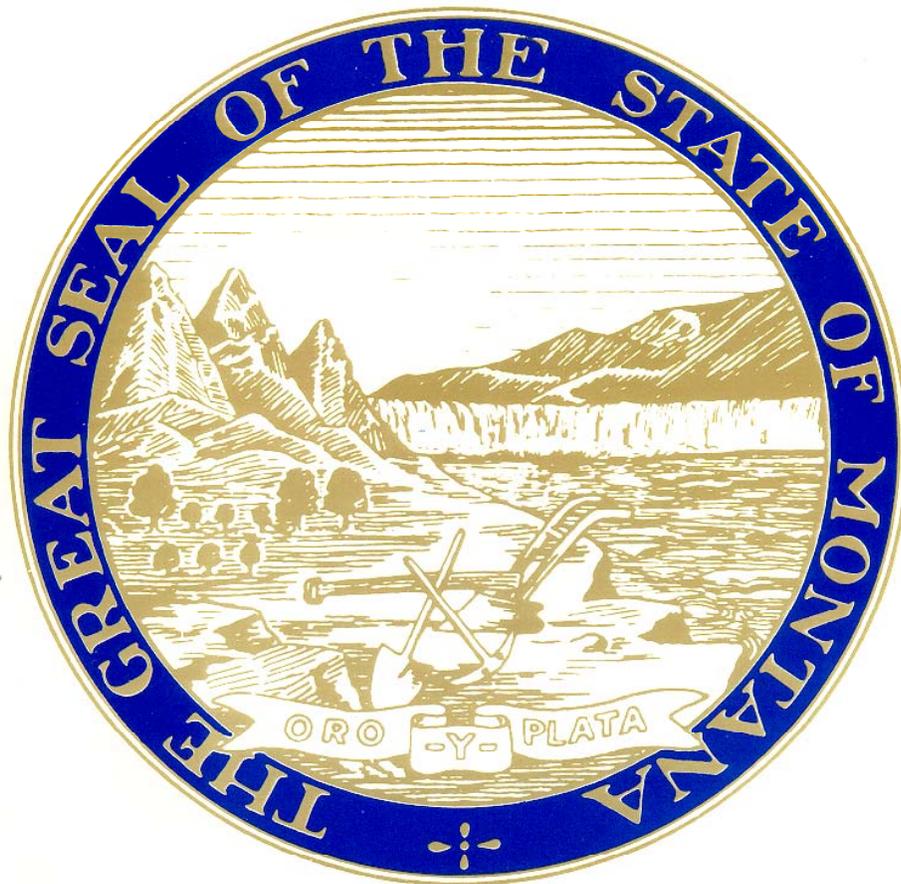


**MONTANA K-12 PUBLIC SCHOOL RENEWAL
COMMISSION
SEPTEMBER 8, 2003
SPECIAL EDUCATION FINANCE**

September 2003



**Linda McCulloch
Superintendent**

Office of Public Instruction

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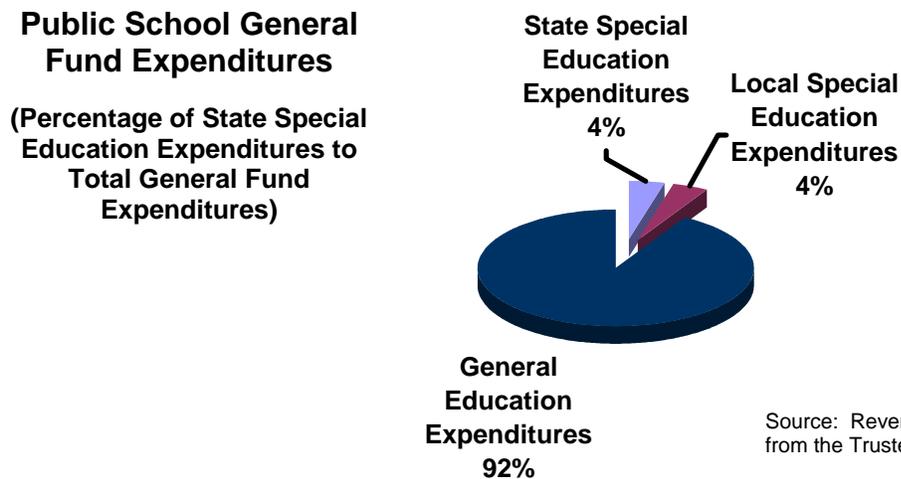
Table of Contents

The Special Education/General Education Interface.....	1
Chart: Public School General Fund Expenditures.....	1
Special Education Funding Formulas.....	2
Population of Students Served.....	3
Chart: Special Education Child Count	3
Chart: Total Student Enrollment	4
Chart: Percentage of Special Education Students To The Total Student Enrollment	4
Chart: Percentage of Children Served Under IDEA, Part B, by Age Group, During the 1999-2000 School Year	5
Student Identification by Disability.....	6
Chart: Disabilities by Percentage of Total Number of Students with Disabilities – 2002-2003 School Year.....	6
Funding Distribution	7
State Special Education Appropriation for 2002-2003 School Year	7
Chart: State Entitlement for 2002-2003 School Year	7
Instructional Block Grants and Related Services Block Grants.....	8
Chart: Instructional Block Grant Rates	8
Chart: Related Services Block Grant Rates.....	8
Reimbursement of Disproportionate Costs	9
Chart: Total Disproportionate Reimbursement by Year	9
Chart: Numbers of School Districts Receiving Reimbursement for Disproportionate Costs by Year	9
Expenditures of State, Federal, and Local Funds Comparison by Year	10
Chart: Comparison by School Year 1990 through 2002	10
Chart: Percentages of Federal, State, and Local Funds Covering Total Costs of Special Education.....	11
The General Fund	12
Chart: Comparison Between State Share of Expenditures for Special Education Students and State Share of Budget for All Students.....	12

THE SPECIAL EDUCATION/GENERAL EDUCATION INTERFACE

Special education funding formulas have been an issue of controversy across the country for the last 20 years. States have addressed the issue of the relative amount of state support of Special Education, as well as the method of distributing that funding in a manner that is unique to each state. While requests from schools and legislators have often driven the changes to the distribution of state special education funding, the impetus for change has occasionally come from court action. The variability between states in the method of distribution of special education funds is influenced by differences in values, as well as differences in the way the state supports public education in general.

The pie chart below represents the relative proportion of the average Montana public school district's general fund expenditures devoted to providing special education services. Ninety-two percent of a district's general fund expenditures are spent for general education. The first sliver represents a district's general fund expenditures for special education using state special education funds. The second sliver represents a district's local general fund expenditures spent for special education services that meet the definition of "allowable special education costs." The intent of the chart is to give the reader a perspective on the proportion of district general fund expenditures devoted to the provision of special education services.



Source: Revenues and Expenditures for FY2002 from the Trustees' Data submitted by school districts.

General education funding and special education funding are closely connected. The interface between the funding of special education and general education is due to the respective influence that each system has on the other and due to the simple fact that the vast majority of students with disabilities spend the greatest proportion of their time in general education. Furthermore, the definition of special education allowable costs establishes whether the expenditures are determined to be for "special education" or "general education." For example, in the late 1970s, Montana included the cost of heat and light and building depreciation for the square footage of the special education classroom space as well as the school administrator's time spent in special education

meetings as allowable special education expenditures. These costs (and other costs) are no longer considered special education allowable costs.

The interface between special education and general education is also influenced by the determination of whether a student is eligible for special education. While many people believe that disability determination is a medically based decision and, therefore, is clear-cut, the reality is that the decision is anything but clear-cut. Many children receiving special education services have medically recognizable physical and mental disabilities. However, most often children are determined to be eligible for special education based largely on educational need and the relative availability of district resources (general education and federal programs, such as Title I) to meet the child's need. For this reason (and other reasons) there is considerable variability between schools in the rate of identification of students eligible for special education. This variability even exists between states. For example, Rhode Island's rate of identification of students with disabilities is almost twice the rate of Arizona. Thus, a student with educational needs and the corresponding costs of meeting those needs in one State may be considered a "general education responsibility" while in another state may be considered a "special education responsibility."

SPECIAL EDUCATION FUNDING FORMULAS

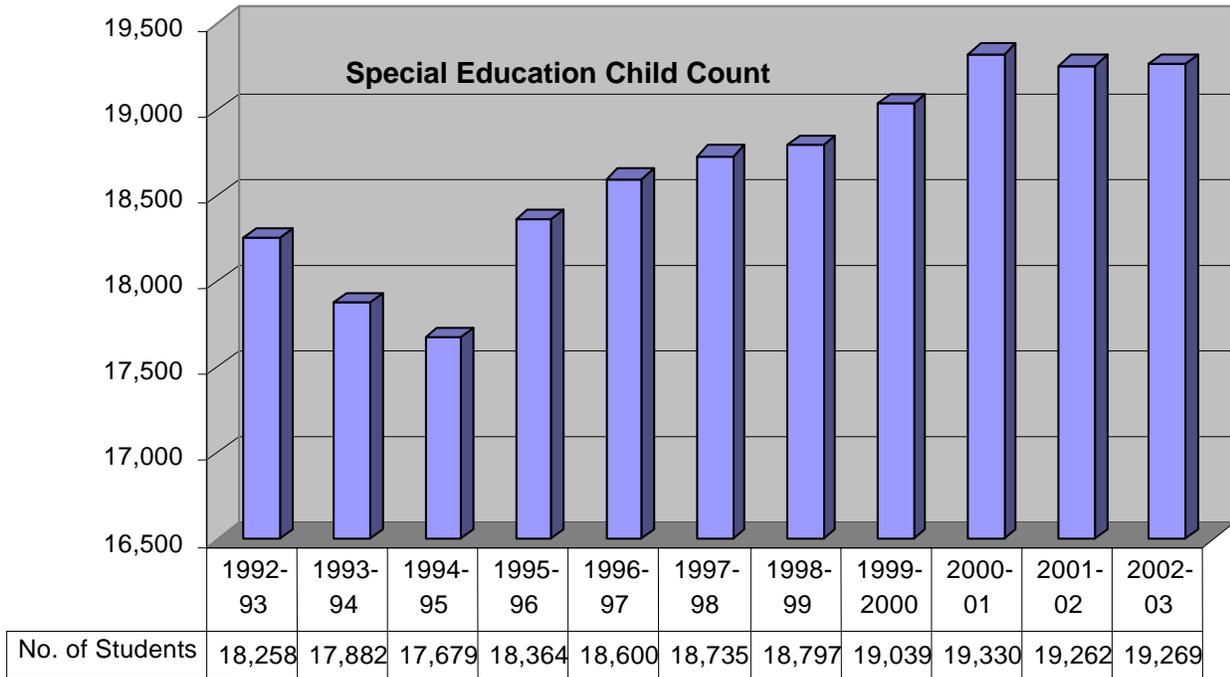
The Center on Special Education Finance (CSEF), <http://csef.air.org/>, has recently completed a major study of the costs of special education. The CSEF Web site has extensive information available on state special education funding formulas and costs. The Center is an excellent source for comprehensive information on special education costs and state funding formulas, including summary reports on every state's approach to financing special education.

In general, the costs of educating a student with disabilities (including the time the student with disabilities spends in general and special education) run approximately twice the cost of educating a student without disabilities. This cost rate difference is fairly stable based on research done in the last two decades.

Wide variability exists between states in the method of distributing state special education funds. Montana's method of distribution relies largely on a block grant system based on total district enrollment with reimbursement for high costs. Some states use methods of distribution based on the numbers of students receiving special education services, giving added weight to the count of students whose disabilities are generally considered high cost. Some states distribute their special education funds as a reimbursement of the prior year's expenses. Each method of distribution produces its own consequences and trade-offs. Of the states that have most recently revised their funding formulas, the direction of change appears to be consistent with Montana's approach, which principally relies on distribution based on total district enrollment.

POPULATION OF STUDENTS SERVED

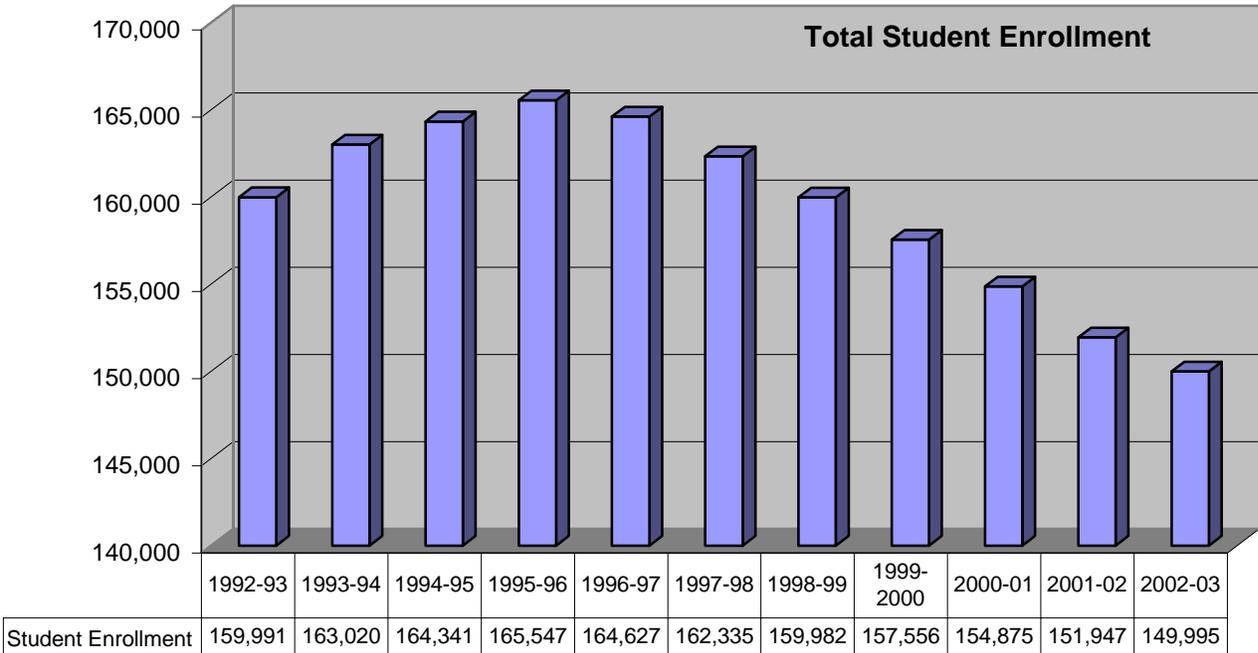
Public schools must make available special education and related services to all IDEA-eligible students with disabilities beginning at age three and through age 18. Services to students 19, 20, and 21 are permissive. That is, the decision to serve 19, 20 and 21-year-old students is determined by the policies of the school district board of trustees (20-5-101(3) MCA, and ARM 10.16.3122[2]).



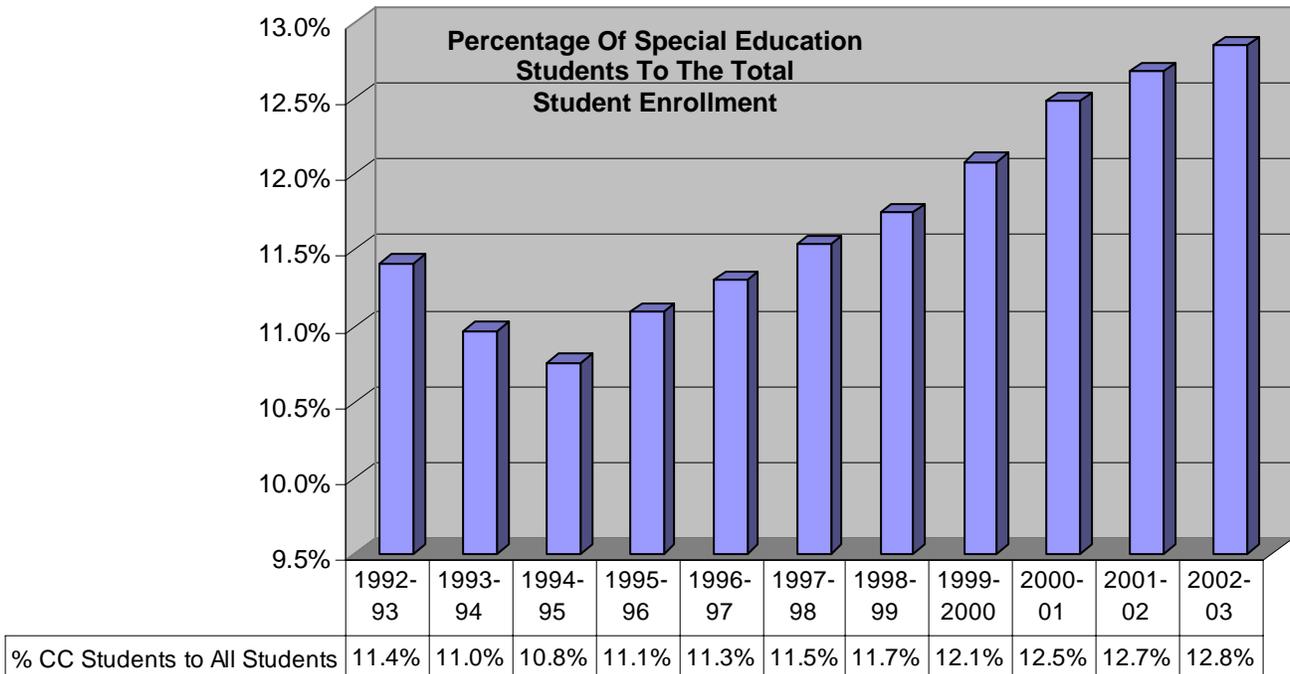
Source: Child Count Data Files (Access/Division/Special Education/ChildCount91-01 and Access/Division/Special Education/SQLCC/ChildCount)

Students with disabilities receive a wide range of services, including individualized instruction, assistive technology, and related services such as speech-language therapy, occupational therapy, physical therapy and/or transition services. Both the type and the extent of services a student receives are individually determined based on the educational needs of the student.

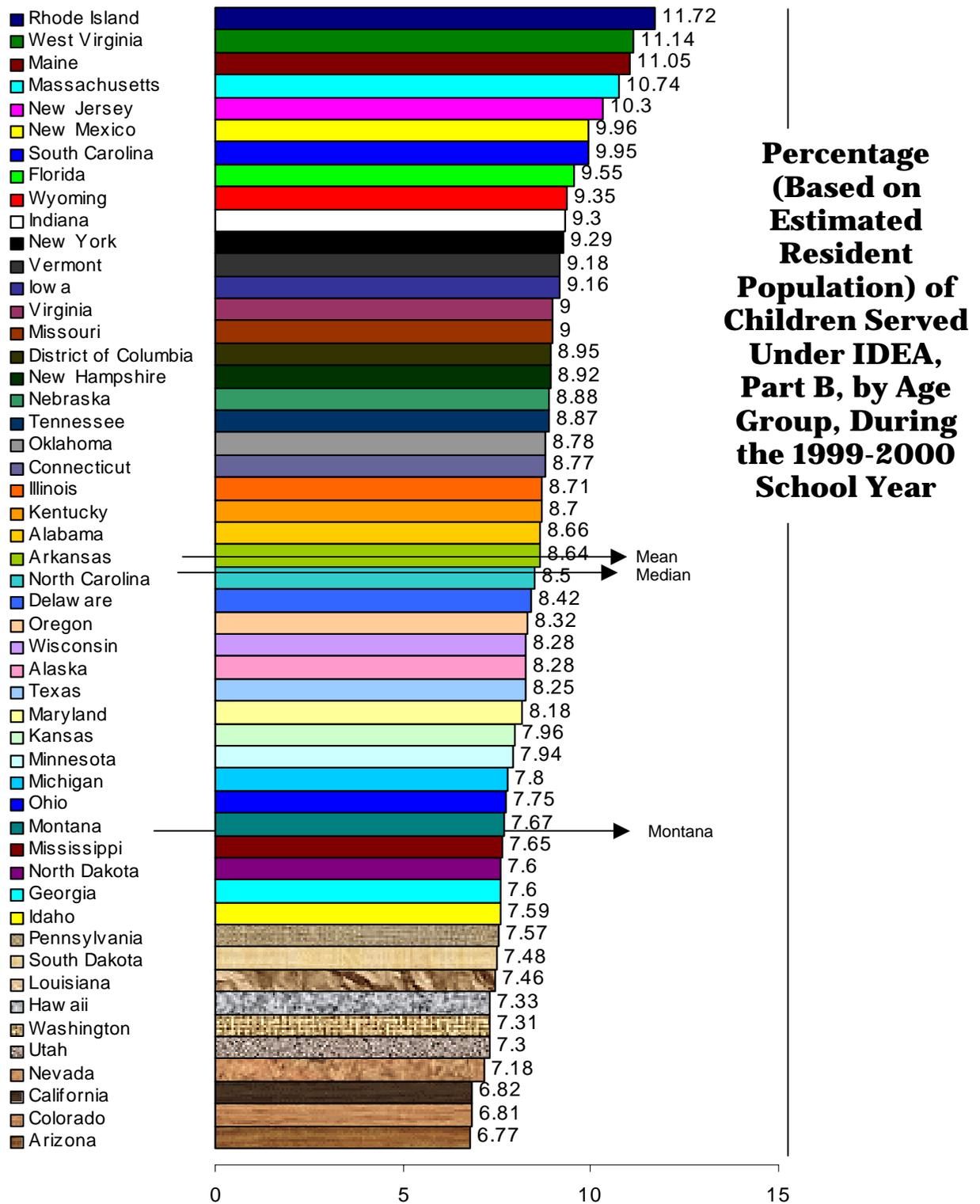
Montana's Child Count (term used for the collection of student special education data) grew slightly, but steadily, between school year 1995-96 and school year 2000-01. There was a small decrease in Child Count during the 2001-02 school year. On December 2, 2002, there were 19,269 students reported on Child Count as receiving special education services. These increases in Child Count occurred at the same time that total student enrollment declined. Because of declining enrollment at the same time special education Child Count has grown, the proportion of students served by special education has increased to 12.8 percent.



Source: Montana Public School Enrollment Data, Fall 2002-2003 (Published yearly by OPI)



Montana ranks below the mean in the percentage of students served under IDEA according to the 21st Annual Report to Congress.



Source: Twenty-third Annual Report to Congress on the Implementation of the Individuals with Disabilities Education Act, US Department of Education 2001. (Resident Population data are provided from the Population figures are July estimates from the US Census Bureau.) Mean is the average percentage (8.56%). Median is the middle point of the chart.

Student Identification by Disability

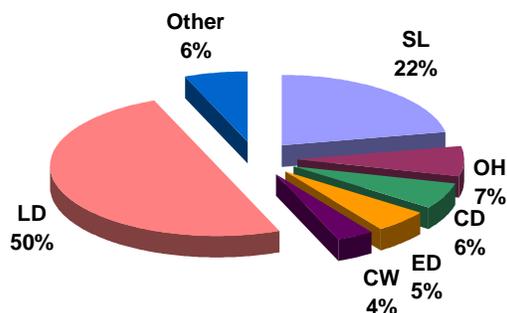
Approximately 50 percent of all students receiving special education services have their primary disability identified as learning disabled. Approximately 22 percent of students receiving special education services have speech-language impairment identified as their primary disability. These two categories represent almost three-quarters of all students receiving special education services.

There has been a dramatic increase in the child count category of other health impairment. The number of students identified in this disability category grew from 177 students on December 1, 1989, to 1,356 students reported on the December 2, 2002, Child Count. This growth is likely due to a United States Department of Education, Office of Special Education Programs, policy letter issued in the early 1990s stating that children with attention deficit disorder could qualify for special education under the category of other health impairment. Federal Regulations that were finalized in March of 1999 specifically listed attention deficit disorder and attention deficit hyperactivity disorder in the definition for the disability term of other health impairment.

The number of students identified as having Autism has increased substantially over the last 10 years.

While autism is considered a low-incidence disability category, the cost to address the needs of a child with autism is high. Nationally, the number of students reported under this category rose 21 percent, from 54,062 in 1998-99 to 65,424 in 1999-2000 (Source: Twenty-Third Annual Report to Congress on the Implementation of the Individuals with Disabilities Education Act, Pg II-23). In Montana, the increase over those same two years was at 12 percent. In the first year that autism was identified as a specific disability by Montana (school year 1991-92), two students were identified. The following year, 20 students were identified as having autism. In school year 2002-03, there were 242 students identified as having autism.

Disabilities by Percentage of Total Number of Students with Disabilities – 2002-2003 School Year



**DISABILITY ABBREVIATIONS
And Student Count for the
2001-02 school year**

LD	Learning Disability - 9613
SL	Speech-Language Impairment - 4237
OH	Other Health Impairment - 1356
CD	Cognitive Delay - 1152
ED	Emotional Disturbance - 1012
CW	Child with Disabilities - 707
Other	Total - 1192
MD	Multiple Disabilities - 539
AU	Autism - 242
HI	Hearing Impairment - 132
OI	Orthopedic Impairment - 81
TB	Traumatic Brain Injury - 72
VI	Visual Impairment - 65
DE	Deafness - 54
DB	Deaf-Blindness - 7

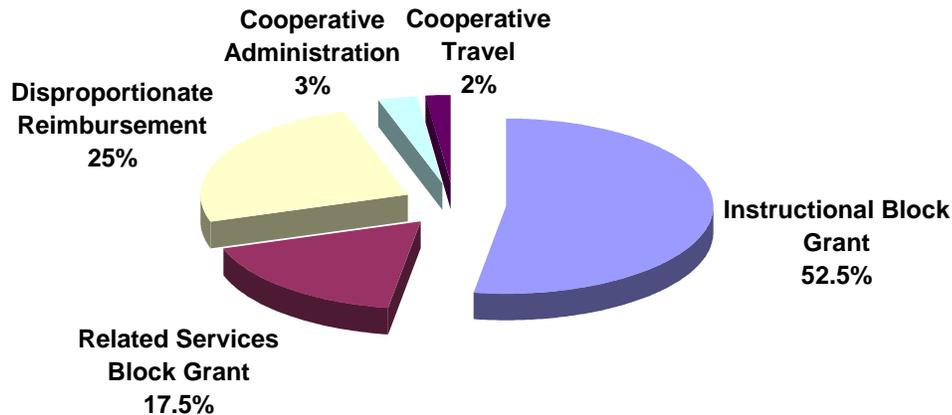
Source: Special Education Child Count conducted on December 2, 2002
Access/Division/SpecialEducation/SQLCC\ChildCount

FUNDING DISTRIBUTION

State Special Education Appropriation for 2002-2003 School Year

Montana's special education funding structure distributes state appropriations, in accordance with 20-9-321, MCA, based on a combination of total school enrollment and expenditures. Seventy percent of the appropriation is distributed through block grants (instructional block grants and related services block grants), that are based on enrollment. Twenty-five percent is distributed through reimbursement for disproportionate costs, that are based on expenditures. The remaining 5 percent is distributed to special education cooperatives to cover costs related to travel and administration.

State Entitlement for 2002-2003 School Year



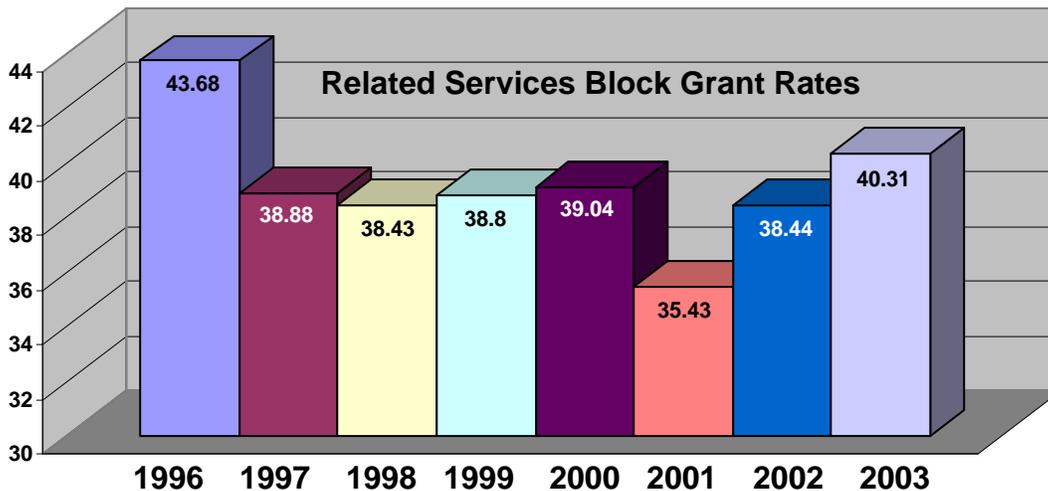
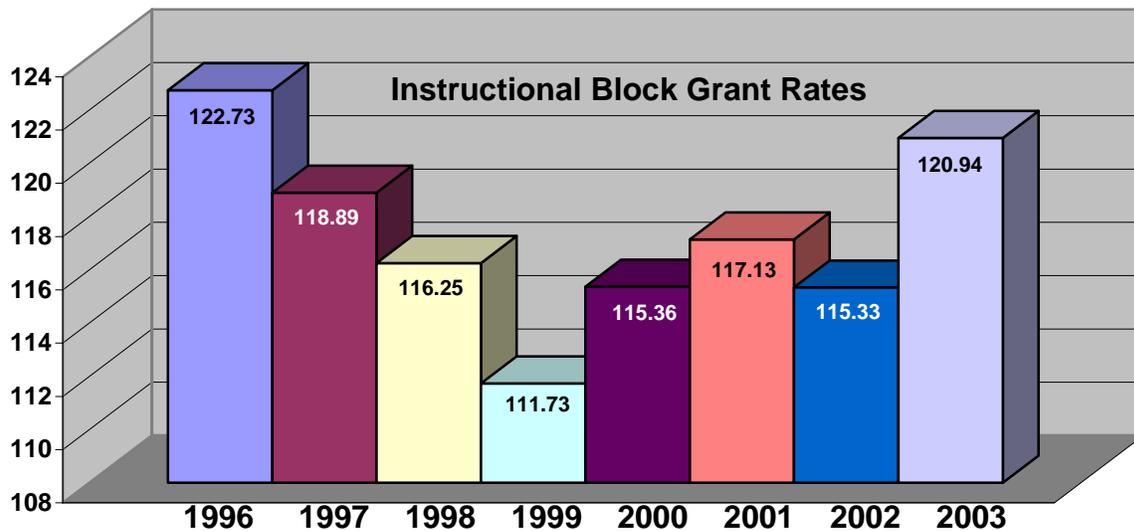
Instructional Block Grant	18,313,460
Related Services Block Grant	6,103,982
Disproportionate Reimbursement	8,721,910
Cooperative Administration	1,046,629
Cooperative Travel	697,753
TOTAL	34,883,734

Source: Final Special Education Cooperative Allowable Cost Funding Report (Prd\Maefairs\MaefairsCode.mde, rptSpecialEducationCoop) and Final Special Education Summary (Prd\Maefairs\MaefairsCode.mde, rptSpecialEducationSummary)

Note: The total payment to schools is less than the total appropriation. A small amount of the appropriation is withheld to compensate for adjustments to ANB.

Instructional Block Grants and Related Services Block Grants

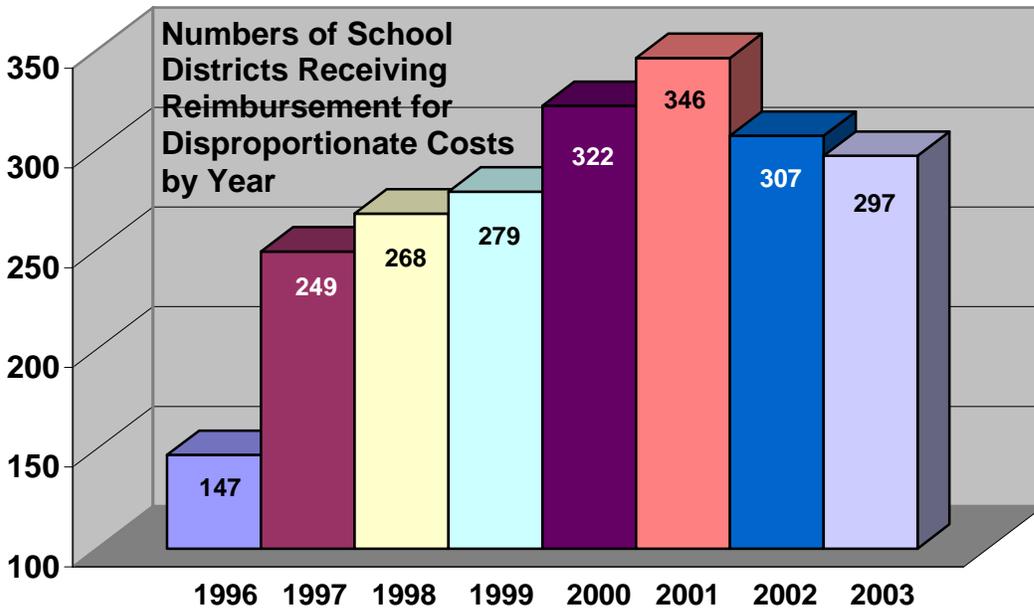
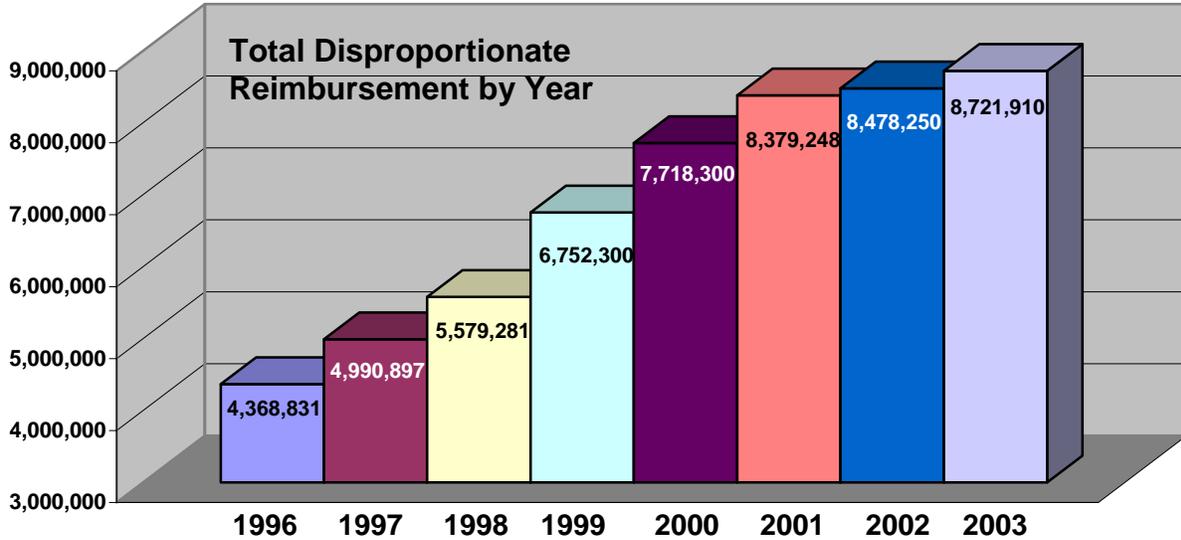
In FY 2002, a limit was placed on the proportion of funds distributed in the form of reimbursement for disproportionate costs. This, coupled with increases in state special education appropriations and declining enrollment, has resulted in recent increases to the block grant rate. This will positively impact both schools and special education cooperatives by offering increased stability to each school district's and cooperative's share of state special education funding. State special education cooperatives have been especially affected by the freeze on the proportionate share of funds available for disproportionate costs. Because special education cooperatives are not eligible for reimbursement for disproportionate costs, the freeze on the proportionate share of disproportionate costs has helped to stabilize the related services block grant rates that serve as their primary source of revenue. This stabilization is supporting the underlying philosophy of the funding model's emphasis on block grant distribution of funds.



Source: T:\data\Rageyrs; Special Education Summary for 2001-02 and 2002-03 (Prd\Maefairs\maefairsCode.mde rptSpecialEducationSummary); Special Education Cooperative Allowable Cost Funding for 2001-02 and 2002-03 (Prd\Maefairs\MaefairsCode.mde rptSpecialEducation Coop)

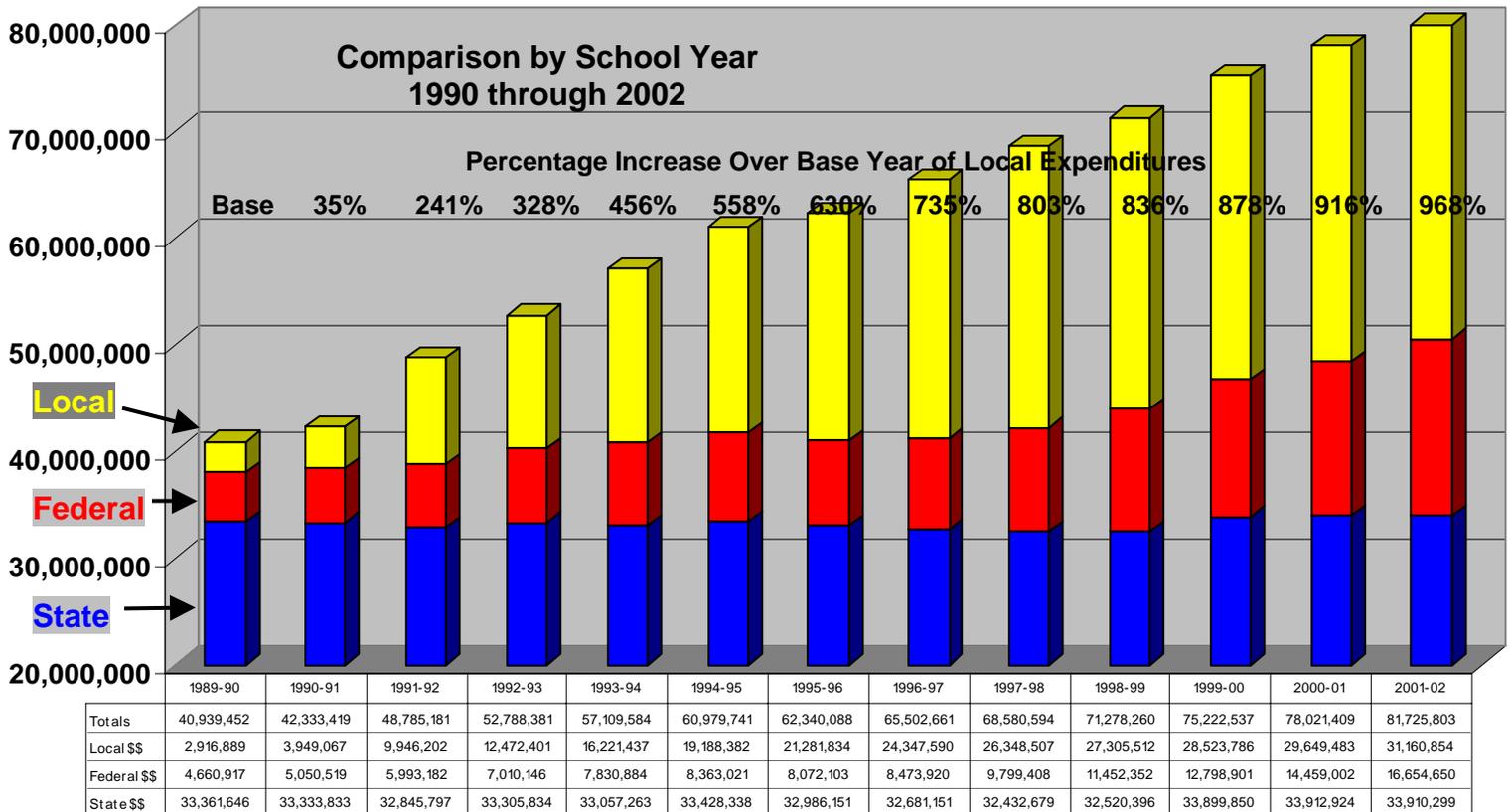
Reimbursement of Disproportionate Costs

The proportion of the total state appropriation distributed in the form of reimbursement for disproportionate costs grew both in total dollars and in the number of districts receiving reimbursement for disproportionate costs through FY 2001. In FY 2002, the proportion of funding available for disproportionate reimbursement was limited to 25 percent of special education appropriations. This was done in an effort to stabilize the instructional and related services block grant rates.



Source: T:\data\Le_reim; Special Education Summary for 2001-02 and 2002-03 (Prd\Maefairs\maefairsCode.mde rptSpecialEducationSummary); Special Education Cooperative Allowable Cost Funding for 2001-02 and 2002-03 (Prd\Maefairs\MaefairsCode.mde rptSpecialEducation Coop)

Expenditures of State, Federal, and Local Funds Comparison by Year



Note: This table may differ from previously released versions. Amounts are changed to reflect adjustments to trustees financial summaries submitted by school districts.

Source: State: Special education payment amount provided by OPI accounting, which does not include reversion; Federal: Expenditures provided by OPI accounting (SABHRS year end report); Local: Expenditures from board of trustees' financial summaries for special education allowable costs are reduced by the state payment amount to come up with the local amount.

Federal

The growth in expenditures for special education has become an issue of national significance. On a national level, attention has been focused on the proportion of federal support for special education. The federal share of special education costs (national average) is approximately 17 percent. Although this is a greater share of the total cost of special education than in the past (three years ago it was approximately 8 percent), the proportionate share remains far below the 40 percent level promised by Congress when the special education laws were first passed in the mid 1970s. House Joint Resolution 6 (2003 legislative revision) addressed this issue. Since Montana's costs for special education are significantly less than the national average, the federal share of Montana's special education costs are approximately 20 percent.

In Montana, approximately \$81.7 million was spent on special education in the 2001-2002 school year. This is a significant increase from the 1989-90 school year when approximately \$41 million of state, federal and local funds were spent on special education. Much of this increase can be attributed to inflation and an increase in the number of students served by special education. In fiscal year 2002, approximately \$16.7 million of the \$81.7 million Montana spent on special education came from federal revenue sources.

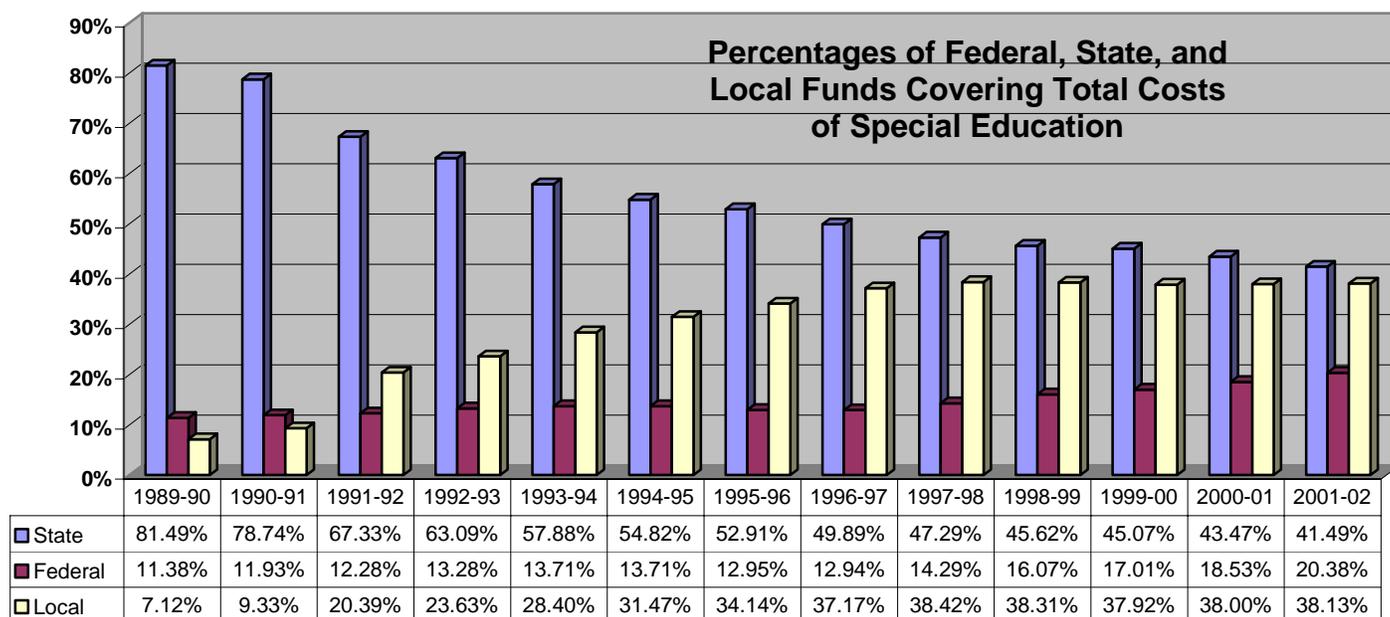
State

State appropriations for special education have fallen far short of the growth in costs. From the 1989-1990 school year to the 1998-1999 school year, special education was level funded at approximately \$33 million. In 1999, the Montana Legislature increased appropriations for special education by approximately 4 percent. This increase netted schools approximately \$1.4 million in added funding that was earmarked for special education for school year 1999-2000 and for school year 2000-2001. In school year 2002-2003, schools received an additional \$1 million in state special education funding. During a period of increased costs, coupled with flat state funding throughout the 1990s, the state share of the total costs of special education has slipped from approximately 81.5 percent in school year 1989-1990 to approximately 41.5 percent in school year 2001-2002.

Local

The greatest share of funding of the increased costs of special education has come from the local general fund budgets. Local school districts have absorbed the increase in costs of special education by increasing their contribution from approximately \$3 million in 1989-1990 to approximately \$31 million for the 2001-2002 school year. This represents an increase of nearly 1000 percent in local district contribution for special education.

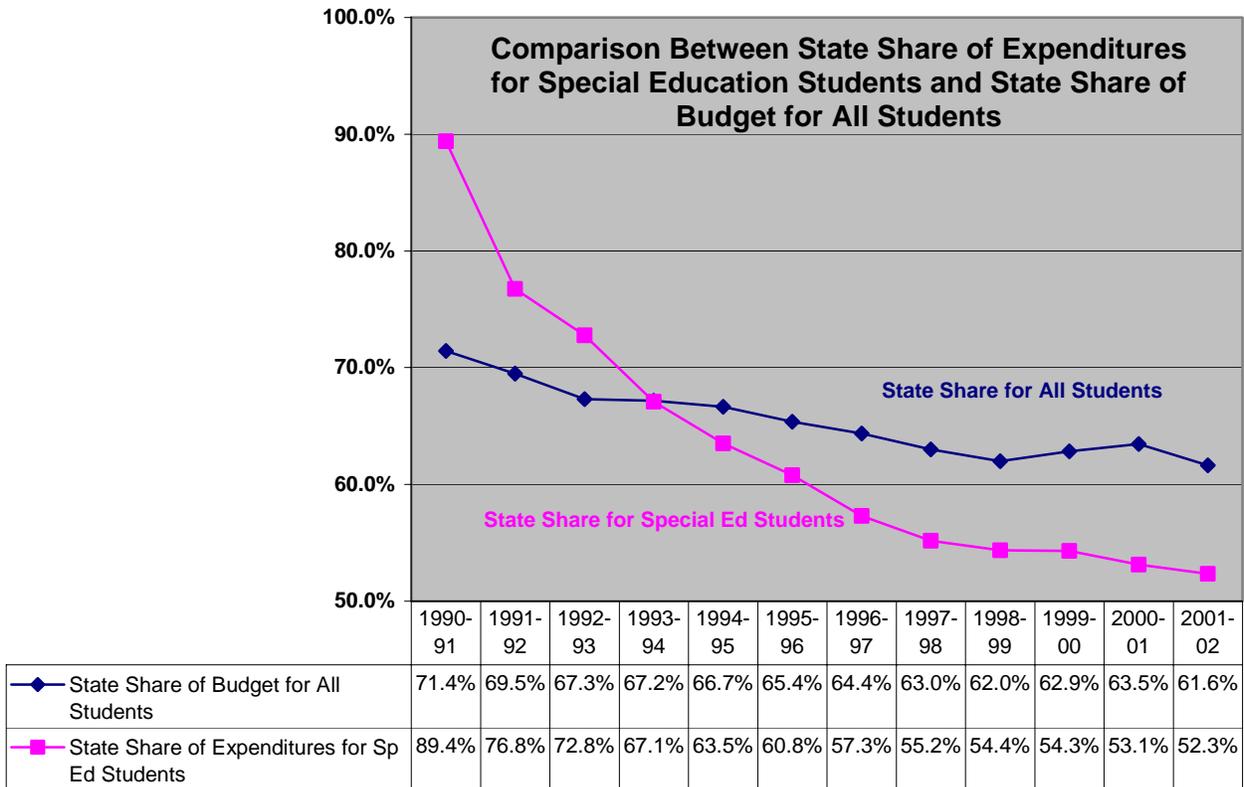
For purposes of this discussion, “local funds” means special education expenditures from district revenues other than state and federal funds that are specifically earmarked for special education. These “local funds” would have otherwise been available for general education. This shift in allocation of local funds has been a serious concern for schools and parents and has created an atmosphere of competition for dollars.



As a result of increased costs in special education during a time when state funding has remained relatively flat, the proportion of “local funds” supporting costs of special education has grown dramatically while the proportion of state funds has declined.

The General Fund

Another way of studying the effects of relatively flat funding of special education is to compare the percentage of school district general fund expenditures from earmarked state special education funds. State general fund support for special education costs has slipped from approximately 89 percent in the 1990-91 school year to approximately 52 percent in the 2001-02 school year. In the meantime, the state support of the general fund budget for all students has slipped from approximately 71 percent in the 1990-91 school year to approximately 62 percent in the 2001-02 school year. At one time the state share of special education general fund expenditures was 18 percent higher than the state share of general fund budget for general education. Today, the state share of special education expenditures is 9 percent lower than the state share of general fund budget for general education.



This chart is provided for the purpose of illustration. The comparison is between special education expenditures and general fund budgets for all students.

The portion of the budget for all students that is not state share is comprised of local revenues (property taxes, non-levy revenues, and reappropriated monies). The portion of the expenditures for special education students refers only to earmarked appropriations.