizing the under-identification or misdiagnosis of students with disabilities. The proposal does not include an incentive to control costs at the local level, as the reimbursement percentage mechanism is not reactive to local decision-making. In addition, the set percentage reimbursement may result in the misidentification of students as requiring special education services in order to classify the resources used to educate these students as special education expenditures, which would therefore be eligible for reimbursement by the state.

##### ***How Connecticut can achieve this best practice:***

In any special education funding system, districts should be allowed to retain in their budgets a portion of savings achieved through more efficient delivery of special education services. Additionally, the special education funding system should disincentivize the over-identification of students as having disabilities, by establishing a normal range for identification and classification, and requesting documentation from districts that fall outside of that range to ensure identification and classification rates accurately reflect the students being served.

#### **5. Provides school districts with flexibility and encourages innovation.**

School districts should be incentivized to experiment with new ways of providing special education services that result in the effective and efficient delivery of high-quality services.

##### ***Analysis of the governor’s proposed system with this best practice:***

The governor’s proposed system does not require specific amounts of resources be spent on special education, which allows for flexibility in service delivery. However, the proposed system does not provide incentives to local districts to partner with additional districts or regional service providers to innovate and reduce costs.

##### ***How Connecticut can achieve this goal:***

Districts should be provided with a flexible stream of special education funding that is not based on staffing ratios or other fixed service delivery models, which

this proposal achieves. While the governor's proposal achieves this, districts must also be given the freedom, necessary data, and resources to partner with other local education agencies, or service providers of their choosing, to help manage and reduce costs. Finally, districts should be allowed to retain in their budgets a portion of savings achieved through more efficient delivery of special education services.

**6. Limits local financial responsibility for students with extraordinary needs.**

In every state, a small percentage of students with disabilities have extraordinary needs that impose costs well above the average. State funding models must have a method of limiting local financial responsibility for providing students with extraordinary needs with a free appropriate public education.

***Analysis of the governor's proposed system with this best practice:***

The proposed system eliminates Connecticut's mechanism for limiting local financial responsibility for students with extraordinary needs. Instead, the reimbursement process will treat all special education cost types the same for the purposes of calculating the amount to be reimbursed by the state.

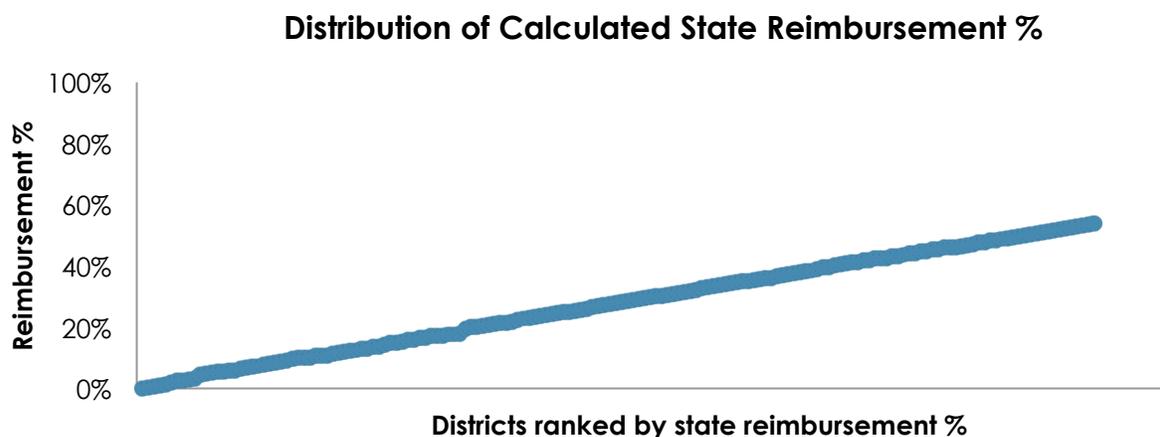
***How Connecticut can achieve this goal:***

Connecticut must have a method of limiting local financial responsibility for providing students with extraordinary needs with a free and appropriate public education. In order to achieve this goal, the special education finance system should have a fully-funded high-risk pool that reimburses local communities for these costs. An additional way for Connecticut to achieve this goal is for the state to implement a mechanism that reimburses district for actual special education costs and takes student need into account.

## Formula Equity Analysis

### Chart 1: Estimated Distribution of Calculated State Reimbursement Percentage

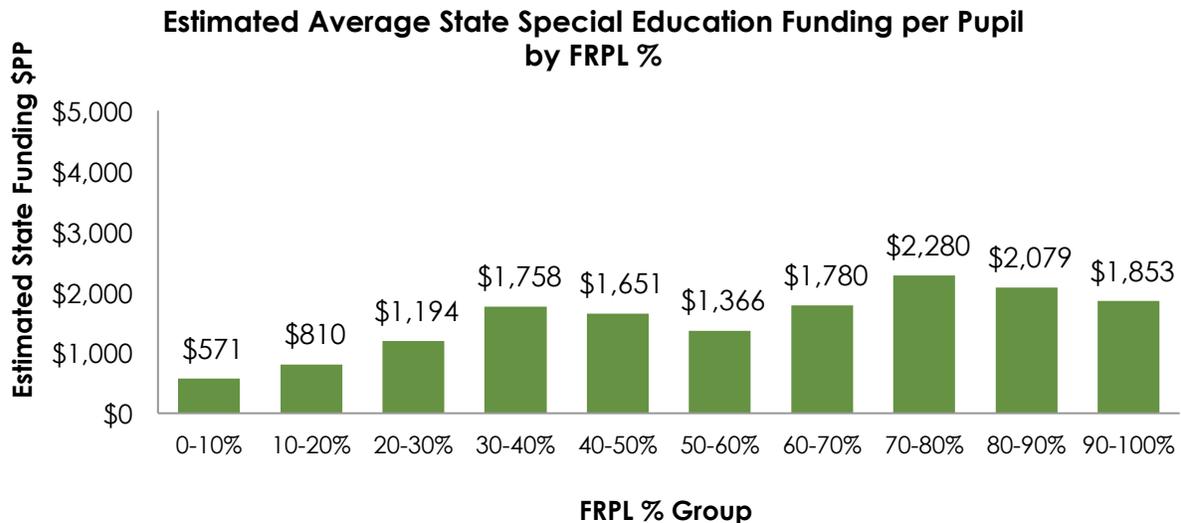
This chart displays the calculated state reimbursement percentage for each town under the proposed Special Education Grant. Districts with higher need and lower wealth will have larger reimbursement percentages, while districts with lower need and higher wealth will have smaller aid ratios. Each dot on the graph represents one district.



- Mean reimbursement percentage is estimated to be 27.6 percent, while the median reimbursement percentage is 28.1 percent.
- 11 districts are estimated to receive greater than 50 percent reimbursement under this formula.
- One district is estimated to receive 0 percent reimbursement in this formula.
- Hartford is estimated to receive the largest aid ratio (53.93 percent) under this ratio.
- The reimbursement percentages have a linear slope.

### Chart 2: Estimated Average State Special Education Funding per Pupil by FRPL Subgroup

This chart displays the relationship between the level of need in a town, as measured by the percentage of town students eligible for free or reduced price lunch, and the state funding per pupil allocated to that town under the proposed formula.<sup>x</sup> Each bar represents the towns that fall within a certain level of need. For example, the “30-40%” bar represents the average grant funding per pupil for all towns with free or reduced price lunch percentages between 30 and 40 percent. An equitable formula will provide more resources per student to districts with more need.



- Overall, estimated funding per pupil is distributed in an equitable manner.
- All subgroups are estimated to receive more than \$500 per student on average.
- Middle-need subgroups (30-60% FRPL) do not receive similar amounts of state funding per pupil.
- Highest-need subgroups do not receive the largest estimated funding per pupil.
- \$1,272 difference in average per pupil state funding from highest-need to lowest-need subgroup.

## **Appendix: Partial Reimbursement System Overview<sup>4</sup>**

The special education funding system contained in the governor's budget proposal is known as a Partial Reimbursement funding system. In Partial Reimbursement systems, districts report their special education expenses to the state and receive reimbursement for some portion of those expenses. Depending on the state, the reimbursement rate may be prescribed in statute, or it may be derived by prorating the total amount of money appropriated by the state so all districts receive the same percentage reimbursement for their expenses. In some cases, the size of the appropriation is insufficient to meet the statutory reimbursement percentage, and reimbursements are prorated regardless of the prescribed rate. Rates may also differ for different kinds of expenses, and there may be a cap on the total amount of outlays eligible for reimbursement. Partial Reimbursement systems are used by five states, as shown in Table 1.<sup>xi</sup> Three other states, detailed below in Table 2, incorporate Partial Reimbursements into a hybrid system of funding special education.<sup>xii</sup>

**Table 1: Five states use a Partial Reimbursement system.**

State
Kansas
Michigan
Nebraska
Wisconsin
Wyoming

**Table 2: Three states incorporate Partial Reimbursements into a hybrid system of funding special education.**

State	Approach 1	Approach 2
Illinois	Census	<b>Partial Reimbursement</b>
Minnesota	<b>Partial Reimbursement</b>	Multiple Student Weights
Vermont	<b>Partial Reimbursement</b>	Block Grant

<sup>4</sup> A more detailed description of Partial Reimbursement special education funding systems, as well as hybrid funding systems, can be found at the below source.  
Connecticut School Finance Project. (2016). *Improving How Connecticut Funds Special Education*, 18, 20. Available from <http://ctschoolfinance.org/reports/improving-sped>.

## Endnotes

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<sup>i</sup> Connecticut State Department of Education. (2016). *Individuals with Disabilities Education Act, 2016-17 State Maintenance of Effort*. Available from <http://ctschoolfinance.org/data/connecticuts-2016-17-state-maintenance-of-effort-for-the-individuals-with-disabilities-education-act-idea>.

<sup>ii</sup> Conn. Acts 16-2 (May Special Session).

<sup>iii</sup> Connecticut School Finance Project. (2016). *Memorandum Regarding Maintenance of Effort and Support Requirements Under the Individuals with Disabilities Education Improvement Act (IDEA) of 2004*. Available from <http://ctschoolfinance.org/reports/memorandum-regarding-maintenance-of-effort-and-support-requirements-under-the-individuals-with-disabilities-education-improvement-act-idea-of-2004>.

<sup>iv</sup> Connecticut State Department of Education, Finance and Internal Operations Office, Bureau of Grant Management. (2016). *End of Year School Report (ED001) Instruction Manual, School Year 2015-16*. Retrieved from [http://www.sde.ct.gov/sde/lib/sde/PDF/dgm/formsinst/ed001/ed001\\_2016ins.pdf](http://www.sde.ct.gov/sde/lib/sde/PDF/dgm/formsinst/ed001/ed001_2016ins.pdf).

<sup>v</sup> Conn. Gen. Statutes ch. 164, § 10-76f (2005).

Net cost of special education is the total expenditure for special education personnel, equipment, materials, tuition, transportation, rent, and consultant services, less the following items:

1. The total amount of any funds from other state or federal grants, private grants, or special education tuition received by the board or town in such year and used to implement special education programs approved pursuant to said section.
2. The total amount of any funds from Medicaid payments expended by the board in such year and used to implement special education programs.
3. Expenditures for special education provided to children who have extraordinary learning ability or outstanding talent in the creative arts, the development of which requires programs or services beyond the level of those ordinarily provided in regular school programs but which may be provided through special education as part of the public school program.

<sup>vi</sup> Connecticut School Finance Project. (2016). *Improving How Connecticut Funds Special Education*. Available from <http://ctschoolfinance.org/reports/improving-sped>.

<sup>vii</sup> Connecticut State Department of Education, Bureau of Grants Management. (2017, January 4). *Adjusted Equalized Net Grand List per Capita (AENGLC) Wealth*. Available from <http://www.sde.ct.gov/sde/cwp/view.asp?a=2635&q=320578>.

AENGLC is defined as a combination of property tax base per person and income per person. Property tax base is used because it is the form of wealth taxed by Connecticut's towns. Per Capita Income (PCI) is used because the income from which taxes are paid has an important effect on town taxing capacity. ENGL is the Equalized Net Grand List, which represents the value of taxable real and personal property (net grand list) at 100 percent fair market value. Within the Connecticut State Department of Education, AENGLC, more specifically AENGLC rank, is used in determining the state support percentages for reimbursement under adult education, school construction, pupil transportation, and health services. The AENGLC calculation is defined in Section 10-261(a)(5) of the Connecticut General Statutes.

<sup>viii</sup> Ibid.

<sup>ix</sup> Ibid.

<sup>x</sup> Connecticut State Department of Education. (2016). *CT Public School Enrollment\_2000.mdb*. Available from <http://ctschoolfinance.org/data/connecticut-school-enrollment>.

<sup>xi</sup> Connecticut School Finance Project. (2016). *Improving How Connecticut Funds Special Education*. Available from <http://ctschoolfinance.org/reports/improving-sped>.

<sup>xii</sup> Ibid.