

Special Education Funding in Wisconsin: An Analysis of Distribution Mechanisms

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This report was prepared by graduate students in the Robert M. La Follette School of Public Affairs at the University of Wisconsin–Madison. The opinions and judgments expressed are those of the students and do not represent the opinions, official or unofficial, of the sponsoring agency.

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Foreword

This report on the funding of special education is the result of a collaboration between the Robert M. La Follette School of Public Affairs at the University of Wisconsin–Madison and the Joint Legislative Council. The objective of this collaborative effort is to provide graduate students at La Follette the opportunity to improve their policy analysis skills while contributing to the capacity of the Joint Legislative Council to provide the legislature with high quality analysis on issues of concern to the citizens of the State.

The La Follette School offers a two-year graduate program leading to a Master of Public Affairs degree. Students specialize in policy analysis or public management, or in many cases, both. The authors of this report are all enrolled in Public Affairs 869, *Workshop in Program and Policy Analysis*. During the first few weeks of the course students were introduced to some of the literature on policy analysis. They read Eugene Bardach’s *A Practical Guide for Policy Analysis: The Eightfold Path to More Effective Problem Solving* plus a number of articles on conducting policy analysis. They also honed their spreadsheet skills and practiced memo writing. Although acquiring a set of policy analytic skills is important, there is no substitute for *doing* policy analysis as a means of *learning* policy analysis.

The students enrolled in Public Affairs 869 during the Spring 2002 semester were randomly assigned to one of five project teams. Two teams worked on projects for the Legislative Council, while the other three teams completed projects for the Budget and Management Division of the city government in Milwaukee. The topic of this report—funding special education—was chosen by Terry C. Anderson, director of the Legislative Council staff, from a list of topics proposed by the staff.

Over the past few years the number of elementary and secondary education students being classified as needing “special education” has risen. Not surprisingly, spending on special education has also risen rapidly. In this report, the authors use data on changes in spending on special education and changes in available revenues to fund education to demonstrate that meeting special education obligations is forcing school districts to reduce per-pupil spending on regular education. This so-called “crowding out” problem is exacerbated by the existence of caps on the annual increases in public school revenues. The authors then evaluate several alternative ways in which the state could distribute special education categorical grants to local school districts.

This report does not provide the final word on special education funding. The graduate student authors are, after all, novice policy analysts. Nevertheless, much has been accomplished. I trust that both the students and the Legislative Council staff have learned a great deal about the issues involved. The report helps define the issues and provide a foundation for further analysis and decision making.

This report would not have been possible without the support and encouragement of Terry Anderson. Russ Whitesel and Joyce L. Kiel, senior staff attorneys, worked with the authors as liaisons to the Legislative Council staff. They were generous with their time and advice. Many other people also contributed to the success of the report. Their names are listed in the acknowledgements printed at the end of the report.

The report also benefited greatly from the active support the La Follette staff. Alice Honeywell, publications director at La Follette, edited the report and produced the final bound report. Alice, along with Terry Shelton, La Follette's outreach director, and John Witte, director of the La Follette School, provided the students with constructive criticism and advice on their oral presentations of the reports. Joyce Collins and La'Tanya Moore contributed logistic support for the policy analysis projects.

It is my hope that by involving La Follette students in the tough issues faced by state government, they have not only learned a great deal about doing policy analysis, but have gained an appreciation of the complexities and challenges facing both state and local governments in Wisconsin. I also hope that this report will contribute to the work of the Joint Legislative Council and to the ongoing public discussions of the funding of special education in Wisconsin.

Andrew Reschovsky
May 13, 2002

Special Education Funding in Wisconsin: An Analysis of Distribution Mechanisms

by Chad Cotti, Heidi Frechette, Sam Harshner, Jeff Kostelic

Executive Summary

Nearly ten years ago the State of Wisconsin imposed revenue caps on local school districts in an effort to control the growth of property taxes. While this policy has been championed as an effective mechanism for controlling property tax growth, it has also been criticized for its impact on local school finances. In particular, revenue caps have been blamed in part for pitting mandated special education services against general education programs. This tension between limited local revenues, mandated education programs, and inadequate state categorical aid payments is the focus of this paper.

Since the advent of state imposed revenue caps in 1994, local school districts in Wisconsin have been placed in the difficult position of having to fulfill federal and state requirements related to special education while working within the constraints of these caps. However, funding is available to assist local districts in providing services in addition beyond those sources available under the revenue cap.

These funds are available from the state and federal government to assist school districts in covering their special education costs. The two sources of targeted special education funding—federal IDEA (Individuals with Disabilities Education Act) grants and state categorical special education aid—currently fund approximately half of special education in the state. This level, however, is inadequate compared to the original commitment on the federal level of 40 percent and on the state level of 63 percent.

Special-education-related costs not funded with categorical aids are made up through a combination of general school aids and local school levies. Prior to the imposition of revenue caps, school districts had the option to increase local property tax levies to offset the costs associated with increasing special education expenses. Revenue caps effectively eliminated this option. Local districts, when faced with increasing mandated special education costs, are left with little choice but to make cuts in general education programs.

This paper approaches Wisconsin's special education funding dilemma by examining the current trends in special education funding and identification rates. It also explores special education distribution methods employed by other states while discussing the adequacy of Wisconsin's current system.

Wisconsin currently employs a percentage reimbursement method for distributing state categorical special education aids to local school districts. Under this method, the state reimburses local school districts for a percentage of eligible special education costs. Under the current categorical aid system, Wisconsin reimburses school districts for approximately 33 percent of special education expenditures. This mechanism ties state aid payments to actual school costs, but makes no accommodations for high-cost students who may require services costing ten times that of regular education students.

It should be noted that, given the current political environment, increased appropriations for special education and tax increases to fund special education services

were not explored as potential remedies. The task of this paper is to recommend the most effective method of distributing the current state allocation of special education funds.

We believe that an ideal special education aid distribution formula allows funds to be distributed fairly and in a simple manner to the majority of the school districts. We also believe that the formula should prevent fiscal hardships for school districts providing special education services to students with especially severe and costly disabilities. We recommend that Wisconsin adopt a hybrid distribution formula that includes characteristics of a census-based system combined with a special supplement for high-cost pupils. A hybrid system of this type addresses two inadequacies inherent in the current system: (1) failure to account for high-cost students and (2) the absence of incentives to keep special education costs down.

Special Education Funding in Wisconsin: An Analysis of Distribution Mechanisms

by Chad Cotti, Heidi Frechette, Sam Harshner, Jeff Kostelic

The State of Wisconsin faces a burgeoning crisis in its school finance system—the growth in the cost and enrollment of special education students. As this paper shows, the state and federal funds allocated to special education are not increasing at a rate sufficient to offset this growth. Many school districts are finding it ever more difficult to meet the fiscal demands of their special education programs without in turn cutting funds from their regular education services.

A federal mandate for special education services first occurred in 1975 with the passage of the Individuals with Disabilities Act (IDEA). In this legislation the federal government established the rules which school districts must follow when providing special education services. Under this law, states are required to provide these services irrespective of their own fiscal constraints. The federal government authorized the Department of Education to reimburse states for 40 percent of their special education costs, but sadly this level of funding was never appropriated (Legislative Audit Bureau 1999)

Wisconsin identifies special education students and provides services in accordance with this federal legislation. A portion of spending on special education by Wisconsin's school districts is funded through state and federal categorical grants. These are funds specifically targeted for special education services. The remainder of special education spending is funded by using a combination of state general education aids and local property tax revenues.

A complication to this system arose, however, in 1993 when the state established revenue caps on local school districts. These revenue caps placed an annually determined ceiling on the increased funding school districts could obtain from local property tax levies and state general education aids. Thus the magnitude of the yearly revenue cap increase largely determines the growth in funds available for educational services as a whole.

In this report we demonstrate that the cost of special education has been rising at a faster rate than total educational costs. Further, we show that special education expenditures have increased at a more rapid rate than the available special education funding. Finally we demonstrate that the relatively slow growth of Wisconsin revenue caps has constrained total education spending to the point that districts are forced to pay for their special education programs by pirating resources from their regular education programs.

Wisconsin's school districts currently find themselves in a quandary. State and federal funds have failed to address the growing burden of mandated special education services while districts are prohibited from raising additional funds themselves because of the constraints imposed by state revenue caps. This paper shows that general education will continue to suffer cuts until the special education system is more fully funded. This can be achieved in one of two ways: either the state could increase the size of special

education categorical aids, or Wisconsin could relax revenue caps to allow districts to raise more of their own funding. In the context of one of the worst fiscal crises in Wisconsin history, both of these events seem impractical in the short term. Nevertheless, we show that the problem can be mitigated by finding out how best to distribute available state funds. We examine a number of alternative ways to distribute categorical grants for special education and assess them in relation to the difficult fiscal situation the state finds itself in in 2002.

Legislative Background

All levels of government—federal, state, and local jurisdictions—have been engaged in policymaking regarding special education financing. The federal government’s pioneering legislation first passed the Congress in 1975.

Origin of Federal Mandate

The federal mandate for special education services actually originated in Public Law 94-142, which was initially referred to as the “Education for All Handicapped Children’s Act of 1975.” In 1990 (Public Law 101-476), the name was changed to the Individuals with Disabilities Education Act (IDEA) (Department of Public Instruction).

The four purposes of the 1975 law were:

- to assure that all children with disabilities have available to them...a free appropriate public education with emphasizes special education and related services designed to meet their unique needs
- to assure that the rights of children with disabilities and their parents...are protected
- to assist States and localities to provide for the education of all children with disabilities
- to assess and assure the effectiveness of efforts to educate all children with disabilities

(The American Youth Policy Forum, p.13.)

The 1975 law has been modified several times to expand the number and quality of services available to disabled students. For instance, in 1990 the law was amended to strengthen the protections of children with disabilities from discrimination in schools and day care centers. Last amended in 1997, the law is currently going through the renewal process.

The IDEA program has evolved since its inception to include the following provisions:

- IDEA mandates that children with disabilities ages 3 through 21 receive a free and appropriate public education regardless of the type or severity of their disability.
- IDEA requires children with disabilities to be educated in the least restrictive environment. Generally, this means being served in regular education classrooms with non-disabled children whenever possible.

- IDEA requires schools to develop an individual education program (IEP) for each student with disabilities.
- IDEA gives parents of children with disabilities certain rights, including rights of notification, informed consent, due process, and involvement in decisions about eligibility, placement, and IEPs.
- IDEA authorizes federal grants to help pay for the education of children with disabilities.

(The American Youth Policy Forum, p.13.)

Costs and Services of Wisconsin Special Education

Wisconsin provides aid to school districts, County Children with Disabilities Education Boards (CCDEBs), and Coordinated Education Service Agencies (CESA) for costs associated with educating children with disabilities. Special education services covered by state funds include those involving early childhood education, health impairment or orthopedic impairment, cognitive disabilities, hearing impairment, visual disability, speech and language disability, emotional disturbance, learning disability, school age parents, and homebound instruction. The category “other health impairments” includes both physical and mental or emotional disabilities like epilepsy, diabetes, asthma, leukemia, attention deficit disorder and attention deficit hyperactivity disorder (Department of Public Instruction).

In addition to the above-mentioned programs, the state also pays aid to districts for services related to special education. Costs related to special transportation, school psychologists, social workers, physical and occupational therapy, and academic curriculum development are eligible for reimbursement from the state. The state also offers funding to help individual districts offset the costs of fringe benefits for certified special education coordinators, special education teachers and aides, occupational and physical therapists, psychologists, social workers, and substitute teachers. Finally, the costs of special education for children in hospitals and those children in convalescent homes for the orthopedically disabled are fully funded as a first draw from the special education aid appropriation. This is the only special education program that receives 100 percent of its funding from state sources.

Sources of Funding for Special Education

Funding for special education programs come from a range of sources—federal, state, and others.

Federal Funding for Wisconsin Special Educational Services

The state receives special education aid from the federal government through IDEA grants, which have four major components: Part-B Flow-through, Part B Discretionary, preschool entitlement, and preschool discretionary. In this report we restrict our focus to the Part-B Flow-through portion of the federal grant. The three other IDEA fund categories focus on statewide system administration and preschool programs and therefore do not have a profound impact on K-12 education funding (Department of Public Instruction).

One of the most important features of IDEA grants is that once distributed, they do not count toward a district's revenue cap limit. Thus IDEA grants do not limit the amount of funding a district can access through the general education aids and local levies described below.

Prior to 2000–01, federal IDEA grants were distributed on a per-pupil basis in the form of a flat grant. Starting in 2001–02, federal IDEA grants were distributed using an adjusted base award format. Under this system, districts receive a base award calculated from their December 1, 1998, special education enrollment. Any additional funds budgeted over this base amount were distributed through a two-tiered census-based formula. Of the new funds, 85 percent were distributed according to a district's total enrollment and 15 percent of the funds were based on the percentage of children in poverty. An impoverished student is defined as a student who is eligible for free or reduced-price lunch.

Federal funds are apportioned using a formula that multiplies the number of children in each state who fall under the federal definition of disabled by 40 percent of the national average per-pupil expenditure. For the 2001–02 school year Wisconsin received \$98.2 million in Federal Part B Flow-through aid for special education. Despite nominal increases in this funding source, the growth in special education costs have consistently exceeded the federal government's commitment. Congress has never appropriated sufficient funds to meet the authorized federal funding level, which is currently 40 percent of total costs. The percentage of total school district special education costs supported through the federal special education appropriation has steadily increased. Despite these increases, federal spending has not kept pace with the rate of special education growth in Wisconsin.

State Categorical Aids for Special Education

State government plays the most important role in funding special education. It funds district programs through three fundamental mechanisms: Categorical Aids, General Aids and, to a small extent, the School Levy Tax Credit.

Categorical aids are defined by Wisconsin's Department of Public Instruction as "state or federal aid, which is intended to finance or reimburse some specific category of instructional or supporting program or to aid a particular target group of pupils. The district may only use the aid for the purpose for which it is paid" (Department of Public Instruction, 2001). Essentially, categorical aid is targeted for a specific educational purpose or population. Currently, the state reimburses districts for approximately 33 percent of their special education costs through the categorical special education appropriation. Prior to the passage of the 1999–2001 biennial budget, Wisconsin was authorized to reimburse 63 percent of local special education costs. From 1986 to the passage of the 1999–2001 budget, however, Wisconsin never met the 63 percent reimbursement rate (Legislative Audit Bureau).

State categorical aids are based on prior year "aidable" special education costs. According to the Legislative Fiscal Bureau, aidable costs "include only those costs that are eligible for reimbursement under the State special education program, and do not include any costs aided through Federal funds" (Legislative Fiscal Bureau, 1999). Essentially all special education expenditures deemed acceptable by state regulation are

reimbursed first using federal funds and then state categorical aids. In effect, schools are reimbursed each year for a portion of last year's special education costs. It is also important to note that categorical aids fall outside the scope of state revenue caps. As stated in the introduction, revenue caps place a ceiling on the amount of money a school district can raise through local levies and state equalization funding. Categorical aids serve to fund special education based on the size and character of a district's special education program.

General School Aids as a Means of Funding Special Education

Unlike state categorical aid, general school aids are not tied to one facet of education provision. This assistance is not limited to any specific educational program, purpose, or target population, so it may be used in financing the general education program as seen fit by the receiving district. The three main general aid programs in Wisconsin are: (1) Equalization Aid, (2) Special Adjustment Aid, and (3) Inter- and Intra-District Aid. The following amounts were appropriated for each general aid category:

- Equalization Aid - \$3.8 billion
- Special Adjustment Aid - \$620,000
- Inter- and Intra-District Aid - \$85.9 million

(Department of Public Instruction, 2001).

Equalization aid is by far the largest portion of general aid and it is also the only portion of general aid that goes to all school districts. The other two appropriations are relatively small and are not provided to all districts. (They will not be examined in this report).

The current formula for distributing equalization aids is based on the principle of equal tax rate for equal per-pupil expenditures. There is an inverse relationship between equalization aids and property valuations. The state uses a matching rate formula, and those districts with low per-pupil property valuations receive a grant equal to a larger share of total spending than districts with high per-pupil property valuations.

A major objective of the equalization aid formula is tax base equalization. The purpose of this policy is to minimize the differences among school districts' abilities to raise revenue for education programs. The formula allows a district to support a given level of per-pupil expenditures with a similar local property tax rate as other school districts with the same level of per-pupil expenditures, regardless of property wealth (Department of Public Instruction, 2002).

The State School Levy Tax Credit and Special Education

State aid to schools is also provided indirectly through the state school levy tax credit. The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes during the three preceding years. The school levy credit formula includes levies for elementary and secondary school districts and for CCDEBs. Statewide, the credit reduced the school portion of the 2000 property tax bills by an average of 16 percent. These payments are counted toward the state's commitment to fund two-thirds of school costs because they are used to offset school tax levies. In the absence of these payments it is doubtful that all individual school districts would have

been able to collect this level of property taxes through their local levy. Nevertheless, the state school levy tax credit is indirect in the sense that these funds are used to reimburse school districts for funds they would have received from the property tax. To the extent that the school levy credit increases school district spending, it provides an indirect support for special education (Legislative Audit Bureau).

Local Funding of Special Education

Local funding for general and special education comes predominantly from property tax revenue. In the mid-1990s, the state began to provide two-thirds of public school revenues (Legislative Audit Bureau). This commitment resulted in a substantial increase in funding from state sources while it significantly reduced the proportion of special and general education costs supported by local revenue. Local revenue covers costs not covered by federal sources or by state categorical and general aids.

Impact of Revenue Limits on Special Education Services

Revenue limits were enacted into state law as part of the 1993–95 biennial state budget (1993 Act 16). Revenue limits place a fixed dollar amount on how much a school district can spend per pupil. These limits apply only to general state aids and local levies. State and federal categorical aids do not count towards a district's revenue cap. These caps are increased yearly based on a schedule determined with each biennial budget process. Local districts may exceed revenue caps by increasing the size of their local levies, but it is important to note that any such increase must be approved by referendum (Legislative Audit Bureau). Finally, it is important to note that school districts are not required to spend up to their revenue caps. Nearly all districts levied to their full limit. In Wisconsin, school property tax levies were only \$9.6 million under the levy limits in 1999–2000 (Legislative Audit Bureau).

This paper argues that state-imposed revenue limits have placed local school districts in a difficult position. Districts are forced to meet the ever-increasing costs of special education services while trying to serve regular education students as well. Because of state-imposed revenue caps, school districts are forced to cut into regular education programs to pay for state and federally mandated programs and services for children with special education needs. Some school districts are finding it necessary to increase regular education class sizes and eliminating extracurricular activities.

Jeffrey Spitzer-Resnick, managing attorney for Wisconsin Coalition for Advocacy, stated during testimony on SB280 – a bill to provide relief from rising special education costs – that “this robbing-Peter-to-pay-Paul system created by the state legislature, engenders hostility between parents of regular and special education students, and between regular and special educators” (Madison School District).

The Madison Metropolitan School District provides a vivid example of how revenue caps combined with an increasing special education population can impact school finances. During the 2000–01 school year, Madison had 191 high-cost students at an average cost of \$39,700 per student per year for a total annual cost of \$7.6 million. Madison school district officials believe that the district's special education population is growing because of the high quality of services provided in Madison. The tight finances caused by these special education cost increases, however, has required the district to

make cuts in programs such as four-year-old kindergarten and teacher development. If current trends continue, further cuts are likely (Department of Public Instruction, 2002).

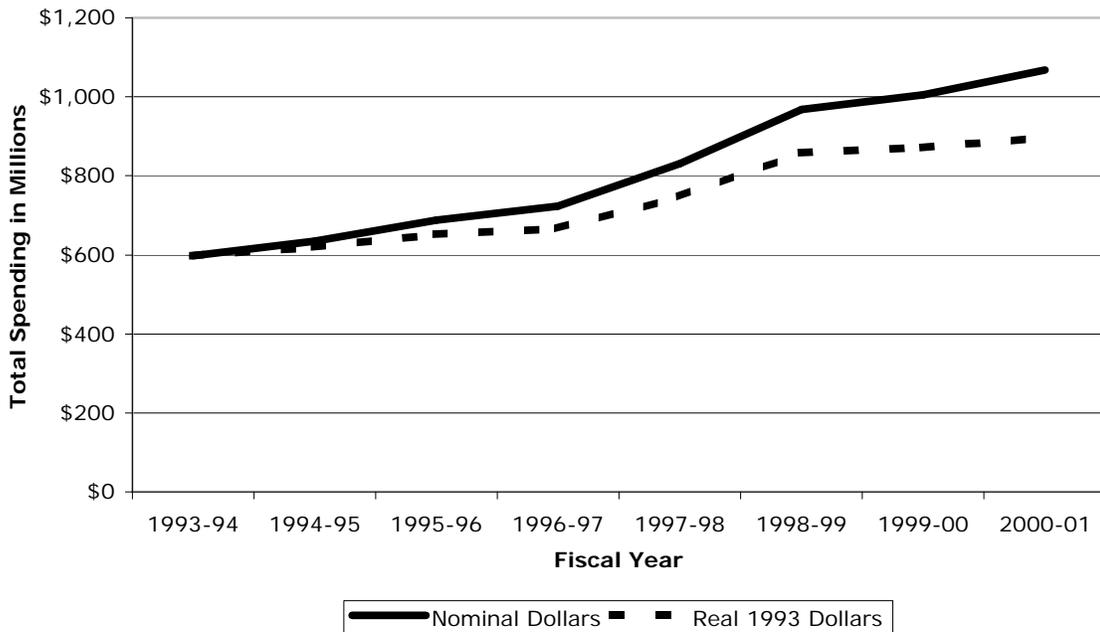
Analysis of Special Education Trends in the State of Wisconsin

As shown in the preceding section, anecdotal evidence exists to suggest that special education costs are forcing out some general education services. This evidence is supported by the following comparison of the increase in total special education costs with the increase in special education funding. Our analysis examines the growth in all funding sources between school years 1993–94 and 2000–01. As the data show, the increases in special education enrollment and per student special education funding have dramatically outpaced the ability of school districts to fund special education from existing sources.

Total Special Education Costs

Total special education spending has increased rapidly over the past eight years—from \$598 million in 1993–94 to \$1.07 billion in 2000–01 (see Figure 1), an increase of over 79 percent in nominal terms or 50 percent in real dollars. This is a function of both rising special education enrollment and rising per student expenditures in special education (Department of Public Instruction, 2002).

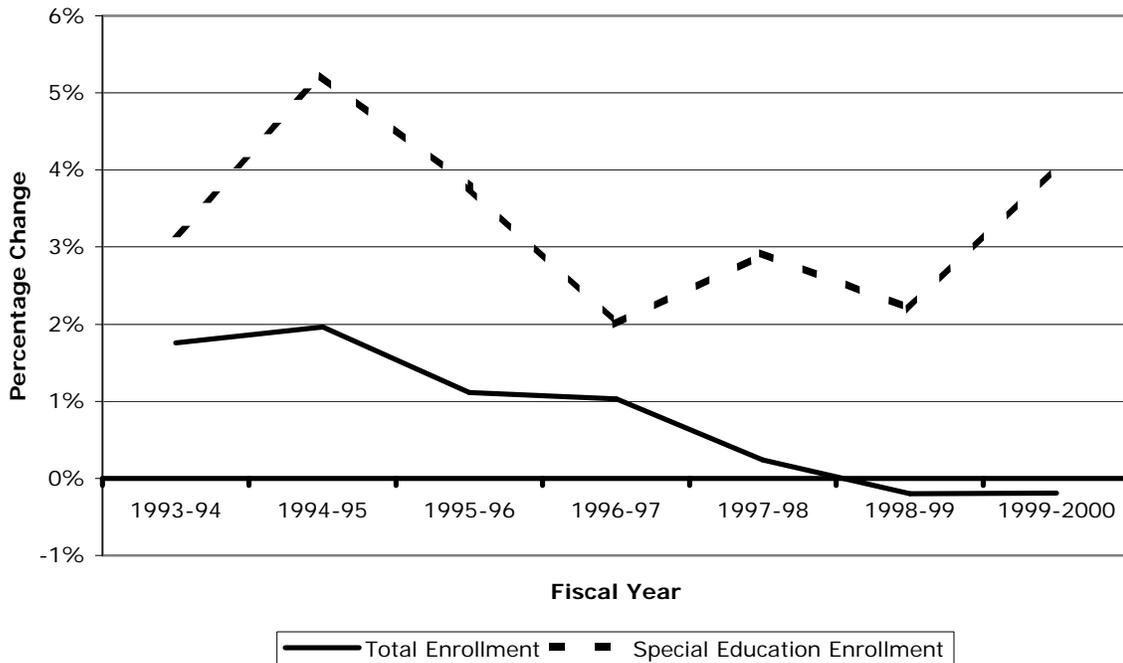
Figure 1
Total Special Education Spending, 1993-2001
(in Millions of Dollars)



Enrollment Levels

Total public school enrollment levels in Wisconsin have grown slowly over the past eight years, even decreasing in the period between 1998–99 and 2000–01. Overall, public school enrollment increased 5.8 percent from 1993–94 to 2000–01 (see Figure 2). In contrast, special education enrollment is experiencing a surge in growth with no signs of stopping. From 1993–94 to 2000–01, the special education population increased from 99,414 to 124,331 (25%). If this trend continues, a larger and larger share of the student body will be identified as having special needs. In 1993, 11 percent of total enrollment was classified as special education. By 2000, this figure had increased to 14 percent (Department of Public Instruction, 2002).

Figure 2
Annual Percentage Changes in Total Enrollment and
Special Education Enrollment, 1993-2001

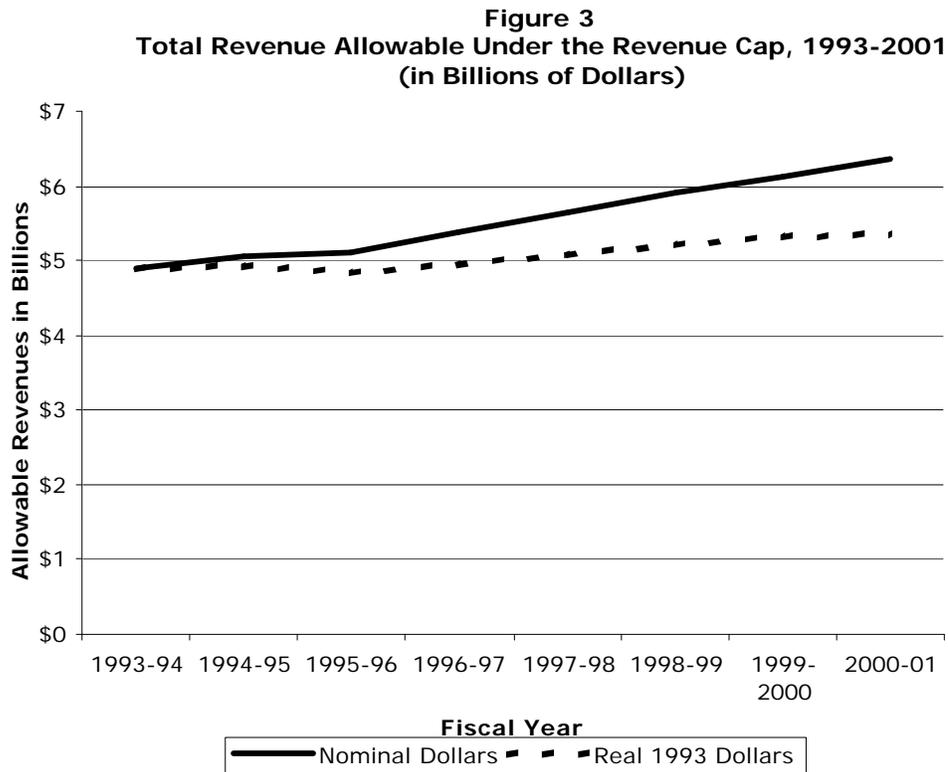


In addition, special education expenditures are obviously increasing as a share of total school spending. This increase in special education spending can only be offset if it is mirrored by comparable increases in special education funding available to school districts. Because special education services are mandated, if available funding has not increased at a rate equal to that of special education costs, we can safely assume that the shortfall must be cut from the general education portion of district budgets.

Increases in Revenue Limits 1993–94 to 2000–01

Our analysis uses the growth in revenue caps over the past eight years as a stand-in for increases in local funding and state equalization aid to districts. The legislature determines the increase in the per-student revenue cap within each biennial budget.

The total allowable revenue cap has increased slowly since its adoption in 1993. It has risen from \$4,891.8 million in fiscal year 1993–94 to \$6370.9 million in fiscal year 2000–01, a total growth of 30.2 percent. Accounting for inflation, the revenue cap has increased a total of \$573.1 million (13.9%) in the period under consideration (see Figure 3) (Department of Public Instruction, 2002).

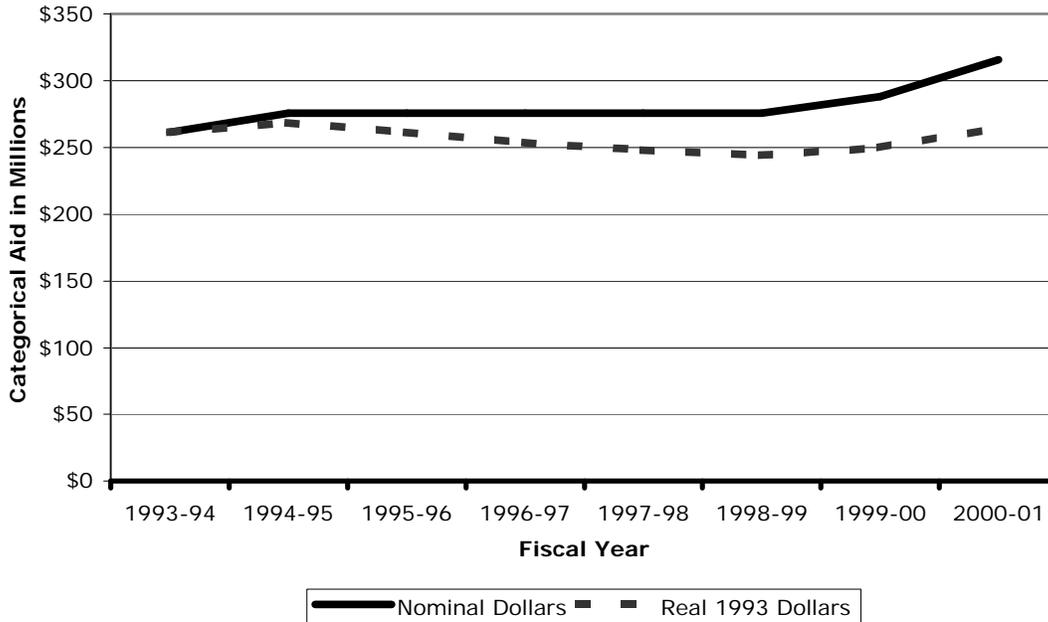


The Growth of State Categorical Aid for Special Education

In general, over the past eight years, the state promised to fund 63 percent of state special education costs, but as previously discussed, this level of funding was never approached in the period between 1993–94 and 2000–01. In fact, during the 1999–2001 budget process, this legislative guideline was rescinded. The state’s funding of special education categorical aids related to special education spending has continued to decline. Though the nominal level of categorical aids increased 20.8 percent—from \$261.3 million in fiscal year 1993–94 to \$315.7 million in fiscal year 2000–01—the level of increase has not kept pace with the rise in special education costs (see Figure 4). In real dollars this picture is even more striking. State categorical aid increased \$3.6 million (1.4%) in the period under consideration (see Figure 4). The state commitment to funding

special education through categorical aids has plummeted (Department of Public Instruction, 2002).

Figure 4
Special Education Categorical Aid, 1993-2001
(in Millions of Dollars)



The Growth of Federal Special Education Aid

Between 1993 and 2001, federal special education aid increased more rapidly than the growth in state categorical aid (see Figure 5). Federal aid has increased from \$51.7 million in 1993–94 to almost \$127 million in 2000–01 an increase of 145 percent. In real terms federal aid has increased \$70.7 million (117%). This increase is a function of both increased federal funding for special education and an increasing population of special education students in Wisconsin (Department of Public Instruction, 2002).

Impact of Special Education Trends on Wisconsin School Districts

The impact of special education cost increases can be assessed by comparing them to the increases in the special education funding mechanisms outlined above. The next section carries out this comparison by weighting the increases in these various revenue sources. The below analysis determines a weight for each revenue stream by finding what percentage of total special education funding it represents. The percentage increase in each revenue source is then multiplied by this weight to find how this revenue source’s growth has increased total special education funding. Using this method for each of the revenue streams discussed above, our analysis found that total special education funding increased 30 percent between 1993 and 2001 (see Figure 6). Over the same period, special education costs increased 68 percent. (Department of Public Instruction, 2002).

Figure 5
Federal Special Education Aid, 1993-2001
(in Millions of Dollars)

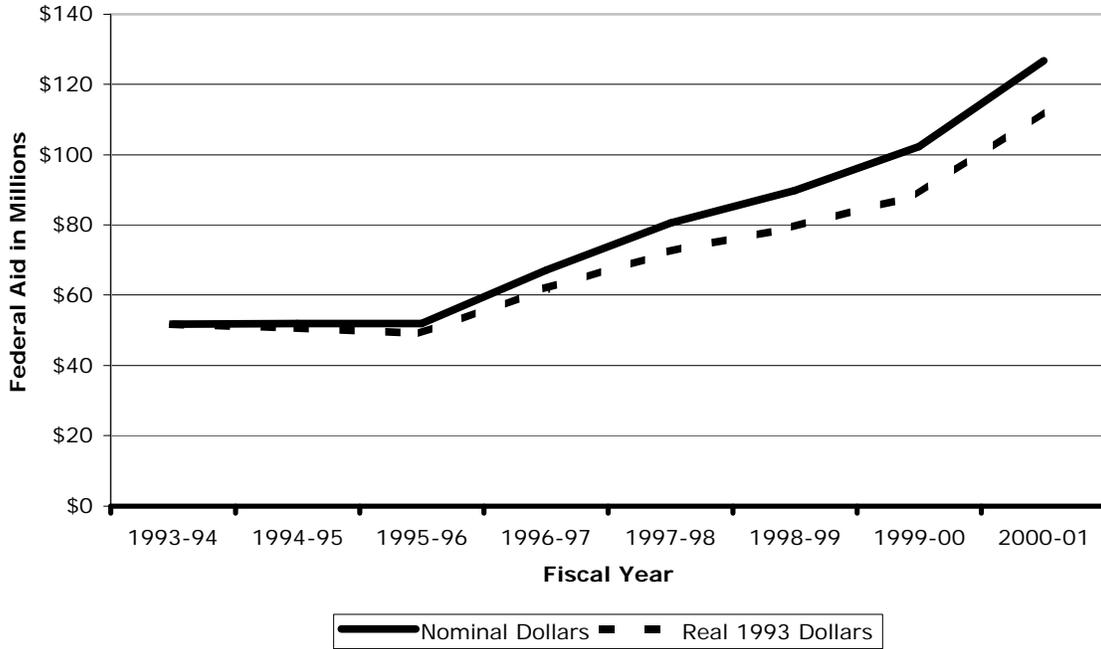
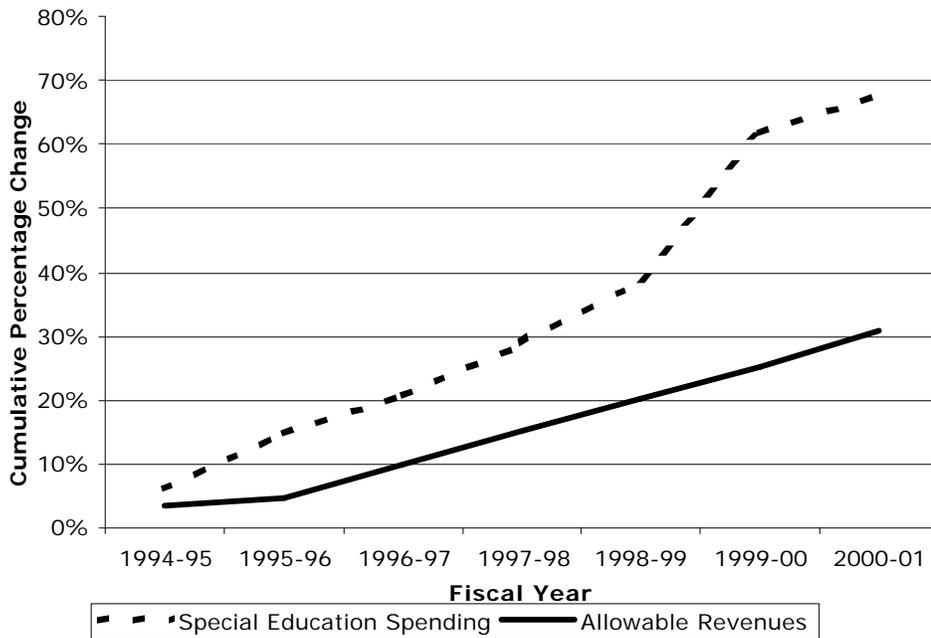


Figure 6
Cumulative Percentage Increases from 1993-94 in Special Education Spending and Total Revenues Allowable Under the Revenue Caps



Problems Caused by Current Special Education Trends

Several problems have occurred as a result of the growing disparity between cost and funding levels.

Crowding Out

Two constraints—one that mandates funding and the other that restricts revenue—have created a financial conundrum in Wisconsin school districts. Evidence indicates that total education revenues have been increasing at a much slower rate than special education costs. The resultant budget shortfall can be rectified only by cutting regular education services. In other words, general education is being “crowded out” of limited resources by the increasing cost of mandated special education services.

Over-Identification of Special Needs Students

Another problem is that in the past eight years the number of special education students has grown rapidly. One possible explanation for this phenomenon is that school districts are over-identifying special education students.

Another explanation for increasing special education caseloads is the improvement in diagnostics in recent years. If higher rates of identification could be attributed to better technology, there would be no reason to deter this trend. Officials with the American College Testing program suggest that, in actuality, parents have numerous incentives for desiring special education status for their child—more individual attention, smaller classes, or more time on college entrance exams (ACT Assessment).

With the advent of standardized testing, school districts may have an incentive to identify more special education students. If special education students are exempted from standardized tests, a school’s overall performance can be improved by identifying low-achieving students as special needs pupils. Special education identification can then serve as a creaming process, to ensure that only the school’s best students are counted in their overall performance measures.

There also might be financial reasons for a school district to identify a child as a special education student. If special education services were more fully funded by state and federal sources, school districts would have an incentive to draw down those funds. The current low level of reimbursement for special education services makes this practice unprofitable in Wisconsin.

It is important to note that the over-identification probably takes place only for certain categories of special needs students. High-cost students are rarely misidentified. Individuals with autism or who are blind or deaf are easily defined and identified. Over-identification is more likely for those with more minor learning disabilities.

High Quality Services Attract High Cost Students

Districts with high-quality special education services for severe disabilities are likely to attract students burdened with these disabilities. Parents of such children have a strong incentive to move to districts with superior services. The resultant influx of high-cost students could conceivably place an undue burden on the capacity of the particular school to provide general education services. It is important to reiterate that only 30 percent of special education costs are covered by state categorical aid. There is no financial incentive for schools with superior special education services to recruit high-

cost pupils because the cost of providing these additional services far outweighs any subsequent state aid the district may receive.

The Impacts of High-Cost Students on Small School Districts

The budgetary impact of high-cost special education students may have more of a significant impact on small districts. The Madison Metropolitan School District defines high-cost students as those students who cost over \$25,000 per year. For the purposes of this analysis, we assume that a high-cost student costs an average of \$30,000 per year. This is a conservative estimate, far below the average cost of such students in Madison.

A larger district may distribute the substantial expense of a high-cost student across a larger student body. Essentially the high-cost student has less of a fiscal impact on each individual student than in a district with a lower enrollment. The mandate to provide adequate education services for just one high-cost individual could conceivably force a school district to cut portions of its general education program.

Table 1. Variable Impact of High-Cost Student

| | Enrollment | Special Education Enrollment | Percentage of Gen Ed Funding Loss for One High-Cost Student |
|---------------|-------------------|-------------------------------------|--|
| Fond du Lac | 7012 | 1160 | 0.08% |
| Fort Atkinson | 2742 | 378 | 0.20% |
| Athens | 554 | 83 | 0.79% |

Table 1 measures the impact of one additional high-cost student for a large, medium, and small district, respectively. Even using the conservative estimate of \$30,000 for one student, we can see that the size of a school district profoundly affects how well the district can absorb the costs associated with additional special needs students. Athens, the small district selected for this experiment, suffers a nearly ten times the cut per student in general education funding of a student in Fond du Lac. The possible impact of the overall growth in special education on these smaller districts is significant.

Alternative Methods of Special Education Funding Distribution

The only way to solve these problems absolutely is injecting more money into the school financing system. This could be achieved in two ways. Either Wisconsin could increase its funding of special education categorical aids, or the state could allow districts to raise more funds on their own by relaxing revenue caps. We consider such funding essential to maintaining Wisconsin’s current standards of K-12 education. Unfortunately, the current fiscal crisis the state finds itself in makes these solutions very unlikely.

Assuming that funding for special education remains constant, we turned our attention to different methods of distributing existing special education funds. By promoting measures that inspire fiscal responsibility and making sure existing funds go where they are most needed, the state can mitigate the most egregious consequences of the current problem. The following analysis assumes that state funding will not be increased and that revenue caps will not be relaxed. Nevertheless, new means of

allocating existing state special education categorical aids can help to alleviate the most grievously burdened school districts.

Our research focused on six separate distributional methods. This section provides an overview each of the alternatives, and an analysis of how each addresses the current problems special education causes in Wisconsin’s educational system.

Current Wisconsin System

The State of Wisconsin currently distributes available categorical aids by reimbursing districts for a percentage of their prior year’s special education spending. Available funds are prorated evenly among districts. Currently this means that districts are reimbursed for 30 percent of their special education costs. This percentage is variable based on the annual amount of available state special education categorical aid, and the amount of district spending in the prior year.

Student eligibility criteria are contained in PI 11.35 & 11.36, Wis. Admin. Code. Categories include cognitive disability, hearing impairment, speech or language impairment, visual impairment, emotional disturbance, and orthopedic impairment. The strengths and weaknesses of such a system are outlined in Table 2 below.

Table 2. Current Wisconsin System: Strengths and Weaknesses

| Potential Strengths | Potential Weaknesses |
|--|---------------------------------------|
| * Funding is related to actual costs or eligible costs | * Incentive to over-identify students |
| * Little incentive to misclassify disabling conditions | * No flexibility in use of funds |
| | * Limited incentive to control costs |

As can be seen from Table 1, the Wisconsin percentage reimbursement system is excellent at tying funding to the costs a district incurs. It may encourage over-identification, however, and fail to provide an incentive for controlling costs, if the percentage is high enough to inspire district spending. In an ideal situation in which districts are reimbursed 100 percent, Wisconsin’s special education system would not need to draw money from general school aid. In this ideal situation crowding out would not occur.

It is important to note that the incentive to over-identify special education students decreases as the percentage of costs reimbursed decreases. There may be an incentive to identify a borderline learning disabled student as a special education student if reimbursement is set at 90 percent and an incentive to identify the same individual as a general education student if the rate of reimbursement is 30 percent. Thus although at higher levels, Wisconsin’s system could promote over-identification, at its current level of funding, this problem is unlikely to occur.

Pupil-weighted

This formula determines aid based on the relative weights assigned to students with various disabilities. The amount of funding is linked to the severity of the disability. Usually the more severe the disability, the higher the weighting factor assigned to the student. The State of Georgia uses this formula (Parrish).

Table 3. Pupil-Weighted System: Strengths and Weaknesses

| Potential Strengths | Potential Weaknesses |
|---|---|
| * Funding based on costs related to different types of disabilities | * Over-identification potential * Less accountability for use of funds * Funding may be unrelated to actual costs |

Table 3 displays the strengths and weaknesses of this system. Pupil weighting allows for funds to mirror the actual costs of different disabilities. If the funds appropriated through this mechanism are derived from categorical aids, and it is a fully funded system, then pupil weighting minimizes the amount of special education funds districts will draw from equalization aid. This lowers the pressure placed on revenue caps and keeps general education services in tact. If a pupil weighting system is funded at current levels, crowding out does indeed occur.

Resource-based

In this alternative, a predetermined amount is funded for specific resources such as classroom units, teachers and aids. This system acknowledges that special education program costs often don't occur on a per-student basis, so it looks at the number of staff needed to serve the district's population of students receiving special education. The State of Missouri uses this system.

As demonstrated in Table 4, the resource-based system does not provide an incentive to control costs. However, it funds schools based on actual associated costs. Districts with high percentages of special education service providers and low numbers of special education pupils would benefit from this system.

Table 4. Resource-Based System: Strengths and Weaknesses

| Potential Strengths | Potential Weaknesses |
|---|--|
| * Funding is based on relative costs associated with delivering various instruction and other special ed services | * Incentive to over-identify and produce more resource units that will generate additional funds * Funding may be unrelated to actual costs * Limited incentive to control costs |

Flat grant

Under this allocation system, a fixed amount of funding is distributed on a per-special-education student (see Table 5). Total funding for special education is distributed to districts based on special education counts.

Table 5. Flat Grant System: Strengths and Weaknesses

| Potential Strengths | Potential Weaknesses |
|---|---|
| * Schools have an incentive to keep costs low, because funding is based on number of special education students and not the cost of service provision | * Incentive to under-identify students * Funding unrelated to actual costs |

This system bases funding on the number of special education students and not on the level of special education funding. Thus there is an implicit incentive for districts to keep the costs of special education down. The flip side of this incentive is that districts with high per-pupil special education costs will be forced to fund a portion of their program through general education aids. Crowding out is a problem even when such a program is fully funded.

Census-based

This system distributes funds based on the overall census of school-aged children, district enrollment, or average daily attendance (see Table 6). This is in contrast to systems that provide funding based on the count of children receiving special education services and/or measure of special education services actually provided. California uses this system. This allocation method was proposed by the Kettl Commission but is questionable according to the Wisconsin State Supreme Court. A recent ruling determined that disproportionately high populations of children with special needs must be taken into account in the formula.

Table 6. Census-Based System: Strengths and Weaknesses

| Potential Strengths | Potential Weaknesses |
|--|---|
| * No incentive to over-identify * Equitable | * Not linked to actual costs * Incentive to under-identify special ed students |

Hybrid Plan – Percentage Reimbursement/Census-Based

A sixth distribution alternative includes components of both percentage reimbursement systems and census-based systems. This system is similar to the one

proposed by Governor Scott McCallum in his 2001–03 budget request. Under this alternative, special education aids would be distributed through a two-tiered mechanism.

First, districts would be eligible for supplemental special education aid for 100 percent of expenses related to high-cost pupils as defined above. Under the current distribution system, potential exists for districts to be exposed to large expenses related to a small number of high-cost special education students. Supplemental payments would eliminate local responsibility for funding high-cost students. Under this plan, supplemental aids would be a fully funded, first draw from the special education aids appropriation.

Second, funds remaining in the state categorical aid appropriation after deducting for supplemental aid costs would be distributed through a census-based system. As was mentioned earlier, a census-based system distributes aids according to overall district enrollment.

Table 7. Hybrid Plan: Strengths and Weaknesses

| Potential Strengths | Potential Weaknesses |
|---|---|
| <ul style="list-style-type: none"> * No incentive to over-identify or under-identify students * Provides additional funding outside revenue limits * Funding addresses need * Greater flexibility in use of funds * Easy to administer | <ul style="list-style-type: none"> * Incentive to use higher cost services |

Criteria for Evaluating Distributional Alternatives

In order to decide on a new system for distributing special education funding, it is important to determine what policies should govern this system. The problems discussed earlier in this paper suggest three important goals.

The first and primary goal is to minimize the “crowding out” effect on general education resulting from increased costs in special education. The primary criterion for measuring progress toward this goal is determining the tendency of the alternative to allocate resources based on need.

The second goal is to minimize the negative budgetary impact of low-incidence, high-cost students on school districts. This may be measured by looking at the distribution of special education resources based on disability category. Another goal is to minimize the potential for over-identification. Progress toward this goal may be measured by analyzing whether the alternative provides minimal incentives for increased special education identification, while also promoting low-cost services.

The third goal is to maximize adequate student resources. The criterion used to measure this goal is to identify how well the alternative prevents under-identification as a result of fiscal disincentives.

Comparison of Alternatives

In this section the six alternatives are evaluated utilizing the policy goals and criteria set forth in the previous section.

The Current System – Percentage Reimbursement

Minimize crowding out of general education: This plan currently performs very poorly in preventing special education costs from absorbing general education funds. This is because in this scheme there is little incentive to control costs.

Minimize the negative budgetary impact of high cost students on school districts: This system is very good at limiting the negative budgetary impact of high cost students because it is based on actual costs to the school district.

Minimize the potential for over identification: This plan is poor at discouraging over-identification because it is based on costs, so a school district will get more funding if it has more students classified as special education students.

Pupil Weighted

Minimize crowding out of general education: This plan will perform very poorly in preventing special education costs from taking resources from the general education funds. The primary reason for this is that disbursement is not absolutely tied to special education costs.

Minimize the negative budgetary impact of high cost students on school districts: This system is very good at limiting the impact because the disability of the student is considered in determining the amount of funding. Also, a set grant level for high-cost students would inspire districts to use these resources as efficiently as possible.

Minimize the potential for over identification: This plan performs relatively well in regard to over-identification. Only the less severe categories of special education are ambiguous enough to promote over-identification. High-cost disabilities such as blindness, autism, and severe cognitive disability are nearly impossible to falsify. Also, the size of allocations per student will be relatively low based on current funding levels. The low level of these disbursements is enough to discourage over-identification.

Resource-based

Minimize crowding out of general education: This plan will perform very poorly in preventing special education costs from taking resources from the general education funds. The primary reason for this is that funding levels are not strictly tied to costs.

Minimize the negative budgetary impact of high cost students on school districts: This system is fairly good at limiting the impact because the cost of providing education to these students is figured into the resource unit. It is important to note that the cost of a funding unit is an approximation and thus it is not tied entirely to the costs of any high-cost pupils a district may be educating.

Minimize the potential for over-identification: This plan is poor at discouraging over-identification because schools that can identify more students will be able to justify more resource units which results in increased funding. Again it must be noted that at

current funding levels the size of resource-based disbursement may not be enough to justify the over-identification of special education students.

Flat Grant

Minimize crowding out of general education: This plan will perform very poorly in preventing special education costs from taking resources from the general education funds because it is not based on actual costs. Therefore, depending on the size of the per-student allocation, schools may be forced to utilize general education funds to cover actual costs.

Minimize the negative budgetary impact of high-cost students on school districts: This system is very poor at limiting the impact because a set amount is given per special education student regardless of the severity or cost of the particular disability.

Minimize the potential for over identification: This system is very bad at discouraging over-identification. Funding levels are based on the number of special education students a district possesses. There is an incentive to have a high number of these students. The now familiar refrain must again be sounded, however: the level of per-special-education-student funding is likely to be low. The strength of this incentive is likely to be low.

Census-based

Minimize crowding out of general education: This plan will perform very poorly in preventing special education costs from taking resources from the general education funds because it is not based on actual costs. Therefore, schools may be forced to utilize general education funds to cover actual costs.

Minimize the negative budgetary impact of high cost students on school districts: This system is very poor at limiting the impact because a set amount is given based on the average number of students regardless of the severity or cost of the particular disability.

Minimize the potential for over identification: This plan is very good at discouraging over-identification because schools are given a set allocation to work with irrespective of their special education costs.

Hybrid Plan – Percent Reimbursement/Census-Based

Minimize crowding out of general education: This plan will perform fairly well in preventing special education costs from taking resources from the general education funds because it contains the supplemental component that will assist schools with high costs. Given current levels of funding, this plan fails to eliminate crowding out entirely.

Minimize the negative budgetary impact of high cost students on school districts: This system is very good at minimizing the negative impact of high-cost students because of the higher funding level for high-cost students.

Minimize the potential for over-identification: The census-based allocation of funding limits over-identification for lower levels of disability because funding is not tied to costs. High-cost disabilities are not ambiguous enough to be prey to over-identification. This plan provides very little incentive for over-identification.

Recommendation

Taking into account all relevant criteria, the hybrid plan presents the most attractive distributional formula. It minimizes crowding out by allocating specific funds for the high-cost students. This plan also helps to minimize the negative impact of low-incidence or high-cost students on small districts because under this plan, if these districts are overly burdened with high cost students, they can access this money. These funds also help any magnet school districts fund their programs for high-cost students.

The hybrid plan also manages to minimize the potential for over-identification by basing a portion of its funding on a census-based system. Census-based funding assumes equal distribution of disabilities throughout the population. Thus the only way schools could increase their funding is by identifying more high-cost special education pupils. These disabilities tend toward obvious diagnoses, however, and thus it is unlikely that schools would be able to misidentify students in order to bring them into these categories. There is virtually no basis for over-identification in this scheme.

Though the hybrid plan is not a panacea, it is the only distributional scheme that manages to address each of the goals outlined above. It is important to note at this point that no method of distribution will solve the fundamental issues at the heart of the crisis. Ultimately increasing special education costs will require increasing state funding. Any solution that does not allow for this conclusion threatens the quality of education for all Wisconsin students. At heart this is not a fiscal issue. It is a problem that threatens the capacity of our schools to educate Wisconsin's children. Special education deserves a greater financial commitment. The tough choices facing the state government in the next biennium must be fundamentally informed by this reality.

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