

WASA AMPLE SCHOOL FUNDING PROJECT

Special Education Funding Analysis

Summary --

The Washington Association of School Administrators (WASA) initiated the Ample School Funding Project due to the perception that the State of Washington is not meeting its responsibility to fully fund basic education as required by the Washington State Constitution. This constitutional requirement was interpreted by court decisions in 1977, 1983, and 1988.

These court decisions held that:

- Basic education includes special education;
- Special excess levies cannot be required to support basic education;
- The state has delegated a substantial portion of its funding obligation to school districts since the districts must prepare individual education plans (IEPs) for special education students;
- The state must fund the actual cost of properly formulated IEPs;
- Since the state funding formula is based on averages, the state must provide supplemental funding, such as a safety net, for districts that are underfunded; and,
- It is the continuing obligation of the Legislature to review the adequacy of basic education formulas as the education system evolves and changes.

Findings --

1. The court decisions held that special excess property tax levies could not be required to fund the special education program. However, *school districts have had to resort to the use of property tax revenues to support special education due to the inadequacy of state funding.*

In 2002-03, the state's special education funding shortfall amounted to \$180.2 million. School district special education expenditures of \$775.9 million exceeded program revenues of \$595.7 million by \$180.2 million, or 30.3 percent. This difference is equivalent to 15.8 percent of special levy revenues.

2. The court decisions held that the state needs to provide supplemental funding such as a safety net for certain underfunded districts since the state's special education funding formula is based on average costs and may not provide adequate funding to all districts. However, the current legislatively authorized safety net process prevents access to safety net funding for most districts.

In 2002-03, \$180.2 million of local funding was eligible for safety net funding for 258 school districts. However, only 83 school districts received safety net awards for \$11.9 million.

Many school districts did not apply for safety net funding due to numerous restrictions and complexities imposed by the state. Such restrictions include the following:

- The maintenance-of-local-revenue requirement. Current safety net rules require that school districts maintain at least the same level of local revenue support provided in the previous year. A district that fails to maximize safety net funding is forced to use local funding in lieu of the safety net funding that it did not receive. The local funding then becomes part of the maintenance-of-local-revenue requirement for the ensuing year(s) and *forces school districts to continue using property tax revenues to support special education due to the inadequacy of state funding.*
- The limitation on indirect costs used for safety net eligibility. The state appropriations act limits the indirect cost rate used to determine safety net funding eligibility to the federal restricted indirect rate plus one percent. The state average federal restricted rate for 2002-03 was 3.4 percent, thus the indirect rate for safety net eligibility purpose was 4.4 percent. The average indirect rate used to recover state funding was 16.6 percent. The 12.2 percent difference in these indirect rates reduced school district eligibility for safety net funding by more than \$68 million. This indirect rate restriction, too, *forces school districts to continue using property tax revenues to support special education due to the inadequacy of state funding.*
- The shift to high-cost students. Safety net funding began in 1995-96 and was based on demonstrable unmet need. It originally included four categories of available supplemental funding for school districts:
 - (a.) Maintenance of State Revenue (MOSR) -- to provide supplemental funding to mitigate the funding losses attributed to the change in the special education funding formula effective September 1, 1995.
 - (b.) Percentage -- to provide supplemental funding to districts having more than 12.7 percent of enrollment classified as special education students.
 - (c.) Demographics -- to provide supplemental funding to districts with specific needs such as group homes or large populations of high-cost students.
 - (d.) High-cost Students -- to provide supplemental funding for up to three high-cost students.

Starting with 2002-03, safety net funding was limited to individual high-cost students with expenditures exceeding a minimum threshold amount. In 1996-97 the threshold amount was \$7,000 and has changed each year. The threshold for 2003-04 is \$7,689. The shift to high-cost students with the minimum threshold requirement, too, *forces school districts to continue using property tax revenues to support special education due to the inadequacy of state funding.*

Conclusion --

This report on special education funding provides detailed analyses of school district financial data and concludes that the state has failed to comply with the provisions of the Washington State Constitution which states that "...it is the paramount duty of the state to make ample provision for the education of all children...." In order to comply with constitutional requirements and the court decisions of 1977, 1983, and 1988, to fully fund basic education (including special education) and to avoid future legal challenges, the Legislature needs to address and resolve the following issues:

1. The large disparity between special education revenues and expenditures. School districts currently subsidize more than 30 percent of special education expenditures using local property tax revenues. *The Legislature needs to address the use of school district property tax revenue to support the state's funding obligations as required by the State Constitution and several court decisions; and,*
2. The safety net process does not effectively provide resources to school districts with demonstrated unmet financial need. The Legislature needs to address the restrictions and complexities of the current safety net process to ensure that school districts which are not adequately funded through the regular special education apportionment allocation receive appropriate safety net funding. *Failure to address the adequacy of the safety net process, too, forces school districts to continue using property tax revenues to support special education due to the inadequacy of state funding.*

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