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## **Special Education Funding In North Dakota: An Assessment of Current Practice and Recommendations for the Future**

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*Submitted to:*  
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# Special Education Funding In North Dakota: An Assessment of Current Practice and Recommendations for the Future

## Introduction

In August 2005, the state of North Dakota contracted with Drs. Tom Parrish and Jenifer Harr, of the Center for Special Education Finance (CSEF) of the American Institutes for Research (AIR), to provide assistance to North Dakota in considering changes to its special education formula. This agreement included the following research objectives:

1. Obtain objective critical stakeholder input regarding the merits and shortcomings of the North Dakota current funding formula for special education, including student contracts;
2. Obtain a neutral analysis of the efficiency of the state's current funding formula;
3. Obtain national professional recommendations for improvements to the state's current system;
4. Prepare appropriations requests for the 2007 North Dakota legislative session based on the study's recommendations;
5. Prepare possible draft legislation to revise the current North Dakota special education funding formula as contained in the North Dakota Century School Code.

While some specific elements of these objectives have been somewhat altered due to events that occurred during the course of this work, its major thrust – to analyze the current formula and to make recommendations for improvement – remains.<sup>1</sup> This final report provides a brief context for this work based on current state and federal special education funding policy, moves to an analysis of the current system of special education funding in North Dakota, and concludes with specific policy recommendations.

To briefly summarize these results at the onset of this report, we find overall special education spending in North Dakota to be fairly closely in line with what is found nationally. In regard to state versus local shares of funding, the state appears well below the average state versus local split in support for special education services found across all states. This seems to be the primary basis for one of the major concerns expressed by the study's stakeholder committee, i.e., that the *state share* of special education expenditures is insufficient.

A second major concern was with the state's "high cost risk pool" system for covering unusually high special education costs. Initially designed to insure districts against extraordinarily high cost

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<sup>1</sup> For example, an out of court settlement was reached in regard to a pending law suit over school funding, and an overarching committee was appointed by the Governor to consider K-12 funding in the state, including special education.

situations that go beyond the basic ADM funding received for special education, an increasing proportion of these risk pool funds have become designated for students who are agency-placed. Because state special education revenues are not keeping up with the increasing demand of agency placements, contracts for high cost, non-agency placements are generally being funded on a declining percentile basis. Major concerns were expressed that this component of the formula has been extended beyond its initial purpose, is growing increasingly under funded, and continues to be overly onerous to claim and to maintain. As this component of the formula is the most complex as well as a major source of concern for the special education Stakeholders in the state, it will be a major focus of this report and its recommendations.

### **Study Context**

The base component of North Dakota's special education funding formula provides a flat grant amount per total enrollment in each district. This type of system is known nationally as a census-based system, and is referred to within state as the ADM component of the formula. Comprising about 75 percent of current state support for special education, the ADM funding is further supported by a reimbursement mechanism to cover extraordinarily high-cost students. Although the state biennial appropriation for student contracts increased from \$13.5 to \$15.5 million for the 2005-07 biennium, local administrators in the state continue to raise concerns about the inadequacy of funding for high-cost students with disabilities. In a recent report prepared for the state education agency on the adequacy of the state's education funding system, Augenblick, Palaich and Associates (APA), (2003) raised the possibility of changing the special education funding formula to a weighted formula, which would differentiate between different levels of student need, presumably identified by disability category. However, several concerns regarding this approach as defined by APA are listed below. Accordingly, a different approach to the consideration of special education adequacy for the state was adopted for this study, to be described later in this report. Against this backdrop, the current study examines the state's special education funding formula, with an emphasis on the issue of high-cost students and the research objectives listed above, and provide recommendations for improvements.

### **Study Approach**

While they can be informed by data, the five research objectives outlined above relate to policy issues that cannot be answered by data analysis alone. Any approach to addressing these kinds of policy questions must reflect the unique context in which North Dakota operates, and this involves soliciting the perspectives of local, district, and state stakeholders. Thus, in addition to thorough analyses of extant state data, the investigative part of this study relied heavily on the information, comments, and opinions of the stakeholder committee convened for this study. We conducted analyses on these state data and synthesized findings from the committee deliberations. Our final analyses and proposed recommendations are based on our knowledge of federal special education policy and law, the history and current practice of special education funding across the 50 states, as well as an objective analysis of the information gathered for this project considered in the context of prior practice, current issues, and goals for the future in North Dakota as articulated by this Stakeholder group.

### **Stakeholder Committee**

As recognized by the first research objective stated for this study above, it is important to gather input from stakeholders to assess the impact and efficacy of the current system. The membership

of this committee was selected by the state. It is important that this group represent a range of perspectives across the state. Accordingly, special education unit directors, business managers, a district superintendent, a parent, legislative representatives, and state agency staff were included. A listing of the membership of this study committee is included in Appendix A of this report. This committee convened for all-day meetings three times during the course of this project.<sup>2</sup> AIR provided agendas, materials, and results from extant state data analyses to consider in these discussions.

At the first meeting, in September 2005, Drs. Parrish and Harr provided a national overview of practices and issues pertaining to special education funding from a federal and individual state perspective. We also reviewed the objectives of the study and the proposed approach, as well as generic criteria for evaluating special education funding formulas. Efficiency, adequacy and equity considerations were explored in relation to the state policy goals, which were further defined by the committee. The major focus of this first meeting was to work with the Stakeholder Committee to identify the state's policy goals regarding special education funding, and to consider the extent to which the current formula achieves them.

Following discussion of the top state policy goals in North Dakota, we worked with the committee to prioritize alternative special education finance formula criteria for the state. Alternative criteria were discussed and the relative importance placed on each was indicated by a show of hands, with each member being able to select their top two. These criteria and the number of "votes" received by each can be found in Appendix B. These benchmarks were used to facilitate discussion of the strengths and weaknesses of the current formula. It also guided our thinking in regard to potential alternatives. During this first visit to the state, we also reviewed and gathered existing state data and other information to assist us in the evaluation.

At the following meeting, in January 2006, we presented preliminary results from analyses of available fiscal and student data. These analyses examined variations within the state in regards to unit-level funding, expenditures, and student/placement characteristics. We continued to work with the committee to discuss the merits and shortcomings of the current formula, to pose alternatives for consideration, and to consider possible preliminary recommendations. A handout from this meeting summarizing some key information in regard to special education funding and provision by unit is included in Appendix C of this report.

Another important focus of this meeting was an analysis of the adequacy of special education funding for the state as formulated by Augenblick, Palaich and Associates (APA, 2003) in a 2003 state study of the overall adequacy of K-12 provision in the state. The general conclusion from these analyses was that the APA findings were not very useful in considering adequacy as specifically applied to special education. A brief summary of this analysis and a few key graphics are included with this report as Appendix D

Some of the detailed concerns we noted regarding the special education weights recommended by APA include:

- Categorizing Mental Retardation (MR) as a "mild" disability. A national study on special education expenditures shows MR to be more expensive than Other Health Impairment,

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<sup>2</sup> Meetings were held in September, January, and April of the 2005-06 school year in the state capitol.

Emotional Disturbance, and Orthopedic Impairment, when considering total spending on special education students. APA included these latter disabilities in the “moderate” disability group.

- The weight for moderate disabilities in very small districts (less than 200 ADM) is slightly lower than the weight for mild disabilities.
- The formula results for very small districts appear unusual. Very small districts are defined by APA as having less than 200 ADM. There are 114 districts in North Dakota in this size category. Based on diseconomies of small size, the base amount (i.e. the dollar amount against which the weights are applied to determine funding) for these districts is larger than for others. While this higher base appears to compensate for the lower weights assigned these districts for mild disability categories, the higher base does little to offset the lower weights they assign to moderate and severe disability categories in relation to larger districts. For instance, small districts generate on average \$22,128 for a severe student (including the base), while medium districts (ADM 200 – 600) and large districts (more than 600 ADM) generate an average \$26,782 and \$41,187, respectively (see Exhibit D-8 in Appendix D). This overall result seems quite counter-intuitive, as the economies of scale in smaller districts would likely make it more costly to serve more severe students.

While an overall critique of the APA study for North Dakota was clearly beyond the scope of this work, overall we estimated their definition of special education adequacy for the state at about \$900,000 less than current spending, with nearly all this loss in funds coming from the state’s largest three special education units.<sup>3</sup> While it is possible that the special education funding approach they recommended would make more sense in the context of their overall formula recommendations, their report provided very little rationale for the special education component of their formula or how these fit into their larger set of funding recommendations for the state. The committee agreed with our conclusion that the APA recommendations were not very useful for considering special education adequacy in the state. Accordingly, we turned to a recently completed federal study of special education spending and resource allocation patterns across the nation as the basis for considering the overall adequacy of special spending in North Dakota.<sup>4</sup>

At the third meeting in April 2006, Dr. Parrish presented additional results from the analyses of extant data from the state and sought feedback on a list of proposed recommendations for this study. These recommendations from the committee, accompanied by additional comments and clarifying discussion by the research team where warranted, are presented in the final section of this report.

In addition to the stakeholder committee meetings, AIR staff conducted phone interviews and extended email correspondence with selected members of the committee to examine related issues in greater detail. A major thrust of this effort was to clarify the issues and for the research

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<sup>3</sup> Given its unique status, Belcourt Special Education Unit is excluded from this summative calculation. Please note that a few smaller units demonstrated greater percentage declines between the APA’s special education adequacy amount and actual spending than the largest units.

<sup>4</sup> The Special Education Expenditure Project (SEEP) was completed by AIR for the U.S. Department of Education in 2004.

team and the committee to work together to formulate recommendations in consonance with sound special education fiscal practice based on the professional judgment of the independent research team. While the recommendations resulting from this study for North Dakota differ in some ways with those made by the primary researchers in recent studies in other states, this type of alignment was not expected as each state's history and issues are different from others.

### **Data Analysis**

To supplement stakeholder discussions and in developing recommendations, AIR drew upon existing data for North Dakota, other states, the nation, and other research relating to issues of special education services, funding, efficacy, and equity. We reviewed the following data sources for use in our analyses:

#### *Extant State Data*

We worked with the Department of Public Instruction to identify available data sets and gain access to them. These included data on unit-level special education funding (including student contracts) and expenditures, counts of special education personnel, and the student population (e.g., total enrollment, counts by disability and placement, poverty). We examined variations in special education funding and expenditures in relation to the characteristics of the student population, and explored such possible relationships as the special education funding received by unit and the types of students they serve (e.g., severity).

#### *National Special Education Expenditure Project (SEEP)*

Data from SEEP provides an important source of information in regard to special education program provision and the overall adequacy of statewide special education provision. SEEP, which was conducted by AIR, is the fourth in a series of national special education resource and expenditure analyses completed for the U.S. Department of Education. This study produced a picture of current, actual special education spending and resource allocation practices across the nation.

SEEP data were collected as a basis for deriving nationwide special education spending estimates. The approach used to derive these estimates relied on specific service provision information across a sample of 10,000 special education students. Embedded in these data is considerable information in regard to current special education practice across the nation. SEEP staffing ratios are nationally representative and reflect the current national context within which special education students are served.

#### *Other National and State Data*

We also examined other national and state data available, such as the Individuals with Disabilities Education Act (IDEA) data from the U.S. Department of Education, which will provide additional comparative benchmarks. In addition, we drew upon special education service standards and results from prior state work of related nature.

## Summary of Findings

In summarizing the findings from this project, it is essential to return to its overall purpose and the major questions to be studied. These are to:

- Obtain objective critical stakeholder input regarding the merits and shortcomings of the state special education funding formula, and to
- Obtain a neutral analysis of its efficiency, and to
- Make recommendations for improvement.

This section of the report will focus on the first of these two points, with recommendations discussed in the final section. After a brief overview of some of the merits of the current system, as discerned by the research team and as described by the Stakeholders, we will turn to a more lengthy discussion of the shortcomings, as these are the areas from which the recommendations will follow.

The state's current special education funding system is divided into two major components. The first is the base ADM system, which allocates a fixed amount per ADM (average daily membership of all – not just special education – students) that is allocated to support special education services. The second is the state's "high cost risk pool" system for covering unusually high special education costs. This is also known as the "student contract" component of the formula. Most of the strengths of the current system are seen as being associated with the ADM component, and most of the shortcomings are associated with the student contracts.

### **Funding Formula Strengths**

A clear advantage of the North Dakota ADM special education funding formula component is that it is simple and straightforward. The primary source of state special education funding is distributed by what is referred to nationally as a "census" type approach, where special education funds are allocated to districts on the basis of overall (not special education) enrollments. This type of formula has become more common across the states over the past decade (e.g., Pennsylvania, Massachusetts, and California), and is the basis on which the vast majority of federal special education funds are now allocated.

Some of the major strengths associated with the ADM system are that it is easily understood, treats districts the same for special education purposes (and is in that sense equitable), is reliable, and is easy to maintain with a low reporting burden. Other cited strengths are that it creates no incentives to identify students for special education services (i.e., the funding is based on overall district ADM, not the number or percentage of students in special education), and there are no fiscal incentives to identify students into one category of disability over another (e.g., due to higher funding for higher cost categories of disability), or for one form of placement over another. Of course, some might argue that some of these cited advantages are actually shortcomings. In other words, some might contend that more funding *should* come with

increased numbers of students identified for special education, that higher cost disability categories *should* be funded at a higher rate than others, and that higher cost placements or services *should* receive more funding.

There is a long standing debate about the relative merits of census-type approaches of allocation as opposed to other methods of allocating special education funds (e.g., varying student funding amounts based on special education students' categories of disability or types of service received).<sup>5</sup> In short, however, the stakeholder panel convened for this project generally considered the ADM base special education funding model employed by the state to be superior to these alternatives. The research team takes no exception to this determination.

Another important advantage associated with the state's ADM system is its flexibility. Whereas with some approaches to special education funding, the amount of money received is clearly related to certain practices (e.g., more money for higher cost and often more restrictive placements, or funds allocated on the basis of the number of special education teachers hired), a great deal of flexibility is associated with the state's ADM approach to funding. There is discretion to favor such things as purchasing additional technology over additional staff, or to hire more instructional aides and fewer teachers, if these things are locally determined as more efficient. An area of flexibility that was specifically cited in North Dakota was in regard to the ability to fund pre-referral options under the current approach.

An advantage cited with "high cost risk pool" or "student contract" component of the formula, is support for the basic concept that underlies it. Stakeholders seemed to believe, and the research team agrees, that some form of high cost risk pool is good policy for the state. This kind of insurance provision to protect districts against extraordinarily high special education costs that may hit some districts harder than others, or that might occur in a given year, is especially important in states with ADM-type special education funding systems. While this type of system features some of the advantages cited above, it has the limitations of not being connected in any way to true variations in special education need, or cost. In cases such as this, it is especially important to allow some safety valve when these excess costs have the potential of being especially onerous for a single district.

Some form of a high cost risk pool is also especially important in sparsely populated states with many small districts. An ADM system works best when these funds are allocated to larger entities, e.g. to large districts or to collections of districts such as cooperatives. Small units of provision are especially vulnerable to the disproportionate fiscal impact that can result from one or two unusually high cost special education students. Thus, some form of risk pool funding is especially important in North Dakota.

In considering the strengths of the current system, it is important to note that special education provision in North Dakota, when considered in the aggregate (i.e., as funded through local, state and federal efforts), appears reasonably commensurate with national levels of provision. There are at least two methods by which to demonstrate this. One is by comparing overall statewide special education spending estimates to national expenditure patterns as reported in the national SEEP. After adjusting the national SEEP special education expenditure of \$8,080 to 2003-04

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<sup>5</sup> See Parrish et al., 2003

dollars and adjusting for geographical differences, the projected special education expenditure amounts to \$109,975,533 for North Dakota in 2003-04. The actual total statewide special education expenditure for that year was \$110,475,137. This suggests that from an expenditure perspective, actual spending on special education services in North Dakota corresponds closely with the national average.

Another basis for comparison can be derived through the calculation of special education students to special education provider ratios, as derived from data reported by all the states to the U.S. Department of Education every year. A summary table comparing these ratios for North Dakota to the average across the 50 states and the District of Columbia for the 2003-04 school year is shown below. This table shows a ratio of special education students to teachers in the state that very close align with the nation, and special education teacher aide and related service staff ratios that are considerably lower than the averages reported across all states. Based on these data, overall special education provision in North Dakota appears at least commensurate with, and in certain staffing areas clearly exceeds (e.g., i.e., fewer students per service provider), the nation. One reason for the lower related service provider ratio for North Dakota is likely due to the sparse population of the state and many small schools, which likely results in greater time spent in transit for staff serving multiple sites. State-by-state data that are comparable to that shown in the table below are included in Appendix E of this report.

**Exhibit 1. Number of Special Education Students Per FTE Special Education Provider, the Nation and North Dakota, 2003-04 (based on total special education enrollment) <sup><1></sup>**

	SE Teachers	SE Teacher Aides (including interpreters)	Related Service Staff
Average of 50 States and DC (unweighted)	16.8	20.9	43.9
North Dakota	16.7	10.7	35.1

<sup>1</sup> These ratios were calculated from IDEA personnel and child count data. Source of information: www.ideadata.org; Child Count (ages 3-21) and Personnel FTE Counts from the Annual Report to Congress on the Implementation of the Individuals with Disabilities, 2003.

Although neither of the two measures shown above provide a perfect benchmark for considering adequacy of special education provision in North Dakota, they are arguably the best measures we have for determining whether overall levels of special education provision in North Dakota are reasonable and sufficient, at least in relation to national averages.

**Funding Formula Shortcomings**

As listed above, the two major shortcomings of the current system are concerns with the state share of special education funding and the way in which the state’s high cost risk pool, student contract system is currently being implemented. This section on shortcomings will primarily focus on the high cost risk pool/student contract section of the formula and will conclude with a brief overview of the adequacy of special education funding at the state level.

### High Cost Risk Pool/Student Contracts

As the concept of a high cost risk pool was cited above as a strength of the current system, why is it also listed as one of the two major shortcomings of the system? From the point of view of the members of the Stakeholders Committee, there appeared to be unanimity that while the concept of a high cost risk pool was good, the current student contract system in the state is being applied to situations beyond its original intent with resulting substantial strain on its funding capacity. This appears related to some fairly vexing problems that have been long associated with the way the state has traditionally supported contracts for a segment of the special population that is fairly small in numbers, but is disproportionately high cost and which is growing fairly rapidly. The biggest source of difficulty around these contracts seems to be in the area of agency-placed students. From the point of view of the committee members, the demands on these funds are growing in respect to a population of students for whom they have little or no control in regard to placements (e.g., the courts or other state agencies may place these students directly into private facilities), and these placements are leaving a decreasingly smaller reimbursement share for situations for which the fund was initially created, i.e., student placements by districts that are truly high cost. In addition, the current system is seen to have a burdensome reporting requirement. This is problematic enough when the percentage of reimbursement is high, but is especially irksome as the percentage return on these onerous claims for non-agency, high cost students has become substantially diminished.

The research team clearly shares concerns regarding the relative inefficiency of the current “high cost” system. For example, if it costs \$5,000 in local staff time to receive a \$10,000 reimbursement from the state, this becomes a very expensive (and therefore inefficient) system of disbursement. Extensive documentation should be required fairly rarely, and should be reserved for cases in which the return will be fairly high, justifying the high level of reporting effort that may be associated with the need for greater public documentation and scrutiny.

We are also concerned that this “high cost,” insurance-type funding represented nearly 22 percent of total state special education funding in 2003-04, and this share has been growing annually. On its face, this is a problem – insurance funds, by definition, should be reserved for fairly rare and unusually high cost situations. As such, they should not constitute a large share of overall special education support. One standard for consideration is that approximately 95 percent of all special education funds be allocated in a fairly generic, straightforward, and highly efficient way (e.g., as under the current ADM system) to generally cover the broad range of circumstances and costs that are considered routine within the realm of special education services. This leaves a relative small percentage (e.g., 5 percent) to be reserved for truly unusual circumstances. These remaining relatively rare, high cost situations will then be more likely to justify the exhaustive reporting burden and greater public scrutiny that supplemental allocations of fairly substantial sums often require.

Why have student contracts in North Dakota become such a large percentage of overall state special education support? One predominant problem of the contract system is that these extraordinary cost funds are now used to serve a broad range of students and services. This is particularly true in the case of agency-placed special education students. The system funds 100 percent (minus a standard deduction of approximately \$6,000) of the *entire* education of children with Individualized Education Programs (IEPs) who are placed in external placements by other

agencies (e.g., the courts). In other words, the full cost for general and special education services for an incarcerated youth in a special facility may be charged against the state's special education extraordinary cost funds if he or she has an IEP (i.e., even if the student receives only one hour of speech therapy per week). Over 85 percent of extraordinary cost funds are used for this purpose, comprising 19 percent of the total state special education funding in 2003-04. At virtually 100 percent funding, reimbursements for agency-placed students have placed increasing pressures on the student contract system.

In addition to the type of student described above for whom special education services may comprise a fairly small portion of overall costs, but whose total costs are charged to special education, students with very intensive special education needs are also placed on student contracts. In the former case, it can be argued that these are not the students for whom a high cost risk pool fund was initially formed. In the case of agency-placed students with intensive special needs, e.g., those placed in the Anne Carlson Center for Children, these *are* the kinds of children for whom the high cost fund was initially created. However, it can be argued that in the case of all agency-placed students, their special education needs are not the reason for their agency placement. To the extent that they are placed for needs other than special education, and to the extent to which they are placed independent of local district input or control, an argument can be made that the cost of serving these children outside of the regular public education system should not be uniquely borne by special education.

A related problem is that the growing numbers of agency placements and the increasing costly claims associated with them are substantially depleting the extraordinary cost funds available to reimburse schools for high cost (non-agency) children served in their home community. Until recently, the state paid the full amount of the high cost (non-agency) claims above a standard threshold (2.5 times the average per pupil expenditure). However, the agency-placed claims, with their nearly 100 percent reimbursements, are paid first out of the high cost fund. The state reimbursement for high cost students being served in-district was reduced to 80 percent of the claim amount, with a 20 percent district co-pay, and has continued to decrease as a percentage of total state special education support. Due to growing fiscal pressure posed by the agency placements, the state currently pro-rates the claims of the high cost (non-agency) students, and in 2002-03, the districts received only 30 percent of the total costs above the threshold.

Given the extensive amount of paperwork involved in making these claims, and the relative low rate of return, many districts no longer find it cost effective to even use the system unless the claim exceeds \$32,000. When it is less than that, local directors report that the amount they get back does not warrant the effort in applying.

A final concern with the current contract system is that when an external agency places the student in a residential treatment facility in his or her own community, the local district can only make a high cost (non-agency) claim at the prorated level (currently around 30 percent). However, when this same agency places the same student in a residential treatment facility outside the home community, this case qualifies for 100 percent reimbursement. As the agency placement is outside local control, these rules seem arbitrary, inequitable, and may conflict with best practice. A concern related to the latter point is that whenever a local community creates a facility where agency-placed students might be served, they increase the chances of their own

students being placed by an agency within their boundaries and losing their chance for much higher reimbursement. This clearly seems an incentive against providing such services locally. At the same time, it seems that the state would want to *encourage* such local provision. When served locally, these children have a much greater opportunity to stay in touch with their families and local community, are much more easily and naturally transitioned back to their home schools when ready, and the overall oversight and monitoring responsibility that remains with the home community becomes much easier and less costly to carry out.

A final finding of concern in regard to agency placements is the relative lack of fiscal oversight for these entities. Concerns were raised of relatively few cost controls on these providers and that they sometimes charge average tuition for all children regardless of the services actually being received. Beyond this, as the residential component of their costs are regulated, but their educational service costs are not, concerns in regard to shifting costs from residential to instructional were expressed.

**Adequacy of State Special Education Support**

Although overall statewide special education provision that is in line with national averages is viewed as a strength of the current system, a related shortcoming is that the state share of this support is relatively low in regard as compared to average national practice across the states. Therefore, the state share of special education funding appears *inadequate* from a local perspective. Exhibit 2 below shows the federal, state, and local special education revenue shares in North Dakota as compared to our best estimate of average comparable shares across all states. It should be noted, that these national averages are derived from the best data available as self-reported to the Center for Special Education Finance at AIR in response to survey questions. These data are not required to be reported to the federal government and are not updated annually; thus there is some question as to their overall accuracy. In addition, these averages mask a great deal of variation across the states, with some states reporting revenue shares lower than the estimate below for North Dakota and at least one state (Wyoming) showing all special education support as coming from state and federal revenues. It should also be recognized that the federal support for special education has increased substantially in recent years, and therefore the average federal share is likely higher than what is represented in Exhibit 2.

**Exhibit 2. Federal, State, and Local Shares of Special Education Spending, the Nation and North Dakota**

	National Average 1998-1999 <sup>&lt;1&gt;</sup>	North Dakota 2003-04 <sup>&lt;2&gt;</sup>
Federal Share	8%	16.4%
State Share	45%	22.4%
Local Share	47%	61.2% <sup>(3)</sup>

<sup>1</sup> As reported by 39 states in the Center for Special Education Finance Survey, 1999-2000 (Parrish et al., 2004).

<sup>2</sup> The 2003-04 special education expenditures and state share were provided by the DPI. Federal special education funds were taken from the 2003-04 Annual Report.

<sup>3</sup> This is estimated as the residual after accounting for federal and state special education revenues.

In addition to the data above, it was the clear sense of the majority of the stakeholders for this study that the state share of special education provision in the state was too low. Further concerns were expressed that state funds for special education have remained fairly constant over the past several legislative sessions. Relatively constant state funds coupled with rising special education costs over time generate concerns that the state share of support for special education is not only relatively small, but is also likely declining in percentage terms.

## **Recommendations**

As listed above, the third and undoubtedly most important research question posed for this study was to “obtain national professional recommendations for improvements to the state’s current system.” The wording of this question makes it clear that the recommendations contained in this report are to come from the authors of this report, and not necessarily from the Stakeholders assembled for this project.

At the same time, while the findings from this study can be informed by a number of sources, e.g., extant state data, the investigative part of this study gathered as much information and elicited as much input as possible from the study’s Stakeholder Committee. As mentioned at the onset of this study, there is no single answer that can be conveyed to the state in regard to what its special education fiscal policy should be. While there are some over arching principles to guide the crafting of effective policy (see Appendix B), some of these objectives are at least partially conflicting. For this reason, it is not possible to derive policy that maximizes all of them.

What will work best in North Dakota is dependent on the state’s overall objectives for public education and their relationship to special education services, as well as prior practice and the history of education policy in the state. In addition, to be effective, special education fiscal policy must fit well within the context of the overall K-12 public education finance system. In most cases, there are parts of the current special education funding system that seem to work well from the perspective of a broad range of affected parties. Given the usual difficulty of making substantial change in educational fiscal policy, it is generally best to leave components of the formula alone that are seen locally as working well, and to focus on the parts that are seen as most problematic. When studies like this are commissioned, it is almost always because there are one or more fairly untenable components to the current formula. We believe it best to focus on these, and to largely leave the other parts substantially alone, lest today’s solutions become tomorrow’s problems.

Because there is no single answer that works in all states, we combine data analysis with the considerable experience and knowledge of the problems realized by other states, the remedies they have considered, and when adopted their experiences with them, to guide our recommendations. In addition, however, we rely heavily on the input and judgment of the type of stakeholders that formed the committee for this project. Because of the breadth of the committee’s membership and because even similar members (e.g., special education unit directors) represent such diverse local situations ranging from relatively large, more urbanized districts to collections of smaller districts spread across relatively sparsely populated regions, state and local knowledge is inevitably coupled with a certain level of inherent varying

perspectives and disagreement. Policies that can be agreed upon across such a large and diverse group of stakeholders, and which do not fundamentally violate the kinds of basic principles listed in Appendix B, have a good chance of working well.

Prior to presenting the recommendations from this study, we would like to commend the dedication shown by this committee. We consider their contribution to this work to be exemplary. As requested by the study team, there was considerable breadth of participation on this committee, including representatives from local special education directors, business office officials, a parent and district superintendent, the legislature, and the State Department of Public Instruction. Attendance was very high at all three meetings, even though many study participants had long distances to travel. Committee members and State Department of Public Instruction staff were also responsive to requests for supplemental one-on-one interviews, requests for data, and email enquiries.

### ***Overarching Values***

Throughout all three meetings, there was considerable discussion of the underlying values that would guide this work. Although a certain level of disagreement is inherent in a group like this, as described above, we also wanted to emphasize the common elements binding its membership. The overarching values that were ultimately agreed upon are as follows:

1. Do what is best for children.
2. Serve children as close to home and in least restrictive environment (LRE) suitable to their needs as possible.
3. Increase overall accountability. Along the continuum of fiscal to procedural to student outcome accountability, place the greatest emphasis, to the extent possible, on the last aspect. Some specific steps considered in this regard include:
  - a. Increase fiscal and outcome oversight in regard to student contracts.
  - b. Create incentives, to the extent possible, for local oversight and responsibility for special education students.
  - c. Create incentives for more inclusive settings for special education students who have agency-placed contracts and for moving them back to their families as soon as possible and appropriate.
4. Fund adequately in a manner designed to allow ongoing recalibration of this measure.
5. Fund equitably and efficiently.

### ***Specific Recommendations***

**Bring state special education funding to adequate levels of provision.** As described above, it appears that overall special education provision in North Dakota is fairly in line with national practice, and in that sense could be considered as adequate. However, the state share of special education provision appears low in relation to other states. In considering how to implement this recommendation, an objective for the state might be to attempt to close, or substantially diminish, the gap between the state and local shares of special education support. This would

bring the state share of support to be more commensurate to what is found in other states across the nation and would provide local cost relief in regard special education services. If there were no further changes to the funding formula (e.g., if the contracts system were to stay the same), Exhibit 3 shows that an increase of \$19.5 million over the 2002-03 state revenue amount would raise the state share to 40 percent of statewide special education provision.

In addition to arriving at some basis for determining adequacy in the provision of special education services and deriving a method for reaching this target on a one-time basis is the challenge of continuing to meet this standard over time. One approach to this for special education is to continue to strive for approximate parity between state and local levels of provision in support of special education. This relatively substantial state share of special education costs should provide ample motivation for the state to continue its efforts to ensure that special education services are provided efficiently throughout the state while also ensuring that the state will share in equal measure subsequent increases in local special education costs that local districts may experience in the future.

**Exhibit 3: Increasing State Special Education Revenue to 40% of Special Education Expenditures, 2003-04**

	State Special Education Revenue	Special Education Expenditures	State Share
State SE Revenues, 2003-04 (ADM, ESY, Contracts)	\$24,689,528	\$110,475,137	22.3%
<b>State funds necessary to account for 40% of SE Expenditures</b>	<b>\$44,190,055</b>		40.0%
Difference	\$19,500,527		

In addition to the calculations above, it could also be acknowledged that special education students generate foundation aid payments for their respective districts. We would argue that counting general education revenues against special education cost does not pertain for the majority of special education children who are simply pulled out of their general education classes for specialized special education services. Because these pull-outs do not reduce general education costs, we believe their general education revenues should only be counted against those costs. However, for students who spend the majority of their school day receiving special education services or are served in separate placements, it may be reasonable to consider that most of the general education funds they generate actually supports the cost of their special education services (as special education may be essentially replacing what the student would have received as a general education student). Examining general education revenues with these concepts in mind, we found that they would only increase our calculation of state special education revenues by approximately 1 percent.<sup>6</sup>

<sup>6</sup> To estimate the potential support from general funds, we took 50 percent of the foundation aid payment in 2003-04 for special education students in regular schools spending more than 60 percent of their school day (420 students in 2003-04) in special education, and 100 percent of the foundation aid payment for students in public and private separate facilities, public and private residential facilities, and home-hospital placements (245 students in 2003-04). This amounted to \$1.2 million, or about 1 percent of the total special education expenditures.

**Combine Increased ADM Special Education Monies with the General Fund Allocation.**

Coupled with the recommendation of increased state special education support, a common theme that will be found throughout these recommendations is an emphasis on combining special with general education funds. Several rationales were cited for this combining of funds. First, it would no longer divide the general and special education legislative requests and would better enable public education to speak with a single voice. Second, this might enhance the integration of general and special education services, acknowledging that all students are general education first, and emphasizing the state's policy emphasis as well as federal law that special education children be served in the least restrictive environment appropriate to their needs.

Although special education ADM funds would no longer be categorical in a strict sense, a normative standard for considering what should be expended locally for the provision of special education services could be derived from SEEP data. In 1999-2000, the nation spent \$360.6 billion on K-12 education. Of that, \$78.3 billion was spent to educate students with disabilities (for both general and special education services). This represented a little more than 21 percent of the total K-12 budget in 1999-2000, while special education spending alone accounted for 14 percent of the total K-12 budget. Accordingly, one possible "soft" target for special education spending in a district could be 14 percent of combined general funds, which would cover more than 40 percent of the special education expenditures in 2003-04.<sup>7</sup>

To at least partially offset potential concerns of decreased accountability in regard to special education service provision as a result of combining special education with general education funds, service standards could be provided (against which district provision can be judged), along with increased monitoring and accountability emphasis on special education student outcomes. As a starting point, these service standards could simply represent the national staffing patterns, or actual statewide practice, as shown in Exhibit 1.

Another possible concern in regard to creating "soft" targets for special education spending as opposed to more clearly delineated appropriations is in relation to federal requirements in regard to "maintenance of effort" (MOE). In essence, these provisions state that federal IDEA funds cannot be used, except in specified cases, to reduce the level of state and local special education expenditures below that of the prior year. Given that additional state funds for special education are called for in this report, it is not anticipated that MOE concerns will arise as a result of these recommendations. However, it is important to continue to document annual special education expenditures (excluding federal revenues) at the local level to ensure that MOE spending requirements continue to be met.<sup>8</sup>

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<sup>7</sup> In 2003-04, the state appropriations for education amounted to \$322.2 million. Assuming an increase of \$19.5 million to balance the state and local shares of special education spending, the appropriation would increase to \$341.7. Fourteen percent of this, or \$47.8 million, would account for 43 percent of the 2003-04 statewide special education expenditures of approximately \$110.5 million.

<sup>8</sup> Note that the 2004 IDEA amendments allow up to 50 percent of the increase in the annual IDEA appropriation for a given local educational authority can be used towards fulfilling the MOE. Please see §300.203 in the Federal Register (June 21, 2005) for the official regulations:  
<http://a257.g.akamaitech.net/7/257/2422/01jan20051800/edocket.access.gpo.gov/2005/pdf/05-11804.pdf>.

In addition, this recommendation to combine general and special education funds may result in changes in how state funds are distributed to local entities, i.e., going directly to districts rather than special education units. As a result, multi-district special education units may need to establish somewhat different financial arrangements in regard to pooling these state funds for the continued provision of cooperative services through the existing unit structure.

**Convert the current special education high cost risk pool to an overall education high cost risk pool.** There are several key components to this overall recommendation, which is in accord with the general theme of greater integration between special and general education funding. This overall risk pool and its associated claims against will be funded first from the overall general funds appropriation, i.e., it will be fully funded for all contract types.

*All contracts (general and special education) will be covered through this fund, with agency-placed contracts continuing the current deduct of one times the statewide average annual per pupil expenditure.* To remove concerns about the full cost of education services being charged against the special education high cost fund for agency placed students who may be primarily general education, but who also happen to have an IEP, and other concerns in regard to students placed by agencies outside of local district control, it is recommended that a single fund be created to cover all such costs for all agency-placed students.

*Change reimbursements for students placed by an agency to allow districts of residence to claim reimbursement for students placed by an agency in a residential treatment program within its boundaries.* Currently, agency-placed expenses can only be claimed if the treatment program is located in another school district, or if it is operated by a non-public entity. This recommendation is designed to address the concern cited above in regard to a possible disincentive for local districts to set up local, public options for agency-placed students. Once the agency takes control and makes a placement for a student in a residential program, all student education-related contract costs will be applied against the overall education risk pool provisions described above, even if the educational component of the placement is provided by the school district.

It should be noted that the committee did not discuss in detail all of the student arrangements that might be included under residential programs, as referred to in this recommendation. As an example, it was subsequently raised whether a group home in a community, such as an Intermediate Care Facility for the Mentally Retarded, where students continue to be educated in the local public school would be included. For example, it can be questioned as to why children who have always resided in a local community and now reside in some form of group home but who continue to be educated by their local public schooling system should be suddenly be eligible for some higher form of reimbursement as a result of their placement in a group home.

On the other hand, an argument can be made for treating them as eligible for 100 percent reimbursement (minus the current average deduction) from the state in consonance with the recommendation made above for all agency-placed children. First, because in many cases it may be difficult to determine the true district of residence, it may be clearer to simply distinguish between agency and non-agency placements. Second, if we place residential children who are served in local public school programs at a financial disadvantage from the local district perspective, i.e., have a lower reimbursement than if they were served privately, we may be

creating a fiscal disincentive for the provision of these services in a local public setting. If we do not want to discourage the public provision of these services, which we believe we should not, we recommend a level playing field financially in regard to public or private educational provision. For this reason, the research team for this study believes the recommendation above should apply to all children placed by an agency in a residential treatment facility.

*Limit non-agency, high cost special education student contracts to the upper one percent of the special education population.* The increase in special education ADM funding and the diversion of student contracts to an overall risk fund would be coupled with a reduction in the number of students for whom non-agency, high cost claims could be filed. Towards this end, we conducted a simulation limiting the high cost (non-agency) student contracts to the upper 1% of the special education population in North Dakota – or 140 of the highest cost non-agency contracts in 2002-03. In conducting the simulation, we used the “full” costs of these students, by including the revenue sharing amounts by unit that are subtracted from the cost in the current contract formula. Please note that these “full” cost estimates do not reflect transportation and equipment expenditures, as these data were not available at the time of the analysis. The state will need to further consider the extent, and in what ways, they want to include transportation and equipment expenditures as a part of these claims.

According to the data for 2002-03, restricting the claims to the top 1 percent most expensive non-agency students would result in a new threshold of approximately \$27,369, which translates to multipliers of 4.7 for elementary students and 4.5 for secondary students as shown in Exhibits 4 and 5 below. Currently, the threshold for non-agency high cost students is 2.5 times the statewide average per pupil expenditure (APPE).

**Exhibit 4. Distribution of the Highest and Lowest Non-Agency High Cost Contracts of the Upper 1% of the Special Education Population, 2003-04**

Average Cost of Top 140 Highest Cost Non-Agency Contract Students*	<b>\$34,325</b>
Top (1)	\$67,439
Bottom (140)	\$27,369

\* These cost estimates take into consideration the net allowed costs plus the revenue-sharing factor. However, they do not reflect expenditures for equipment or transportation.

**Exhibit 5. Estimated APPE Multipliers Based on the Upper 1% of the Special Education Population, 2003-04**

Threshold multiplier based on \$27,369 and Elementary Student APPE (\$5,832) in 2003-04	4.7
Threshold multiplier based on \$27,369 and Secondary Student APPE (\$6,105) in 2003-04	4.5

*Extend the state reimbursement to 100 percent for high cost student contracts beyond the threshold shown above.* All expenses would be counted in deriving the full expenditure for a high cost student, e.g., equipment and transportation, and there would be no deductions for revenue-sharing (please note that equipment and transportation expenditures are not included in

Exhibit 4 above). The notion here is to limit the claims being made for the state's very highest cost cases, and then when the claims meet this threshold to fully fund with no deducts. However, the research team believes that this recommendation from the committee might be modified to allow for some continuing local share of costs above the threshold, e.g., 10 percent, to provide some continuing local motivation for cost control above the threshold amount.

In 2003-04, the state provided \$683,739 for non-agency student contracts. If we limit the high cost (non-agency) contracts to the new thresholds established by the 140 highest cost contract students, the total costs of students who exceed these thresholds would be approximately \$4.7 million. Since the districts would cover expenditures below the thresholds (~\$3.7 million), the state revenue would amount to \$965,819, an increase of \$282,000 over what the state allocated for non-agency contracts in 2003-04. However, this simulation assumes that the state would cover all costs above the threshold.

Although the recommendation as stated above reflects the consensus sentiment of the Stakeholder Committee, the research team believes the state may wish to continue to consider some form of co-pay as some form of local cost constraint on spending above the threshold amount. Under the current system, districts cover 20 percent of the costs above the threshold. If the same concept were to apply to the simulation, the state revenue would be \$772,655 – an increase of approximately \$89,000 over the 2003-04 appropriation. Applying a 10 percent district co-pay, the state obligation for high cost non-agency special education students would amount to \$869,237.

*An audit team will be formed to review all contract claims (both agency-placed contracts and high cost contracts).* This team will be organized by DPI and will include state and local members. They will review IEPs for students, the services actually provided to claimed students, as well as reviewing the costs actually claimed. They will draw a sample of claims filed for review, as well as selectively reviewing those that appear to be outliers. This audit team will also exercise increased oversight over agency-placement providers –their job will be to determine if costs are reasonable, as well as whether the children they serve are making expected educational progress.

In addition, when children are being served in segregated settings, especially involving placement away from the child's family and home community, we think this audit team should provide annual input for further consideration by the child's IEP team as to whether separate placement is still in the best educational interests of the child. Especially in the case of 100 percent reimbursement for children placed in agency settings outside the home, there are concerns about appropriate review and assurances that children will be returned to their home community and to local district educational responsibility as soon possible within the best interests of the child.

*Over time, regionalized education service provision should be fostered for a broad array of educational services that might be made more cost-effective through regional provision.* We realize that the current Joint Powers Agreement (JPA) structure does not always align with the configuration of special education units, and that this is a barrier to the realization of these greater efficiencies. In the future, it seems important that the organization of more regionalized

structures should correspond with or complement as much as possible current special education units.

## **Conclusion**

The recommendations contained in this final section clearly reflect the national expertise called for in the design of this study in the form of the authors of this report. They also are based to a very large extent on insights provided by the Stakeholder Committee convened for this project. A major objective of the research team in this work in addition to informing and providing guidance to this committee was to listen to their varying perspectives and to help them find agreement in regard to changes in the current formula that would, in their opinion, best serve the state's students receiving special education services. We are pleased that the committee could find this common ground by the conclusion of our last meeting. The recommendations contained in this report largely reflect agreement among the members of this group and the research team for this project, who consider these recommendations to be sound.

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## Appendix A: Special Education Stakeholder Committee Members, 2005-06

**Research Team:**

Tom Parrish, American Institutes for Research

Jenifer Harr, American Institutes for Research

**Committee Members:**

Bob Rutten, Director of Special Education, ND  
Department of Public Instruction

Addy Schmaltz, Administrative Officer  
Department of Public Instruction

Gary Gronberg, Assistant Superintendent  
Department of Public Instruction

Bonnie Miller, Fiscal Management Director  
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District 36

Representative Ralph Metcalf  
District 24

Jerry Coleman, Assistant Director  
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Jeanette Kolberg, Assistant Director  
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Warren Larson, Superintendent  
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Larry Halvorson, Spec Ed Business Manager  
Souris Valley Special Education Unit

Terry Tucker, Special Education Director  
West River Special Education Unit

Mike Ahmann, Special Education Director  
Bismarck Special Education Unit

Mark Ehrmantraut, Special Education Director  
Buffalo Valley Special Education Unit

Ralph Charley, Special Education Director  
Souris Valley Special Education Unit

Connie Hovendick, Special Education Director  
Lake Region Special Education Unit

Mike Ross, Special Education Director  
Wilmac Special Education Unit

Carlotta McCleary, Parent and  
Representative of the ND Federation for Children's  
Mental Health

Joe Morrisette  
ND Office of Management and Budget

Jim Moench, Executive Director  
ND Disabilities Advocacy Consortium

## Appendix B: Criteria for Evaluating State Special Education Funding Formulas

*Note: The numbers in parentheses represent the number of votes that the each criterion received in a committee vote at the North Dakota Special Education Stakeholders' Meeting, 9-29-05. Committee members could vote for up to two issues.*

### **Understandable**

- The funding system and its underlying policy objectives are understandable by all concerned parties (legislators, legislative staff, state department personnel, local administrators, and advocates).
- The concepts underlying the formula and the procedures to implement it are straightforward and “avoid unnecessary complexity.”

### **Equitable** (8 votes)

- Student equity: Dollars are distributed to ensure comparable program quality regardless of district assignment.
- Wealth equity: Availability of overall funding is not correlated with local wealth.
- District-to-district fairness: All districts receive comparable resources for comparable students.

### **Adequate** (14 votes)

- Funding is sufficient for all districts to provide appropriate programs for special education students.

### **Predictable** (1 vote)

- Local education agencies (LEAs) know allocations in time to plan for local services.
- The system produces predictable demands for state funding.
- State and local education agencies can count on stable funding across years.

### **Flexible** (1 vote)

- LEAs are given latitude to deal with unique local conditions in an appropriate and cost-effective manner.
- Changes that affect programs and costs can be incorporated into the funding system with minimum disruption.
- LEAs are given maximum latitude in use of resources in exchange for outcome accountability.

### **Identification Neutral** (4 votes)

- The number of students identified as eligible for special education is not the only, or primary, basis for determining the amount of special education funding to be received.
- Students do not have to be labeled “disabled” (or any other label) in order to receive services.

### **Reasonable Reporting Burden**

- Costs to maintain the funding system are minimized at both local and state levels.

- Data requirements, recordkeeping, and reporting are kept at a reasonable level.

### **Fiscal Accountability**

- Conventional accounting procedures are followed to assure that special education funds are spent in an authorized manner.
- Procedures are included to contain excessive or inappropriate special education costs.

### **Cost-Based (1 vote)**

- Funding received by districts for the provision of special education programs is linked to the costs they face in providing these programs.

### **Cost Control**

- Patterns of growth in special education costs statewide are stabilized over time.
- Patterns of growth in special education identification rates statewide are stabilized over time.

### **Placement Neutral (3 votes)**

- District funding for special education is not linked to where services are received.
- District funding for special education is not based on type of educational placement.
- District funding for special education is not based on disability label.

### **Outcome Accountability (3 votes)**

- State monitoring of local agencies is based on various measures of student outcomes.
- A statewide system for demonstrating satisfactory progress for all students in all schools is developed.
- Schools showing positive results for students are given maximum program and fiscal latitude to continue producing favorable results.

### **Connection to Regular Education Funding (2 votes)**

- The special education funding formula should have a clear conceptual link to the regular education finance system.
- Integration of funding will be likely to lead to integration of services.

### **Political Acceptability (1 vote)**

- Implementation avoids any major short-term loss of funds.
- Implementation involves no major disruption of existing services.

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Adapted from: Hartman, W.T. & Fay, T.A. (1996). *Cost-effectiveness of Instructional Support Teams in Pennsylvania*. Palo Alto, CA: Center for Special Education Finance, American Institutes for Research; and Parrish, T. (1994). *Fiscal policies in special education: Removing incentives for restrictive placements*. Policy Paper No. 4. Palo Alto, CA: Center for Special Education Finance, American Institutes for Research.

**Appendix C:**  
**North Dakota State Special Education Revenues by Special Education**  
**Unit, 2003-04 School Year**

**Appendix C: North Dakota State Special Education Revenues by Special Education Unit, 2003-04 School Year**

State Special Education Revenue Summary									State Special Education Revenue Sources				
Total SE (03-04 Annual Report)	Base State SE Rev (ADM) <sup>1</sup>	Non-Agency Placed Student Contracts	Agency Placed Student Contracts	ESY	Boarding Care	Total State SE Rev WITHOUT Boarding	Total State SE Rev WITH Boarding	% ADM	% Non-Agency Contracts	% Agency Contracts	% ESY	% Boarding Care	
13,989	\$18,183,638	\$683,739	\$4,607,015	\$533,670	\$402,694	\$24,008,062	\$24,410,756	74%	3%	19%	2%	2%	

State Special Education Revenue By Unit									State Special Education Revenue Sources					
Unit	A # of Districts in SE Unit	B Total SE (03-04 Annual Report)	C Base State SE Rev (ADM) <sup>1</sup>	D Non-Agency Placed Student Contracts	E Agency Placed Student Contracts	F ESY	G Boarding Care	H Total State SE Rev WITHOUT Boarding	I Total State SE Rev WITH Boarding	J % ADM	K % Non-Agency Contracts	L % Agency Contracts	M % ESY	N % Boarding Care
								=C+D+E+F	=C+D+E+F+G	=C/I	=D/I	=E/I	=F/I	=G/I
1 BELCOURT (Turtle Mt)	1	68	\$304,366	\$0	\$0	\$0	\$0	\$304,366	\$304,366	100%	0%	0%	0%	0%
2 BISMARCK	1	1,242	\$1,811,369	\$24,033	\$338,555	\$34,985	\$0	\$2,208,942	\$2,208,942	82%	1%	15%	2%	0%
3 BUFFALO VALLEY	6	483	\$549,806	\$18,996	\$449,666	\$81,478	\$0	\$1,099,946	\$1,099,946	50%	2%	41%	7%	0%
4 BURLEIGH COUNTY	8	62	\$45,802	\$2,436	\$48,128	\$0	\$0	\$96,366	\$96,366	48%	3%	50%	0%	0%
5 DICKEY/LAMOURE	6	172	\$241,956	\$5,517	\$0	\$0	\$0	\$247,473	\$247,473	98%	2%	0%	0%	0%
6 DICKINSON	1	412	\$482,572	\$16,537	\$196,400	\$26,626	\$0	\$722,135	\$722,135	67%	2%	27%	4%	0%
7 EAST CENTRAL	5	158	\$223,640	\$287	\$29,366	\$3,191	\$0	\$256,484	\$256,484	87%	0%	11%	1%	0%
8 EMMONS COUNTY	5	84	\$133,890	\$0	\$0	\$0	\$0	\$133,890	\$133,890	100%	0%	0%	0%	0%
9 FARGO	1	1,318	\$1,963,046	\$178,199	\$374,570	\$40,165	\$0	\$2,555,980	\$2,555,980	77%	7%	15%	2%	0%
10 FORT TOTTEN	1	55	\$34,729	\$0	\$54,134	\$0	\$0	\$88,863	\$88,863	39%	0%	61%	0%	0%
11 GRAND FORKS	3	1,121	\$1,486,486	\$50,682	\$375,801	\$28,674	\$0	\$1,941,643	\$1,941,643	77%	3%	19%	1%	0%
12 GRIGGS/STEELE/TRAILL	8	331	\$458,899	\$20,833	\$97,831	\$0	\$0	\$577,563	\$577,563	79%	4%	17%	0%	0%
13 LAKE REGION	15	657	\$788,295	\$41,097	\$183,493	\$12,866	\$171,612	\$1,025,751	\$1,197,363	66%	3%	15%	1%	14%
14 LONETREE	11	296	\$404,402	\$3,696	\$185,784	\$29,071	\$6,868	\$622,953	\$629,821	64%	1%	29%	5%	1%
15 MORTON/SIOUX	9	776	\$807,586	\$60,061	\$211,448	\$30,972	\$0	\$1,110,067	\$1,110,067	73%	5%	19%	3%	0%
16 NORTHERN PLAINS	5	135	\$178,755	\$4,508	\$7,754	\$0	\$0	\$191,017	\$191,017	94%	2%	4%	0%	0%
17 OLIVER/MERCER	6	284	\$380,457	\$10,282	\$24,193	\$0	\$0	\$414,932	\$414,932	92%	2%	6%	0%	0%
18 PEACE GARDEN	11	537	\$573,676	\$22,387	\$141,999	\$10,818	\$0	\$748,880	\$748,880	77%	3%	19%	1%	0%
19 PEMBINA	7	243	\$289,450	\$16,354	\$58,970	\$12,367	\$0	\$377,141	\$377,141	77%	4%	16%	3%	0%
20 RURAL CASS	4	266	\$375,629	\$7,345	\$3,265	\$0	\$0	\$386,239	\$386,239	97%	2%	1%	0%	0%
21 SHEYENNE VALLEY	6	350	\$432,672	\$36,350	\$176,961	\$36,467	\$17,614	\$682,450	\$700,064	62%	5%	25%	5%	3%
22 SOURIS VALLEY	22	1,907	\$2,244,943	\$77,806	\$693,996	\$90,517	\$201,933	\$3,107,262	\$3,309,195	68%	2%	21%	3%	6%
23 SOUTH CENTRAL PRAIRIE	10	171	\$239,921	\$1,603	\$44,803	\$0	\$0	\$286,327	\$286,327	84%	1%	16%	0%	0%
24 SOUTH VALLEY	13	459	\$556,283	\$10,104	\$131,702	\$16,435	\$0	\$714,524	\$714,524	78%	1%	18%	2%	0%
25 SOUTHWEST	4	79	\$159,787	\$0	\$41,440	\$3,683	\$0	\$204,910	\$204,910	78%	0%	20%	2%	0%
26 UPPER VALLEY	11	483	\$540,223	\$17,027	\$226,469	\$33,354	\$4,667	\$817,073	\$821,740	66%	2%	28%	4%	1%
27 WAHPETON	1	200	\$266,233	\$0	\$97,453	\$0	\$0	\$363,686	\$363,686	73%	0%	27%	0%	0%
28 WEST FARGO	1	664	\$922,473	\$40,229	\$200,394	\$23,514	\$0	\$1,186,610	\$1,186,610	78%	3%	17%	2%	0%
29 WEST RIVER	17	306	\$517,985	\$0	\$80,568	\$2,251	\$0	\$600,804	\$600,804	86%	0%	13%	0%	0%
30 WILMAC	14	670	\$768,307	\$17,370	\$131,872	\$16,236	\$0	\$933,785	\$933,785	82%	2%	14%	2%	0%

Source: 2003-04 Annual Special Education Report, North Dakota Department of Public Instruction.

<sup>1</sup> Includes Medicaid Match

## **Appendix D: Brief Analysis of Special Education Weights in the Augenblick, Palaich and Associates, Inc. (APA, 2003) Report on Determining the Cost of Adequate Education in North Dakota**

In June 2003, Augenblick, Palaich and Associates, Inc. (APA) issued a report to the North Dakota Department of Public Instruction (DPI) with the objective of determining the level of funding needed to assure that school districts have sufficient operating funds to enable them to meet the accountability requirements of both the state and federal government. Below, we describe the formula that APA developed using the professional judgment approach to estimate the cost of adequacy for individual school districts in North Dakota. The estimates reflect current operating spending, excluding capital outlay, debt service (for school construction), transportation and food service.

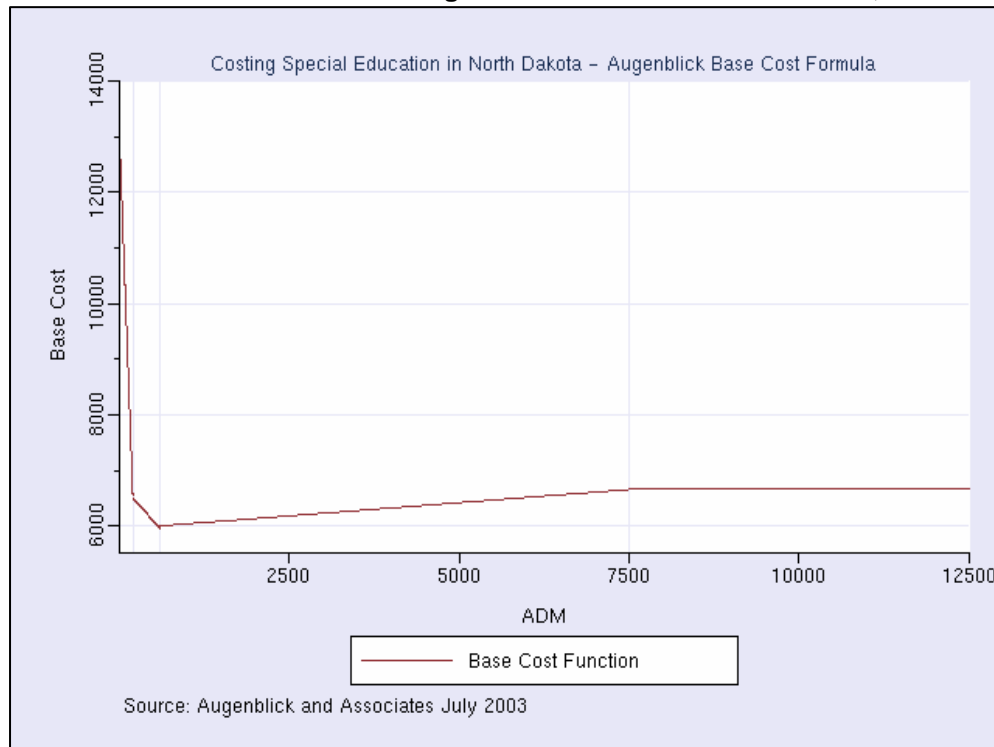
In order to estimate adequacy costs for school districts, APA identify a base cost of \$6,000 per student over which adjustment factors are applied based on the size and demographic composition (special education, at risk and limited English proficient students) of a particular district. Here we only look at district size and the characteristics of a district's special education population as adjustment factors in order to estimate adequate special education funding.

As a first step in the costing procedure, APA calibrated the \$6,000 per student base cost figure depending on the size of the district using the formula displayed in Exhibit D-1. In Exhibit D-2 and D-3, the formula are represented as a series of inter connecting lines, more clearly showing the base cost schedule at each level of enrollment.

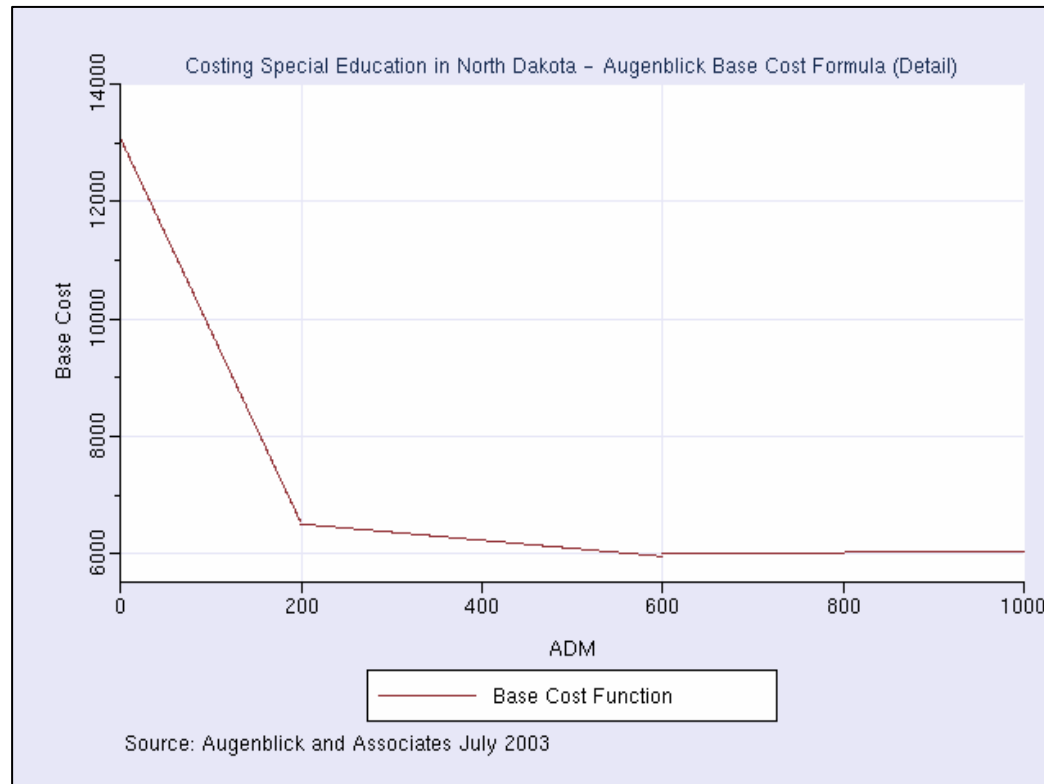
**Exhibit D-1**

<b>Base Cost</b>	
<b>District Size</b>	<b>Formula to Determine Base Cost Level</b>
Less than 200	$[(32.77) \times (200 - \text{enroll})] + 6,520$
200-600	$[(1.3) \times (600 - \text{enroll})] + 6,000$
600 – 7,500	$[(.095) \times (\text{enroll} - 600)] + 6,000$
Over 7,500	\$6,655

**Exhibit D-2: APA Base Cost: Changes in Base Cost and District Size, based on ADM (2003-04)**



**Exhibit D-3: APA Base Cost: Changes in Base Cost and District Size, based on 2003-04 ADM (Detail)**



In order to take into consideration the varying characteristics of the special education students that districts serve, the next step in the costing procedure is to apply disability adjustment factors to the base cost figure. The special education adjustment factors are treated as student “weights” and are expressed as proportions relative to the base cost. For example, a weight of 0.50 means that the added per student cost of providing a particular service is 50 percent of the base cost. APA specify formulas for special education student weights over different district size intervals and severity levels. These formulas are displayed in Exhibit D-4 and are represented graphically in Exhibits D-5 and D-6.

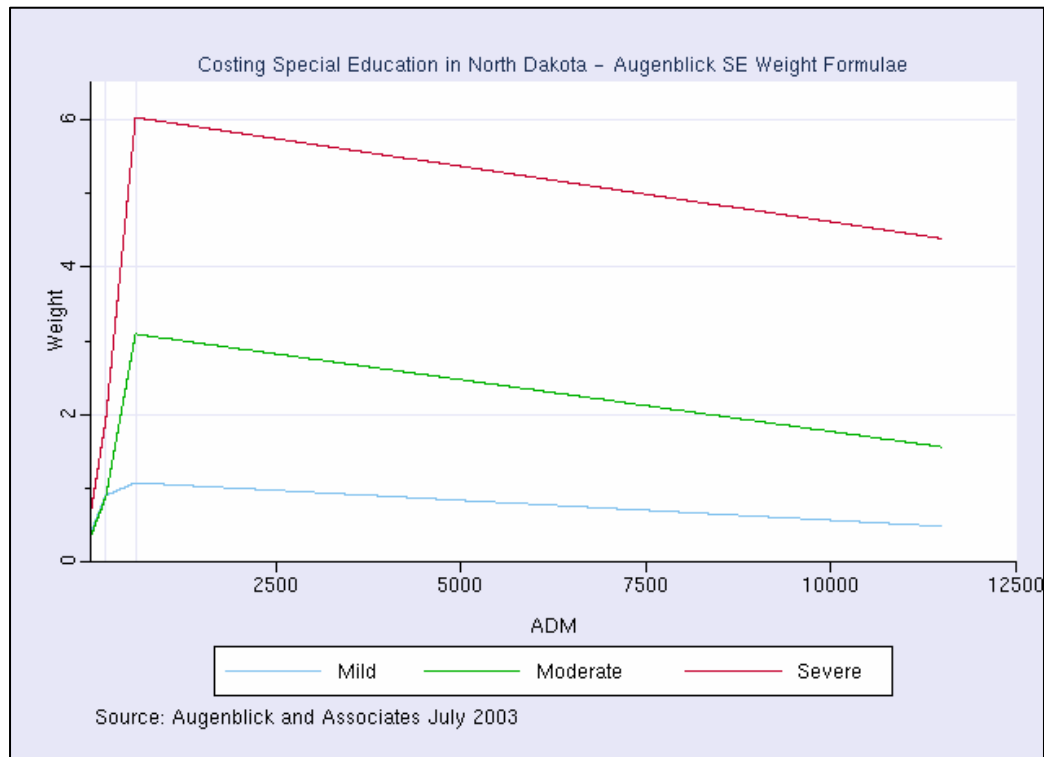
**Exhibit D-4**

<b>Mild Special Education Weights</b> (MR, SI, SLD, NCD)	<b>District Size</b>	<b>Formula to Determine Base Cost Level</b>
	Less than 200	$.91 - [(.0025) \times (200 - \text{enroll})]$
	200-600	$1.08 - [(.00043) \times (600 - \text{enroll})]$
	Over 600	$1.08 - [(.000054) \times (\text{enroll} - 600)]$

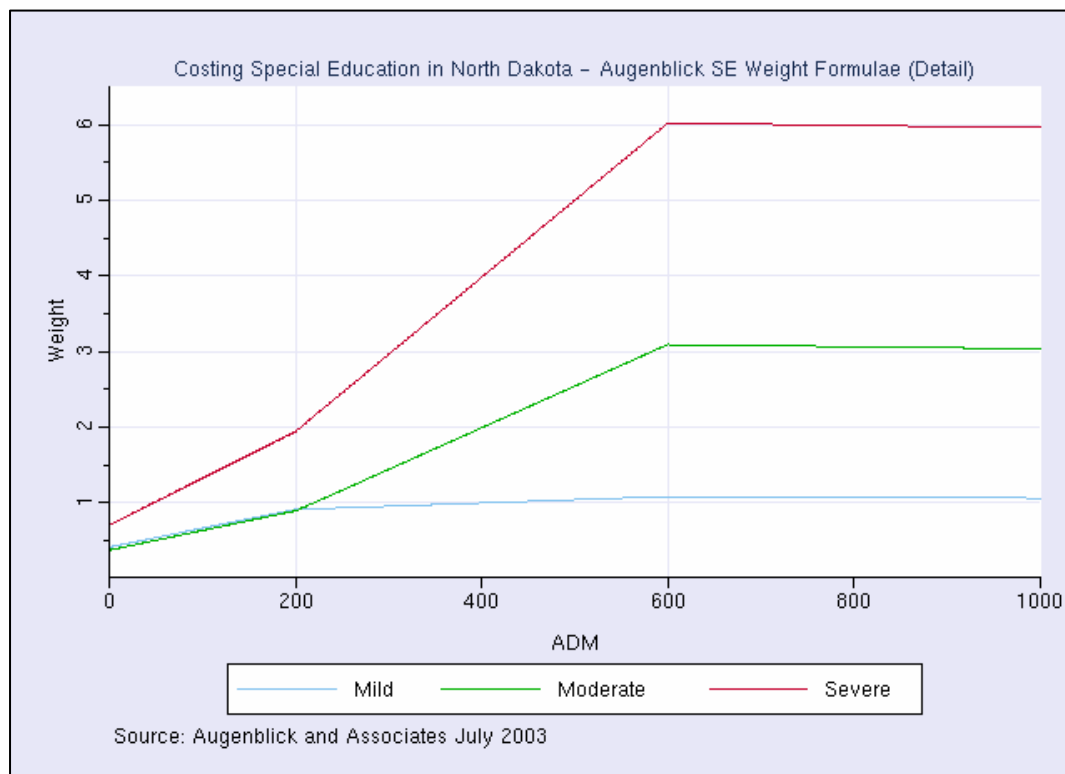
<b>Moderate Special Education Weights</b> (HI, OI, OHI, ED, VI)	<b>District Size</b>	<b>Formula to Determine Weight</b>
	Less than 200	$.89 - [(.0026) \times (200 - \text{enroll})]$
	200-600	$3.09 - [(.0055) \times (600 - \text{enroll})]$
	Over 600	$3.09 - [(.00014) \times (\text{enroll} - 600)]$

<b>Severe Special Education Weights</b> (AUT, TBI, D, DB)	<b>District Size</b>	<b>Formula to Determine Weight</b>
	Less than 200	$1.94 - [(.0062) \times (200 - \text{enroll})]$
	200-600	$6.02 - [(.0102) \times (600 - \text{enroll})]$
	Over 600	$6.02 - [(.00015) \times (\text{enroll} - 600)]$

**Exhibit D-5: APA Special Education Weights: Changes in Weights and District Size based on 2003-04 ADM**



**Exhibit D-6: APA Special Education Weights: Changes in Weights and District Size based on 2003-04 ADM (Detail)**



To arrive at an estimate for the adequate per student cost of special education in a particular district the district enrollment is needed. We can arrive at a total special education adequacy cost for a school district based on the number of students in that district who fall in categories of mild, moderate or severe disabilities. The following is an example calculation to obtain the adequate cost per special education student for a fictitious district:

District A:

<b>Total Enrollment:</b>	<b>700</b>
<u>1. Base Cost:</u>	\$ 6009.50
<u>2. Student Weights:</u>	
Mild:	1.075
Moderate:	3.076
Severe:	6.005
<u>3. Adequate Cost per Special Education Student:</u>	
Mild:	1.075 x \$6009.50 = \$ 6,460.21
Moderate:	3.076 x \$6009.50 = \$ 18,485.22
Severe:	6.005 x \$6009.50 = \$ 36,087.05

Using actual district special education enrollment data from provided by the North Dakota DPI, we are able to apply the disability weights to generate adequacy cost estimates for each district based on APA’s formula. Exhibit D-7 displays the average value of disability weights obtained for actual districts in North Dakota of varying size while Exhibit D-8 displays the average value of the Base Cost and Adequate Special Education Costs for districts in North Dakota of varying size.

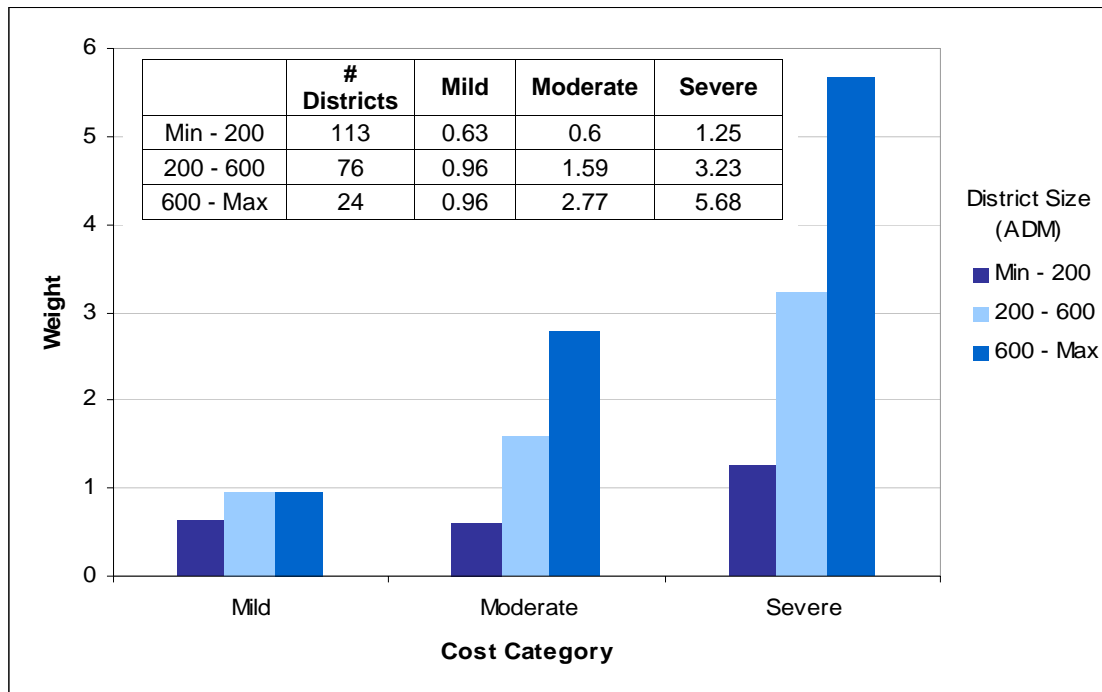
As mentioned in the report, some of the detailed concerns we noted regarding the special education weights recommended by APA include:

- Categorizing Mental Retardation (MR) as a “mild” disability. A national study on special education expenditures shows MR to be more expensive than Other Health Impairment, Emotional Disturbance, and Orthopedic Impairment, when considering total spending on special education students. APA included these latter disabilities in the “moderate” disability group.
- The weight for moderate disabilities in very small districts (less than 200 ADM) is slightly lower than the weight for mild disabilities.
- The formula results for very small districts appear unusual. Very small districts are defined by APA as having less than 200 ADM. There are 114 districts in North Dakota in this size category. Based on diseconomies of small size, the base amount (i.e. the dollar amount against which the weights are applied to determine funding) for these districts is larger than for others. While this higher base appears to compensate for the lower weights

assigned these districts for mild disability categories, the higher base does little to offset the lower weights they assign to moderate and severe disability categories in relation to larger districts. For instance, small districts generate on average \$22,128 for a severe student (including the base), while medium districts (ADM 200 – 600) and large districts (more than 600 ADM) generate an average \$26,782 and \$41,187, respectively (see Exhibit D-8 in Appendix D). This overall result seems quite counter-intuitive, as the economies of scale in smaller districts would likely make it more costly to serve more severe students.

While an overall critique of the APA study for North Dakota was clearly beyond the scope of this work, overall we estimated their definition of special education adequacy for the state at about \$900,000 less than current spending, with nearly all this loss in funds coming from the state’s largest three special education units.<sup>9</sup> While it is possible that the special education funding approach they recommended would make more sense in the context of their overall formula recommendations, their report provided very little rationale for the special education component of their formula or how these fit into their larger set of funding recommendations for the state. The committee agreed with our conclusion that the APA recommendations were not very useful for considering special education adequacy in the state. Accordingly, we turned to a recently completed federal study of special education spending and resource allocation patterns across the nation as the basis for considering the overall adequacy of special spending in North Dakota.<sup>10</sup>

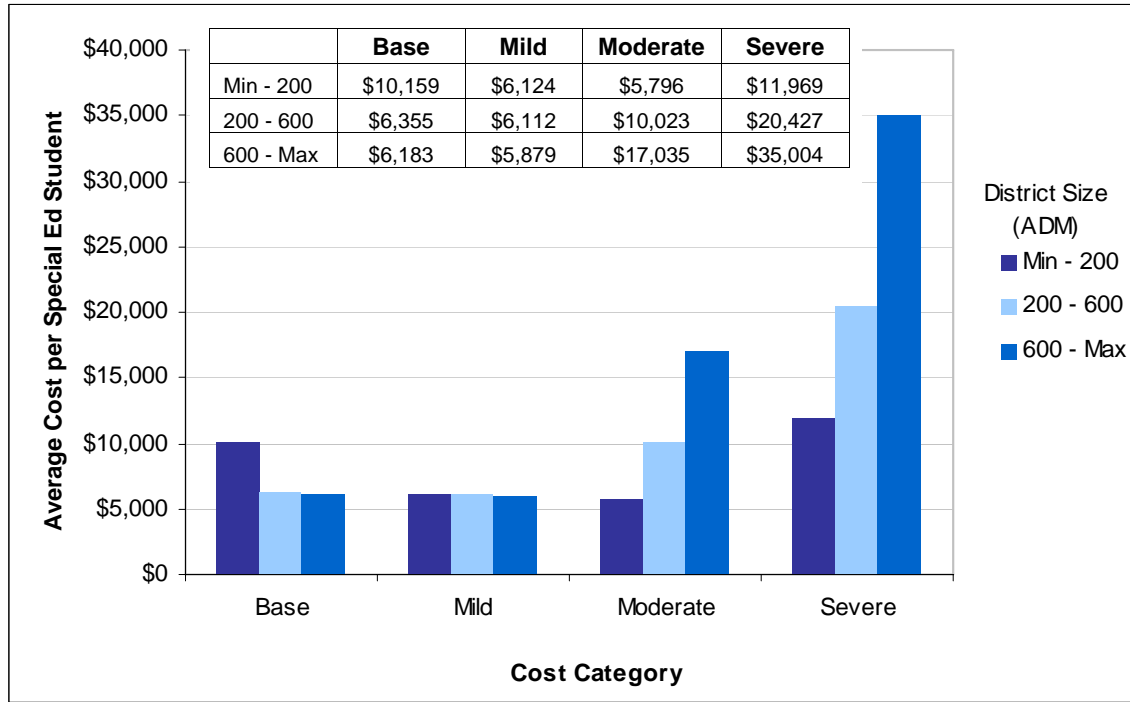
**Exhibit D-7: Average Special Education Weights by Disability Category and District ADM**



<sup>9</sup> Given its unique status, Belcourt Special Education Unit is excluded from this summative calculation. Please note that a few smaller units demonstrated greater percentage declines between the APA’s special education adequacy amount and actual spending than the largest units.

<sup>10</sup> The Special Education Expenditure Project (SEEP) was completed by AIR for the U.S. Department of Education in 2004.

**Exhibit D-8: Average Base and Special Education Funding by Disability Category and District ADM**



**Appendix E:  
Total Number of Special Education Students Per FTE Special  
Education Provider, 2003-04**

**Appendix E: Total Number of Special Education Students Per FTE Special Education Provider, 2003-04 (based on total special education enrollment)**

RATIOS BASED ON IDEA FTE and CHILD COUNT DATA, 2003-04			
	SE Teachers	SE Teacher Aides (including interpreters)	Related Service Staff
<b>50 States and DC Unweighted*</b>	<b>17</b>	<b>21</b>	<b>44</b>
<b>50 States and DC Weighted**</b>	<b>15</b>	<b>18</b>	<b>36</b>
<b>NORTH DAKOTA</b>	<b>17</b>	<b>11</b>	<b>34</b>
ALABAMA	15	26	50
ALASKA	18	n/a	58
ARIZONA	16	15	23
ARKANSAS	16	26	106
CALIFORNIA	20	14	46
COLORADO	18	15	30
CONNECTICUT	14	10	19
DELAWARE	10	18	140
DISTRICT OF COLUMBIA	59	69	35
FLORIDA	17	27	37
GEORGIA	14	21	56
HAWAII	10	13	15
IDAHO	23	18	65
ILLINOIS	13	11	36
INDIANA	22	22	45
IOWA	13	12	39
KANSAS	16	7	31
KENTUCKY	16	21	44
LOUISIANA	13	14	30
MAINE	11	7	39
MARYLAND	14	21	22
MASSACHUSETTS	15	13	35
MICHIGAN	17	65	39
MINNESOTA	13	10	23
MISSISSIPPI	15	59	43
MISSOURI	15	20	89
MONTANA	21	16	46
NEBRASKA	19	13	56
NEVADA	18	25	33
NEW HAMPSHIRE	n/a	n/a	n/a
NEW JERSEY	12	12	21
NEW MEXICO	12	18	30
NEW YORK	10	18	18
NORTH CAROLINA	16	29	60
NORTH DAKOTA	17	11	34
OHIO	17	43	50
OKLAHOMA	18	28	58
OREGON	23	13	42
PENNSYLVANIA	13	19	41
RHODE ISLAND	14	15	20
SOUTH CAROLINA	20	35	91
SOUTH DAKOTA	18	14	31
TENNESSEE	19	23	58
TEXAS	17	19	51
UTAH	22	16	60
VERMONT	12	4	25
VIRGINIA	12	19	45
WASHINGTON	20	19	37
WEST VIRGINIA	17	30	37
WISCONSIN	16	21	31
WYOMING	16	8	24

These ratios were calculated from IDEA personnel and child count data. Source of information: [www.ideadata.org](http://www.ideadata.org); Child Count (ages 3-21) and Personnel FTE Counts from the Annual Report to Congress on the Implementation of the Individuals with Disabilities, 2003.

\* Unweighted calculations reflect the average of the ratios by state. They do not include states that did not report personnel in the specific categories.

\*\* Weighted calculations reflect the average student in the nation, by dividing the total counts of special education students by the total number of special education personnel. The figures exclude special education counts in states that did not report any personnel in the specific categories.