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Education Interim Committee
Pad McCracken, Research Analyst

APPROACHES TO FUNDING EDUCATIONAL PROGRAMS FOR STUDENTS WITH SPECIAL NEEDS

The [House Joint Resolution No. 1](#) study of the needs and costs of programs to provide for students with special needs includes the direction to “investigate alternative funding mechanisms for programs serving students with special needs, including mechanisms used by other states.” This primer will explain the basic approaches used by states to fund these programs.

Categorical Payments

The term “categorical” usually refers to payments made outside the main funding formula through separate line items in the state budget. Montana’s appropriation for Career and Technical Education is a good, clear example of a categorical payment. What is perhaps less clear is the way in which Montana uses categorical payments within our main funding formula. The special education and at-risk payments, while part of our main funding formula and allocated to the district general fund, can be viewed as categorical payments in that they are individual line items in the state budget that are distributed to all eligible districts and are intended to be used for specific purposes (the increased costs associated with serving students with disabilities receiving specialized education under an IEP and students considered at risk). Categorical payments for programs serving students with special needs can be distributed based on total district enrollment (sometimes called census-based funding or “capitation”) or on the number of identified students. Montana’s special education payment is based on total ANB, in part to discourage overidentification of students with disabilities requiring special education.

Reimbursements

Reimbursements can be viewed as a subset of categorical payments distinguished by being allocated based upon, and following, a district’s expenditures. A handful of states utilize reimbursements for special education expenditures; most reimburse a portion of the costs and only Wyoming reimburses 100% of the costs incurred by districts. Montana allocates 25% of the state special education payment to reimburse disproportionate costs. When a district has a high-cost student or a higher percentage of students requiring special education, the district can submit these expenditures to the state for reimbursement of a portion of the costs.

Grant Programs

Grants can be both formula-driven (automatically distributed to eligible districts) or competitive (requiring a district to apply). Montana and a number of other states utilize grant programs to distribute funds to districts to serve gifted and talented students. In Montana grants are often allocated to the Miscellaneous Programs Fund at the district level, which generally allows for accountability ensuring those grants funds are expended on their intended purpose.

Weighted Student Formulas

In recent years a number of states have adopted weighted student formulas in order to target funding more closely to the needs and costs of individual students, schools, and districts. “Weights” are established for various categories of students based on estimates of increased costs in serving those students. These weights are then added to the district’s student count to increase the amount of foundation funding generated in the formula (in Montana this would increase the district’s ANB count, thereby increasing the amount of the total ANB entitlement and perhaps leading to an additional basic entitlement increment). States have determined to weight various factors including grade level, special education, gifted and talented, English learners, poverty, etc. It may be easier to understand with an example. Consider a state that has determined to weight at-risk students, English learners (ELs), and three levels of special education, based on degree of disability and associated costs.

Classification	# of students	Weight	Total
General Education	1,000	1.0	1,000
At-risk	300	0.3	90
English Learner	50	0.5	25
Severe Disability IEP	10	5.0	50
Moderate Disability IEP	30	1.5	45
Mild Disability IEP	80	.75	60
Weighted Student Count Used in the Funding Formula			1,270

Weighted student formulas simply drive more resources to those districts with greater numbers of students requiring higher-cost educational programs. There are, however, some less simple considerations when establishing a weighted student formula:

- Which categories receive weights? Texas has 12 categories and various weights for special education that are all based on the types of services described in the student’s IEP. California’s new formula only weights for at-risk students and English learners and provides special education funding through a separate categorical payment.
- How are the weighting amounts established? A handful of states weight for gifted and talented with weights ranging from .12 to .66.
- Will a weighted student formula lead to overidentification? Or can the financial incentive to identify greater numbers be mediated?
- What about students who fit in more than one classification, like an English learner who is also from a low-income family? Some states use compound weighting in which all the weights are summed; other states require that only the highest weight classification is given to any one student.