

Special Education Funding Update

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Special Education Directors' Forum
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Topics for Discussion

- Using Federal Funds for Fringe Benefits to Maximize State Aid under Current Law and Minimize Cross Subsidies
- Review Governor's Special Education Funding Recommendations
- Analyze Governor's Recommendation vs Full Funding of Current Formula and Other Funding Options
- Questions & Answers

Uses of Federal Funds

- **Must be used to *supplement not supplant* state and local funds.**
 - Before 1992, this was applied to specific line items.
 - IDEA Regulations changed in 1992: as long as an LEA meets Maintenance of Effort (MOE) requirements, it can replace state funding with federal funding for specific line items.
 - More recently, during the ARRA funding period, US DOE clarified that LEAs can use federal funds for fringe benefits of staff whose salaries are funded with state and local funds.

Uses of Federal Funds

- In reviewing projected data for the proposed new Special Education funding formula, we learned that there are wide variations in how LEAs currently use their federal special education aid.
- Some LEAs are maximizing their state revenue and reducing the district's cross subsidies by using nearly all of their federal special education aid for costs that are not eligible for state special education aid (e.g., fringe benefits).
- These LEAs showed a smaller increase under the Governor's proposal than other LEAs because they currently have a higher percent of their special ed costs funded, and have fewer fringe benefits that would be funded with state aid under the Governor's proposal because those benefits are funded with federal aid.

Uses of Federal Funds

- Other LEAs are using a significant portion of their federal aid for salary and contracted services costs that would be eligible for state special education aid.
- These LEAs could significantly increase their state aid and reduce their cross subsidy by shifting reimbursable expenditures to state aid and using all of their federal special education aid for costs that are not eligible for state special education aid (e.g., fringe benefits).
- In FY 2012, LEAs used federal funds for \$51 million of expenditures that would have been reimbursable under state. If these costs had been claimed for state aid, gross state aid before the statewide adjustment factor would have increased by \$34 million.

FY 2012 Federal Aid Used for Expenditures that Would be Reimbursable Under State

	ADM	Coop costs Allocated to Participating Districts	As Reported	Amount per ADM
TOTAL	839,688	50,923,078	50,923,061	61
MPLS & ST PAUL	72,860	8,283,728	8,256,350	114
OTHER METRO, INNER	85,734	6,153,516	6,145,854	72
OTHER METRO, OUTER	260,086	9,741,956	9,634,185	37
NONMET >=2K	183,837	12,984,315	11,215,033	71
NONMET 1K-2K	92,666	5,366,148	2,605,964	58
NONMET < 1K	85,662	5,871,947	2,498,539	69
CHARTER	46,079	2,379,953	2,379,953	52
ALL OTHER	0	13,055	7,254,811	n/a

Maximizing State Aid

- **To maximize your state special education aid and reduce your cross subsidy:**
 - **Within your entitlement of federal funds:**
 - All salaries eligible for state funding, but currently paid with federal funds, can be moved to state.
 - Take that sum of the salaries moved from federal to state and pay the benefits of state funded salaries with federal.

A Reminder

- **Federal aid cannot be used to cover unreimbursed cost for expenditures partially funded with state categorical funds:**
 - e.g., staff salaries, contracts, supplies, equipment
 - using federal funds to “backfill” costs partially funded with state aid would be “double dipping.” (Only the portion of an expenditure not funded with federal funds is eligible to be claimed for state aid.)

Impact on Statewide Adjustment Factor and Cap Gap

- For the February 2013 budget forecast, MDE is assuming that all LEAs will reallocate costs between federal and state so as to maximize their state aid.
- Because state total special education aid is capped, as more districts maximize their state aid, the statewide adjustment factor will go down, and the cap gap (cost of fully funding the formula) will go up.
- Therefore, MDE estimates that the cap gap will increase from \$94 million in FY 2011 to about \$131 million in FY 2015.

Governor's Special Education Funding Recommendations

1. Increase state special education aid by \$151 million (13.9 %) for FY 2015, reducing the cross subsidy by an average of \$182 per student.
2. Eliminate the cap on state special education funding
 - Funding increase over current law will grow to \$157 million for FY 2016 and to \$163 million for FY 2017
3. All non-federal special education costs would be eligible for state special education funding

Governor's Special Education Funding Recommendations

4. Special Regular and Excess cost aid would be computed using prior year data
5. Special Education Regular and Excess cost aid would be paid directly to coops and intermediates, reducing reliance on tuition billing and improving cash flow for coops and intermediates
6. Special education-regular aid would equal the lesser of:
 - 70% of nonfederal special education expenditures, or
 - 50% of the amount computed using a student-based formula. Part of the student-based funding would be allocated based on total district enrollment and poverty, and part would be allocated based on child count by primary disability.

Governor's Special Education Funding Recommendations

7. All non-federal special education costs not covered through the special education-regular formula would be funded through the excess cost formula, which would be fully funded.

8. Excess cost aid would equal 75% of the difference between non-federal special education cost, and the sum of:
 - State special ed regular aid,
 - General education revenue attributable to instruction for students served >60% of time outside the regular classroom, for the portion of time outside the regular classroom (as currently used for tuition billing)
 - 5.48% of general education revenue

Governor's Special Education Funding Recommendations

9. Serving district or charter school would be responsible for 10% of UNREIMBURSED special education costs for open enrolled students, and resident district would be responsible for 90% of UNREIMBURSED special education costs for these students.
 - Exception: charter schools with >70% of students in special education, coops and intermediates would continue to have 100% of costs covered.

10. School districts are guaranteed to receive at least as much special education aid in FY 2015 as they would have received under the old formula. Charter schools will have reductions due to the 90-10 tuition change.

Governor's Special Education Funding Recommendations

11. Student-based formulas included in regular aid calculation would be adjusted annually for inflation using CPI.
12. MDE would annually review and publish data used for the student driven portion of formula, and would provide options for updating the formulas to the Legislature by January 15 of each odd-numbered year

Governor's Special Education Funding Recommendations

Details of Student-Driven Funding Calculations

Special education initial aid equals the sum of:

(1) the lesser of 70 percent of the district's nonfederal special education expenditures for the prior fiscal year or 50 percent of the product of the sum of the following amounts, computed using prior fiscal year data, and the annual inflationary increase:

- (i) the product of the district's average daily membership served and the sum of:
 - (A) \$438; plus
 - (B) \$305 times receive free lunch plus one-half of reduced lunch count as percent of total enrollment, plus
 - (C) .00436 times the district's ADM; plus

Governor's Special Education Funding Recommendations

Details of Student-Driven Funding Calculations

(ii) \$10,236 times the December 1 child count* for the primary disability areas of autism spectrum disorders, developmental delay, and severely multiply impaired; plus

(iii) \$17,736 times the December 1 child count for the primary disability areas of deaf and hard-of-hearing and emotional or behavioral disorders; plus

(iv) \$26,180 times the December 1 child count for the primary disability areas of developmentally cognitive mild-moderate, developmentally cognitive severe-profound, physically impaired, visually impaired, and deafblind; plus

(2) the cost of providing special transportation services.

*Note: the December 1 count is a served count rather than a resident count

Increase in FY 2015 State Total Aid Entitlement and Payments Current Formula Uncapped vs Governor \$ in Millions

FY 2015 Increase			Gov Over
\$ in Millions	Current Formula- No Cap	Governor	Current Formula-No Cap
Increase in State Aid Entitlement over Current Law	131	151	20
November Forecast:			
Current Payments @ 82.5%	108	125	17
Final Payments @ 17.5%	23	26	4
February Forecast:			
Current Payments @ 86.4%	113	130	17
Final Payments @ 13.6%	18	21	3

Increase in FY 2015 Aid Entitlement by Strata

Current Formula Uncapped vs Governor

FY 2015 Aid Estimates	Net Aid After Tuition Adjust		
		Increase over Current	
	Current Law	Current Formula-No Cap	Governor
TOTAL	1,088,802,001	131,101,225	151,190,915
MPLS & ST PAUL	117,230,340	22,322,689	20,347,099
OTHER METRO, INNER	81,046,167	13,829,331	20,409,501
OTHER METRO, OUTER	299,282,502	43,214,434	60,595,285
NONMET >=2K	216,668,893	27,984,289	31,207,884
NONMET 1K-2K	82,535,870	13,520,718	12,854,274
NONMET < 1K	79,237,020	10,522,957	9,034,899
CHARTER	80,736,142	0	(2,706,084)
ALL OTHER	131,056,421	0	38

Cross Subsidies

Current Law vs Current Formula Uncapped vs Governor

	Cross Subsidy	Cross Subsidy Reduction		Cross Subsidy per ADM	
	per ADM	Current		Current	
	Current	Formula		Formula	
	Law	No Cap	Governor	No Cap	Governor
TOTAL	829	159	182	671	647
MPLS & ST PAUL	1,365	306	279	1,059	1,086
OTHER METRO, INNER	1,011	161	238	850	773
OTHER METRO, OUTER	929	166	233	763	696
NONMET >=2K	757	152	170	605	588
NONMET 1K-2K	678	146	138	532	540
NONMET < 1K	650	123	99	527	551
CHARTER	(0)	(0)	(59)	(0)	59

Fiscal Impact of Individual Components of Governor's Proposal

The Governor's Proposal includes several changes:

- Overall funding Increase
- 90-10 Sharing of Unfunded Cost between Resident and Serving Districts
- Direct Payment to Coops
- Prior Year Data
- Including All Nonfederal Costs (e.g., fringe benefits)
- Student-based funding component

Fiscal Impact of Individual Components of Governor's Proposal

To assess the individual impact of these factors, changes from current law were added one at a time, and cross subsidies by strata recalculated at each step.

How do each of these changes affect different types of districts?

Individual Change Analysis

Step 1: Uncapping the Current Formula

Cost = \$131 Million	Current Law Cross Subsidy per ADM	Change from Fully Funding	Remaining Cross Subsidy per ADM
TOTAL	829	159	671
MPLS & ST PAUL	1,365	306	1,059
OTHER METRO, INNER	1,011	161	850
OTHER METRO, OUTER	929	166	763
NONMET >=2K	757	152	605
NONMET 1K-2K	678	146	532
NONMET < 1K	650	123	527
CHARTER	(0)	(0)	(0)

Individual Change Analysis

Step 2: 90-10 Tuition Billing

	Uncapped Current Law Cross Subsidy per ADM	Change from 90-10 Tuition Billing	Remaining Cross Subsidy per ADM
TOTAL	671	-	671
MPLS & ST PAUL	1,059	15	1,043
OTHER METRO, INNER	850	1	849
OTHER METRO, OUTER	763	1	762
NONMET >=2K	605	3	602
NONMET 1K-2K	532	2	530
NONMET < 1K	527	3	524
CHARTER	(0)	(51)	51

Individual Change Analysis

Step 3: Payment to Coops

	Uncapped Current Law 90-10 Tuition	Change from Pay to Coops	Remaining Cross Subsidy per ADM
TOTAL	671	(0)	671
MPLS & ST PAUL	1,043	(30)	1,074
OTHER METRO, INNER	849	14	835
OTHER METRO, OUTER	762	2	760
NONMET >=2K	602	(5)	608
NONMET 1K-2K	530	(2)	531
NONMET < 1K	524	1	523
CHARTER	51	(2)	53

Individual Change Analysis

Step 4: Prior Year Data

	Uncapped Current Law 90-10 Tuition, Pay Coops	Change from Prior Year Data	Remaining Cross Subsidy per ADM
TOTAL	671	(0)	671
MPLS & ST PAUL	1,074	(31)	1,104
OTHER METRO, INNER	835	(2)	837
OTHER METRO, OUTER	760	(10)	770
NONMET >=2K	608	2	605
NONMET 1K-2K	531	22	509
NONMET < 1K	523	28	495
CHARTER	53	(4)	56

Individual Change Analysis

Step 5: Include All Non-Federal Costs

Regular Formula=50% of Non federal sp ed cost + 100% of special Transp cost. Excess cost formula based on 75% of unfunded costs with 5.87% of gen ed deduct. Cost = \$154 M	Uncapped Current Law 90-10 Tuition, Pay Coops, Prior Yr Data	Change from Including all Non-Fed Costs	Remaining Cross Subsidy per ADM
TOTAL	671	28	643
MPLS & ST PAUL	1,104	59	1,045
OTHER METRO, INNER	837	89	748
OTHER METRO, OUTER	770	100	670
NONMET >=2K	605	1	605
NONMET 1K-2K	509	(71)	580
NONMET < 1K	495	(82)	577
CHARTER	56	(6)	62

FY 2012 Non-Federal Sp Ed Expenditures (Excluding Transition, ADSIS, Transportation)

	Reimbursable	Nonreimbursable	Percent Reimb.	Percent Nonreimb.
TOTAL	1,115,809,847	302,481,497	78.7%	21.3%
MPLS & ST PAUL	134,694,275	42,886,726	75.8%	24.2%
OTHER METRO, INNER	100,716,324	32,841,365	75.4%	24.6%
OTHER METRO, OUTER	334,843,420	98,154,962	77.3%	22.7%
NONMET >=2K	231,710,389	61,415,449	79.0%	21.0%
NONMET 1K-2K	101,661,819	19,454,183	83.9%	16.1%
NONMET < 1K	97,379,017	17,513,027	84.8%	15.2%
CHARTER	42,854,092	8,655,496	83.2%	16.8%
ALL OTHER	71,950,511	21,560,289	76.9%	23.1%

Individual Change Analysis

Step 6: Include Student-Based Funding Component

Governor's Proposal. Cost = \$151 M	Uncapped Current Law 90-10 Tuition, Pay Coops, Prior Yr Data, Include All Non-Fed Cost	Change from Including Student - Based Funding Component	Remaining Cross Subsidy per ADM
TOTAL	643	(4)	647
MPLS & ST PAUL	1,045	(40)	1,086
OTHER METRO, INNER	748	(25)	773
OTHER METRO, OUTER	670	(27)	696
NONMET >=2K	605	17	588
NONMET 1K-2K	580	40	540
NONMET < 1K	577	26	551
CHARTER	62	3	59

Summary of Governor's Proposal vs Current Law

Governor's Proposal. Cost = \$151 M	Current Law Cross Subsidy per ADM	Governor Cross Subsidy per ADM	Proposed Cross Subsidy Reduction	Proposed Percent Reduction in Cross Subsidy
TOTAL	829	647	182	22.0%
MPLS & ST PAUL	1,365	1,086	279	20.5%
OTHER METRO, INNER	1,011	773	238	23.5%
OTHER METRO, OUTER	929	696	233	25.1%
NONMET >=2K	757	588	170	22.4%
NONMET 1K-2K	678	540	138	20.3%
NONMET < 1K	650	551	99	15.3%
CHARTER	(0)	59	(59)	n/a

District By District Spreadsheet

FY 2015 Funding Estimates

- Report 1: Current Law Funding
- Report 2: Current Formula – Fully Funded
- Report 3: Governor’s Recommendation
- Report 4: Comparison of Funding Options
- Report 5: Reimbursable and Nonreimb Expenditures (FY 12)
- Report 6: Cross Subsidies, Various Scenarios
- (Note: Other tabs provide backup data used for slides)

Questions?

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