

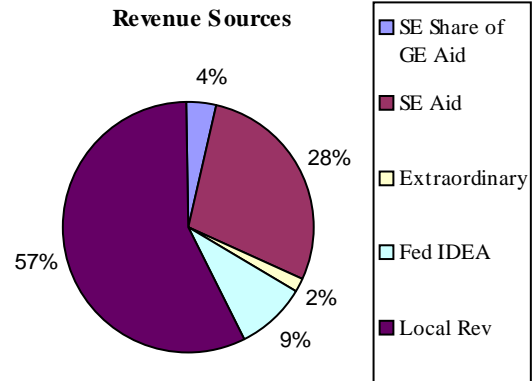
Financing Special Education in New Jersey

New Jersey School Boards Association

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Analysis of New Jersey Special Education Revenues

Funding Sources. The sources of revenue for special education include state aid, extraordinary aid, federal aid and Medicaid reimbursement. These revenues support about \$1.3 billion dollars, or about 43 percent of the total cost. The remaining 57 percent comes out of local revenue. Tuition received from other districts and transportation fees and aid could not be included in the revenue sources since they could not be differentiated between general and special education on the Audit Summary. County revenue to vocational schools was also excluded from analysis because the structure of their finances was substantially different from other districts.



Note: Medicaid reimbursement (.04%) is not included above.

State Aid for Special Education. About 12% of all state aid to education in New Jersey is allocated as special education and extraordinary aid, although it did go up to 16% for FY2002. This aid increased by almost 60% from \$585 million in FY1998 to \$941 million in FY2002 (including extraordinary aid). In 2003 state aid increased to \$978 million where it has remained essentially unchanged. In FY2005, this aid compensated 30% of the special education expenditures.

Special Education Cost Factors					
FY Yr	Tier I	Tier II	Tier III	Tier IV	SE+Extra Aid *
2000	\$300	\$3,155	\$4,207	\$12,620	\$789
2001	\$305	\$3,207	\$4,276	\$12,827	\$941
2002	\$310	\$3,260	\$5,975	\$13,037	\$941
2003	\$310	\$3,260	\$5,975	\$13,037	\$978
2004	\$317	\$3,329	\$6,101	\$13,312	\$980
2005	\$305	\$3,260	\$5,975	\$13,037	\$978
2006	\$305	\$3,260	\$5,975	\$13,037	\$978
* Special Ed and Extraordinary Aid in millions					

State aid is generated from information submitted on the Application for State School Aid (ASSA) that reports the number of students in a series of tiers by grade level, elementary, middle and high school. The funding amounts increase from tier to tier. Students receiving only speech-language services are excluded because the service is so common that it is an expected component of the general education funding formula. Speech as a related service is included in Tier I. There is a limit to the proportion of students with specific learning disabilities that may be counted for aid (see Tier II Limitation below). The Tiers were designed to provide the same aid regardless of the settings in which the student services were delivered. The cost factors for each tier changed substantially in 1999-2000 and have increased only modestly since then.

The definitions for each tier are as follows:

Tier I	Related services – up to four different ones per pupil (speech-language services, counseling, occupational therapy, physical therapy and others)
Tier II	Specific learning disabled, traumatic brain injured, cognitively impaired mild, preschool disabled, classified students in county vocational programs in schools without a child study team
Tier III	Cognitively impaired moderate, emotionally disturbed, multiply disabled, auditorily impaired, orthopedically impaired, communication impaired, other health impaired, visually impaired
Tier IV	Cognitively impaired severe, autism, and those receiving intensive services: Individual instruction, pupil: teacher-aid ratio of 3:1 or less, high level assistive technology, extended school year, intensive related services (more than four), interpreter services for 60% or more of the pupil's instructional day, personal aide, residential placement, individual nursing services

The number of students reported on the Application for State School Aid for Tier I grew by 25% from 129,000 in 2000 to 163,000 in 2004. Forty-five percent of the students receive speech-language services, 22% receive counseling, 17% occupational therapy, 8% physical therapy, and 9% other related services. These are duplicated counts since students may receive more than one service. The Tier I amount for each related service received more than doubled from \$150 in 1998 to \$305 in 2006. However, it is still a very small amount compared to the cost of providing counseling, occupational therapy, physical therapy, speech-language services and others.

Application for State School Aid: Tier I Number of Students Receiving Each Related Service						
Year	Counseling	OT	PT	Speech	Other	Total
2000	28,309	21,777	9,823	58,066	11,148	129,123
2001	30,795	24,303	10,387	61,653	13,930	141,068
2002	33,288	27,343	11,075	65,552	15,951	153,209
2003	33,424	29,045	11,538	67,525	13,025	154,557
2004	34,883	31,051	12,265	70,952	13,935	163,086

The overall number of students in Tiers II, III, and IV increased from 172,000 in 2000 to 198,000 in 2004; however, there was a 4% decrease in Tier II and substantial increases in Tiers III (48%) and IV (66%) indicating a substantial shift in the number of students not explained by the overall 13% increase in the number of students with disabilities. The per pupil aid amount for Tier II increased by 11% from 1998 while the Tier III amount did not change appreciably. The per pupil aid amount for Tier IV increased by 58% during that same time period. The differing aid amounts among the four Tiers are likely factors in how school districts report students on the Application for State School Aid.

Number of Students in Each Tier				
Year	Tier I	Tier II	Tier III	Tier IV
2000	129,123	113,544	39,543	19,026
2001	141,068	112,509	45,096	22,502
2002	153,209	112,717	50,184	25,089
2003	154,557	112,048	54,548	28,424
2004	163,086	108,905	58,334	31,566
Pct Inc	26.3	-4.1	47.5	65.9

Tier II Funding Limitation. The state legislature was concerned about inadvertently promoting the classification of students who were having learning difficulties as “perceptually impaired” (Specific Learning Disabled). Therefore, for the purpose of calculating State aid in Tier II, it phased in a five-year reduction to the percentage of

students that could be counted for funding under Tier II. No reduction in aid was imposed on districts with 6.5% or less of resident enrollment classified as Specific Learning Disabled. The classification rate for Specific Learning Disabled has leveled off at about 7%, so this limitation does not currently affect many districts.

Extraordinary Aid. Since 1996, state aid included support for incidences where per pupil expenditures exceed \$40,000 and some other circumstances. Transportation costs were excluded. There are limits to the spending growth for students whose costs exceed \$40,000. For the first two years \$15 million was appropriated and it

FY Year	Total of Applications	Aid Appropriated	Percent Funded
2002	\$55,847,681	\$14,279,906	25.6
2003	\$81,646,683	\$14,997,792	18.4
2004	\$109,638,623	\$51,997,621	47.4
2005	\$142,757,707	\$52,027,349	36.4
2006	\$174,883,161	\$51,993,409	29.7
2007	\$222,831,660	\$52,000,000	23.3

was increased to \$52 million for the next three years. The applications for funding increased each year from almost \$56 million in 2002 up to just under \$223 million in 2007. As a result, the percentage of applications that were funded went down from 47% to 23%. Extraordinary aid represented just below 2% of special education revenues in 2005.

Federal Aid. About nine percent of special education revenues comes from federal Individuals with Disabilities Education Act (IDEA) or Individuals with Disabilities Education Improvement Act (IDEIA). It has increased from \$115 million in 1999 to \$324 million in 2007, a jump of 181%. In its initial years, the aid formula resulted in an amount per pupil. Today, the formula includes a base amount, a census factor to accommodate growth, and a poverty factor on the assumption that poverty contributes to disability. However, a test of that hypothesis was conducted by examining the percentage low-income pupils among

Year	Federal Aid
1999	\$115,090,866
2000	\$136,143,750
2001	\$144,371,704
2002	\$203,79+169
2003	\$223,856,216
2004	\$267,955,088
2005	\$307,543,125
2006	\$318,826,235
2007	\$323,898,733

general and special education as reported on the Application for State School Aid. The difference between the percentage of special education students eligible for free or reduced-price lunch (23.7%) and poor students in general education (20.1%) is just 3.6 points. This difference has been stable for the last three years. The small difference suggests that poverty is not as substantial contributing cause of disability as has been thought.

Year	Percent Low Income		SE-GE
	Spec Ed	Gen Ed	
2000	23.8	21.3	2.5
2001	24.2	21.2	3.0
2002	23.4	19.7	3.7
2003	23.4	19.5	3.9
2004	23.7	20.1	3.6

Medicaid Reimbursement. This source of revenue for districts is very small, \$1,191,304 in 2005. In the late nineties, a mechanism for billing Medicaid for certain evaluations and related services was implemented; however, most of the reimbursement was kept by the state and very little was allocated to districts. There was little motivation for districts to handle all the paperwork to obtain the small amount of funds. Medicaid reimbursement accounts for .04% of all revenues for special education.

Special Education Share of General Education Aid. Many students with disabilities participate in general education programs where they also generate state formula aid (that

is, funding, such as Core Curriculum Standards Aid, that is not specifically designated for special education or other specific purpose). In many Abbott districts, the state contribution to general education is substantial. To represent this factor fairly from district to district, the general education aid was divided by the resident enrollment and multiplied by the child study team classified students. (Students eligible for speech-language services were not included since their programming is already primarily within general education for funding purposes.) Formula aid generated by special education students makes up 4% of the special education revenues.

Local Revenue. Any special education expenditure that is not covered by state and federal funding must be supported by local revenue. Local school districts contribute 57% of the costs of special education. In 2005, these “excess costs” amounted to \$1.9 billion statewide.

Special Education and Extraordinary Aid as a Percentage of All State Aid

Averages for each group are highlighted and bolded.

FY Year	Region			District Factor Grouping								All NJ
	North	Central	South	A	B	CD	DE	FG	GH	I	J	
1998	11.9	17.7	12.9	6.9	11.3	16.6	17.6	17.2	25.1	33.3	55.6	13.6
1999	11.4	17.4	13.0	6.4	10.4	16.3	18.7	17.8	26.4	35.3	56.3	13.4
2000	12.1	17.2	12.4	6.4	9.7	15.6	17.5	17.5	27.5	36.9	62.0	13.4
2001	12.9	19.1	13.4	6.9	10.6	16.2	20.1	18.7	29.4	42.3	67.1	14.6
2002	14.6	19.8	15.4	7.5	11.8	18.3	21.8	20.8	33.8	48.2	73.4	16.2
2003	14.2	19.5	15.3	7.3	11.5	18.3	21.8	20.9	33.7	48.2	73.5	15.9
2004	14.7	20.0	15.4	7.5	11.7	18.4	21.9	21.2	33.9	49.2	75.0	16.3
2005	13.3	18.6	14.6	6.6	10.7	17.8	21.3	20.5	32.7	48.0	72.6	15.1
2006	11.8	17.6	14.1	5.9	9.7	17.3	21.2	20.6	32.9	47.9	72.5	14.0
2007	11.6	17.1	13.9	5.7	9.5	17.1	21.4	20.5	32.5	46.8	65.6	13.7

Percentage of State Aid. There is some variation among district groups in the proportion of state aid that comes from special education aid or extraordinary special education costs aid.

Percent Special Education and Extraordinary Aid of All State Aid

Averages for each group are highlighted and bolded.

FY Year	Operating Type							
	K-6	K-8 / 0-400	K-8 / 401-750	K-8 / 751 +	K-12 / 0-1800	K-12 / 1801-3500	K-12 / 3501 +	7-12 / 9-12
1998	17.4	19.5	18.5	18.5	19.8	20.3	11.3	14.9
1999	17.1	18.9	18.1	19.5	19.5	19.9	11.1	15.2
2000	16.2	18.3	18.2	20.0	18.8	19.3	11.2	13.9
2001	21.8	19.0	19.9	22.8	20.6	20.3	12.2	14.7
2002	22.8	21.6	22.8	25.6	21.2	23.5	13.4	17.4
2003	22.8	21.5	22.8	25.5	21.1	23.7	13.1	17.3
2004	22.9	21.5	22.8	25.9	21.4	24.1	13.5	17.8
2005	22.1	20.9	22.2	25.0	20.1	23.1	12.2	17.1
2006	22.1	20.9	22.2	25.1	19.5	21.7	11.1	17.1
2007	22.1	20.9	22.1	25.0	19.0	21.1	10.9	17.3

This may reflect the amount of general education aid they receive, more so than the amount of special education aid. For example, in DFG A districts, about 6% of state aid comes from special education or extraordinary costs aid while, in DFG J districts, special education and extraordinary costs aid

account for two-thirds of the state funding received. Districts in the central region receive a higher proportion of their total state funding through special education and extraordinary costs aid (17%) than in the north (11%) or south (14%). Eleven percent of state aid received by the largest K-12 districts is special education and extraordinary costs aid, compared to 17% in the secondary districts and approximately 20% among the other district operating types. These proportions held over the ten years of data. Districts in northern New Jersey, the largest K-8 districts, the second-largest group of K-12 districts, and districts in DFG I and J are most likely to have 70% or more of their state aid generated from the special education and extraordinary costs aid formulae.