New America Education Policy Brief

FEDERAL FUNDING FOR STUDENTS WITH DISABILITIES

The Evolution of Federal Special Education Finance in the United States

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CONTENTS

INTRODUCTION

Nearly 6.5 million students in the United States ages 3 through 21 are currently classified as requiring special education. Those students have physical, developmental, and emotional disabilities that make educational endeavors more challenging for teachers, administrators, and the students themselves. Yet historically, the needs of special education students were met sporadically if at all. Parents were frequently left to fend for themselves and their children within the education system.

In the 1960s, the federal government made an historic entrée into the field as part of the Great Society initiatives, launching a legislative effort that would ultimately become the Individuals with Disabilities Education Act (IDEA). Special education students' rights were won through political and courtroom battles that resulted in the establishment of laws and principles protecting all students with disabilities. Today, the law governs states' obligations to students with special needs and defines the federal role in providing services to those children. All students with disabilities are guaranteed the right to a "free appropriate public education" in the "least restrictive environment" possible.[1] Ninety-five percent of all children ages 6 through 21 served under Part B of IDEA spend at least some portion of the school day in regular classrooms, and nearly 60 percent of those students are in mainstream classes for at least 80 percent of the day.[2] By many measures, the law has been a success.

There is, however, another looming component to federal special education law that cannot be ignored: finance. Providing a free and appropriate public education to many children with disabilities is costly, often requiring equipment, training for teachers, and facilities distinct from the needs of mainstream students. These expenses can vary dramatically, depending on the student's specific disability and needs, making it difficult to budget for costs. Were the federal government to provide its promised "full funding" of special education—40 percent of the average per pupil expenditure—it would mark an unprecedented subsidy, far beyond the bounds of what Congress provides, proportionately speaking, to most PreK-12 educational activities.

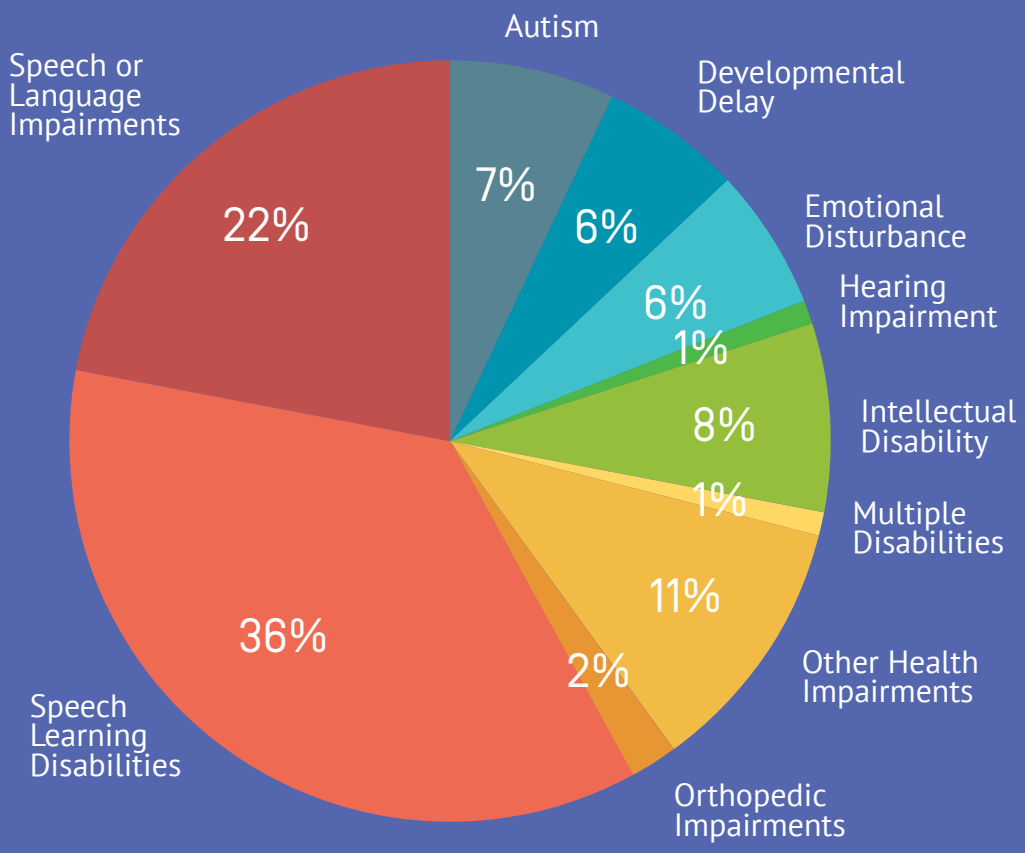
Schools, districts, and states also face challenges in identifying special education students, both to determine who requires additional services and to calculate the costs of their education. In contrast to the identification of other at-risk children, such as those in poverty, special education determinations require expertise, judgment, and a level of subjectivity. Because federal subsidies for special education total $11.5 billion per year and schools themselves are at the center of the identification process, financial incentives can encourage schools to identify students as requiring special education who may not, in fact, need those services. Historically, over-identification has been particularly acute among minority students.

In response, Congress moved away from a funding model based on the raw number of special education students in 1997 and instead adopted a new model that relies on a base year of funding, plus an additional subsidy based on a state's total population and its population of children living in poverty. But this formula was also vulnerable to the politics of state and local self-interest. In response to concerns from states (and among their representatives on Capitol Hill), Congress ensured, effectively, that no state could ever receive less money than it had been previously granted. Meanwhile, the overall level of special education funding was subject to annual competition with other federal priorities, education and otherwise, and a belt-tightening atmosphere in the nation's capital. Congress's ability to keep up with a reauthorization or appropriations schedule deteriorated markedly over time, leaving special education providers scrambling to keep up with new research in policy implementation while advocating for funds. IDEA was last reauthorized in 2004, and expired in 2009. The law's overdue reauthorization has received little attention from policymakers over those years and has made effectively no legislative progress.

As a result, the flaws in the existing federal funding formula have steadily compounded, to the detriment

Figure 1: Percentage Distribution of Children Served Under IDEA Part B

Source: Digest of Education Statistics[3]



of highly vulnerable students. This report presents a detailed analysis of federal special education finance data for more than 9,000 school districts across the United States. It suggests that the stated priorities of the federal grants to states—population- and poverty-based funding—are often abandoned in light of certain other provisions of the formula. Meanwhile, federal formulas grow further from states' realities every year. Lawmakers continue to spend $11.5 billion annually on special education in accordance with the outdated formula (and states and school districts spend much more). With the passage of time, a relatively minor problem has become a large one.

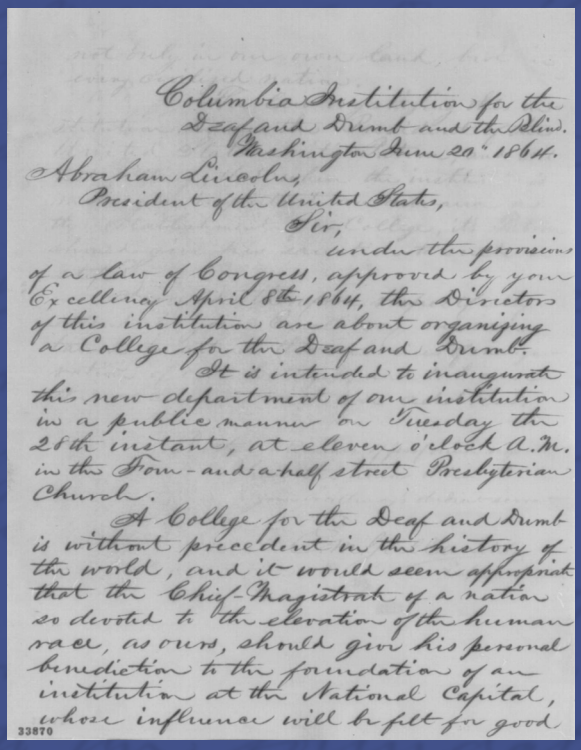
For example, Reynolds School District, located outside of Portland, Oregon, was awarded about $156 per child in fiscal year 2011. Meanwhile, across the country in Rhode Island's Glocester Elementary School District, the federal IDEA formula allocated the equivalent of about $351 per student – well over twice the amount per student awarded to Reynolds. Similar disparities are replicated across thousands of students in more than 1,800 districts within our sample. That fact raises questions about the nature of the formula, and should generate a sense of urgency on Capitol Hill to update the formula and even out the disparities across the nation.

As Congress begins to consider reauthorization of the law, it is in an entirely different context. A persistent recession, public concern about the national debt, and a growing focus on accountability for federal funds will demand that lawmakers prioritize efficiency of spending above all else. To fulfill their historic promise to student with disabilities and their families, lawmakers must modernize the critical funding mechanisms that help educate students whose needs have never been greater.

Figure 2: Formation of the First Postsecondary Institution for Special Needs in the United States

Invitation from Edward M. Gallaudet to Abraham Lincoln on June 20, 1864 to attend dedication of college for the deaf. Now called Gallaudet University, the school receives a line-item appropriation in the Department of Education's budget.

Source: Library of Congress



Columbia Institution for the
Deaf and Dumb and the Blind.
Washington June 20th 1864.

Abraham Lincoln,
President of the United States,
Sir,

Under the provisions of a law of Congress, approved by your Excellency April 8th 1864, the Directors of this institution are about organizing a College for the Deaf and Dumb.

It is intended to inaugurate this new department of our institution in a public manner on Tuesday the 28th instant, at eleven o'clock A.M. in the Four-and-a-half street Presbyterian Church.

A College for the Deaf and Dumb is without precedent in the history of the world, and it would seem appropriate that the Chief-Magistrate of a nation so devoted to the elevation of the human race, as ours, should give his personal benediction to the foundation of an institution at the National Capital, whose influence will be felt for good

33870

A BRIEF HISTORY OF SPECIAL EDUCATION FUNDING

In 1679, one Rowley, Massachusetts church went so far as to label a local teacher named Phillip Nelson blasphemous for his efforts to "cure" his deaf student, Isaac Kilbourne. Blasphemy, in this case, likely meant he tried to teach the child to speak.[4] Treatment of disabled children ranged from bad to worse in many cases, including eugenics practices like forced segregation and sterilization.[5] Students with disabilities were not guaranteed the right to a public education until a series of successful court rulings on the part of students with disabilities and their parents, and then, in 1975, with passage of the Education for All Handicapped Children Act. Prior to that, most of the eight million children identified as disabled were denied educational opportunities.[6]

Special education developed slowly throughout the U.S. Nearly two centuries after Kilbourne was criminally charged with teaching a special needs student, President Abraham Lincoln signed into law an 1864 act of Congress authorizing the Columbia Institution for the Instruction of the Deaf and Dumb and Blind, now called Gallaudet University (see Figure 2).[7] Some schools began to offer classes for K-12 students with mental disabilities in the late 1800s and early twentieth century, though most of the classes were conducted entirely separately from education for other children, and few offered much assistance for physically disabled students.[8] Sterilization policies remained in place for disabled people in more than half of states, even through the 1950s.[9]

The Development of Special Education Legislation

Congress made its first intercession into PreK-12 special education with the Elementary and Secondary Education Act Amendments of 1966 (ESEA).[10] The bill included a new Title VI provision to the Elementary and Secondary Education Act of 1965, known as the Education of Handicapped Children Act, which established a two-year, $3.5 million program to provide formula grants to states for the education of special needs students. Funding was offered to states based on their populations of children ages 3 through 21 (see Figure 3).[11]

Only a few years later, lawmakers extended their efforts under ESEA and passed the Education of the Handicapped Act of 1969, a more comprehensive extension of 1966's Title VI of ESEA.[12] In addition to providing a $630 million, three-year funding commitment for special education grants to states that continued to appropriate funds on the basis of the state's student population (ages 3 through 21), the bill incorporated a new provision: a small-state minimum. No state could receive less than the greater of $200,000 or three-tenths of 1 percent of the total federal allocation for state grants, largely a political decision. The funding caveat was the start of lawmakers' manipulation of special education dollars, but it would not be the end.

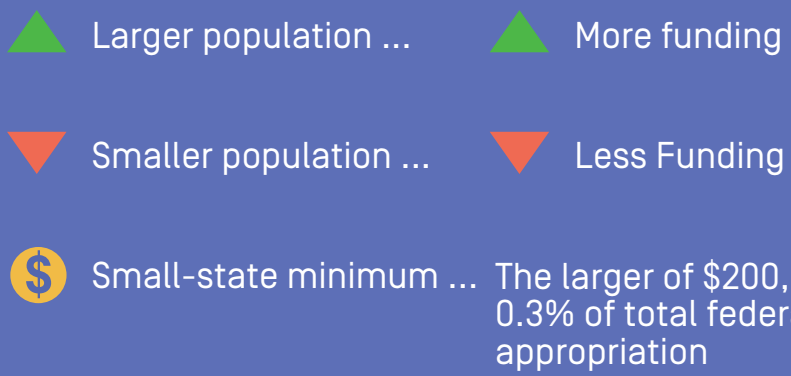
Outside Efforts to Improve Special Education

While members of Congress were busy passing consecutive pieces of legislation to extend incremental rights to students with disabilities, parents of those students were working on parallel efforts to improve educational offerings for their children with disabilities. Prompted by the civil rights movement and its success in the Brown v. Board of Education case, parents of children with disabilities turned to the courts for a legal remedy to the lack of full educational opportunities for special education students. Two federal court cases, Pennsylvania Association for Retarded Children v. Pennsylvania in 1971 and Mills v. Board of Education of the District of Columbia in 1972, found that students with disabilities had the right to a "free appropriate public education" in the least restrictive environment. The landmark cases were followed up with dozens more around the country.[13]

Despite the significant work of advocates in and out of the courtroom, though, a 1975 report by the Congressional Research Service found that only 3.9 million of 8 million children with disabilities were receiving an appropriate education. Approximately 2.5

Figure 3: Federal Special Education Funding Formula, 1969

Source: New America Foundation, P.L. 89-750



Figures 4: History of Free Appropriate Public Education (FAPE)

Sources: New America; Wrightslaw[14]

1971-2 *PARC v. Pennsylvania* **(1971) and *Mills v. Board of Education* (1972) held that special education students had the right to a free public education.**

1975 *Education for all Handicapped Children Act* **(1975) first defined FAPE and listed rights of students with disabilities.**

1980 **FAPE upheld by the courts in** *Rowley v. Board of Education* **(1980).**

million were not receiving an appropriate education, while 1.75 million were not being educated at all.[15]

Given that full special education rights often remained a victory in name only, and thanks in large part to the efforts of parents, Congress built on its efforts to educate K—12 special education students with the Education Amendments of 1974, which amended the Elementary and Secondary Education Act's Education of the Handicapped Act and formed a preliminary step to the full federal guarantee of educational opportunity to students with disabilities.[16]

Congress Returns to Special Education Law

The next year, legislators answered the call for more action with the passage of the Education for All Handicapped Children Act of 1975.[17] Here, finally, was the first modern federal special education law in the United States. Citing the huge ranks of children with disabilities who were denied full educational opportunities, it guaranteed a "free appropriate public education" (FAPE) to all children with disabilities aged 3 to 21.

However, the costs of such an education are not insignificant. At the time of passage of the original 1975 law, it was estimated that the cost of special education was roughly twice the cost of education for non-special education students. Congress agreed that as much as 40 percent of that excess cost could be covered by the federal government. (To date, Congress has never "fully funded" the complete cost of special education; see page 15 for more.)

Thus, in addition to its significant and wide-ranging provisions, the 1975 bill fundamentally altered the federal funding formula for special education. Rather than basing the formula on a state's total population of students, it used a census of children with disabilities. The bill phased in the full funding amount it intended to provide, so that ultimately in fiscal year 1982 and every year thereafter, states could receive an amount equal to the number of students with disabilities times 40 percent of the country's average per pupil expenditure for K—12 education (see Figure 5). No state could receive less than it did in fiscal year 1977. If Congress did not appropriate sufficient dollars to fund the full 40 percent of the average per pupil expenditure, each state's award would be reduced proportionally to reach the appropriated amount.

The clear problem with that formula is that it rewards states that identify more special education students with more funding. In essence, it offers an incentive to identify more students as in need of special education, rather than to help special education students return to mainstream education. After several years and multiple rounds of amendments to the federal special education law, over-identification of special education students was among the concerns that led lawmakers to reform the funding formula yet again.

In 1997, Congress replaced the 1975 formula with the one still in effect today, at least in essence. The new formula was designed to resolve many of the over-identification concerns — but instead, it brought renewed questions about insufficient resources.

The 1997 amendments phased in a new formula. The permanent formula was set to be implemented in the year the federal appropriation for the program first exceeded $4.9 billion — as it happens, fiscal year 2000. The new permanent formula guaranteed states at least a "base year" amount. The base year amount was defined as the year before the new formula took effect, in this case fiscal year 1999.[18]

If Congress allocated more funding to the program than it had the year before (as was the case in nearly every year following the 1997 reauthorization, until funding peaked in 2009 with passage of the American Recovery and Reinvestment Act and then leveled off near pre-Recovery Act levels), funding over the base year amount would be allocated to states on the basis of population and poverty. Eighty-five percent of the extra funds were awarded based on the state's share of all children aged 3 through 21, not just special education children. The remaining 15 percent was divided by each state's share of those children living in poverty.[19] (See Figure 6.) The grant formula maintained the maximum award size of 40 percent of the average per-pupil expenditure.

The new formula reoriented the relative importance of poverty over that of special education enrollment. In part, this was a reaction to overrepresentation of minorities in special education programs. African-American students, in particular, comprised about 15 percent of the school-aged population in 2002 but made up about 20 percent of those identified as students with disabilities.[20] Staff members for the House Education and the Workforce Committee reiterated the point in a report related to the legislation, writing that "[w]hile it is unlikely that individual educators ever identify children for the additional funding that such [special education] identification brings, the financial incentive [of a child count system] reduces the proactive scrutiny that such referrals would receive if they did not have the additional monetary benefit."[21] The delicate balance of appropriately identifying students who should be eligible for federally funded special education services led lawmakers away from an identification-oriented system. The new, population- and poverty-based formula was suggested, in part, by a 1994 report published by the Inspector General of the Department of Education.[22]

Still, the results were not universally popular. The new formula was far more complex to accurately administer. A report by the National Association of State Directors of Special Education found that three of nine states surveyed by the organization indicated some school districts had seen a reduction in IDEA funds as a result of the new formula. Four of the remaining states indicated some districts had smaller increases than others because of the formula; of those, one expressed concern that the formula would perpetuate funding disparities. Moreover, the new formula was highly reliant on certain data points, and several states expressed concern about missing or inaccurate data from states that might skew the funding allocations.[23]

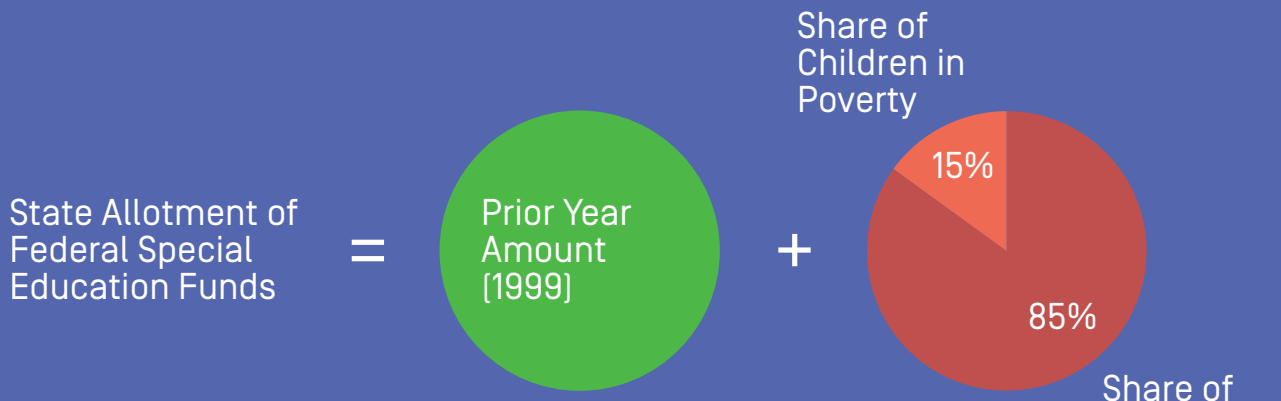
Figure 5: State Funding Formula, Education for All Handicapped Children Act, 1975

Sources: New America, P.L. 94-142

* Base year: Fiscal Year 1977

Figure 6: State Funding Formula, IDEA Amendments, 1997

Sources: New America, P.L. 105-17



$ Small-state minimum ... Defined as the greatest of three formulas

THE INDIVIDUALS WITH DISABILITIES EDUCATION ACT TODAY

The current law, last reauthorized in 2004, allocates funds to states in essentially the same way as it has since the 1997 amendments' permanent formula took effect. That 2004 formula was largely a response to concerns about over-identification of students for special education. States may receive up to 40 percent of the country's average per-pupil expenditure, adjusted for changes to both the state's population of children ages 3 through 21 and its share of children living in poverty, and multiplied by the number of children with disabilities identified by the state in the 2004—05 school year (6.7 million nationwide).[24]

However, separate provisions were written into the law to define the specific allocations given to states. The first accounts for increases or level funding in the amount Congress allocates to the program; the second accounts for decreases in funding. These provisions are key, given that Congress rarely flat-funds the program entirely. In fact, Congress increased funding every year from 1996 through 2010, sometimes by relatively significant amounts.[25] In recent years, the Budget Control Act of 2011, which set in motion a chain of events that resulted in annual spending caps for appropriations dollars and a series of across-the-board cuts ("sequestration"), has meant reduced funding, even for IDEA, one of the largest federal PreK—12 programs.

Increases in Federal Funding for IDEA

If Congress appropriates funding that exceeds or matches the amount provided in the prior fiscal year, the awards are made according to a separate funding formula. Every state is guaranteed at least the amount it received in the prior year under §611 of Part B of the Individuals with Disabilities Education Act. However, any funds Congress appropriates above its fiscal year 1999 appropriation are distributed on the basis of both population and poverty. It uses the same formula as in the 1997 version of the law: Eighty-five percent of the funds are distributed according to each state's relative share of all children ages 3 through 21, and the remaining 15 percent are awarded according to each state's relative share of those children living in poverty. To determine the poverty level, the Department of Education uses data from the U.S. Census Bureau.[26]

The system is not as simple as it sounds. States are limited by minimum—and maximum—award amounts that form the basis for their annual federal IDEA allocations. State award minimums are determined according to the greatest of three calculations:

1. Fiscal year 1999 award levels, plus one-third of one percent of the difference between the state's prior-year award level and its 1999 award level

2. Prior-year award levels, plus the prior-year amount multiplied by any percentage increase in total IDEA funds from the prior year over 1.5 percent

3. Prior-year award levels, plus the prior-year amount multiplied by 90 percent of the percentage increase in total IDEA Part B funds from the prior year

Take State A, for example. Let us say State A received $190 million through the IDEA Part B State Grants program in 2013, and $73 million in fiscal year 1999. Meanwhile, Congress allocated $5.3 billion in 1999 and $12.6 billion in 2013 to the IDEA program.

To calculate the state's expected fiscal year 2014 grant, we need to perform each of the above three calculations and find the highest-possible award. In this case, that number occurs with the third calculation, using the prior-year award amount and 90 percent of the percentage increase in funds. This is largely because Congress's total funding increased by more than 1.5 percent.

1. Fiscal year 1999 award levels ($73 million), plus one-third of one percent (.003) of the difference between the state's prior-year award level ($190 million) and its 1999 award level ($73 million) = $73.4 million

Figure 7: Example Federal IDEA Part B State Grant Award [$ millions]

Source: New America

Fiscal Year	Total Federal Appropriation for State Grants ($)	'State A' Appropriation
1999	$5,300	$73
2012	$12,500	$188
2013	$12,600	$190
2014	$12,800	?

2. Prior-year award levels ($190 million), plus the prior-year amount ($190 million) multiplied by any percentage increase in total IDEA funds from the prior year over 1.5 percent (.087 percent) = $190.2 million

3. Prior-year award levels ($190 million), plus the prior-year amount ($190 million) multiplied by 90 percent of the percentage increase in total IDEA part B funds from the prior year (1.43 percent) = $192.7 million

Thus, the state's minimum fiscal year 2014 award, given the overall IDEA allocation and the size of State A's prior-year award, as well as the increase in the funding provided to the federal program, must be at least $192.7 million. Should the IDEA allocation be insufficient to support the state's minimum award completely, the amount is reduced by a proportional percentage ("ratably reduced").

The state's maximum award, on the other hand, follows only one relatively simple calculation. It is defined using the prior-year award amount for the state and the amount Congress appropriated for the IDEA program in the current and prior years. To perform the calculation for State A:

A state's prior-year award level ($190 million), plus that amount ($190 million) * (1.5 percent + the percentage increase in the amount appropriated for IDEA grants since the prior year [1.587 percent] = 3.087 percent) = $195.9 million

If funding provided by Congress to the IDEA Part B State Grants program is not sufficient to fully fund the maximum awards, but exceeds the minimum award level needed, the awards are determined by proportionally reducing the size of the maximum award for each state.

In fiscal year 2013, prior to sequestration's implementation, the Department of Education awarded grants to every state. The District of Columbia and the state of Vermont received the least funding, at $16.3 million and $25.5 million, respectively. California received the most, at $1.2 billion.[27]

Moreover, each state may reserve an amount for the administrative costs of implementing the program and for other key efforts to improve quality and access to special education, as well as certain other purposes. States may, at most, set aside the greater of either $800,000 or the amount the state set aside in fiscal year 2004, adjusted according to the Consumer Price Index. Additionally, states may conduct their own special education activities, including technical assistance, providing educational technology resources, and developing other accommodations and programs for special education students.

Decreases in Federal Funding for IDEA

If, on the other hand, the amount Congress provides to IDEA through the annual appropriations process is less than or equal to the amount it provided in fiscal year 1999 ($4.3 billion), a separate calculation applies. The amount each state received in fiscal year 1999 is reduced proportionally, in accordance with the amount of the reduction in overall funding for the program. To date, spending on IDEA Part B State Grants has not fallen below fiscal year 1999 levels. In fact, at $11.5 billion in fiscal year 2014, funding is nearly three times what it was in 1999.

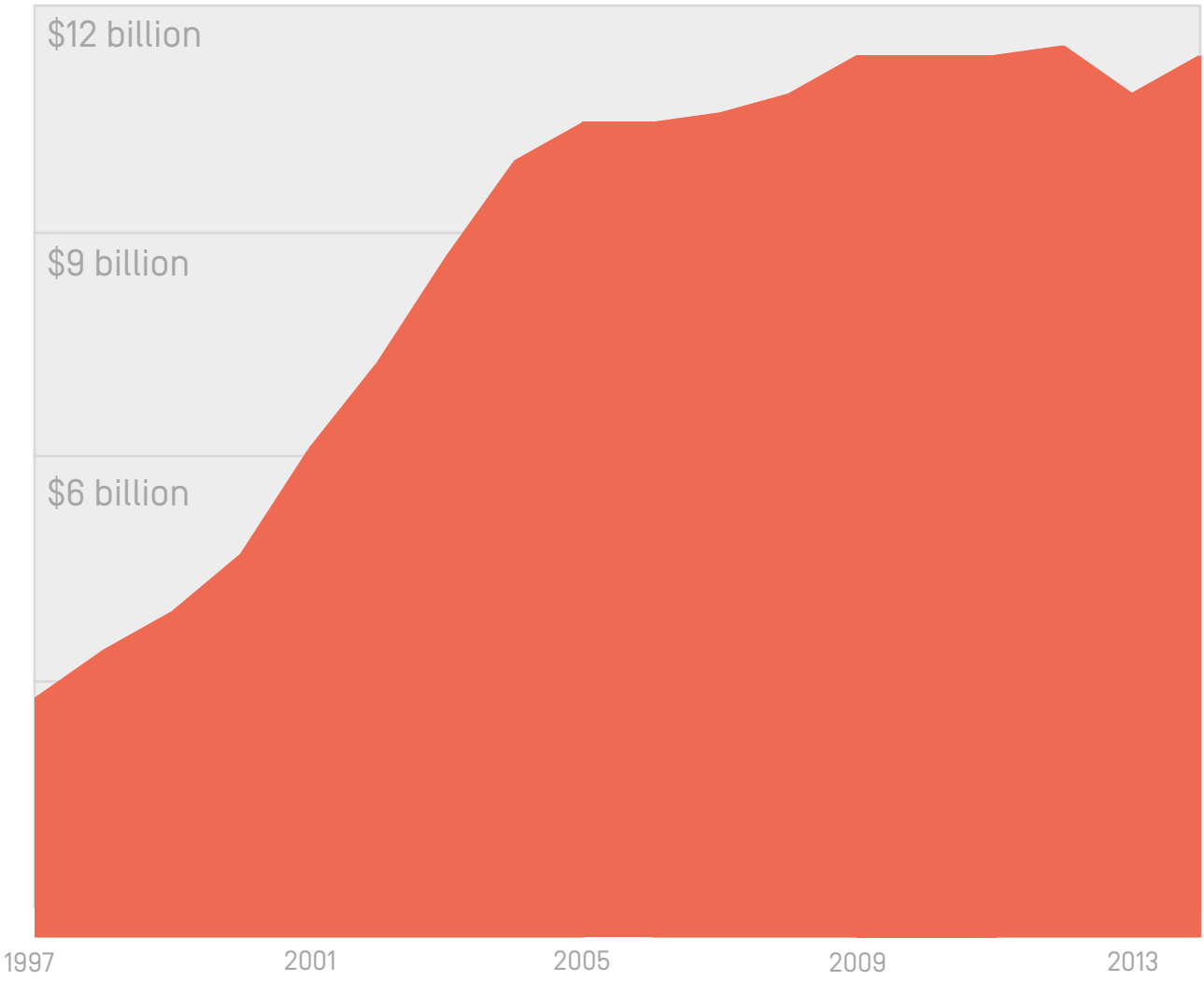
Discussion of State Grant Funding Formula

The funding formulas used to calculate the IDEA Part B State Grant awards are fairly opaque and difficult to understand. However, legislative interests piled onto the program during the development of the state funding formula awards are not difficult to spot. Two provisions, in particular—small-state minimums and hold-harmless provisions—are prime examples of legislative rigging of the sort that permeates most federal programs, at a substantial cost to other states.

Figure 8: Federal IDEA Part B State Grants Funding

Source: New America, U.S. Department of Education

Note: Does not include $11.3 billion in fiscal year 2009 funding provided under the American Recovery and Reinvestment Act



Small-State Minimum

The minimum state funding amount under the Individuals with Disabilities Education Act, wherein no state can receive less than the greatest of three funding formulas, acts as a "small state" minimum. Moreover, a separate provision allows states with low maximum set-asides for administrative purposes—those at or below $850,000—to reserve a higher proportion of its funds for administration. Both elements of the law are intended to protect and disproportionately benefit small states, which might be at a disadvantage were the formula determined entirely based on either the relative population of children in the state or on the population of special education students.

Perhaps the most notorious legislative example of small state minimums is in federal highway dollars.[29] Federal tax dollars are supposed to be distributed according to need. But a standalone program called the "equity bonus" program distributes more than $9.5 billion from the fund to states that cannot demonstrate high needs for highway dollars.[30] The small-state minimums function essentially the same way under IDEA, albeit less visibly. Small states are guaranteed a calculated amount of money regardless of whether the formula requires it. Therefore, those small states receive disproportionately large amounts of funding, limiting larger, needier states' access to those scarce federal dollars.

Hold-Harmless Provision

The provision that "no State's allocation shall be less than its allocation under this section for the preceding fiscal year" is known as the "hold harmless provision" – another political mechanism to ensure that even states with less need for federal funding (for example, those with lower poverty rates or lower populations of school-aged children, or both) continue to receive equivalent funding amounts to their prior-year award sizes. These provisions exist in many federal programs in addition to IDEA, including Title I of the Elementary and Secondary Education Act, which offers grants for disadvantaged students.

Hold-harmless provisions are explicitly designed to mask demographic or population shifts that would otherwise lower the amount of funding. Under the Individuals with Disabilities Education Act, states that should receive lower federal allocations than they did the previous year because of a declining population or lower poverty rates are instead over-funded, relatively speaking. Consequently, award sizes to states with growing populations and/or poverty rates are reduced to account for the outsized awards to "hold-harmless" states.

Subgrants to School Districts

Once states have received the federal dollars and reserved a portion for statewide activities, they are required to distribute the funds to school districts or public charter schools that operate as local educational agencies. As with the statewide distribution formula, the funds are disbursed according to a mix of formulas.

First, each school district must receive a base amount equal to the district's would-be fiscal year 1999 allocation. Any remaining funds thereafter are distributed according to population and poverty: 85 percent of the funds left over are based on the share of children enrolled in public or private schools within the school district's geographical boundaries, and 15 percent are awarded on the basis of the share of children living in poverty as determined by the state. If the state contains districts that do not require their full award in order to provide a free appropriate public education, the state may reallocate those dollars to other local educational agencies.

State Spending on Special Education

Federal dollars do not, however, make up the bulk of spending on special education services. A survey from the Center on Special Education Finance, conducted for the 1999—2000 school year, found that state dollars comprise about 45 percent of all special education dollars, with local dollars making up an effectively equal amount and federal dollars totaling only 9 percent of state dollars.[31] No more recent data are available to indicate shifts in the responsibility for funding special education services.

The state and local shares of funding do, however, represent a significant shift from earlier estimates. An estimate of the 1987—1988 school year found that states covered 56 percent of the total cost of special education, while local governments covered only 36 percent and federal funds totaled only 8 percent.[32] However, rapid growth in the identification of students with certain disabilities and related growing overall costs of special education appear to have dramatically outpaced states' willingness to contribute more and more resources.[33] Instead, school districts began to bear an increasing share of the costs.

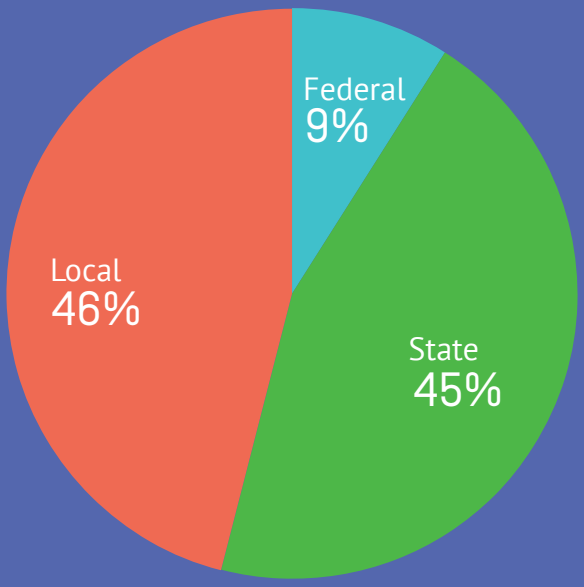
Moreover, states have each developed funding formulas by which they allocate their own funds to school districts. (Federal dollars are distributed to local educational agencies in accordance with the same formula as Congress allocates funds to states, albeit sometimes using different data sources.) Those formulas may, in effect, further dilute the impact of the federal population-and-poverty formula detailed under IDEA by compensating districts that receive fewer IDEA funds with state dollars. Such an analysis is outside the scope of this report, which focuses strictly on federal dollars, but the potential implications of state dollars, as nearly half of all special education spending in the most recent estimates, cannot be ignored. According to the Center on Special Education Finance, those funding formulas include:

Pupil weights: Each special education student is assigned a weight based on the severity of the disability, and funding from the state is allocated by student.

Flat grant: The state establishes a fixed amount per special education student and allocates funding based on the number of children enrolled in special education.

Figure 9: Sources of Funding for Special Education, 1999-2000

Sources: New America, Center on Special Education Finance



Census-based: The state establishes a fixed amount, but allocates funding based on the total number of children enrolled in the district, not the number of special education students.

Resource-based: The state calculates the resource needs (for example, teachers or classroom space needed) of students based on their disabilities, and awards based on the weights of special education-enrolled students.

Percentage reimbursement: School districts are reimbursed for their special education expenditures, either as the full cost of providing services or as some reduced percentage.

Variable block grant: Funding is provided, at least in part, in accordance with set base year funding, expenditures, or enrollment, sometimes with room for growth in enrollment or revenue.

As of the 1999—2000 CSEF survey, 17 states used pupil weights. The other formulas were relatively evenly divided in usage: nine used census-based approaches; six used percentage reimbursement; six used resource-based formulas; four used variable block grants; and one, North Carolina, used the flat grant. The other seven states used a combination of those approaches.[34]

A more recent version of the survey is not available. However, a 2011 study published in the Education Policy Analysis Archives used a similar grouping and found that most states (21 of them) used a weighting or per-pupil measure.[35] Ten used a form of cost reimbursement; six used a unit structure, in which schools are paid for teachers on the basis of the number of students served; and five used a census formula based on the district's total enrollment. Fourteen states, including some that used more than one funding distribution structure, had another, unidentified system in place, including a block grant to districts. Moreover, a 2013 survey of 34 states conducted by Whiteboard Advisors, the Foundation for Excellence in Education, and the National Association of State Directors of Special Education found that few states had changed their formulas in recent years. Most used pupil weights, census-based, and combination formulas.[36]

Aside from the precise breakdown of state methods of financing special education, however, the results of the CSEF state survey depict huge variation in how states award funding. Some of them use approaches that promise school districts more funding for more special education students, which may encourage over-identification of students. Others use a method similar to the federal formula, instituting a base amount of funding per district and/or allocating funds by the full population of students rather than the special education subset. These carry the promise of avoiding perverse incentives for over-identification of special needs students, but also force districts with higher proportions of special education students, frequently higher-poverty districts, to bear the additional costs of educating their students, or to cut corners elsewhere to trim costs.

Maintenance of Effort Requirements

Maintenance of effort (MOE) provisions, another hallmark of large education programs, require each state and school district to demonstrate an equal or higher amount of state spending each year to access federal dollars, or to receive a waiver from the administering agency. For states, that means that federal dollars are buttressed with sufficient state dollars to continue providing services of level quality and access from year to year. The MOE provision acts as a safeguard to prevent states from shirking their responsibilities to provide a free and appropriate public education to special needs students, and is rigidly enforced, with few exceptions.[37]

However, establishing a floor on the minimum amount of state and local dollars provided also means that changes in school districts' needs, due to demographic or population shifts, are not fully represented in funding decisions. Whereas Title I grants for disadvantaged students instead require school districts to meet only 90 percent of the prior year's level of state and local dollars, IDEA is less flexible and requires a full, 100 percent commitment to funding.[38]

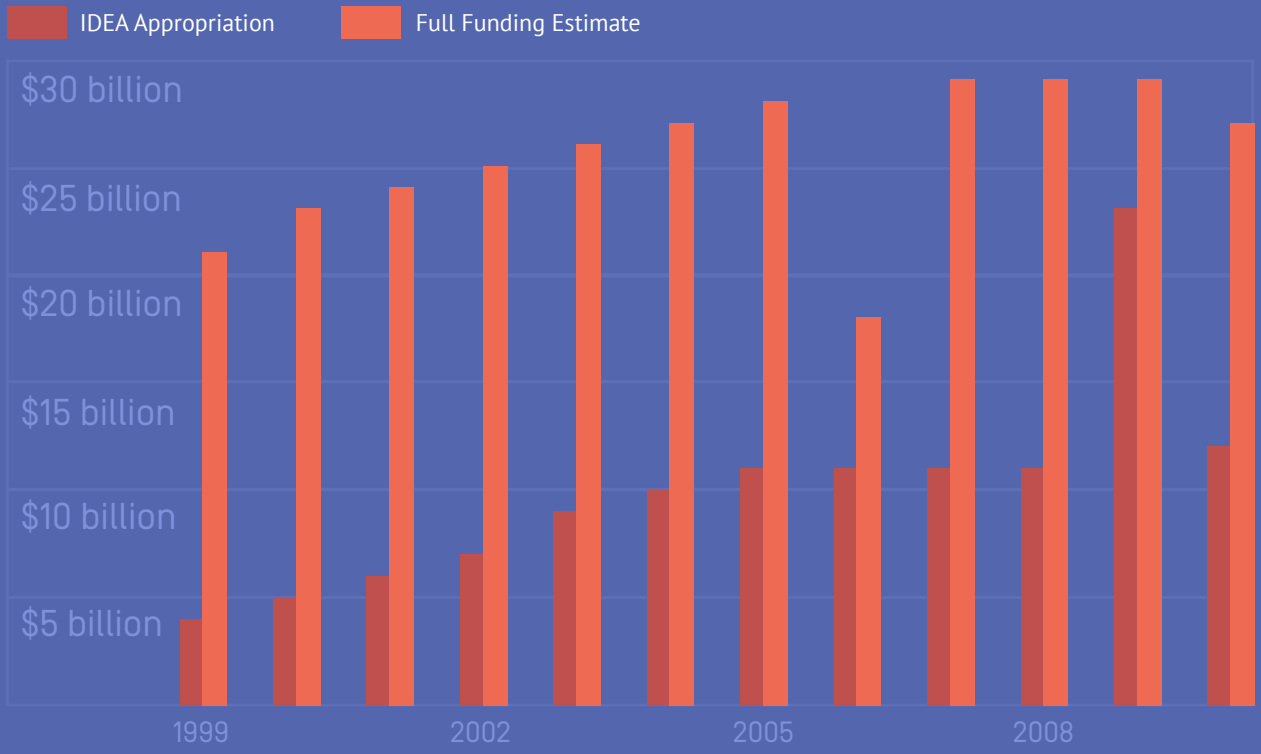
States may appeal their maintenance of effort requirements in isolated circumstances. However, some states' attempts to exercise the waiver process for maintenance of effort have been resoundingly rejected.[39]

South Carolina, for example, received a waiver in 2008, because in that year, its cuts to special education were relatively smaller than its cuts to other programs. However, in 2009, its $67 million cut in state funding for special education apparently did not meet the Department of Education's standards. It comprised a 12 percent decline in special education dollars, which the state justified by pointing to a 4.7 percent decline in state tax revenue. Thus, the U.S. Department of Education cut the state's fiscal year 2012 federal allocation under IDEA by $36 million, equivalent to the size of the 2008 gap in funding. An additional proposed cut in state funding for special education in fiscal year 2010 was revised after the Department announced the state would not receive a waiver for the sizeable $67 million cuts it had requested, particularly since state revenue had already begun to inch up by that point.[40] The state instead lowered the amount of the requested cuts, and was granted the waiver.

Other states have received flexibility through the IDEA Maintenance of Effort waivers in recent years. From fiscal year 2009 through fiscal year 2011, six waivers were issued, to Alabama ($9.2 million), Iowa ($38.1 million), Kansas ($53.3), New Jersey ($25.7 million), South Carolina ($31.2 million), and West Virginia ($0.5 million).[41]

Figure 10: IDEA Part B Appropriation vs. Full Funding Estimate

Sources: Federal Education Budget Project; U.S. Department of Education's National Center on Education Statistics.[42] Department of Education Budget Justifications 2015. Note: 2009 figures include ARRA spending.



Full Funding

The statute authorizing the Individuals with Disabilities Education Act says that the maximum amount a state may receive under the IDEA Part B state grants provision is 40 percent of the average national per-pupil expenditure per special education student, multiplied by the number of children with disabilities and adjusted for the state's yearly changes in population and poverty rate. The number of children identified as special needs cannot exceed 12 percent of the state's total student population. The policy is known as "full funding:" the full authorized amount of funding per special education student. Some have argued that the government has obligated itself to fully fund special education by setting 40 percent of average per-pupil expenditure (APPE) as the maximum allowable grant.

The "full funding" provision would seem to run contrary to the program's overall goals of avoiding over-identification of special education students. However, Congress has never appropriated sufficient sums to reach those maximum costs. In fiscal year 2012, federal funding covered about 16 percent of the estimated additional costs of education special education students. At no point since either of the last two IDEA reauthorization bills has Congress covered more than 33 percent of the additional cost, a peak that came with the addition of federal stimulus dollars in 2009.

Though states and school districts must fill in the gaps between the educational services they must provide and the costs that the federal special education appropriation covers, the Individuals with Disabilities Education Act is not technically considered an unfunded mandate. Although it is underfunded when compared to full funding estimates, it has always been, and remains, an optional program for states. One state, New Mexico, did not opt into the program when it began in 1975; in 1984, it reversed course and joined the state grants program. Still, despite being a voluntary program, federal dollars for states' special education are likely too significant for states to decide they are unwelcome, particularly given that courts would still require states to provide free and appropriate public education to all special education students. No state has opted out since New Mexico's entry into the program, though it remains an option for all states.

IDEA DATA ANALYSIS

The federal government's formula for special education dollars is designed to ensure those who need special education services receive them, as well as to avoid incentives that would result in enrolling more children in special education than actually require those services. That is no small task, given how much the cost of providing special education services may vary depending on the child's disability.[43] However, states tend to have similar rates of special education identification, ranging from about 10 percent to 15 percent.[44] Given that relative uniformity across states, lawmakers sought to create a formula that accounted for the size of a state and a school district, and to a lesser degree, the poverty rate of each.

Under the current formula, once the federal government distributes funding a pot of money to each state, state education agencies (SEAs) distribute funding to school districts. SEAs award the dollars through the same formula—a 1999 level of base-year funding to each school district, with the remaining funds awarded on the basis of population and poverty (85 and 15 percent, respectively). That trickle-down effect may water down school districts' claims to federal dollars on the basis of enrollment and poverty; by limiting school districts' access to federal dollars by the state in which they are located, similar districts in different states will not necessarily have equivalent access to federal funds. SEAs have some discretion in re-appropriating dollars from one school district to another in cases in which the district does not need all of the funding it is allocated, but it is minimal.

In contrast, the largest federal K—12 program housed in the U.S. Department of Education, the Title I Grants to Local Educational Agencies program, is structured to award dollars directly to school districts (albeit through the states). Federal Title I allocations are determined based on school district-wide data, as opposed to a series of formulas run first on statewide and then district-wide data. Only one Title I formula is earmarked to provide funds directly to states based on statewide policies.

Special Education Data Analysis

Using data collected annually by the Federal Education Budget Project from all 50 states and the District of Columbia, New America evaluated the per-pupil federal special education allocations by district based on state- and district-level enrollment, Census poverty rate, and more for a sample of those states. The data include special education district spending, enrollment, poverty, and other variables for fiscal year 2011. Though fiscal year 2012 special education data are available through the Federal Education Budget Project, other key data points from the National Center for Education Statistics were not yet available.

Twelve states and one additional district were excluded from the data; seven of those states (California, Colorado, Iowa, Kansas, Michigan, North Dakota, and Pennsylvania) use "risk pools" for high-cost students and were excluded because accurate data were not available. Five more states (Alaska, Hawaii, Maine, Minnesota, and Vermont) were excluded because insufficient data were available for a large share of the districts in each state. Washington, D.C. was excluded because of its special status as a single-district state. In total, 9,696 school districts were included in the final analysis, 9,377 of which had data for IDEA fiscal year 2011 funding.

Throughout the analysis, we use a per-pupil IDEA allocation measure. That metric is based on the total fiscal year 2011 IDEA allocation provided to the district, divided by the district's total enrollment in that year. Because the IDEA formula is not directly related to the number of children identified as requiring special education services, a per-special education student measure would inflate the results without being related to the intent of the law. All quintile groups were generated based on the analysis of the final sample. For more details on the data analysis, see the Methodology appendix to this report.

With such a complicated formula to distribute nearly $11.5 billion annually for special education, it is worth examining whether this federal formula is equitable or efficient in distributing funds. In fact, the results of this data analysis suggest that district-level federal spending on special education is typically dependent on many factors other than population and poverty. The analysis reveals that:

- **There is significant disparity in the resources that the federal government provides to children with disabilities** across all states and school districts, with more than 50 percent fewer dollars per student available to some districts
- **School districts within the lowest-population states have higher per-child allocations** than districts in other states; those in the most populous states have lower average per-child funding
- **Districts that have seen the largest declines in enrollment over the last 15 years have higher per-child allocations**, on average, due to provisions in the funding formula

> “There are substantial disparities across school districts in the amount of federal IDEA dollars received per student

The analysis suggests that the formula is designed in such a way that it advantages certain types of states and districts, potentially at the cost of students in other states and school districts. There are substantial disparities across school districts in the amount of federal IDEA dollars received per student, as well as concerning relationships between the amount of IDEA funding received and the type of district and state in question. Further research is needed to determine the precise nature and source of the problem, but its effects are clearly apparent in the data. These effects are discussed below.

Per-Child IDEA Allocations

School district-level IDEA allocations are, unsurprisingly, highly affected by the state's and the district's total population and population of children living in poverty—two central components of the federal Individuals with Disabilities Education Act formula. However, the total amount of IDEA dollars allocated to each school district, although statistically significant, is not strongly associated with the available per-child spending in that school district.

Per-student IDEA allocations range from the very small—below $100 per child in some districts—to much higher totals, as much as $4,000 per student in one district. The most concerning differences, however, are not at the outliers, where data reporting errors may play a role. Ten percent of school districts received less than $164 per child and 10 percent were awarded more than $271 per child – a nearly 65 percent difference between the thousands of districts in those categories.

For example, the examples in Figure 11 show the disparities between several school districts in the sample that hover near the 10th percentile of per-pupil IDEA funding ($164 per child) and others at about the 90th percentile ($271 per child). Though these categories

Figure 11: Districts with Low versus High Per-Child IDEA Allocations, by Percentile of Per-Student IDEA Funding

Source: New America

10th Percentile Per-Pupil IDEA Allocations		90th Percentile Per-Pupil IDEA Allocations	
Sedona—Oak Creek Joint Unified District (AZ)	**$159**	North Adams Community Schools (IN)	**$272**
Oxford School District (CT)	**$159**	Red River Parish School Board (LA)	**$274**
Lone Star School District (OK)	**$163**	Chinook High School (MT)	**$274**
Mesquite Independent School District (TX)	**$160**	Hartington Public Schools (NE)	**$274**
Brown Deer School District (WI)	**$158**	Clayton Public Schools (NM)	**$274**

define the margins of per-child awards across districts, approximately 900 districts fall above those levels, and 900 more fall below. Multiplied across millions of students, the implications are serious.

Enrollment and IDEA Allocations

While each state's and district's population of children is a strong driving factor in determining its IDEA allocation, the same does not hold true for per-pupil measures of funding. In fact, there is a statistically significant, slight negative correlation between enrollment and per-pupil spending, suggesting that larger districts with more students across whom they are spreading their dollars have access to fewer per-pupil dollars than do other districts.

However, enrollment is a statistically significant factor in determining districts' total IDEA allocations, not just for the largest districts, but also for the smallest. Districts in the first enrollment quartile—those with fewer than 306 students—receive, on average, about $35 more per student than their larger counterparts. Among those lowest-enrollment districts, more than 88 percent of which are rural districts, median per-student IDEA funding was $226.

Meanwhile, districts that fall in the largest enrollment quartile—those with more than 3,728 students—receive nearly $23 less than do smaller school districts. Among the highest-enrollment districts in the sample, about half of which are suburban districts and one in five of which are urban, the median district received about $199 per student, or nearly 14 percent less than the smallest districts. This scenario is the reverse of what the formula claims to value: the lowest-enrollment districts receive noticeably more per student, while the largest districts receive less. Moreover, the range was far greater for small districts than it was for large ones; one small district received as much as $4,285 per student in IDEA dollars, compared to the largest allocation among the most populous districts of $2,334 per student (see Figure 12).

Yet overall, in fiscal year 2011, the median school district received $211 per student, while one in four districts received at least $237 and one in four received less than $187 per student. Some districts received substantially more; at the 90th percentile, districts received more than $260. Other districts that have high enrollment, low federal special education funding, or a combination of both received so little it is hard to imagine their students received any significant services through the program's dollars. For example, Sunnyvale Independent School District in Texas, with about $108,000 in special education dollars from the federal government and more than 1,100 students enrolled in the district in 2011, averaged only about $94 per student enrolled using the funds, despite a poverty rate of more than one in 10 of its students. If the district's special education identification rate matched the national average of 13 percent, its IDEA allocation would afford it about $722 per child, or only about 16 percent of the "full funding" (40 percent of the average per-child expenditure) number cited by lawmakers—$11,153 in fiscal year 2011.[45]

Those disparities are multiplied across thousands of districts and many more students. Nearly 26 million children attend school within the 1,900 largest districts that receive, on average, noticeably smaller per-child IDEA funding. For instance, Joliet High School District in Montana, with 136 students enrolled in 2011 and 11 percent of those students eligible for free or reduced-price lunch, received about $27,000 in total federal IDEA Part B dollars, or $198 per child. Meanwhile, Dallas Independent School District in Texas received nearly one-third less per child, with only about $147 per student awarded in 2011. That per-child difference is evident despite a total allocation of more than $23 million in IDEA Part B funds and a student population more than 1,100 times the size of Joliet's at 157,162 students, nearly 87 percent of whom are eligible for free or reduced-price lunch.

> "High-enrollment districts are meant to receive equivalent per-pupil funds, but the nominal differences between small and large districts suggest the opposite is often true.

Given that the formula for special education dollars is heavily weighted towards high-enrollment and high-poverty districts, the disparities evident even between the smallest and the most populous districts are cause for concern. Under the IDEA formula, high-enrollment districts are meant to receive equivalent per-pupil funds to districts of other sizes, but the nominal differences between small and large districts suggest the opposite is often true. Furthermore, even across school districts of similar sizes, there can be significant variation in per-pupil spending of IDEA dollars. For example, one in 10 of the smallest districts in the sample received about $168 or less per child with IDEA funds, while one in 10 were awarded over $318.

Poverty and IDEA Allocations

Districts' concentrations of children living in poverty also have a highly statistically significant, slight positive correlation to per-child spending. Indeed, for school districts in the sample, median IDEA funding per child is higher in districts with higher Census poverty rates than in the wealthiest districts. Among the wealthiest districts in the sample—those with about 10 percent or less of

Figure 12: Variation in IDEA Dollars Per Child, by Overall District Enrollment and Percentile of Per-Pupil Funding

Source: New America

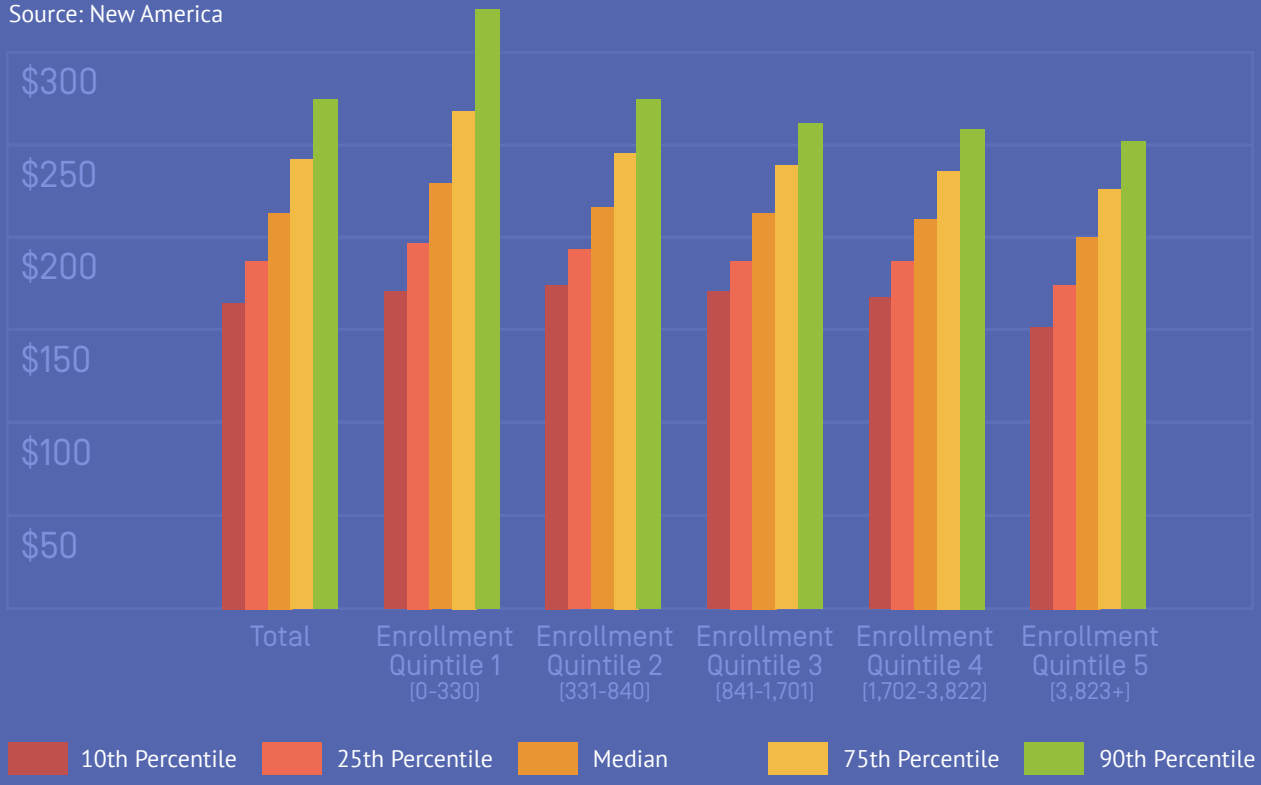
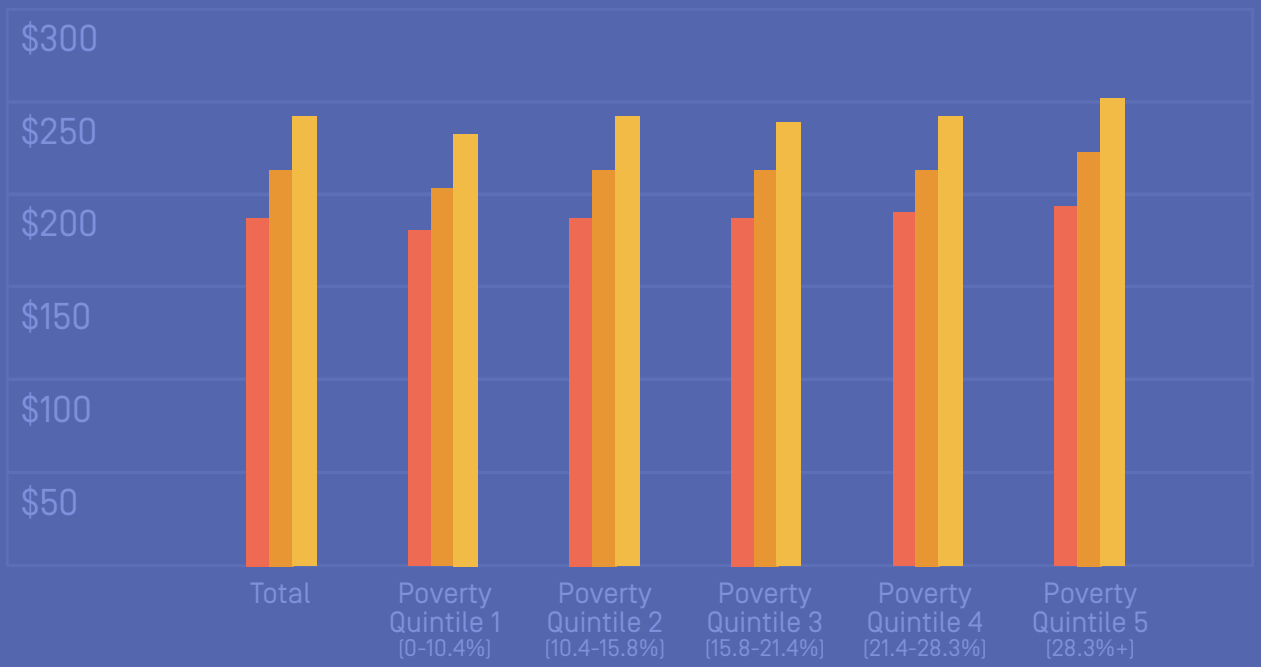


Figure 13: Variation in IDEA Dollars Per Child, by District Poverty Rate and Percentile of Per-Pupil Funding

Source: New America



5- to 17-year-olds living under the Census poverty level of about $23,000 for a family of four—the median district received $202 per student. The poorest districts—those above about 28 percent of the Census poverty level—received more; at the median, per-pupil allocations totaled $220 per student (see Figure 13).

It is clear that the federal IDEA funding formula is, in fact, providing additional per-child funding to poorer districts, and less to wealthier districts in the sample. In that sense, measuring per-pupil IDEA dollars by district poverty rates reveals less-distorted district-level allocations, albeit with some variation still apparent. Moreover, there is a noticeable range in per-child spending in some less typical districts (see Figure 13). One in four of the wealthiest districts is allocated approximately $229 per child, while one in four of the poorest districts receive nearly 10 percent more, with a $251 per-child allocation. That difference advantages poorer districts over wealthier ones, and is therefore at least somewhat aligned with the federal formula.

Base-Year Funding

The final central component of the federal IDEA funding formula comes in the base-year dollars. Approximately 37.5 percent of IDEA state grant dollars in fiscal year 2011 were still disbursed through the 1999 formula, which was made on the basis of each state's population of special education students.[46] That means that the base year funding levels—still $2 in every $5 awarded—were derived from an entirely different formula with dissimilar goals. Those funds are frozen to reflect a time period nearly 15 years in the past.

> States that saw population increases have lower per-child funding, on average

Moreover, each state's and district's share of special education students has historically closely tracked its overall population, meaning that nearly 40 percent of federal IDEA dollars are awarded to states and school districts on the basis of K—12 enrollment figures that are fifteen years old. Since that time, nearly every school district in the sample has experienced a change in overall enrollment, yet the base formula has not been updated to adjust for related changes in special education identification. More than 5,500 school districts in the sample have seen declining enrollment since 1999; more than 3,800 have seen increases. That means, for states and school districts with substantial population losses since the base year, similarly large funding levels are available to be allocated across fewer children, inflating per-child award sizes.

Among the states with the biggest percentage decline in student enrollment—at least a 17 percent drop since 1999, or the 25th percentile of percent change in enrollment for the sample—per-child IDEA allocations total approximately $45 more than in other states. There is a highly statistically significant negative correlation between per-child IDEA funding and percentage changes in overall enrollment between fiscal years 1999 and 2011, suggesting that states that saw population increases over that period have lower per-child funding, on average. That holds true for nearly every state (see Figure 14).

State Factors

Finally, the current version of the federal IDEA formula has been tweaked in other ways that make it less responsive to its twin pillars of population and poverty rate. The combined effect of those provisions has created, in effect, a one-way ratchet that ensures federal funding for states only increases, with very rare decreases.

To ensure smaller states receive a basic share of funds, lawmakers set out a small-state minimum, resulting in disproportionately high allocations for small states at the expense of larger ones. Additionally, to limit variations from year to year, Congress required a hold-harmless provision that means all states receive at least the funding they received the year prior, regardless of population and demographic shifts, unless Congress cuts the appropriation for the entire program. Yet most states in the sample have increased in enrollment since fiscal year 1999 (see Figure 14).

Furthermore, the federal IDEA formula filters dollars through two separate formulas: once at the national level as funds are distributed to states, and then again at the state level to allocate dollars to school districts. Because of that trickle-down effect, the overall pot of money available to school districts is largely dependent on the funding available to states themselves. An analysis of the data in this sample suggests that state characteristics are a critical factor in perpetuating disparities of IDEA per-child allocations across and even within states.

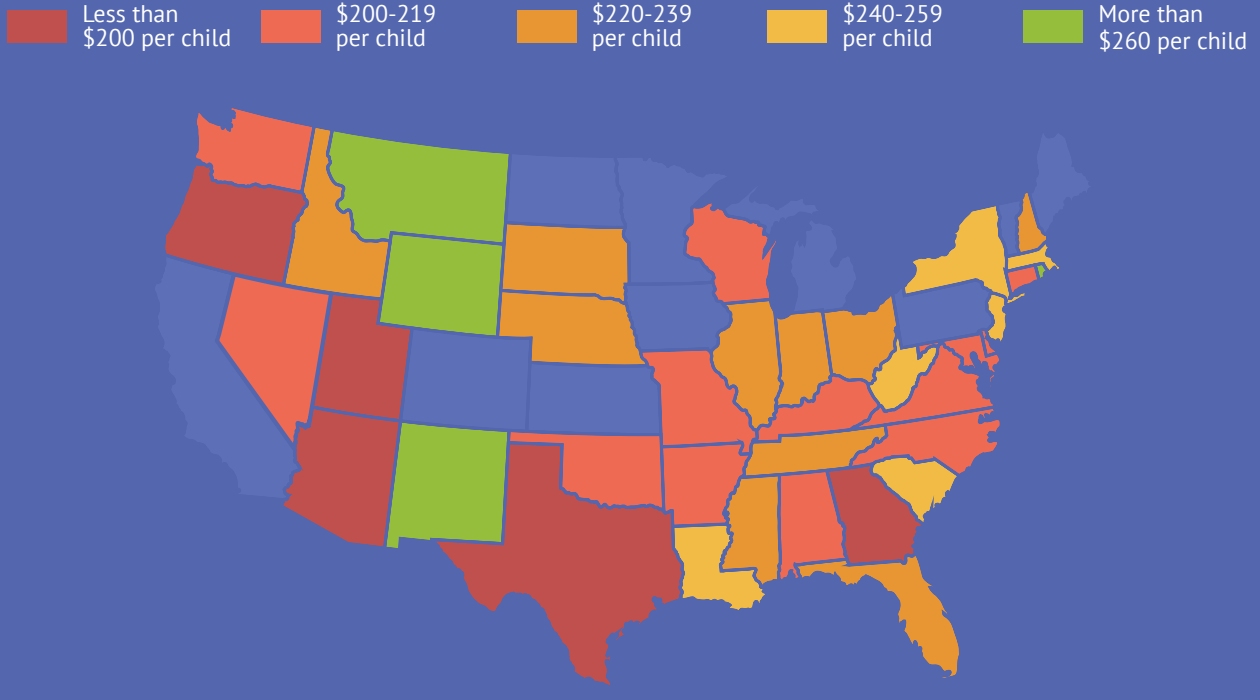
Districts located within the smallest states included in the sample—Delaware, Idaho, Montana, New Hampshire, Rhode Island, South Dakota, West Virginia, and Wyoming—have a median IDEA allocation of $230 per student. Meanwhile, districts located within the largest states in the sample—Florida, Georgia, Illinois, North Carolina, New York, Ohio, and Texas—receive a median allocation of $206 per child. That difference adds up to nearly $25, or 12 percent, less per student for large states than for their small-state counterparts.

The analysis of IDEA allocations for the school districts in the sample is enlightening. The data reveal a startling range in per-child allocations of federal special education funds, including twice as many dollars per child available to some districts. Yet the disparities are not random. An out-of-date base year of funding, legislative guarantees that some smaller states will receive a disproportionate share of the funds, and shifting enrollment across states and school districts in the time since the formula was last updated seem responsible for at least a substantial portion of the variation.

Figure 14: Variation in IDEA Dollars Per Child, by District Changes in Enrollment, 1999—2011

Source: New America

State	Avg. Per-Pupil IDEA Allocation: Statewide (2011)	Districts with Even/ Increasing Enroll. (1999—2011)	Districts with Declining Enroll. (1999—2011)	% Diff: Declining vs. Increasing Enroll.
U.S.	$220	$194	$237	22.2%
Alabama	$201	$190	$240	26.3%
Arizona	$181	$163	$221	35.6%
Arkansas	$211	$205	$249	21.5%
Connecticut	$213	$205	$267	30.2%
Delaware	$210	$210	N/A	N/A
Florida	$223	$217	$290	33.6%
Georgia	$188	$182	$223	22.5%
Idaho	$226	$192	$285	48.4%
Illinois	$224	$215	$256	19.1%
Indiana	$225	$221	$260	17.6%
Kentucky	$215	$208	$252	21.2%
Louisiana	$243	$231	$265	14.7%
Maryland	$206	$199	$242	21.6%
Massachusetts	$256	$247	$300	21.5%
Mississippi	$233	$202	$262	29.7%
Missouri	$207	$193	$246	27.5%
Montana	$268	$227	$298	31.3%
Nebraska	$233	$224	$246	9.8%
Nevada	$211	$170	$270	58.8%
New Hampshire	$228	$219	$272	24.2%
New Jersey	$247	$238	$293	23.1%
New Mexico	$291	$289	$293	1.4%
New York	$246	$242	$255	5.4%
North Carolina	$208	$203	$240	18.2%
Ohio	$221	$204	$255	25.0%
Oklahoma	$208	$202	$233	15.3%
Oregon	$190	$168	$222	32.1%
Rhode Island	$264	$253	$302	19.4%
South Carolina	$240	$223	$290	30.0%
South Dakota	$234	$228	$241	5.7%
Tennessee	$220	$219	$298	36.1%
Texas	$177	$168	$221	31.5%
Utah	$183	$178	$208	16.9%
Virginia	$216	$212	$247	16.5%
Washington	$201	$185	$236	27.6%
West Virginia	$241	$236	$263	11.4%
Wisconsin	$210	$196	$243	24.0%
Wyoming	$275	$266	$291	9.4%



FUTURE SPECIAL EDUCATION FINANCE POLICIES

Impetus for Review of Policies

These glitches in the federal special education formula do not come without a cost. States and school districts are required to bear the additional expenses of special education, an increasing burden for many. Moreover, special education is competing with many additional costs in states and districts, including efforts to expand early childhood education and to make college more affordable. It is therefore imperative that Congress consider its role in ensuring the free, appropriate public education of all students with special education needs.

The Individuals with Disabilities Education Act expired in 2009 and is subject to reauthorization. Though Congress will likely continue to delay consideration of the law, potentially until after the now long-overdue Elementary and Secondary Education Act reauthorization (which expired in 2007), it will have to wrestle with a shifting special education landscape. As our analysis demonstrates, the current federal funding formula is outdated and has been subject to numerous manipulations. The implications are serious: Not all children have equal access to federal resources, and states and school districts are left on the hook to finance any remaining costs of providing special education services.

In 1988, the earliest year for which reported special education enrollment is available from the U.S. Department of Education's National Center for Education Statistics, just 4.8 percent of American students were reported to have an individualized education program. By 2011, that number had more than doubled to 12.9 percent.[47] Further, many of the fastest-growing categories of disabilities fall outside of the highest-need disabilities (see Figure 1).

The current special education funding formula relies on fiscal year 1999 as the base for distributing a substantial portion of the federal funds (nearly 40 percent in fiscal year 2012). Since the 1998–99 school year, a 5.82 percent larger share of students has been enrolled in special education. However, some states have seen dramatic changes in the share of students identified as requiring special education services, as detailed in Figure 15.

In part, the growing overall population of special needs-identified students in the U.S. over the past decades may be attributed to the increasing numbers of young children identified as requiring special education. In addition to receiving funds available through the IDEA Preschool Grants and Grants for Infants and Families programs, states are required to serve all children from ages 3 through 21, except where it conflicts with state law. Furthermore, the 1997 reauthorization of the Individuals with Disabilities Education Act broadened the definition of disability to include developmental delays in children ages 3 through 9.[48] Largely as a result of those shifts, the number of 3- to 5-year-olds identified as special needs has increased by more than 50 percent since 1990, while the total number of children served by the state grants (ages 3 through 21) has increased by nearly a third.[49]

Meanwhile, appropriations to states through the IDEA Part B State Grants have also increased dramatically—by nearly 87 percent since 1990—to support both more students and higher levels of funding. Per-child federal dollars for special education have more than quintupled, from $349 in 1990 to $1,766 in 2012.[50] According to the Department of Education, the federal government now covers twice as much (16 percent in 2012) of the average per pupil expenditure as it used to (8 percent in 1990). States have more federal dollars to spend on identifying and educating special education students, and those dollars are being spent.

The Future of Reauthorization

The Individuals with Disabilities Education Act has been up for reauthorization since 2010. It is just one in a long line of education bills overdue for reauthorization, many of which have demonstrated more salience in the national education debate in recent years. However, for every year in which IDEA is not updated and revised, the formula through which federal dollars are distributed to the states becomes more outdated, and states are another year removed from the reality in which the formula was written. Furthermore, lawmakers are exacerbating the problem by providing near-flat funding for IDEA State Grants over the last several years, sustaining the larger weight of the base-year funding.

When Congress does approach reauthorization of the Individuals with Disabilities Education Act, it will do so in a very different context from its last consideration of the law. Since 2004, the nation has survived a recession and implemented significant budget cuts. Federal dollars are scarcer than they have been in recent years, and very few federal programs are immune to those budgetary challenges. Given declining state support over the past decades for special education, this likely means that school districts—and students—will bear the burden of additional costs.

Figure 15: Percent Change, Share of Special Education Identification per State (1999—2011)

Source: New America Foundation analysis of data from the National Center for Education Statistics

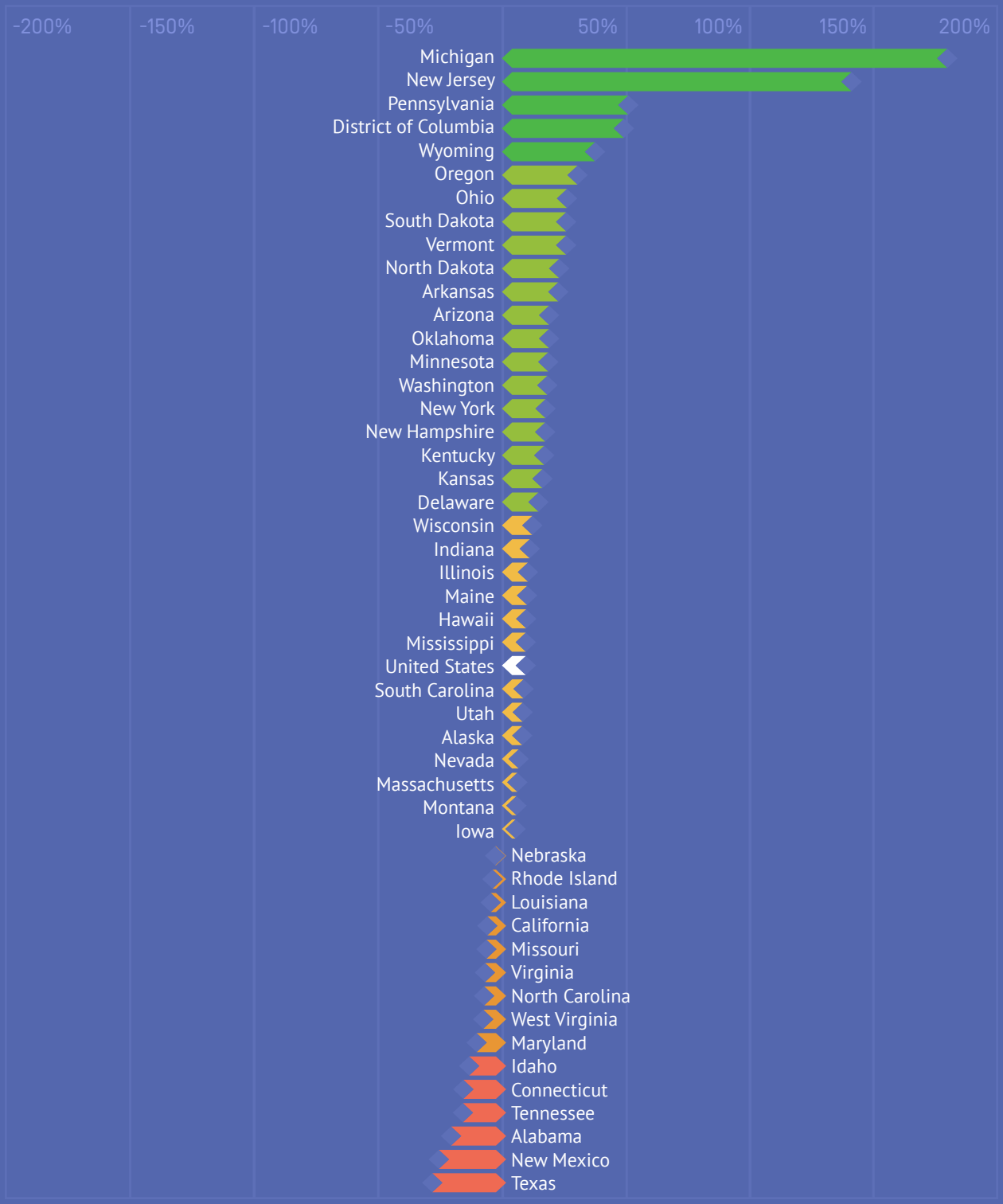


Figure 16: Abbreviated Legislative History of Special Education in the U.S.

1965 — ESEA authorizes two-year state grants program for special education based on state population; creates Bureau of Education for the Handicapped

1969 — Congress expands ESEA K--12 special education bill with Education of the Handicapped Act of 1969, which allocates federal funding by state population

1971-2 — PA Association for Retarded Children (PARC) v. Pennsylvania & Mills v. Board of Education (D.C.) decisions find that students with disabilities have the right to a free, appropriate public education in the least restrictive environment

1972 — Economic Opportunities Amendments passed (P.L. 92-424); extends special education to Head Start enrollment

1974 — Congress passes amendments to the Education of the Handicapped Act

1975 — Education for All Handicapped Children Act (P.L. 94-142) rewrites funding formula to account for number of children with disabilities and average per pupil expenditure

1984 — Smith v. Robinson decision in U.S. Supreme Court case finds Congress is not obligated to cover all costs of free and appropriate public education for students with disabilities

1986 — Handicapped Children's Protection Act (P.L. 90-538) amended Education for All Handicapped Children Act; extends special education rights to children with disabilities ages 3--5 and early interventions for infants and toddlers

1990 — Education of the Handicapped Act Amendments of 1990 passed (P.L. 101-476); Americans with Disabilities Act enacted

1997 — IDEA Amendments (P.L. 105-17) again rewrite funding formula, this time from special education enrollment-based formula to population-/poverty-based one, with a base-year of 1999 that preserves the older formula; requires that students with disabilities be included in state- and district-wide assessments

2001 — No Child Left Behind Act reauthorizes Elementary and Secondary Education Act and requires students with disabilities to be proficient in math and reading by 2014

2004 — IDEA reauthorization maintains the funding formula from the 1997 amendments.

2011 — Current IDEA legislation expires; Congress delays reauthorization and continues operations under the 2004 IDEA reauthorization

Perhaps the starkest example of this new financial landscape comes from sequestration, the across-the-board cuts implemented first in fiscal year 2013. Lawmakers, unable to reach a compromise on replacing the sequester with targeted budget cuts, claimed they were powerless to stop the cuts. At the same time, neither the Department of Education nor states and school districts had much flexibility in implementing the cuts, because the law was written to create across-the-board reductions at the program level. As a result, funding for IDEA state grants fell from $11.6 billion at the start of fiscal year 2013 to $11.0 billion in March of that year. It is a seemingly small drop, but districts that serve large numbers of special needs students, or special education students with particularly costly disabilities, disproportionately faced the cuts.

IDEA is largely funded with advance appropriations, meaning that 80 percent of the appropriated funds are actually meant to fund special education in the following year.[51] Thus, many school districts were able to push off the most severe cuts to the 2013-14 school year. Moreover, in fiscal year 2014, Congress reached a budget deal that restored virtually all of the funding for that fiscal year, leaving some planning time and recovery for states.

However, states and school districts cannot yet rest easy. Tight budgets are likely to be a way of life over the next decade. The Budget Control Act of 2011, the legislative regime under which sequestration was created and implemented, dictates top-level spending figures over 10 years, through fiscal year 2021, and after numerous budget deals, the fiscal year 2015 and 2016 overall spending limits are nearly identical to the 2014 number, leaving little room for inflationary growth or improvements to the system. Despite the larger investment that the federal government makes now in special education than it did only 10 years ago, that number is not likely to continue to grow, and may even begin to fall. Given that reality, the question is not, "How much funding can we provide to special education?" For better or for worse, it is, "How can we best use the limited funding available to give special needs students the education they need and deserve to live fulfilling, productive lives?"

The current funding blueprint meets its stated financial goals only intermittently, and does not guarantee all states and school districts that it will equally help them to afford the costs of the promised rights of education for students with disabilities. That is almost certainly due, at least in part, to the use of an outdated fiscal year in the formula that is itself based on a since-rejected plan. Moreover, the current federal formula is further distorted by the presence of the small-state minimum and the hold-harmless provision, both of which manipulate the formula to ensure a few states disproportionately benefit at the expense of states more in need of federal special education dollars. In approaching the Individuals with Disabilities Education Act reauthorization that is already overdue, Congress should give long-deserved consideration to how its formula interacts with its specific provisions.

METHODOLOGY & NOTES

The data in this analysis were downloaded from the Federal Education Budget Project website through the PreK–12 portal. A data dictionary is available there to identify and define the variables included in the file. Fiscal year 2011 data were used across all data points to ensure comparability. The Individual with Disabilities Education Act allocations for all states are collected annually by New America Education Policy Program staff from each state's educational agency.

Twelve states and one additional district (Kingwood Township School District in New Jersey) were excluded from the data; seven of those states (California, Colorado, Iowa, Kansas, Michigan, North Dakota, and Pennsylvania) use "risk pools" for high-cost students and were excluded because accurate data are not available at the school district level. Five more states (Alaska, Hawaii, Maine, Minnesota, and Vermont) were excluded because insufficient data were available for a large share of the districts in each state. Washington, D.C. was excluded because of its special status as a single-district state. In total, 9,696 school districts were included in the final analysis, 9,377 of which had data for IDEA fiscal year 2011 funding.

All quintile groups were generated based on the final sample. Dummy variables were created for the quintile groups for the purposes of conducting further analysis. Additionally, a state tag variable was generated to allow for simpler state-level analysis. Throughout the analysis, we use a per-pupil IDEA allocation measure. That variable is derived from the total fiscal year 2011 IDEA allocation provided to the district, divided by the district's total enrollment in that year. Because the IDEA formula is not directly related to the number of children identified as requiring special education services, a per-special education student measure would inflate the results without bearing any relationship to the intent of the law.

To evaluate the range of per-student IDEA allocations, we calculated a detail summary of the per-child IDEA allocation per school district variable.

spedppe_2011

	Percentiles	Smallest		
1%	120.5238	1.035855		
5%	149.6758	2.506173		
10%	163.6746	4.835466	Obs	9332
25%	186.073	15.62757	Sum of Wgt.	9332
50%	211.0338		Mean	219.5075
		Largest	Std. Dev.	97.03009
75%	239.1518	2333.756		
90%	271.3615	2988.465	Variance	9414.839
95%	297.9726	3882.684	Skewness	20.65254
99%	408.1216	4285.042	Kurtosis	688.4158

Additionally, we correlated total school district-wide IDEA allocations with per-student IDEA allocations for each school district in the sample. The results showed no statistically significant correlation. (p = 0.4522)

To evaluate the role of enrollment in determining per-child IDEA allocations, we correlated district-wide enrollment with district-wide per-student IDEA allocations for each school district in the sample. The results showed a negative correlation (correlation = -0.0632) with statistical significance (p = 0.000).

Additionally, we conducted a regression analysis to evaluate the relationships between enrollment and per-pupil spending at the school district level, using a dummy variable based on the enrollment quintile in which each district was categorized. The results for the lowest-enrollment districts (those with fewer than 330 students) and highest-enrollment districts (those with more than 3,823 students), respectively, are below:

```
. reg spedppe_2011 enrollquint1, r

Linear regression                               Number of obs =    9332
                                                F(  1,  9330) =   75.90
                                                Prob > F      =  0.0000
                                                R-squared     =  0.0206
                                                Root MSE      =  96.031

------------------------------------------------------------------------------
             |               Robust
spedppe_2011 |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
enrollquint1 |   34.91671   4.007883     8.71   0.000     27.06038    42.77303
       _cons |    212.578   .7678223   276.86   0.000     211.0729    214.0831
------------------------------------------------------------------------------

. reg spedppe_2011 enrollquint5, r

Linear regression                               Number of obs =    9332
                                                F(  1,  9330) =  134.31
                                                Prob > F      =  0.0000
                                                R-squared     =  0.0086
                                                Root MSE      =  96.617

------------------------------------------------------------------------------
             |               Robust
spedppe_2011 |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
enrollquint5 |  -22.42082   1.934605    -11.59   0.000    -26.21307   -18.62858
       _cons |   224.0267   1.192128    187.92   0.000     221.6899    226.3636
------------------------------------------------------------------------------
```

Per-child spending of IDEA dollars at the school district level was also evaluated for each enrollment quintile of districts, from the lowest-enrollment to the highest-enrollment districts. The quintiles were generated based on the final sample. A study of the range of spending, including measures at the median and 25th and 75th percentiles, was used to produce the chart in Figure 12.

A similar analysis was conducted for each poverty quintile of districts using the Census poverty rate. Although this

measure does not exactly conform to the federally prescribed formula, which bases the poverty-driven portion of funding on the share of low-income students in each state and then the share of low-income students in each district within the state, it does approximate a poverty concentration. A study of the range of spending, including measures at the median and 25th and 75th percentiles, was used to produce the chart in Figure 13.

To evaluate base-year funding, we generated a percent change in enrollment at the school district level from fiscal year 1999 to 2011. A correlation analysis shows that per-pupil IDEA allocations are negatively correlated (-0.2161) to percent change in enrollment for the school district. The correlation is highly statistically significant (p = 0.000).

Additionally, we used a regression analysis to evaluate the effects of a decline in enrollment between fiscal years 1999 and 2011 on per-pupil IDEA allocations. The regression showed that, among districts with any decline in population over that time, per-child IDEA funding was about $45.43 lower than in other states.

```
. reg spedppe_2011 dummychangeenroll, r

Linear regression                               Number of obs =    9332
                                                F(  1,  9330) =  370.45
                                                Prob > F      =  0.0000
                                                R-squared     =  0.0515
                                                Root MSE      =  94.501

------------------------------------------------------------------------------
             |               Robust
  spedppe_2011 |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Int
> erval]
-------------+----------------------------------------------------------------
>
dummychangeenroll2 |   45.42877   2.360289    19.25   0.000     40.80209    50
> .05545
       _cons |   202.333    .811842   249.23   0.000     200.7416    20
> 3.9244
------------------------------------------------------------------------------
```

Figure 14 was generated using summary statistics for the total enrollment for states in the sample in 1999 and in 2011, as calculated using the district figures in the sample; average per-child allocations provided in each state in the sample; and average per-child allocations for the districts in each state that had declining enrollment and the districts that had increasing or even enrollment. The nominal and percentage difference between declining-enrollment and increasing-enrollment districts were calculated by the author.

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