

# Study of Vermont State Funding for Special Education

## Executive Summary

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## Background to the Report

The Agency of Education was directed, under Section 3 of No. 148 of the 2016 Acts and Resolves of the Vermont General Assembly, to undertake a study of special education funding and practice and in particular, evaluate the feasibility of implementing a census-based funding model in Vermont.

In part, the Assembly's direction stems from concerns about how much the state spends on special education for students with disabilities, as well as a possible misalignment between state funding mechanisms and other policy initiatives that encourage districts and schools to implement multi-tiered system of supports (MTSS) for struggling students. The manner in which the state allocates supplemental funding to localities for special education also has been criticized for:

- 1) Administrative costs to state and local agencies
- 2) Incentives for local educators to identify, categorize and place students according to financial priorities, rather than student needs and fiscal pressure
- 3) Discouraging cost containment, given that districts are largely reimbursed for their costs
- 4) Difficulties in planning and budgeting for future special education resources and costs

Several recent policy reports have responded with calls for the Assembly to redesign Vermont's special education funding formula as a census-based block grant. Such an approach would distribute state funding to localities on the basis of total student enrollment in supervisory unions or school districts, rather than explicitly tying special education funding to reimbursable expenses for students with disabilities. For example, Odden and Associates (2016) recommended that the State implement a census-based mechanism to allocate supplemental funding for students with mild and moderate disabilities. The recommended grant amount was \$684 per student enrolled in a supervisory union. Through a separate reimbursement mechanism, the State would pay 100% of costs for high need students. The report also recommended a new \$95 million annual state investment in "extra help" resources for schools to provide additional instructional assistance to struggling students before they are identified for special education.

Similarly, in its report to the Vermont House Committee on Education, students from the Rockefeller Center at Dartmouth College called for reforming the State's funding formula and identified a census-based funding model as the preferred policy option.

The purpose of this report is to evaluate both Vermont's existing special education funding formula and different scenarios for implementing a census-based funding model. The report's findings result from a study undertaken by a team of experts in special education policy, practice, and finance at the University of Vermont and the American Institutes for Research (AIR).

Key objectives for this study were to:

- 1) Develop a comprehensive profile of special education costs and describe the factors influencing costs.
- 2) Provide a systematic examination of Vermont's existing approach to funding special education, particularly how the existing funding mechanisms may facilitate or impede policy priorities for improving the effectiveness and efficiency with which students with disabilities are served.
- 3) Identify and prioritize design considerations for potential funding formula reforms.

- 4) Offer concrete examples for how a census-based funding model might be implemented in Vermont, including implications for overall state appropriations and funding for supervisory unions.

## Major Findings and Recommendations

Findings from this and other recent studies suggest that changes to the State's existing special education funding formula are needed. A key objective for this study was to evaluate whether a census-based block grant approach is an appropriate path forward for reform in Vermont. In evaluating the feasibility of a census based approach, the report first presents trends in child count and spending patterns (See Chapter 3) before presenting results of simulations for various model of a census based special education finance formula (See Chapter 5).

Selected and key findings from these sections include the following:

### Child Count

- The percentage of students with disabilities in Vermont exceeds the national average, but is comparable to rates found in neighboring states. Over the past three years, the overall share of K-12 students receiving special education in Vermont has increased at a rate similar to the national average.
- Vermont's special education population has the largest share of students with emotional disturbance of any state in the nation — and nearly three times the averages seen in neighboring states. The share of Vermont students with other health impairments also exceeds the national average, but is on par with neighboring states.
- Since 2013, there has been a 75% increase in the number of IEPs qualifying for extraordinary cost reimbursements from the state.

### Special Education Spending

- The amount spent by the state and localities on special education and related services increased by about 14% between FY 2013 and FY 2016.
- Although a comparatively small share of overall spending, the amount spent on state reimbursements to localities for extraordinary costs associated with serving high-need students with disabilities increased 28% between FY 2013 and FY 2016.
- For FY 2016, on average, supervisory unions and school districts spent an additional \$21,840 per special education student, over and above base per-pupil funding for general education. Spending per IEP had increased 8%, or \$1,683, since FY 2014. This level of spending translates into an additional \$2,971 per K-12 resident ADM.

## Factors Influencing Child Count & Spending

- Intensification in the nature and extent of student need has put upward pressure on the number of students identified for special education, and has increased spending on special education and related services.
- Increased demand and limited capacity for community-based mental health and social services has shifted responsibility for providing these services to schools. In the face of their own capacity limitations, schools have responded by either contracting with private providers or paying for students to attend special schools or programs outside the district.
- There is a general understanding by educators in the field that service delivery challenges associated with providing comprehensive and early support systems as well as MTSS Tier 2 supports and interventions has resulted in more students being identified for special education, to secure both the instructional resources needed as well as funding from the state's special education reimbursement mechanism.

## Census-based Funding Mechanisms

- Census-based funding mechanisms can serve as an appropriate and fair approach to allocating supplemental funding to localities when two conditions are met: 1) the proportion of students with disabilities is constant across localities; and 2) there is similar demand for special education and related services across localities and the cost of providing these services is equivalent.
- In the 1990s, Vermont pioneered the use of a census-based funding mechanism for special education. In the early 2000s, Vermont did away with its census-based funding approach and adopted a reimbursement mechanism in response to concerns about small districts' and schools' abilities to fully absorb the excess costs associated with providing special education for their students.
- Currently, New Jersey and California rely on census-based funding mechanisms to allocate supplemental funds to localities for their special education costs.

## Determining Census Grant Amount

- On average, the amount spent by Vermont's supervisory unions and school districts per special education student is \$21,840. This is 1½ - 2 times greater than other national and state estimates for the average excess cost per special education student.

## Recommendations Based on Simulations

- Based on findings our census-based funding model simulations, a grant amount of \$930-\$985 per student should provide adequate supplemental funding to support supervisory

unions' special education programs. This is about *half* of what supervisory unions receive, on average, from the state on a per student basis currently.

- We recommend an additional per capita grant amount for supervisory unions that serve a disproportionately high percentage of low-income students. Supplemental funding could take the form of a poverty adjustment added to the state's census grant amount. We recommend a larger grant amount equal to \$958-\$1,008 per student.
- A census-based funding mechanism may reduce state appropriations for special education and related services. However, to maintain current levels of instructional support for "at risk" students, cuts to state appropriations for special education may need to be offset with increased state spending for Tier 1 and Tier 2 interventions (MTSS) for general education students who have not been identified for special education.
- The state should maintain an extraordinary cost reimbursement funding mechanism. However, we recommend adopting a two-tiered threshold model in lieu of its existing fixed threshold model.

### Additional Policy Implementation Recommendations

In all cases, the simulations presented in this report suggest that implementing a census-based funding approach would decrease state appropriations for special education and, by extension, reduce the amount of supplemental funding localities receive from the state.

That said, existing funding is necessary given current practices; *simply reducing spending would likely result in children going unserved and localities not meeting their obligations under federal and state law.*

To achieve savings without potential harmful impacts for students, a move to a census-based funding mechanism must be tightly coupled with shifts in practice and service delivery models. As practices shift, costs can come down while services stay the same or actually improve and expand. To do so, however, it will take time, planning and technical assistance to modify practices in ways that result in identified cost savings. We recommend:

- **A five-year phase-in period for transitioning to a census-based model.**  
The State could set an initial grant amount at or near existing funding levels (i.e., Simulation Example 1) and reduce this initial amount over a five-year time frame to an amount consistent with what was identified in either Simulation Examples 2 or 3). A graduated approach to reducing State support will provide localities the opportunity to adjust practices to reflect new flexibility in how funds are used *and* adjust service delivery models for new funding levels.

- **Funding formula reforms be paired with additional technical support for local educators.**

Changing local practice in ways that realize the potential for cost savings is beyond the scope of simply modifying the State's special education funding policy. Rather, reforming the funding formula will require the Agency of Education (AOE) to provide additional technical assistance to supervisory unions on how to leverage flexibility that comes with a census-based block grant and improve cost effectiveness in service delivery. In the near term, AOE may require additional resources to accomplish these goals. However, these investments should be considered in light of the potential for long-term cost savings.