

## State School Aid Funding for Special Education

### ISSUE

Special education weightings generate additional funding through the school aid formula. The amount generated provides for the increased cost of providing instruction to students requiring special education above the costs of instruction of pupils in a regular curriculum. Additionally, school districts must provide a level of education to special education students that is commensurate with students not requiring special education. The result can be special education expenditures that exceed special education funding levels and lead to increased property taxes in some districts. This *Issue Review* examines the special education balance deficits and the impact on property taxes in recent years.

### AFFECTED AGENCIES

Iowa Department of Education  
Iowa Department of Management  
School Districts

### CODE AUTHORITY

Iowa Code chapters [256B](#) and [257](#)

### CURRENT SITUATION

#### Special Education Weightings

For school aid formula funding, special education students receive an additional weighting that generates funding designated for the costs associated with providing special education instruction.<sup>1</sup> Each student is included in the budget enrollment at a weighting level of 1.0 for regular curriculum purposes. In addition, special education students receive a weighting based on the level of disability. Funding amounts for special education students are determined by multiplying the district cost per pupil by the district's total special education weighting level. There are three levels of special education weightings:<sup>2</sup>

- Level I: Currently weighted at 0.72. This weighting is applied to students that require special adaptations while assigned to a regular classroom for basic instructional purposes

---

<sup>1</sup> Funding generated through the school aid formula for special education purposes consists of state aid (appropriated from the State General Fund) and local property taxes.

<sup>2</sup> These definitions are provided in Iowa Code [§256B.9\(1\)](#). However, the Department of Education has noted that requirements of the Individuals with Disabilities Act (IDEA) regarding Least Restrictive Environment (LRE) and Free Appropriate Public Education (FAPE) may take precedent over State law.

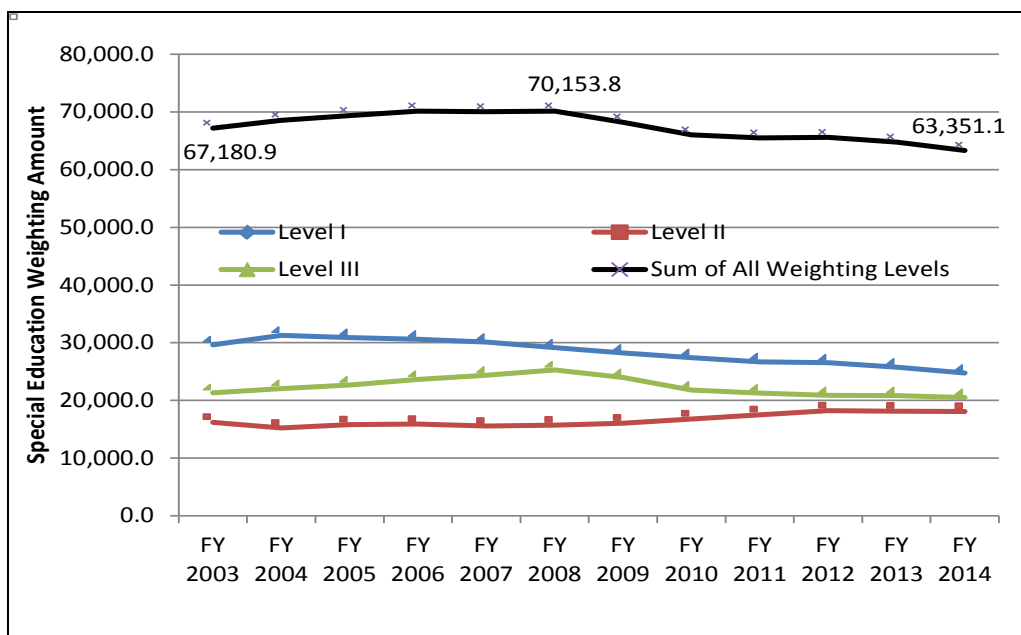
and students with disabilities placed in a special education class that receive part of their instruction in regular classrooms.

- Level II: Currently weighted at 1.21. This weighting is applied to students that require full-time, self-contained special education placement with little integration into a regular classroom.
- Level III: Currently weighted at 2.74. This weighting is applied to students that require special education and have severe disabilities or have multiple disabilities.

The special education weighting levels are required to be reviewed biennially in the odd year by the [School Budget Review Committee](#) (SBRC) and each level of weighting may be adjusted by the SBRC by up to 0.2.<sup>3</sup> The weighting levels were last adjusted in FY 2004 when Level I weightings were increased from 0.68 to 0.72, and Level II weightings were reduced from 1.35 to 1.21. Although the change in weighting levels impacted funding for the two levels, the total impact was nearly revenue neutral.

**Chart 1** provides special education weighting amounts by weighting level.<sup>4</sup> Level I accounts for the largest portion of the weighting amount while level III accounts for the second largest portion. Level II accounts for the smallest portion; however, it's the only level that is above the FY 2004 level. Average growth rates since FY 2004 include -2.1% for Level I, 1.9% for Level II, -0.7% for Level III, and -0.8% for total special education weighting.

**Chart 1**  
**School Aid Formula Special Education Weighting Amounts by Weighting Level**



**Special Education Funding and Expenditure Levels**

Special education weightings generate funding through the school aid formula designated for costs associated with providing instruction to special education students. On a statewide basis, the expenditures for instructing special education students have exceeded the funding

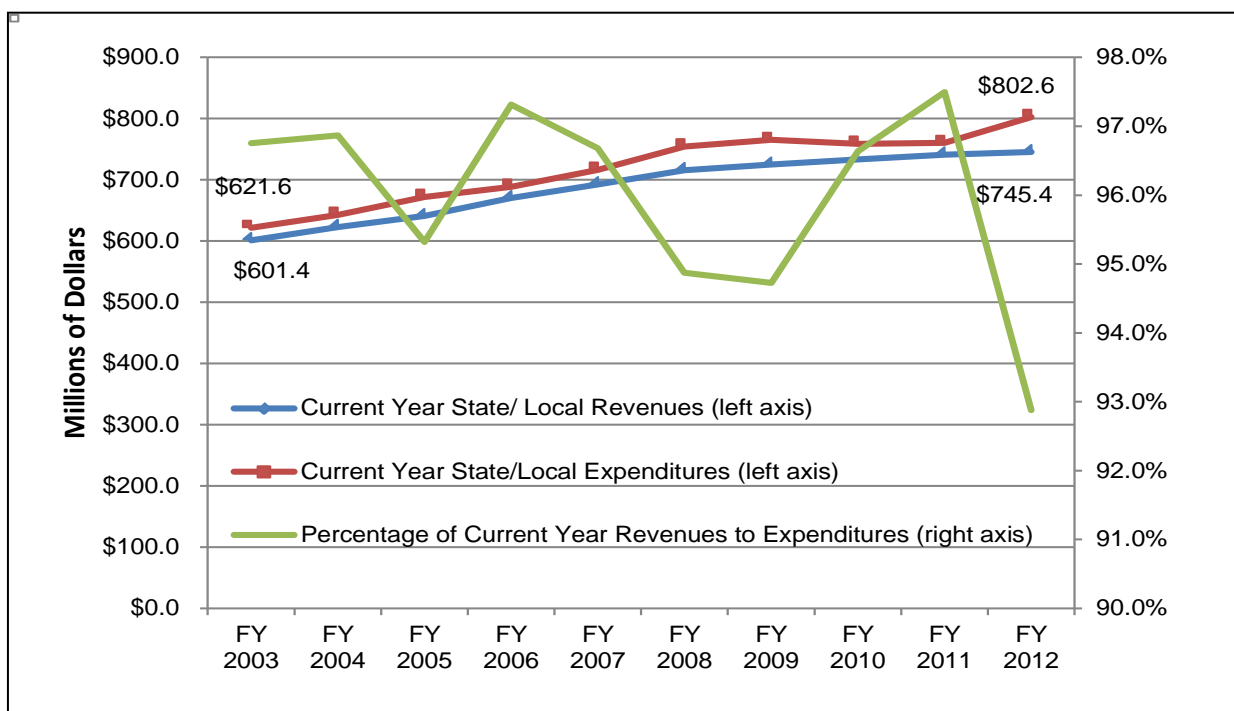
<sup>3</sup> Iowa Code §256B.9(4).

<sup>4</sup> Data from the Department of Management school aid files.

generated. **Chart 2** provides current year revenue funding and expenditure amounts for FY 2003 through FY 2012.<sup>5</sup> Of note:

- For the period noted, statewide current year revenue totals have increased 23.9% while current year expenditures have increased 29.1%.
- For each of the years displayed, the expenditure level was greater than the revenue level. Statewide revenues as a percentage of expenditures have fluctuated each year and have ranged between 92.9% (FY 2012) to 97.5% (FY 2011).
- The increase in current year expenditures has exceeded the increase in current year revenues in five of the years for the period presented (FY 2005, FY 2007, FY 2008, FY 2009, and FY 2012).

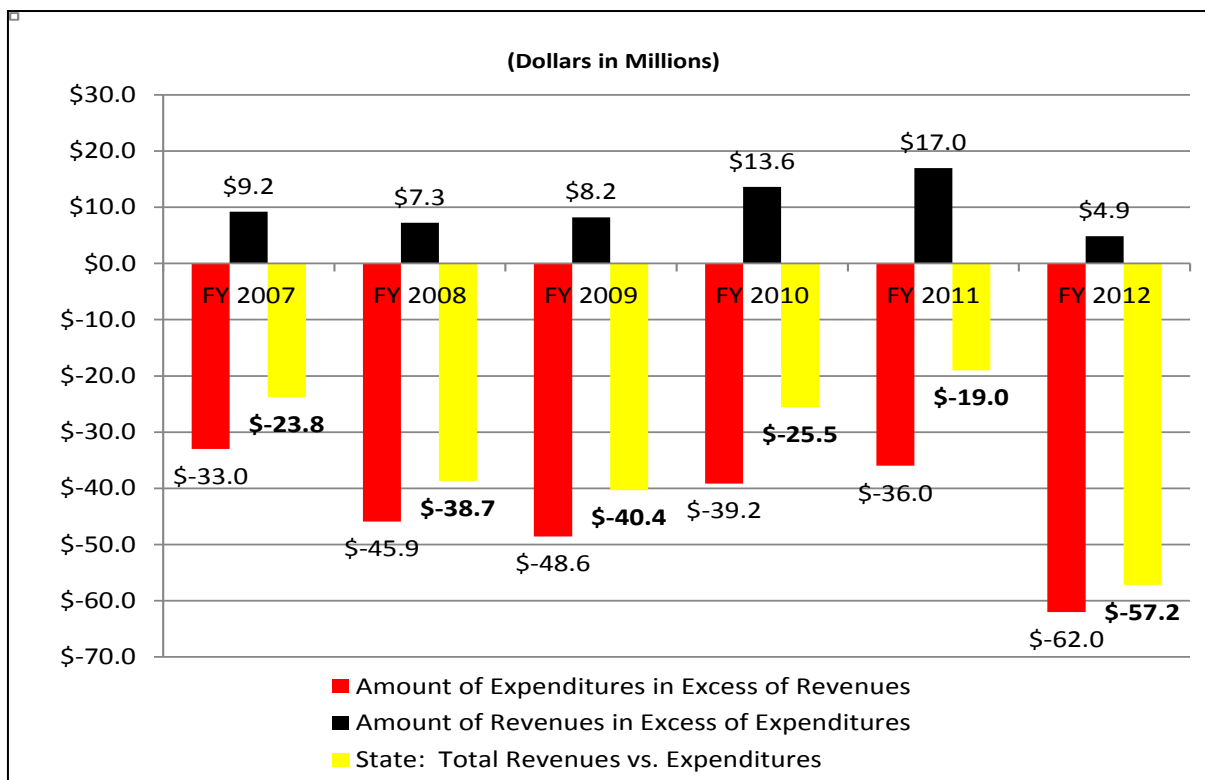
**Chart 2**  
**Total Current Year Revenue vs. Current Year Expenditure Amounts (FY 2003 – FY 2012)**



<sup>5</sup> Data from the Department of Education, special education files.

Although statewide the total of current year revenues is less than current year expenditures, the amounts vary by school district. While a majority of school districts have a negative values, some school districts have a positive value when comparing current year revenues to expenditures. **Chart 3** provides information regarding the statewide total of the current year revenues versus current year expenditures broken out by districts with positive and negative totals from FY 2007 through FY 2012.<sup>6</sup> Districts where current year expenditures exceeded current year revenues had a higher total than districts that had current year expenditures below current year revenues for all years displayed. The difference reached its maximum level in FY 2012 with a statewide total of \$-57.2 million.

**Chart 3**  
**Special Education Revenues vs. Expenditures: FY 2007 through FY 2012**



<sup>6</sup> Data from the Department of Education.

## Special Education Fund Balances

Each year, the SBRC is required to determine and certify the special education balances of each school district. School districts with negative balances may be granted modified allowable growth to recover expenditures that exceeded revenues and prior year carryforward amounts. Districts with positive balances that exceed 10.0% of its special education weighting receipts have those excess positive balances redistributed by the Department of Management. The State aid portion of these funds (87.5% of the state cost per pupil) are allocated to school districts that are granted modified allowable growth for negative special education balances. The property tax portion is returned to taxpayers through an adjustment to the following year's property tax levy. **Attachment A** provides a more detailed narrative on the process the SBRC is required to use to determine special education balances.

**Table 1** provides additional information regarding the special education balances from FY 2007 to FY 2012.<sup>7</sup> For the years displayed, on average, twice the number of districts had negative special education balances compared to districts with positive special education balances.<sup>8</sup> Additional items of note from **Table 1** include:

- Although the negative special education amounts have fluctuated, the aggregate amount of expenditures in excess of revenues for school districts with negative amounts, has had an average growth rate of -17.6% between FY 2007 and FY 2012.
- After three years of growth for positive special education amounts, the FY 2012 level dropped to \$4.9 million, a decrease of \$12.1 million compared to FY 2011.
- The amount of carryover from the previous year is based on the 10.0% of the special education weighting receipts in the previous year or the positive balance, whichever is lesser. In general, as the amount of positive balance changes, a similar change is reflected in the amount of carryover.
- The total modified allowable growth (MAG) granted by the SBRC for special education deficits has ranged from \$30.0 million in FY 2007 to \$52.1 million in FY 2012. The MAG creates increased spending authority for school districts and may be funded with local property taxes. Districts with current year expenditures that exceed the current year revenues will use previous year carryover balance (if available) to reduce the negative amount and arrive at the negative special education balance. The prior year's carryover balance accounts for the difference between the amount that current year expenditures exceeded current year revenues and the amount eligible for MAG. In some cases, eligible districts may not request MAG or request a lesser amount for the negative special education deficit balance.
- If a school district has a positive balance in excess of 10.0% of its special education weighting receipts, the DOM will redistribute the excess deemed to be the State aid portion to districts that were granted MAG for a negative special education balance. In general, this allocation provides a portion of the funding required for the MAG amount. The State aid redistribution amounts have ranged from \$3.2 million (7.2% of the MAG granted) in FY 2009 to \$8.4 million (25.2% of the MAG granted) in FY 2011.

---

<sup>7</sup> Data from the Department of Education and the Department of Management.

<sup>8</sup> Between FY 2007 and FY 2012, the number of districts with a negative balance totaled 1,441 while the number of districts with a positive balance totaled 708, yielding a ratio of 2.01 to 1.0.

**Table 1**  
**Special Education Fund Balances and MAG Amounts – Statewide Totals**

(Dollars in Millions)												
	Amount of Expenditures in Excess of Revenues	Number of Districts Expenditures greater than Revenues	Amount of Revenues in Excess of Expenditures	Number of Districts with Revenues greater than Expenditures	State: Total Revenues vs. Expenditures	Carryover from Previous Year	Statewide Special Education Balance	Positive Balance Redist. Amount	Number of Districts with Redist.	MAG for Spec. Ed. Deficit	Number of Districts with MAG for Spec. Ed. Deficit	State Aid Redistribution Amount to Districts with MAG for Spec. Ed. Deficit
FY 2007	\$ -33.0	237	\$ 9.2	128	\$ -23.8	\$ 9.4	\$ -14.4	\$ 5.7	83	\$ 30.0	194	\$ 4.9
FY 2008	-45.9	233	7.3	131	-38.7	9.9	-28.7	4.9	78	41.5	202	4.2
FY 2009	-48.6	256	8.2	106	-40.4	7.5	-32.9	3.8	71	45.1	222	3.2
FY 2010	-39.2	230	13.6	118	-25.5	8.4	-17.1	4.9	78	37.1	205	3.8
FY 2011	-36.0	219	17.0	140	-19.0	13.8	-5.3	9.7	89	33.5	190	8.4
FY 2012	-62.0	266	4.9	85	-57.2	16.8	-40.4	3.8	64	52.1	214	3.3

Due to the elevated level of negative balances in FY 2012, the SBRC (at the December 2012 meeting) requested the Department of Education to conduct desk reviews and on-site reviews of selected districts and analyze increases in costs. The analysis was provided to the SBRC at the March 2012 meeting. Findings included:<sup>9</sup>

- The 10.0% General Fund across-the-board reduction implemented in FY 2010 reduced special education staff. In FY 2012, staff levels were increased to meet the needs of the programs.
- Curriculum purchasing, including professional development, increased in districts.
- Costs not directly associated with special education instruction were included as special education costs.
- The Department noted concerns about over-identification of students needing special education services, and inconsistency of usage of the matrix (a decision-making tool for assigning a weighting level), and actual application of special education services within districts.
- Severity of disabilities has increased.
- The reduction of IDEA ARRA (Individual with Disabilities Education Act and American Recovery and Reinvestment Act) funding levels impacted FY 2012 negatively.
- An allowable growth rate of 0.0% in FY 2012 impacted FY 2012 balances negatively.

The SBRC approved the amount of MAG requested by districts with a negative special education balance at the March meeting, and has had further discussions about provisions to address the issue.

### **ALTERNATIVES AND BUDGET IMPACT**

Despite the additional weighting applied to special education students to provide for additional funding, expenditures for the cost of providing instruction to special education students above

<sup>9</sup> Findings reflected in the School Budget Review Committee Recommended Decisions notebook, agenda item #32, March 25, 2013.

the cost of instruction of students in a regular curriculum generally exceeds the amount of funding generated on an annual basis.

The SBRC is authorized to change the special education weighting levels up to 0.2 (per weighting level). Based on FY 2014 data, the estimated impact of increasing each of the special education weightings levels by 0.2 totals \$69.8 million (including \$60.9 million in state aid and \$9.0 million in local property taxes). **Table 2** provides the estimated impact by special education weighting level – note that this scenario provides the maximum impact. However, the SBRC could use a combination of weighting changes by level to address the overall amount of revenue generated through the school aid formula that would yield a smaller increase in total funding.

**Table 2**  
**Impact of Increasing Special Education Weightings by 0.2**

(Dollars in Millions)				
Special Education Weighting Level	Increase in Weighting	Increase of Funding	State Aid Increase	Property Tax Increase
Level 1	6,872.0	\$ 42.2	\$ 36.8	\$ 5.4
Level 2	2,992.0	18.4	16.0	2.4
Level 3	1,497.1	9.2	8.0	1.2
<b>Total</b>	<b>11,361.1</b>	<b>\$ 69.8</b>	<b>\$ 60.9</b>	<b>\$ 9.0</b>

Based on FY 2014 data.  
Sums may not total due to rounding.

It is unclear if increasing the weighting would entirely eliminate the special education deficit. But this increase would reduce the special education deficit, and the amount of MAG granted for negative special education balances. However, the SBRC may be hesitant to approve a weighting change that would significantly change school aid funding amounts without legislative approval.

The Iowa General Assembly may want to review the following alternatives addressing the special education balances issue.

**Take no action:** The impact of this is unknown. As noted previously, although the SBRC has discretion to change special education weightings, future SBRC action is uncertain. Additionally, special education expenditures and balances fluctuate annually and predicting future balances is difficult. Uncertain economic conditions, school aid funding levels, and unauthorized use of special education funding may have led to the high level of negative special education fund balances and may soften in future fiscal years.

**Increase the special education weighting levels:** This alternative is similar to the option that is available to the SBRC, however legislative action is not restricted to a 0.2 cap provision that applies to the SBRC. The overall costs depend on the change to specific weighting levels. School aid funding levels may be increased (including state aid and local property taxes) as a result of this alternative. However, this alternative may reduce the amount of MAG granted for negative special education balances.

**Add additional weighting levels:** Another alternative is to provide additional special education weighting levels beyond the three levels currently in place. The overall costs would depend on

the added weighting levels. School aid funding levels may be increased (including state aid and local property taxes) as a result of this alternative. However, this alternative may reduce the amount of MAG granted for negative special education balances.

**Create a General Fund appropriation provision for the negative balance amount:** This alternative eliminates a property tax increase to fund the amount of MAG granted for a negative special education balance. The cost impact is unknown, but would increase General Fund expenditures and likely reduce local property taxes. Based on the FY 2007 through FY 2012 information and factoring in the reallocated positive balance, the impact would require General Fund expenditures ranging between \$25.1 million and \$48.8 million, but would likely offset local property tax by a similar amount.

The alternatives presented are not all inclusive. The Legislative Services Agency can provide cost estimates on additional alternatives upon request.

Note: The LSA would like to acknowledge and thank the staff of the Department of Education, Bureau of Finance, Facilities, Operation, and Transportation Services, for their assistance and input in the production of this **Issue Review**.

STAFF CONTACT: Shawn Snyder (515-281-7799) [shawn.snyder@legis.iowa.gov](mailto:shawn.snyder@legis.iowa.gov)



## **Attachment A**

### **The process that the School Budget Review Committee (SBRC) uses to determine special education balances and how it works:**

The SBRC determines for each school district and each special education weighting level, if the amount of special education weighting receipts plus non-federal revenues for special education were greater than or less than special education non-federal expenditure. The calculation is the amount of funding generated through the school aid formula plus revenues for special education from non-federal sources less special education expenditures from non-federal sources. This information is used to determine if the weightings are adequate.

Next, the SBRC determines the positive or negative special education balance for each school district – the calculation is the amount of funding generated through the school aid formula plus other revenues from non-federal sources for special education, plus the prior year carryover, less special education expenditures for non-federal sources.

#### **If negative – this is a negative special education balance:**

- If this amount is negative, it represents the modified allowable growth amount that may be requested for the special education deficit.
- The district does not have any excess funding to be redistributed by the Department of Management (DOM).

#### **If positive – this is a positive special education balance:**

- If this amount is positive, a maximum allowed carryover amount is calculated (based on 10.0% of the fiscal year's funding generated from the special education weighting).
- If the positive balance is more than the maximum allowed carryover amount, the DOM will determine that excess amount and redistribute those excess funds. The State aid portion of these funds (87.5% of the state cost per pupil) are allocated to school districts that are granted modified allowable growth for negative special education balances. The DOM makes an additional adjustment to the other portion of the funds (which are property taxes) that reduces following year property taxes for the districts that are required to redistribute special education funds and replaces that adjusted amount with State dollars (there is no fiscal impact due to this adjustment).
- If the positive balance is less than the maximum allowed carryover amount, that positive balance amount is the new carryover amount for the next fiscal year and no funds are redistributed.