

**Updated Analysis of Ohio's
Special Education Weighted Funding Formula**

May 2014

Prepared by
The Ohio Coalition for the Education of Children with Disabilities

Ohio Coalition for the Education of Children with Disabilities

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This Ohio Coalition for the Education of Children with Disabilities (OCECD) 2014 special education funding and policy analysis is the third update to our original 2001 report, *Special Education Finance in Ohio: Analysis and Recommendations*. This initial report served as the basis for Ohio's current six-weight, cost-based, special education funding system, which provides educational services for Ohio's nearly 220,000 students with disabilities. It's a system that continues to garner solid support from state policy makers and education stakeholders, including OCECD.

This report adheres strictly to a straightforward update of the 2006 study. No new special education costs are added to the analysis, which means that it remains *exclusively* focused on an update of weighted special education state funding, which represents the vast majority of special education specific state aid.

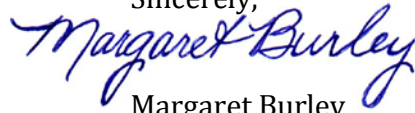
The update reviews state special education rule and law changes that have been enacted since the last update (2006) to determine if they have a material impact on special education costs; it adjusts for student population changes and then determines appropriate inflationary adjustments. Unlike previous updates in 2004 and 2006, which included a more comprehensive updating of the weights that included a representative sampling of Individualized Education Plans (IEPs), the 2014 report simply applies inflationary increases to the existing weights since the weights are essentially the same in FY 2014, the report's comparison year, as they were in 2006. FY 2014 is the current state fiscal year and a year in which special education funding changed significantly, but only as it relates to how the state share of funding was calculated.

The report finds that though the state has retained a solid model for funding special education, it has not fully funded its own system; in fact, this analysis reveals a \$210.2 million FY 2014 shortfall (on a \$712.5 million base) with the special education weights funded at 100%. This would require a state appropriation increase of 29.5%. If the weights were funded at 90%, as they are today, the increased cost in FY 2014 would be an additional \$117.9 million

(+16.5%). Challenging as this is, it's a problem that can and should be corrected through a relatively short, multi-year transition strategy.

OCECD looks forward to working with state policy makers to discuss the special education funding issues outlined in this report.

Sincerely,



Margaret Burley
Executive Director

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Introduction

The Ohio Coalition for the Education of Children with Disabilities (OCECD) developed an initial cost-based, six weight special education funding methodology in 2001, which served as the foundation for the state of Ohio's revised special education funding model beginning in FY 2002. This model currently provides targeted supplemental financial support to nearly 220,000 students with disabilities (FY 2014). OCECD updated its cost-based methodology report in 2004 and again in 2006; however, no statutory changes were made in the model until the weights were updated to 90 percent of the proposed 2006 level in FY 2009 and even these changes were not implemented (or funded) due to state fiscal constraints; consistent with these realities, and despite initiated but unimplemented changes in the intervening years, the essential structure of Ohio's special education weighted funding is the same for purposes of this report's comparison years, which are FY 2006 and FY 2014.

This policy has resulted in generally modest special education weighted funding adjustments; these increases have largely been driven by changes to the overall per pupil funding model. This pattern includes the fact that while state primary and secondary education spending growth substantially exceeded inflation from FY 1993-2002, state education spending growth from 2003-2012 was less than half the general (CPI-U) inflation rate.

The basic structure of the state's cost-based, special education funding methodology is sound according to most state policy makers and special education stakeholders; in fact, it has been held up as a national model for funding special education and related services. Yet there has not been a formal cost analysis of the weights since the publication of the Coalition's 2006 study (*Special Education Finance in Ohio: September 2006 Methodological Update*). With this in mind, OCECD prepared, with informational cooperation from the Ohio Department of Education (ODE), this update of the 2006 report. The Coalition's approach to the update is outlined below.

Given the consensus view that there is sound logic undergirding the Coalition's cost-based special education funding methodology and related state policies, OCECD adhered closely to this approach in this update. This is true even though the methodology is limited to personnel costs and therefore does not include other legitimate special education costs, including educational and assistive technologies. The Coalition may address these educational cost issues in separate reports in the future.

OCECD continues to have a strong commitment to both adequate special education funding and, importantly, improvements in system productivity. It believes that while an accurate determination of legally mandated special education costs is

essential, it is not sufficient without greater accountability for better system results, including improved student outcomes.

Update Report Methodology

This report is focused exclusively on updating the state of Ohio's special education weighted funding formula. There are special education related appropriations outside of the weighted funding methodology. However, those state appropriations and related programs are not a focus of this report. It is important to note that special education weighted funding comprises the majority of all state special education specific expenditures.

This cost update is based upon accurate inflationary estimates. This approach was employed because of its efficiency and because there were no material statutory or rule-based changes to the state's special education funding structure, despite changes in the intervening years, between the report's comparison years of FY 2006 and FY 2014. If this were not the case, an inflationary update would be an "apples and oranges" comparison.

The steps in this update process include:

1. **Step 1.** Review new and revised (2006-2014) state laws related to mandated special education services, caseload ratios and other related statutory requirements. This includes a review of state minimum operating standards; it also involves a determination of appropriate personnel costs to be included in the funding guidelines. (Note: Step 1 includes a list of the major non-personnel special education costs that were not included in the 2006 OCECD report and are therefore not included in the update. This list includes no cost estimates; however, these estimates may be developed in a separate study at a later date.)
2. **Step 2.** Identify pupil-to-provider ratios and funding implications for FY 2006 and FY 2014. Analyze to determine if there are any material differences and associated cost implications.
3. **Step 3.** Do economic analysis to determine accurate cost inflators to apply to FY 2006 and FY 2014 (most recently available) special education data. Prior to applying cost inflators, review ODE special education personnel data for school districts.
4. **Step 4.** Tabulate total increased cost (weighted funding) of updated special education, six weight funding model for 2014 compared to 2006.

Step 1: Review of Special Education State Laws and Administrative Code

In preparation for the update of the cost-based, six weight special education funding methodology, there was a thorough review of state laws related to mandated special education services, caseload ratios and other related statutory requirements to determine whether or not any changes in state law or administrative rule since the 2006 study would have a material impact on the per pupil costs of providing special education and related services (e.g., occupational and physical therapy, speech-language pathology, etc.). The analysis also includes a review of state minimum operating standards for special education.

Special education laws are contained within Chapter 33 of the Ohio Revised Code. The state's school "Operating Standards" and associated guidance documents identify the state requirements and federal Part B Individuals with Disabilities Education Improvement Act (IDEA) requirements that apply to the implementation of special education and related services to students with disabilities educated by school districts, county boards of developmental disabilities and other educational agencies and interested stakeholders, including charter schools. The Operating Standards ensure that students with disabilities have opportunities for equal access to the general education curriculum, equal participation in education and school activities, and transition planning for life after high school. The contents of the standards address Ohio Administrative Code Rule 3301-51-01 through Rule 3301-51-21.

The review includes a search for significant special education-related legislative changes from 2006-2014, including those contained in biennial state operating budgets.

Why FY 2007-12 State Special Education Funding Changes Were Never Implemented

There have been special education funding and policy changes, including but not limited to, preschool special education funding, educational vouchers ("scholarships") for students with autism, testing requirements and transportation. However, these funding changes have not impacted the cost-based, six-weight funding formula, which is the focus of this update.

Leading examples of funding reforms that did *not* impact special education weighted funding include Governor Ted Strickland's 2009 "evidence-based" model; it was designed to determine funding for school districts based on evidence of what works to improve student performance, including such things as:

- all-day kindergarten
- smaller class sizes in grades K-3
- quality professional development for teachers
- emphasis on 21st-century skills
- more effective forms of accountability for results, including broader

graduation requirements

Though enacted, state fiscal realities required an immediate override of the formula and estimated school funding increases never materialized. Under the evidence-based model, funding for special education remained essentially unchanged. This is true both with regard to funding amounts and with regard to the structure of special education funding, which provided students with disabilities the same per pupil foundation formula based aid, and with six supplemental weights, or multipliers, of the per pupil amount. Within these weights are clustered 13 different disability categories with more severely involved conditions garnering larger weighted funding amounts.

The same FY 2010-2011 state budget bill also created the Ohio School Funding Advisory Council (SFAC). Its mission was to conduct an ongoing review of the state's school funding system. The SFAC was an independent panel of education stakeholders and experts tasked with conducting an ongoing review of Ohio's evidence-based model of school funding (EBM) and making recommendations for improving the model to the General Assembly, the State Board of Education and the general public. The final report of the SFAC included five recommendations related to special education funding; two of these proposals related to formula funding. The first recommended funding OCECD's proposed 2006 special education weights, which were already set forth in law (but not fully funded) at 100 percent for FY 2012-2013; and then applying those weights and special education category compilations to a valid per-pupil amount, and removing the 1:20 teacher/student ratio currently used in Ohio's EBM. The second proposal recommended updating the 2006 special education weights to reflect current educational needs, and continue to update these weights on a biennial basis.

Neither of these recommendations was implemented.

Another state budget bill, House Bill 153 (FY 2012-13 state budget), also impacted special education funding *without* changing the basic design of the special education funding model. The bill, which was Governor John Kasich's first budget, retained and re-codified the Evidence Based Model's (EBM) special education categories and weights. The act required use of the former (FY 2009) weights and disability categories for computing special education transfer payments to community schools, STEM schools, and school districts for excess special education cost, and for state payments for catastrophic costs. Once again, because of state economic realities highlighted by an estimated \$8.1 billion structural biennial budget deficit, the school funding formula, including special education weights, was overridden by the Ohio General Assembly and school districts were essentially flat funded and placed on a funding guarantee.

This reality combined with a failure to launch Governor Strickland's EBM meant that the special education funding model for FY 2012 was essentially the same as the weighted funding model that was in place in FY 2006.

FY 2014 Special Education Funding Combines Continuity and Targeted Change

Am. Sub. H.B. 59, the FY 2014-2015 biennial state operating budget, included more substantive changes to the special education funding formula and the weights.

Generally speaking, the state operating budget computes state foundation funding for each district. This funding consists of nine components: the base cost or core opportunity grant, targeted assistance, special education additional aid, career-technical education aid, economically disadvantaged aid, limited-English proficient funding, K-3 literacy funding, gifted funding, and transportation. The Core Opportunity Aid makes up the largest portion of foundation funding. It is based on a per pupil formula amount of \$5,745 in FY 2014 and \$5,800 in FY 2015 and the district's State Share Index (explained below).

Under the bill, in addition to being included in the calculation for Core Opportunity Aid (foundation aid), each student with disabilities is funded using the following supplemental (weighted) funding calculation:

Per pupil weighted dollar amount for 1 of 6 Special Education weights X State Share Index.

The special education "weighted amounts" were also converted from multipliers to dollar amounts because the state eliminated the per pupil foundation amount thus eliminated the ability to use the weights as multipliers. Nevertheless the dollar amounts equate to the same funding levels that would be produced under the previous cost-based weighted system.

	<u>FY 14</u>	<u>FY 15</u>
Category 1:	\$1,503	\$1,517
Category 2:	\$3,813	\$3,849
Category 3:	\$9,160	\$9,248
Category 4:	\$12,225	\$12,342
Category 5:	\$16,557	\$16,715
Category 6:	\$24,407	\$24,641

It is important to note that all weighted amounts are subject to:

- State Share Index for traditional districts
- State Share Percentage for JVSDs

This application of a revised State Share Index, the formula's measure of a district's capacity to raise local revenue, was designed to respond to the fact that a minority of school districts was spending a disproportionate amount of local funds on special education costs. This policy change was expensive to the state. This policy shift, which was designed to rebalance state/local special education shares and not

increase overall state/local special education funding, required an increase in state special education funding of over 32 percent in FY 2014. This is true even though special education weights were still funded at 90 percent.

Additionally, it is important to note that the state funding formula was further overridden due to the inclusion of a state appropriation “gains cap” at the school district level. The final foundation funding is determined by adjusting the calculated foundation funding based on a guarantee (floor) and cap (ceiling). However both special education and career technical education funding was excluded from the gain gap, meaning that these funding components were not reduced from their formula-determined levels.

Finally, though there is a marginal reduction in average daily membership (ADM) of nearly 4 percent – moving from 228,797 students in FY 2006 down to an estimated 219,808 in FY 2014 – this reduction is more than offset from a finance perspective by the fact that while higher incidence students with disabilities (weights 1-4) saw their population decline, substantially more costly students with more severe disabilities (weights 5-6) experienced a significant increase. In fact, weight six ADM increased by approximately 62 percent from FY 2006 to FY 2014.

This analysis shows that though the FY 2006 through FY 2014 period included numerous special education funding changes, in the end, when one compares FY 2006 to FY 2014 there are no substantive structural differences in special education funding policies.

Steps 2: Identification of Accurate Pupil-to-Provider Ratios and Review of OCECD's 2006 Funding Guidelines

Special education programs and students with disabilities in Ohio are protected by state and federal laws, which have traditionally driven funding systems and professional practices implemented in Ohio public schools (ODE, 1987; President's Commission, 2002). First and foremost, Ohio schools are required to adhere to the Individuals with Disabilities Act (IDEA) of 2004, which requires that children with disabilities receive a free appropriate public education (U.S. Department of Education, 2007). In addition to IDEA 2004, Ohio school districts are also required to meet the ratio requirements in the *Operating Standards for Ohio's Agencies Serving Children with Disabilities*.

These pupil to personnel provider ratios are reflected in OCECD's 2006 funding guideline and are contained in Appendix A of this report. These are rational and conservative funding guidelines developed in 2006 based on the 1982 and 2002 rules, an IEP survey conducted by an independent consultant, actual service levels, and feedback from front-line special education practitioners. Importantly, there have been no material changes since FY 2006 in these ratios and related state statutes and administrative rules.

Non-Personnel Related Costs

In addition to the personnel costs outlined above, which routinely represent over 80 percent of special education costs, there are other non-personnel related costs associated with the delivery of quality special education services. While non-personnel related services and associated costs are not the primary focus of this report, some effort has been made to categorize these costs. Non-personnel costs include:

- Identification
- Assessment
- Evaluation
- Materials
- Supplies
- Technological Support
- Assistive Technology Devices
- Transportation Services

These services and the related costs are, again, not a focus of this report and include no cost estimates; however, these estimates may be developed in a separate study at a later date.

Step 3 and 4: Economic Analysis and Fiscal Findings

OCECD first developed its methodology for a cost-based system of special education weights in the year 2000. This initial study utilized state rules and guidelines governing the education of students with disabilities that dated back to 1982. While there are 13 student disability categories, for purposes of the funding formula, disabilities with similar costs were grouped together so that there are only 6 weighting categories. In 2002 the state updated the special education rules and guidelines and OCECD updated its cost analysis (2004) in accordance with both the 2002 rules and OCECD analysis of special education service provision. The new weights resulting from the 2006 methodological update were implemented in 2009 effective in the 2009-10 school year. Note that while the OCECD weighting methodology has been implemented by the legislature, the weights themselves have never been fully funded (the weights have been at 90% funding since FY05).

As 8 years have passed since the last OCECD update of the weighting methodology, the purpose of this report is to update the special education weights for inflation since 2006. A complete update would involve re-analysis of special education costs for each of the 13 disability types. However, both data and time limitations preclude analysis of this type at this time. Consequently, the update summarized here involves updating the 2005-06 special education cost figures for inflation and then recomputing the weights based on the FY 2014 Core Opportunity Aid amount of \$5,745 per pupil.

Table 1 below illustrates how the 2006 total special education costs per pupil for each of the 6 disability categories has been updated for inflation. The Consumer Price Index for All Urban Consumers (CPI-U) was used to make the inflationary adjustment from FY 2006 to FY 2014. Because the FY 2006 school year spans 2005 and 2006 and FY 2014 spans 2013 and 2014, the CPI-U adjustment was based upon 2005 to 2013 calendar year inflation data. This rate of inflation is 19.28% and can be found at the Bureau of Labor Statistics “CPI Inflation Calculator” webpage: http://www.bls.gov/data/inflation_calculator.htm

Table 1: Adjusting 2006 Special Education Total Cost per Pupil for Inflation

Disability Category	2006 Special Ed. Total Cost Per Pupil	Inflation Factor	2014 Special Ed. Total Cost Per Pupil
I. Speech Only	\$1,535	1.1928	\$1,831
II. LD, DH, Other Health Minor	\$9,179	1.1928	\$10,949
III. Hearing, SBH	\$14,642	1.1928	\$17,465
IV. Vision, Other Health Major	\$17,773	1.1928	\$21,200
V. Orthopedic, Multiple Disability	\$22,201	1.1928	\$26,481
VI. Deaf-Blind, TBI, Autism	\$30,221	1.1928	\$36,048

Once the total cost per pupil of providing special education services in each of the 6 disability categories has been derived, the special education weights are computed by comparison with the per pupil “base cost “ (aka “foundation amount”) for the school year in question. Because special education pupils are included in the formula ADM figure for each school district and thus receive basic aid funding (known in FY 2014 and FY 2015 as “Core Opportunity Aid”), this amount must be backed out when the weight is computed for each disability category whose cost is greater than the per pupil basic aid amount. This is the case for categories II-VI. In this manner, the special education weights reflect the marginal cost of providing special education services to students in each disability category beyond the base cost of educating the typical student. This calculation is made as follows:

$$\text{Category II-VI Special education weight} = (\text{cost per pupil} / \text{base cost figure}) - 1.0$$

Using category II as an example, the FY 2006 and FY 2014 weights are computed as follows:

$$\begin{aligned} \text{FY 2006 Category II Weight} &= (\$9,179 - \$5,283) / \$5,283 - 1.0 = 1.7374 - 1.0 = 0.7374 \\ \text{FY 2014 Category II Weight} &= (\$10,949 - \$5,745) / \$5,745 - 1.0 = 1.9058 - 1.0 = 0.9058 \end{aligned}$$

In category I (speech only), the special education weight is simply the cost divided by the basic aid amount in each year.

Table 2 below shows the FY 2006 and FY 2014 special education weights in each category, based upon the cost figures shown in Table 1.

Table 2: Computation of FY2006 and FY2014 Special Education Weights

Disability Category	2006 Special Ed. Cost Per Pupil	2006 Base Cost Per Pupil	FY2006 Weight*	2014 Special Ed. Cost Per Pupil	2014 Base Cost per Pupil	FY2014 Weight*
I. Speech Only	\$1,535	\$5,283	0.2906	\$1,831	\$5,745	0.3188
II. LD, DH, Other Health Minor	\$9,179	\$5,283	0.7374	\$10,949	\$5,745	0.9058
III. Hearing, SBH	\$14,642	\$5,283	1.7716	\$17,465	\$5,745	2.0400
IV. Vision, Other Health Major	\$17,773	\$5,283	2.3643	\$21,200	\$5,745	2.6901
V. Orthopedic, Multiple Disability	\$22,201	\$5,283	3.2022	\$26,481	\$5,745	3.6094
VI. Deaf-Blind, TBI, Autism	\$30,221	\$5,283	4.7205	\$36,048	\$5,745	5.2747

** For categories II-VI, weight special ed. cost includes the base cost. Thus the weight = (special ed cost / base cost) - 1*

Table 2 shows that each of the 6 special education weights increases after the inflationary update of the special education cost figures. The reason for this is that the base cost figure increased at a lower rate (8.7%) from FY 2006 through FY 2014 than did the special education cost amounts using the CPI-U inflation adjustment. This is primarily due to the \$5,745 FY 2014 base cost amount being only \$13 more than the FY 2009 base cost amount of \$5,732. If the base cost for FY 2014 had increased more, then the special education weights could be lower and still generate the required additional funding to cover the estimated special education costs in each of the 6 disability categories.

Table 3 provides a comparison of the inflated FY 2014 special education weighting system and the FY 2014 per pupil special education amounts enacted in House Bill 59 (FY 2014-15 biennial budget).

Table 3: Comparison of FY 2014 Inflated Special Ed. Cost Per Pupil Weights vs. FY 2014 HB59 Funding Formula Special Ed. Cost Per Pupil

Disability Category	FY2014 Weight	2014 Base Cost per Pupil	2014 Inflated Special Ed. Marginal Cost Per Pupil	2014 Inflated Special Ed. Cost at 90%	HB59 2014 Special Ed. Cost Per Pupil
I. Speech Only	0.3188	\$5,745	\$1,831	\$1,648	\$1,503

Disability Category	FY2014 Weight	2014 Base Cost per Pupil	2014 Inflated Special Ed. Marginal Cost Per Pupil	2014 Inflated Special Ed. Cost at 90%	HB59 2014 Special Ed. Cost Per Pupil
II. LD, DH, Other Health Minor	0.9058	\$5,745	\$5,204	\$4,683	\$3,813
III. Hearing, SBH	2.0400	\$5,745	\$11,720	\$10,548	\$9,160
IV. Vision, Other Health Major	2.6901	\$5,745	\$15,455	\$13,909	\$12,225
V. Orthopedic, Multiple Disability	3.6094	\$5,745	\$20,736	\$18,662	\$16,557
VI. Deaf-Blind, TBI, Autism	5.2747	\$5,745	\$30,303	\$27,273	\$24,407

Table 3 provides another illustration of how funding for special education has not kept pace with inflation. Even allowing for the fact the FY 2014 special education cost amounts enacted in HB 59 are only at 90% of the 2006 weighting amounts, they still lag behind FY 2014 inflation-adjusted amounts.

Table 4 provides a comparison of FY 2014 actual funding for special education (according the 2014 April # 2 payment amount on the ODE website) and estimated funding using the FY 2014 inflation-adjusted weights shown above. Because FY 2014 actual funding is based on the current weights funded at 90%, the middle column of Table 4 shows the FY 2014 inflation-adjusted weights at 90% funding while the rightmost column shows the FY 2014 inflation-adjusted weights at 100% funding. Note that the figures shown in Table 4 are based on a simple statewide calculation and not on a district-by-district analysis.

Table 4: Comparison of Actual FY 2014 Special Education Funding with Projected FY 2014 Funding Using Inflation-Adjusted Weighting

Disability Category	FY 2014 ADM	FY 2014 April # 2 ODE Payment Amount	FY 2014 Inflated at 90% Funding	FY 2014 Inflated at 100% Funding
Category I	27,487	\$41,309,587	\$45,304,421	\$50,338,245
Category II	143,574	\$547,442,179	\$672,407,924	\$747,119,916
Category III	16,957	\$155,319,631	\$178,858,874	\$198,732,082
Category IV	1,381	\$16,879,373	\$19,205,289	\$21,339,209
Category V	12,618	\$208,909,414	\$235,472,672	\$261,636,303
Category VI	17,792	\$434,249,883	\$485,242,483	\$539,158,315
Total	219,808	\$1,404,110,067	\$1,636,491,663	\$1,818,324,070
State Share %		50.7%	50.7%	50.7%
State Funding		\$712,506,762	\$830,427,331	\$922,697,035
Difference			\$117,920,569	\$92,269,703

Table 4 shows that if the inflation-adjusted weights are used at 90% strength, then total state weighted funding for special education in FY 2014 would increase by

\$117.9 million to \$830.4 million. If the inflation-adjusted weights are implemented at 100% strength, state funding is projected to increase by an additional \$92.3 million to a total of \$922.7 million. This amounts to a FY 2014 shortage of \$210.2 million assuming 100% funding of the weights. If funded, this increase would equate to a percentage increase of 29.5%. If the increase was limited to the current 90% funding level, it would equate to a 16.5% increase for FY 2014.

For comparison purposes, the ODE FY 2013 Bridge Report indicates that state special education weighted funding in FY 2013 was \$537.7 million. Thus, actual special education weighted funding in FY 2014 has increased by \$174.8 million (32.5%) compared to FY 2013. A significant part of this increase is due to the adoption of the State Share Index as opposed to the former millage chargeoff approach. In FY 2009, the statewide average state share of special education funding was 46.4%. In FY 2014, the statewide average share of special education funding has increased to 50.7%. If the state share in FY 2014 remained the same as in FY 2009, then the state share of special education funding in FY 2014 would have been \$651.2 million. Thus, \$61.3 million (35.1%) of the \$174.8 million increase in special education funding from FY 2013 to FY 2014 is due to the increase in the state share. This means that the remaining \$113.5 million increase in state special education funding from FY 2013 to FY 2014 is due to other factors, most likely the exemption of special education (along with career tech) from the gain cap.

Special Education Funding Policy Implications

As was the case with OCECD's previous special education funding report updates, it is the conclusion of this report that the state of Ohio is not fully funding its own six-weight, cost-based special education weighted funding formula. This is happening at two levels: first, it is not funding its special education weights at 100%; and secondly, it is not keeping pace with inflation, as defined by the CPI-U, at either the 90% or 100% funding level. This approach needs to be changed to full funding in order to meet relevant state and federal special education service standards, all of which are rooted in the construction of appropriate Individualized Education Plans for students with disabilities.

Importantly, OCECD is also in favor of educational system productivity and accountability reforms that will help the nearly 220,000 students with disabilities meet their full potential.

