The School Funding Reform Act of 2008

Under its current school finance law, the School Funding Reform Act of 2008 (SFRA)[3], New Jersey funds education through a census-based method. This approach bases the aid allocation on the local districts' total enrollment. Special education needs are projected by multiplying the excess cost of educating special education students by the statewide average classification rate[4], which is then multiplied by the district's total enrollment. This is the same methodology used by the federal government to provide special education aid to the states. The previous funding formula, CIEFA, provided gradations of special education aid based on tiers reflecting the severity of disability. SFRA turned to a census formula, with the intention of eliminating the incentive to over-classify, while simplifying the funding mechanism.

The goal of the SFRA is to determine the resources ("Adequacy Budget") needed to provide an "adequate education" for each district's diverse student body. The largest component of state aid is "Equalization Aid," which totals approximately $6 billion. (Equalization Aid = the Adequacy Budget *minus* the district's "Local Fair Share," which is the amount to be raised through its local tax levy. The Local Fair Share is based on a combination of the district's property valuation and income level.)

Special Education Aid Under the SFRA, special education is funded through a hybrid wealth-based, census-based formula. The formula enables each district, even if it does not qualify for equalization aid, to receive some funding to support programming for its disabled students. Through this process, two-thirds of the census amount is included in the district's Adequacy Budget and is covered by Equalization Aid in those districts that qualify for it. One-third is paid as categorical aid, that is, an amount per pupil.

In 2011, Augenblick, Palaich and Associates prepared an "Analysis of New Jersey's Census Based Special Education Funding System." The work was based on a legislative mandate to the Commissioner of Education to undertake "an independent study of the special education census funding methodology to determine if adjustments in the special education funding formulas are needed in future years to address the variations in incidence of students with severe disabilities requiring high cost programs and to make recommendations for any such adjustments" (APA study, p.1).

The analysis focused on identifying those disability categories that carried high cost to districts but occurred at low-incidence. APA's data collection focused on two types of information: demographic data, and expenditure data. Discrepancies between the two made it difficult to answer the questions required by the legislature. According to the report, "Expenditure data was

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[3] For a detailed report on the work leading to the decision to implement this system, see "A Formula for Success: All Children, All Communities," N.J. Department of Education. December 2007, and the presentation provided by Kevin Dehmer of the NJDOE Division of Finance in Appendix D of this report.

[4] At the time of the SFRA's enactment, the statewide average classification rate was 14.67%. That benchmark continues to be used today.

incomplete and unreliable" (p.48). Complicating factors included the lack of "sustained implementation" of the formula and funding cuts. These conditions made it difficult to measure the SFRA's impact (p.48). NJDOE representatives validated these conclusions. When asked about data collection on special education funding, Kevin Dehmer, a policy and fiscal analyst in the NJDOE Division of Finance, said that the true cost was difficult to calculate due to the number of variables and the fact that financial variables were disconnected from those related to IEP issues (Dehmer, 2013, presentation to Task Force, Appendix D).

APA Findings and Recommendations Despite these conditions, the APA study generated two significant findings:

1. There were clear differences in the percentages and types of special education students served and the amounts being spent in different districts across the state when district size, district type and socio-economic status were examined. A census-based approach funds all districts similarly regardless of size, district type, or grouping.

2. Certain special education categories have higher costs than do others, and the distribution of students by special education category is not consistent across all districts in the state. Some students are very costly to serve given the severity of their disabilities. Also, demographic data analysis showed that "there is a real variation by district type and socio-economic status in the percentage of disabilities in districts and in the percent of students being served by type of service provided, which vary in costs and that the previous funding approach attempted to address…" (p.49).

The APA study recommended the following:

1. Consider using the district's actual enrollment of special education students.

2. Consider a "differentiated" method of funding for higher-cost students before the extraordinary aid threshold is reached.

3. To fully understand the impact of the new funding system, fully implement the funding system and collect data on the costs of serving various types of special education students in their current settings and analyze enrollment patterns and costs associated with students' access (p.37).