Policy Alternatives for Special Education Funding in Illinois

Submitted to:
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INTRODUCTION

This work has been conducted for the Illinois State Board of Education (ISBE) in response to House Joint Resolution (HJR) 24 passed during the 95th General Assembly. This Resolution specified “that a task force be created to study current special education funding needs and to make recommendations.” (A full copy of HJR 24 is included as Appendix A to this report.)

The author was contracted by ISBE to serve as a consultant to the HJR 24 Task Force and accordingly met with the task force throughout the course of this study. This period of interaction extended from February of 2009 through June of 2010. (The membership of the HJR 24 task force is included as Appendix B to this report.) During these meetings, the author presented a national overview of special education provisions and fiscal policies; collected, analyzed and presented data on special education funding and provision in Illinois; and discussed program objectives, funding goals, and formula criteria. We also jointly considered whether change to the current funding system was needed; and if yes, in what form and to what degree; as well as areas of possible agreement regarding recommendations.

This report combines an independent assessment of the state’s special education finance system and recommendations for change with those expressed by the Task Force as a whole, or in some cases varying opinions from Task Force contingents where broad-based agreement was not forthcoming. Throughout the report, attempts will be made to clarify these sometimes varying points of view.

This report was solely written by the author. Where important independent analyses were conducted and/or specific policy recommendations presented to the Task Force by individual or collections of Task Force members, they are included as appendices to this report.

An important point of discussion for one of our earliest meetings together was clarifying the purpose of this study. HJR specifies that “a task force shall be created to study current special education funding needs and to make recommendations as to how the State can increase special education funding and ease the financial burden on school districts.” After discussing this statement of purpose at the March, 2009 meeting, there seemed to be agreement that a full examination of current funding and related provisions were integral to addressing the latter component of the question in regard to possible increased funding for special education and a reduction of the related financial burden on districts.

These analyses show substantial variation in the degree to which the “financial burden” of special education is realized by school districts across the State. It also suggests changes to state policy that would provide added assistance to districts that appear to be currently facing the greatest burden in regard to financing special education. In this sense, the study does produce “recommendations as to how the State can increase special education funding and ease the financial burden on school districts.” That is, the study addresses how the State can increase funding to districts currently facing disproportionate burden under the current system. These recommendations are made without the assumption of new funds, which may be the most reasonable assumption given the current fiscal climate. However, additional state funds for special education support would provide additional relief beyond what can be accomplished from
moving to a more equitable distribution of funds, thereby providing relief to those districts needing it the most.

It is important to note a prior study on this topic in the State. In 1997, an ISBE study was conducted “through a collaborative process with the education, business, and community sectors.” This study resulted from a recommendation that a task force be formed to “recommend specific changes to Illinois special education funding mechanisms, its rules and reports. The goals … would be to produce a simpler, fairer, and more flexible system of reporting and disbursement…”. Such a task force met through 1998 to determine if the formula is in compliance with new federal requirements in regard to serving students in the least restrictive environment (LRE) and to recommend financing through a “simpler, fairer, and more equitable system.” (Riffel, 1998)

In regard to the critical point of whether the formula at that time was in compliance with new federal requirements regarding LRE, a “White Paper” describing this study states:

The question discussed collectively was whether or not the current State funding formula is at least in part based on type of setting. The consensus was the State per pupil based funding formula for private tuition does fund by type of setting. As such, and upon discussion with staff of the Office of Special Education Programs, US Department of Education, it appears that the current State law is out of compliance with the new federal law as cited above. (Riffel, 1998) (A copy of this White Paper is attached as Appendix C.)

Recommendations from this study (released September 15, 1998), included with this report as Appendix D, were:
- The formula is required to be in compliance with IDEA 97 and to be placement neutral
- The funding formula will be understandable, easy to apply and implement
- The formula will be equitable and produce no significant funding loss to any district or cooperative

This earlier task force recommended a very simple formula comprised of two components:
- Tier 1 whereby all special education students would generate identical funding
- Tier 2 would set aside a pool of funds to help offset districts’ expenses for “high cost students.” (Riffel, 1998)

Perhaps as a result of this study, some significant changes were made in the State’s special education funding provisions in 2004 through PA 93-1022, which produced some of the key components of the formula reviewed in this current report. However, these changes did not address one of the main concerns expressed through the study above, i.e. that the “funding formula for private tuition does fund by type of setting.” Thus, it is not clear that the three initial recommendations from the 1998 study were specifically addressed through these legislative changes, i.e. that the system comply with the LRE provisions of the IDEA, that the system be made simpler and easy to understand and administer, and that the system produce equitable allocations across districts.
The analysis in this paper raises similar concerns to those of the prior study indicating consistency in findings and recommendations over time. Regarding the current project, this paper presents descriptive and analytical information regarding the current special education funding policies in the State, and then presents two, primary, differing points of view in regard to possible future action. These differing points of view are represented by the two sub-committees that evolved from the Task force formed this project, one of which advocated wholesale change and the other only partial change to current policies. Last, the author of this report presents independent conclusions in regard to the current system and future policy alternatives. These conclusions and recommendations were accepted by some, but not all, Task Force members, as will be described in more detail later in this report.

The report begins with a national perspective on special education funding, including a description of the four most common approaches to state and federal special education funding. The next section describes and provides data in regard to special education provision in Illinois and shows how these relate to what is reported for other states and the nation. Section three provides a description of Illinois’s special education funding formula based on data provided by the State and provides analyses of the special education resource allocations resulting from the current system. The fourth section summarizes the findings from this analysis and the deliberations to date of the task force. The report concludes with some possible policy options for the State to consider.

A NATIONAL OVERVIEW

Special education finance across the nation

Special education is financed through a complex combination of federal, state, and local monies using a variety of formulas. Although the federal government does not systematically collect data on special education spending due to the wide range of accounting and reporting procedures used by individual states, there have been several federal-funded attempts to collect such data. Based on the most recent national information available, in the 1999-2000 school year, per pupil special education spending averaged $12,474, as compared to $6,556 for non-special education students. This is more than double (in constant dollars) the average special education expenditure from the late 1960s, when it was first calculated.

This national study also showed that while spending on educating special education students has increased substantially over time, the expenditures per general education student increased at a comparable rate so that the ratio of total spending per special education as compared to a general education student remained fairly constant over time, at about two to one. Thus, increases in total special education spending nationally appear to be due more to the increase in special education enrollment than increased spending per student in special education. (Chambers, J., Parrish, T., and Harr, J., 2002).

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National issues in relation to special education funding
When responding to a national survey about the most crucial issues regarding funding for special education in 2002, the majority of states identified four major themes: inadequate funding overall, inadequate funding specifically for students with high-cost needs, the failure of the federal government to reach the 40 percent funding target, specified in the Individuals with Disabilities Education Act (IDEA), and the difficulties local school districts face in providing services to the increasing number of students in special education. (Parrish, et al., 2003)

State funding formula types
Four primary formula types are most predominantly used as the basis for allocating special education within and across states: pupil-weighted, census-based, resource-based, and percentage reimbursement. In addition to the descriptions below, these are delineated in Ahearn (2010) listing the states using each of these formula types, as well as language from all states regarding their current special education funding provisions.

Pupil-weighted funding allocates dollars per student based on specified criteria, such as category of disability and location of primary placement. The benefit of this type of formula is that it is intended to account for differences in the cost of services across districts. Costs vary depending on factors such as the disability of the child or the setting where most of the child’s education services are provided. Possible disadvantages are that higher funding weights for some disabilities or placements may create incentives for over-identification in some categories of disability or for placement of students in higher cost (and possibly more restrictive) settings.

Census-based funding assumes a fixed cost differential for the average special education student and fixed proportions of students with disabilities across all districts. It allocates a specific amount per student (counting all students both in special education and non-special education) in a district. The primary advantage cited for this approach is that because it is detached from any count of special education students, needs, or services, the census-based approach eliminates or reduces fiscal incentives for identifying more students and/or serving them in more restrictive or more costly placements. One possible disadvantage is that census-based funding does not account for the differential special education costs districts of comparable size may experience, and could conceivably create a fiscal incentive for reduced identification and scaled-back services. The “funding for children requiring special education services” component of the Illinois formula provides an example of census-based funding.

Resource funding distributes funds based on the amount of specified resources in a district, such as the number of special education teachers used to serve students with disabilities. An advantage of this type of funding system is its direct link to key special education resources. In theory, allocations would expand with the number of special education teachers needed and employed by a district, thereby adjusting with changes in special education needs and costs. One possible disadvantage is that this type of system may be seen as inflexible in that funding may be received for some types of resources and not others. For example, in some states, a district may receive funding only for special education teachers and not for the instructional aides working

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with students with disabilities. The personnel component of the Illinois formula provides an example of resource-based funding.

*Percentage reimbursement* funding is based on the state reimbursing districts for a percentage of their actual spending on special education. There may be caps on the total amount eligible for reimbursement to districts or the number of students who can be claimed. One advantage of a percentage reimbursement system is that it directly relates to local variations in actual special education spending across districts. A possible disadvantage is that the cost accounting required to support such a system may be considered overly burdensome, especially if a system for tracking spending uniquely for special education services is not already in place. The Nonpublic School component of the Illinois formula provides an example of a percentage reimbursement system.

**Federal funding**

Federal special education funding is based on a census formula. Prior to 1997, federal funding was based on the average special education child count. In 1997, new funding under this system was allocated based on the total population of school-age children in a state and the state’s relative poverty. Under the federal formula, 85 percent of Individuals with Disabilities Education Act (IDEA) funds are distributed to states according to their total school-aged population. The remaining 15 percent of funds are allocated according to the state’s relative degree of poverty.

Other components of the 1997 Amendments to the IDEA are provisions pertaining to state funding formula based on special education placements. In its last two reauthorizations (1997 and 2004), IDEA added specific requirements that apply to a state’s distribution of state special education funds. The 1997 amendments had as one of its purposes “to establish placement neutral funding formulas” and the 2004 reauthorization further emphasized this requirement. A placement neutral funding formula is one that does not reward districts for segregating children who have disabilities, i.e., the distribution of funding does not provide fiscal incentives for placing students with disabilities in separate settings in violation of the least restrictive requirements (LRE) of the law.³

Changes in federal funding provisions for special education also came during the 2004 reauthorization of IDEA. Prior to the reauthorization, districts could not use federal funds to take the place of state and local funds. Now states are permitted to use half of the annual increase in federal funding to offset local special education spending. As an alternative, states may use up to 15 percent of their total federal special education funds on such early intervening services (IES) as response to intervention (RtI) programs.

“Full funding” of special education is a recurrent policy theme at the federal level. IDEA authorized the federal government to appropriate funding for each special education student “up

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³ From Ahearn (2010) “The LRE provision requires that children with disabilities, including children in public or private institutions or other care facilities, are educated with children who are nondisabled to the maximum extent appropriate, and that special classes, separate schooling, or other removal of children with disabilities from the regular educational environment occurs only if the nature or severity of the disability is such that education in regular classes with the use of supplementary aids and services cannot be achieved satisfactorily [34CFR 300.114(a)(2). “
to 40 percent of the average per pupil expenditure (APPE).”

Note that this is not 40 percent of the average cost for special education students, but rather 40 percent of the average cost of all students, including special education students. Federal funding has never reached this 40 percent level. While it has increased somewhat over the past decade, federal funding for special education is still estimated to be well less than 20 percent of the APPE.

SPECIAL EDUCATION IN ILLINOIS

This section provides detailed analyses of special education funding in Illinois. First, we compare the State’s special education enrollment, placement, and funding data to national trends. Then we describe the State’s current special education funding formula and how funds are currently distributed to districts across the State. Last, we present information on academic outcomes for special education students throughout the State to explore possible relationships between special education funding and student results.

Enrollment, placement, and funding data in Illinois and the nation

One important statistic in regard to special education is the overall percentage of students receiving these services. As shown in Exhibit 1 below, the percentage of students in special education has generally grown in Illinois over the past decade, as is true for the nation as a whole. As a percentage of school age enrollment, this figure rose in Illinois from over 13 percent in 1996 to over 15 percent by 2006. In the last several years of this span, however, the percentage of students in special education seems to have leveled off. Also shown is the percentage of children in special education in relation to the full age 3-to-21 population, where more current data are available. As shown, Illinois’s trajectory in regard to these generally growing percentages is somewhat larger and somewhat steeper than for the nation as a whole.

Please see §300.717 in the Federal Register (June 21, 2005) for the official regulations.
Another important set of statistics that all states must report in compliance with IDEA is where special education students receive their primary services. These data assist the federal government, as well as individual states, to monitor the degree to which students are served in the least restrictive environment (LRE) appropriate to their needs, as required by IDEA.

Exhibit 2 shows placement data over time for Illinois in relation to the nation as a whole. This exhibit focuses on the percentage of students in the least and most restrictive placement categories as defined by federal law. As shown, the percentage of students in special education served in the least restrictive setting (80 percent time or more in a regular education classroom) has risen over the past decade in Illinois and across the nation. While less than 50 percent of all special education students in the US were served in this type of placement in 1998, ten years later this has reached nearly 60 percent.

In Illinois, while this percentage has consistently been lower than the nation, increases are shown over this period from below 40% to nearly 50% of special education students. These data also show Illinois closing the gap in comparison with national practice through 2006. However, over the last two years of data shown, the percentage of least restrictive placements in the state have held steady, or declined slightly, while growth on this measure continues for the nation.
In terms of the most restrictive placements (placement in external entities), Illinois’s percentage (at about 7 %) has consistently been above the national average of around 5 percent over the past decade. The difference between Illinois and the nation on this measure also appears to have grown slightly over the last two years, as shown below.

Exhibit 2. Percentage of Special Education Students (Ages 6-21) Spending 80 Percent or More Time in Regular Education Classrooms and Those in External Placements, 1998-2007

While analysis of spending patterns comparing Illinois to the nation would be useful, especially given the common concern about adequate funding, unfortunately, national data do not exist to allow comparisons of the degree of spending for special education services in one state as opposed to another. Some states have much more detailed special education expenditure tracking systems than others, and even in the states with fairly detailed accounting of special education expenditures, there are no federal accounting guidelines to ensure comparable expenditure estimates. Lacking these data, one way to estimate relative special education resource allocations across states is to use allocations of special education staff relative to special education enrollments.5

Multiplying standardized salary estimates by the number of special education staff reported by each state provides a standardized cost estimate for total special education personnel. Dividing this amount by the number of special education students in the state provides a standardized

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5 Every state must report numbers of full-time special education teachers, therapists and aides serving special education students as well as the numbers of special education students being served.
special education personnel cost estimate per special education student by state. Comparing these state-level cost estimates to the national average produces the personnel-based special education expenditure index shown in Exhibit 3. As staff salaries account for approximately 85 percent of special education costs, this may provide the best available proxy measure of relative special education expenditures by state.

Exhibit 3. Personnel-Based Special Education Expenditure Index, 2006-07

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Index</th>
<th>Rank</th>
<th>State</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hawaii</td>
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<td>26</td>
<td>Alabama</td>
<td>1.00</td>
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<td>Vermont</td>
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<td>27</td>
<td>New Mexico</td>
<td>0.99</td>
</tr>
<tr>
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<td>New York</td>
<td>1.64</td>
<td>28</td>
<td>Massachusetts</td>
<td>0.99</td>
</tr>
<tr>
<td>4</td>
<td>New Hampshire</td>
<td>1.62</td>
<td>29</td>
<td>Nevada</td>
<td>0.98</td>
</tr>
<tr>
<td>5</td>
<td>Connecticut</td>
<td>1.50</td>
<td>30</td>
<td>Kentucky</td>
<td>0.92</td>
</tr>
<tr>
<td>6</td>
<td>New Jersey</td>
<td>1.34</td>
<td>31</td>
<td>Wyoming</td>
<td>0.91</td>
</tr>
<tr>
<td>7</td>
<td>Maryland</td>
<td>1.30</td>
<td>32</td>
<td>North Carolina</td>
<td>0.87</td>
</tr>
<tr>
<td>8</td>
<td>Minnesota</td>
<td>1.29</td>
<td>33</td>
<td>Missouri</td>
<td>0.87</td>
</tr>
<tr>
<td>9</td>
<td>Maine</td>
<td>1.29</td>
<td>34</td>
<td>West Virginia</td>
<td>0.87</td>
</tr>
<tr>
<td>10</td>
<td>Kansas</td>
<td>1.28</td>
<td>35</td>
<td>California</td>
<td>0.87</td>
</tr>
<tr>
<td>11</td>
<td>Iowa</td>
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<td>36</td>
<td>Arkansas</td>
<td>0.83</td>
</tr>
<tr>
<td>12</td>
<td>Rhode Island</td>
<td>1.21</td>
<td>37</td>
<td>Montana</td>
<td>0.83</td>
</tr>
<tr>
<td>13</td>
<td>Virginia</td>
<td>1.20</td>
<td>38</td>
<td>Washington</td>
<td>0.83</td>
</tr>
<tr>
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<td>Louisiana</td>
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<td>Ohio</td>
<td>0.82</td>
</tr>
<tr>
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<td>40</td>
<td>South Carolina</td>
<td>0.81</td>
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<tr>
<td>16</td>
<td>North Dakota</td>
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<td>Oregon</td>
<td>0.81</td>
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<td>17</td>
<td>Nebraska</td>
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<td>Idaho</td>
<td>0.80</td>
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<td>Tennessee</td>
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<td>19</td>
<td>Georgia</td>
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<td>Michigan</td>
<td>0.75</td>
</tr>
<tr>
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<td>South Dakota</td>
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<td>45</td>
<td>Utah</td>
<td>0.72</td>
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<tr>
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<td>Colorado</td>
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<td>Alaska</td>
<td>0.72</td>
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<td>Oklahoma</td>
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<td>47</td>
<td>Florida</td>
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<td>Texas</td>
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<tr>
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<td>Wisconsin</td>
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<td>49</td>
<td>Indiana</td>
<td>0.64</td>
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<tr>
<td>25</td>
<td>Arizona</td>
<td>1.01</td>
<td>50</td>
<td>Mississippi</td>
<td>0.47</td>
</tr>
</tbody>
</table>


Because the base is the national average, each of the index amounts shown by state can be compared to a national average index value of 1.00. At 1.10, Illinois is above the national average in this estimate of relative special education personnel spending, with a ranking of 11th, which is shared with two other states (Louisiana and Iowa). In terms of the mid-western states, Illinois’s index is equal to or higher than all other states except Minnesota.
THE ILLINOIS SPECIAL EDUCATION FUNDING FORMULA

In FY 2008, the State special education formula generated approximately $1.34 billion in State special education categorical support to the State’s school districts. These total funds are allocated in six categories of special education support. These categories of special education funding and their percentage shares of total State special education support are shown in Exhibit 4.

Exhibit 4. Categories and Percentage Shares of State Special Education Funding FY 08

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>State reimbursements for personnel</td>
<td>31.5%</td>
</tr>
<tr>
<td>Funding for children requiring special education services</td>
<td>25.0%</td>
</tr>
<tr>
<td>Students placed by the district in nonpublic schools</td>
<td>10.4%</td>
</tr>
<tr>
<td>Children in orphanages, foster family homes, children’s</td>
<td>5.9%</td>
</tr>
<tr>
<td>homes, or State housing</td>
<td></td>
</tr>
<tr>
<td>Reimbursement for 4/5 of special education transportation</td>
<td>26.5%</td>
</tr>
<tr>
<td>costs</td>
<td></td>
</tr>
<tr>
<td>Extended school year</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

As shown, over thirty percent of State special education aid is allocated to districts based on a personnel-based formula (31.5%) and another quarter based on a census-based type formula referred to as “funding for children requiring special education services” (25.0%). In addition, over one-tenth of all State special education aid is allocated in support of students placed by districts in nonpublic schools (10.4%). Special education transportation accounts for over one-quarter of State aid (26.5%) and children in orphanages and related housing options as well as extended school year funds comprise the rest (5.9% and 0.7%, respectively).

The personnel component of the formula

The State reimbursement component of the formula contains the following provisions:

- Full-time certified qualified workers employed 180 days ($9,000 per special education certified teacher, State approved special education director, related services provider, registered therapist, professional consultant, and special education administrator or supervisor (and others who qualify))
- Hospital/homebound instruction (one-half of the teacher’s salary, but not more than $1,000 annually per child or $9,000 per teacher, whichever is less)
- Readers for the blind or partially sighted – (one-half of salary - not more than $400 annually per child)
- Noncertified employees employed 180 days (the lesser of one-half of the salary or $3,500 annually per employee)

The children requiring special education services component of the formula

This component represents a fairly recent change (FY 2004) from the prior “extraordinary” cost component of the formula. Some of its main points are:

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These funding provisions started with a “hold harmless” base, which was the amount each district received under the last year of the old “extraordinary” formula (FY 04). This base was to remain in effect for three years, i.e. beginning with FY 08 these funds were specified to be distributed to all districts based on the “remaining funds” provisions below.

The “remaining funds” under these provisions are distributed 85% based on district average daily attendance and 15% based on district poverty (as derived from data provided by the Department of Human Services and calculated on a three year running average of individuals who are recipients of Food Stamps, Temporary Assistance for Needy Families (TANF), Kid Care and Medicaid.)

It was further specified (January 5, 2008) that districts will not receive payments under these provisions less than that received for fiscal year 2007. (Because this funding is to be “computed last and shall be separate from other calculations,” a supplemental appropriation was needed each year for this purpose. In FY 08 a $21 million was appropriated, which dropped to $17.5 million in FY 09. For FY 10, the estimated cost is approximately $17.1 million, although currently there is no appropriation for this purpose.)

As an additional feature under this component of the formula, districts are provided reimbursement for students who are identified as having excess costs. This occurs when a student’s education program costs exceed four times their resident district’s per capita tuition rate (which is derived from each district’s annual financial report and in general represents the amount a district would charge to educate an out of resident student). However, due to fluctuations in the funds available for this purpose and due to an increasing number of claims, the percentage reimbursement from the State for these claims has ranged from a low of 2.7% in FY 06 to a high of 21.1% in FY 08.

The nonpublic schools component of the formula
Illinois provides a two tier funding mechanism to school districts for special education students placed in either an in-state or out-of-state special education private facility as approved by the Illinois Purchased Care Review Board (IPCRB). The IPCRB is comprised of representatives from various State agencies such as Education, Children and Family Services, Public Health, Public Aid and the Governor’s Office of Management and Budget. The IPCRB establishes uniform rules and regulations for its determination of allowable costs and payments made by school districts to special education facilities for tuition and/or room and board. The two tier funding provisions are as follows:

- **Tier 1 reimbursement:** The formula reimburses the difference between the district’s first per capita charge and $4,500 assuming the tuition that the district paid is above $4,500. (Less than 5 districts in the State are eligible because most district per capita amounts are above $4,500.)
- **Tier 2 reimbursement:** The total tuition paid is compared to the two per capita offset and any difference is eligible to be reimbursed by the State. (Most districts fall into this category.)
The extended school year (ESY) component of the formula
This is funding is for school districts that operate or are billed by a special education cooperative that operate special education programs in excess of the adopted school calendar. ESY must be provided when an IEP team determines it to be necessary for the student to receive a free appropriate public education (FAPE). Eligibility requirements for students claimed under this provision are:

1. The student must be enrolled in one or more courses offered for at least 60 clock hours in the summer session;
2. The student must be eligible pursuant to the requirements for continued summer school services per his or her Individual Education Plan (IEP);
3. There shall not be a tuition charge to families to insure a "free appropriate public education."

Other Formula Provisions
These include the following:

- Reimbursement for the actual costs of educating eligible children with disabilities who reside in orphanages, foster family homes, children’s homes, or State housing units. Funding is guaranteed at 100% of eligible costs, with any shortage borrowed from the following year’s appropriation to ensure full funding.
- Reimbursement for 4/5 of the cost of transportation for each child who requires it and is approved for special transportation as a related service.

Funding and percentages by region (sub-region) by formula component
Exhibit 5 shows how these categories of special education funding break out by the State’s system of support regions (see map in Appendix E of this report). It is important to note that special education funding in the State is not allocated by region, but by district. However, with over 850 districts in the State, regional analyses are primarily used in this report to allow examination of funding patterns across the State that might be difficult to track across so many districts. The regional averages shown are the amount received by the average special education student.
### Exhibit 5. State Special Education Funding per Special Education Student and Percentage Funding Shares by Category of Funding by Region and Sub-Region

<table>
<thead>
<tr>
<th>BY REGION:</th>
<th>Personnel</th>
<th>SE Services</th>
<th>Non-public</th>
<th>Orphanage</th>
<th>Transport</th>
<th>Summer School</th>
<th>Total SE Funding</th>
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<tr>
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<td>$1,167</td>
<td>$646</td>
<td>$353</td>
<td>$1,529</td>
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<td>$5,178</td>
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<td>Region II, Northwest</td>
<td>$1,298</td>
<td>$904</td>
<td>$261</td>
<td>$187</td>
<td>$736</td>
<td>$19</td>
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<tr>
<td>Region III, West Central</td>
<td>$1,096</td>
<td>$760</td>
<td>$138</td>
<td>$201</td>
<td>$605</td>
<td>$11</td>
<td>$2,810</td>
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<tr>
<td>Region IV, East Central</td>
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<td>$207</td>
<td>$342</td>
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<td>$792</td>
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<td>$269</td>
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<td>$1,853</td>
<td>$1,406</td>
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<table>
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<tr>
<th>BY REGION</th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Region I (All)</td>
<td>28%</td>
<td>23%</td>
<td>12%</td>
<td>7%</td>
<td>30%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>Region II, Northwest</td>
<td>38%</td>
<td>27%</td>
<td>8%</td>
<td>5%</td>
<td>22%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>Region III, West Central</td>
<td>39%</td>
<td>27%</td>
<td>5%</td>
<td>7%</td>
<td>22%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Region IV, East Central</td>
<td>36%</td>
<td>26%</td>
<td>7%</td>
<td>11%</td>
<td>20%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Region V, Southwest</td>
<td>32%</td>
<td>25%</td>
<td>9%</td>
<td>8%</td>
<td>25%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>Region VI, Southeast</td>
<td>42%</td>
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<td>5%</td>
<td>21%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Region I-A, Chicago</td>
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<td>23%</td>
<td>18%</td>
<td>9%</td>
<td>29%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>Region I-BB, West Cook</td>
<td>30%</td>
<td>22%</td>
<td>9%</td>
<td>5%</td>
<td>33%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>Region I-BC, South Cook</td>
<td>33%</td>
<td>24%</td>
<td>7%</td>
<td>7%</td>
<td>28%</td>
<td>1%</td>
<td>100%</td>
</tr>
<tr>
<td>Region I-BD, North Cook</td>
<td>40%</td>
<td>22%</td>
<td>4%</td>
<td>9%</td>
<td>26%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Region IC, Northeast</td>
<td>32%</td>
<td>21%</td>
<td>10%</td>
<td>4%</td>
<td>31%</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>
In addition to these regional analyses, breakouts by sub-region within Region I are also shown to illustrate the predominant influence of Chicago as distinguished from the rest of this region and the State as a whole. This is important as Chicago represents over 19% of the full State public K-12 enrollment, with the second largest district being less than 1/10th of its size.

Differentiating Chicago from the rest of the districts in the State is also important because special education funding is allocated to Chicago on a basis that is quite different from all other districts in the State. Over time, this arrangement, as discussed later in this report, has expanded Chicago’s State special education funding allocations in ways that make them stand out in relation to special education funding allocation per student.

The first six columns of funding shown in Exhibit 5 indicate the amount generated per special education student in the region by category of funding. For example, the December 1 count of special education students for Region I for FY08 is 194,004 and the total revenue amount received region-wide under the personnel component of the State special education funding formula is $278,645,679.

Dividing this total funding amount by the December 1 count of students derives an average funding allocation per special education student in Region I of $1,436, as shown in the first funding cell of Exhibit 5.

Across all six categories of the State special education funding formula, the amount generated per special education student is the highest in Region I. These higher averages are uniformly affected by the funding received by Sub-Region I-A, Chicago. However, it is also true that all of the sub-regions of Region I show higher state special education funding per special education student than any other Region. For example, average state aid per special education student in Chicago ($7,887) is nearly twice that received by the next highest sub-region in the area (West Cook at $4,378); and Region I overall (at $5,178) receives over 50% more that the next highest region (Northwest at $4,305). On average, Region I receives twice the amount of state special education aid per eligible student than the lowest funded region in the state (Southeast at $2,582).

The second half of Exhibit 5 presents percentage shares associated the various funding formula components. Thus, the first row of this table shows total State special education funding per special education student in Region 1 to be $5,178. The first row in the bottom half of this exhibit shows the percentage shares that each of the six funding components contributes to this total. For Region I, for example, the personnel and special education services components of the formula each provide about one-quarter of the total State special education funding generated by districts in Region I. These percentage shares for these two components of the formula are the smallest of any of the six regions in the State. The nonpublic and transportation percentage shares for Region I, however, are the largest among the regions at 12 and 30 percent, respectively.
Other relevant special education data by region (sub-region)

Additional relevant statistics to a discussion of State special education funding across the regions and sub-regions of the State are shown in Exhibit 6. They include the percentage of total State enrollment that each of the regions and sub-regions comprises, as well as the percentage of State special education enrollment, the percentage of students in special education, and the percentage in poverty.\(^7\)

As shown, Region I is by far the largest in the State. In fact, all of its sub-regions are larger than the smallest region, Region VI. As expected, Region I also has the largest share of the State’s special education enrollment. However, while it comprises 65% of the full State enrollment, its share of the State’s special education students is only 60%. This is because Region I has the lowest percentage of special education students in the State. At 14% this percentage is not particularly low and in fact is quite close to the national average, which was slightly below this amount for FY 08. However, this is the smallest identification rate among the regions of the State, driven by Chicago, with 13% special education enrollment. After Chicago, no other sub-region in Region I, or none of the other regions of the State, show less than 15% special education enrollment, with four of the State’s six regions at 18% or higher.

![Exhibit 6. State Special Education Funding per Special Education Student and Percentage Funding Shares by Category of Funding by Region and Sub-Region](image)

<table>
<thead>
<tr>
<th>BY REGION:</th>
<th>Percentage: State Enr</th>
<th>State SE Enr</th>
<th>SE Enr</th>
<th>Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region I (All)</td>
<td>65%</td>
<td>60%</td>
<td>14%</td>
<td>35%</td>
</tr>
<tr>
<td>Region II, Northwest</td>
<td>11%</td>
<td>11%</td>
<td>15%</td>
<td>26%</td>
</tr>
<tr>
<td>Region III, West Central</td>
<td>7%</td>
<td>8%</td>
<td>19%</td>
<td>36%</td>
</tr>
<tr>
<td>Region IV, East Central</td>
<td>7%</td>
<td>8%</td>
<td>18%</td>
<td>34%</td>
</tr>
<tr>
<td>Region V, Southwest</td>
<td>7%</td>
<td>8%</td>
<td>18%</td>
<td>35%</td>
</tr>
<tr>
<td>Region VI, Southeast</td>
<td>3%</td>
<td>4%</td>
<td>20%</td>
<td>42%</td>
</tr>
<tr>
<td>BY REGION I SUB-REGIONS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Region I-A, Chicago</td>
<td>19%</td>
<td>16%</td>
<td>13%</td>
<td>65%</td>
</tr>
<tr>
<td>Region, I-BB, West Cook</td>
<td>4%</td>
<td>4%</td>
<td>15%</td>
<td>38%</td>
</tr>
<tr>
<td>Region I-BC, South Cook</td>
<td>7%</td>
<td>7%</td>
<td>15%</td>
<td>38%</td>
</tr>
<tr>
<td>Region I-BD, North Cook</td>
<td>7%</td>
<td>7%</td>
<td>15%</td>
<td>17%</td>
</tr>
<tr>
<td>Region IC, Northeast</td>
<td>27%</td>
<td>26%</td>
<td>15%</td>
<td>18%</td>
</tr>
</tbody>
</table>

The percentage of students in poverty ranges from 26% to 42% across the regions of the State. Poverty disparities within Region I are more substantial, however, with Chicago at a rate of 65% as compared to Sub-Region I-BD, North Cook, at 17%.

\(^7\)The percentage of students in poverty was calculated by dividing the 2007-2008 public enrolment by the three year poverty average (FY '05, '06 and '07). The three year poverty average was produced by the Illinois Department of Human Services
Task force discussion of the formula
These analyses show substantial differences in funding by sub-region and region and point to potential equity concerns within the current formula. Given this, as well as other concerns, a first question the task force considered was whether change was needed in the State’s current special education funding system. One point of consensus was in regard to the federal special education funds flowing through the State to districts. The sentiment appeared unanimous that the time for “full federal funding” of special education, as described above, was overdue, i.e. that the federal special education appropriation should be raised to its authorized limit of 40% of the nation’s Annual Per Pupil Expenditure (APPE).

However, while the task force clearly supported such a change as one important step in “easing the financial burden” of special education on school districts, federal funding provisions are beyond the power of the task force. Turning to the State special education funding system, as initial question was whether change is needed.

As the consensus on this point clearly seemed to be yes, the next point was whether wholesale change in the formula is needed as opposed to adjustments within the confines of the existing formula. The task force members were divided on this point and as a result, at the April, 2009 meeting of this Task Force, two sub-committees were formed. The first, headed by Roxanne Kovacevich, agreed to consider alternatives to the current formula, i.e. what might be proposed if we were to start over. Bridget Helmlholz agreed to lead a second sub-committee considering recommendations for change within the current formula.

Criteria for considering change to the formula
As the consensus for some form of change seemed clearly in the majority among the group, we began by attempting to set criteria for considering change. An important finding from the special education finance literature (e.g. Harr, Parrish and Chambers, 2008) is that all fiscal policies have the potential to affect special education practice.\textsuperscript{8} With that in mind, prior to setting fiscal policy it was determined as important to discuss program goals for the State so that any incentives created through revised fiscal policy will reinforce, to the extent possible, desired program goals. At the May 2009 meeting, the task force specified the following desired special education program goals for the State:

- Promoting comparable services for students with comparable needs across the State
- Fostering high-level, measurable outcomes for students in special education
- Serving students in the Least Restrictive Environment
- Promoting pre-referral services to serve students outside special education when appropriate
- Provide maximum flexibility at the local level coupled with accountability

In addition to these program goals, funding objectives were discussed. Also at the May, 2009 meeting, the group had specified the following:

- Sufficient funding within each district to reach the education goals set for the State’s special education students
- State funds distributed in accord with student needs
- Funds distributed in a way that produces a reasonable reporting burden
- A formula designed to foster best practice
- Professional discretion in spending including Response to Intervention (RTI)
- A clear basis for the amount of funds being distributed
- Special education funding tied to the general education formula
- Funding provisions that respond to differences in student performance
- Consolidation of the components of the current formula
- Creation of separate provisions for high cost students

Last, funding formula criteria were prioritized across a range of factors delineated in the literature as positive objectives for special education funding formulas. The full set of criteria and the definitions for each appear as Appendix F to this report. Among these criteria, task force sentiment in regard to the top three criteria (also set at the May, 2009 meeting) was as follows:

- Placement neutral: This means that no fiscal premiums are placed on one type of primary placement for the student over another, e.g. regular versus special classroom or private versus public placement.
- Equity: This simply means that districts with like circumstances are treated similarly in the funding they receive.
- Outcome accountability: This means that outcomes are incorporated in some manner into the State’s fiscal provisions.

These criteria were also re-visited at the May 12, 2010 meeting of the Task Force with all of the members present at this meeting indicating that the lack of equity in the current formula to be a problem and the majority of those present (six out of seven) indicating the lack of placement neutrality to be a problem.⁹

**Revenues, expenditures, and percent support by district**

In considering these criteria, the following exhibits present data in regard to the full amount of State special education revenue (i.e. across all six of the funding components shown above) for all of the districts in the State. These are presented as aggregate numbers to emphasize the bottom line received by districts in the State through the formula in its entirety (i.e. the sum of its individual components) and are compared with data on reported special education spending.

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⁹ However, one other member, not present but contacted during the meeting, was said to have joined the minority perspective that placement neutrality is not a serious problem under that State’s current funding provisions.
Each of the following exhibits shows a collection of vertical bars, each representing a school district in the State, ordered left to right from the smallest in enrollment to the largest.\textsuperscript{10}

**State special education revenues by special education student by district**

The first, Exhibit 7, shows the State special education revenue amount per student received across all districts. As shown, the mean special education aid allocation per special education student across all districts in the State is $2,832 and the standard deviation is $1,075. This latter amount represents the degree of variance around the mean and indicates that approximately one-third of the districts in the State receive an amount that is $1,075 higher than the mean (i.e., $3,907 = $2,832 + $1,075) and about 1/3 receive an amount that is $1,075 lower (i.e., $1,757 = $2,832 - $1,075). It also shows that variations in allocation per special education student across Illinois districts are not closely related to district size. Last, it shows a substantial number of districts receiving more than $5,000 in State special education support per special education student and a few districts receiving special education revenues in excess of $8,000 per student, and that these more extreme cases of high revenue generation can be found in districts across a range of district size. These data clearly suggest equity concerns with the current system.

\textsuperscript{10}Note that unlike the data shown in Exhibit 5 representing aggregate state revenues received by region, the data in the exhibits that follow only show state special education revenues directly received by districts. That is, they do not include revenues received by cooperatives from which they may derive special education services and support.
Exhibit 7. Total Special Education State Revenues Per Special Education Student
All Districts, Ordered Smallest to Largest Enrollment, 2007 – 08

Number of Districts=868, Mean =$2,832, Std. Dev = $1,075

Data Sources: Revenue data: “FY 08 Sp Ed LEA Summary;” Special education enrollment data: “Dec 2007 Sp Ed Count by Disability;” both files from Tim Imler, ISBE. Defined as “Revenues due to the district for the 2008 fiscal year regardless of the time the district actually received them.”

State special education expenditures by special education student by district
The analyses shown in Exhibit 8 are comparable to that shown above except the data element represented is the average reported special education expenditure per pupil by district, as opposed to how much they are receiving, which is shown in Exhibit 7. In this exhibit, the mean special education expenditure per special education student across all districts in the State is reported as $10,840, with a standard deviation of $4,543. Thus, on average, districts spend considerably more on special education services than they receive from the State in regard to special education aid. While some of this difference will be offset by federal funding (which provides approximately $1,300 per special education student state-wide), this still leaves a substantial portion to be offset through local funds. This disparity is the basis for the question included in HJR 24, that the Task Force “make recommendations as to how the State can increase special education funding and ease the financial burden on school districts.”
As shown, however, the average reported special education expenditure per special education student varies dramatically across the districts of the State across all categories of district size. These data suggest that the special education “financial burden” varies considerably across districts. However, neither revenue nor expenditure data alone really inform the issue of relative burden. If the high spending districts also receive higher revenues, the relative burden across districts may be the same.

**Exhibit 8. Special Education Expenditure Per Special Education Student - All Districts, Ordered by Smallest to Largest Enrollment, 2007 – 08**

![Graph showing special education expenditure per student across districts]

Data Sources: Expenditure data: “2008 Enrollment FTE Head count expenditures receipts data report -- SpecEd2008” from Debbie Vespa of ISBE; Special education enrollment data: “Dec 2007 Sp Ed Count by Disability” from Tim Imler of ISBE. Note with data: “Includes revenue receipted as of June 30th.”

**State special revenues as a percentage of expenditures by district**

Exhibit 9, which shows the percentage of reported expenditures covered by district State special education revenues, provides a more complete view of the differential special education “burden” experienced by districts. On average, State revenues cover 28% of the reported expenditure. However, based on the standard deviation of 9%, about 1/6-th of the districts of the
State have only about 19% of their special education spending covered by State revenues. Conversely, as can be observed from the exhibit, a number of districts across all size ranges show 50% or more of special education spending covered by State revenues. Thus, the degree of “special education burden” is quite different across the State.

**Exhibit 9. State Special Education Revenues* as a Percentage of Reported Total Special Education Expenditures† ‡, All Districts‡, Ordered by Smallest to Largest Enrollment, 2007 – 08**

![Graph showing distribution of state special education revenues as a percentage of total special education expenditures across all districts, with data sources and notes provided.]

Number of Districts=867, Mean =28%, Std. Dev = 9%

Data Sources: State revenue data: “FY 08 Sp Ed LEA Summary” from Tim Imler of ISBE; Total expenditure data: “2008 Enrollment FTE Head count expenditures receipts data report – SpecEd2008” from Debbie Vespa of ISBE.

* Revenue due to the district for the 2008 fiscal year regardless of the time the district actually receipted the revenue
† Includes revenue receipted as of June 30th
‡ Proviso Twp HSD 209 was excluded because the percentage of State special education categorical programs revenue of total special education expenditures for the district equaled 286%.
CONCERNS WITH THE STATE SPECIAL EDUCATION FORMULA

Three areas that constitute potential concerns with the current formula are that it contains fiscal incentives favoring private special education placements, appears quite inequitable, and seems needlessly complex and disjointed. Each of these areas is described in more detail below.

The nonpublic component contains substantial fiscal incentives for private placements and contributes to overall funding inequities

There are several key concerns with the nonpublic component of the formula. It provides a substantial fiscal incentive for private placements, it contributes to inequities in the overall system, and it does not appear to conform to its stated purpose.

The nonpublic component of the formula provides substantial fiscal incentives for private placement

As described at the onset of this paper, a study similar to the current one completed in 1998 (Riffel) found that the State’s special education funding system was not “placement neutral,” i.e. that funding was based on type of placement and that the system at that time was, in the opinion of this earlier task group, in violation of federal provisions from the IDEA ’97 Amendments, enacted in June 1, 1997. These provisions require that each state’s special education funding be consistent with federal least restrictive environment [LRE] provisions. The relevant part of the federal law from Section 612 (5) of IDEA ’97 that was cited in this earlier report is:

(5) Least Restrictive Environment. –
   (A) IN GENERAL. – To the maximum extent appropriate, children with disabilities, including children in public or private institutions or other care facilities, are educated with children who are not disabled, and special classes, separate schooling, or other removal of children with disabilities from the regular educational environment occurs only when the nature or severity of the disability of a child is such that education in regular classes with the use of supplementary aids and services cannot be achieved satisfactory.
   (B) ADDITIONAL REQUIREMENT. – (I) IN GENERAL. -- If the State uses a funding mechanism by which the State distributes State funds on the basis of the type of setting in which a child is served, the funding mechanism does not result in placements that violate the requirements of subparagraph (A). (ii) ASSURANCE. – If the State does not have policies and procedures to ensure compliance with clause (I), the State shall provide the Secretary an assurance that it will revise the funding mechanism as soon as feasible to ensure that such mechanism does not result in such placements.

This report also compared funding available under the nonpublic provisions of the law at that time to what could have been claimed under what was at that time the “Extraordinary Services” component of the formula. Riffel (1998) describes this second component as supporting the claims of students “served within the public school district.” Riffel goes onto point out, however, that this component of the formula allowing support for “extraordinary services” provided within the public school district had its problems. He states, it enabled some LEAs to become “very creative in accessing this funding stream” and that districts able to accomplish this have been the
“primary benefactors” from this source of funds. It was also said to have placed “a heavy paperwork burden” on districts.

Perhaps in response to these concerns, this component of the law was changed in 2004. What had been the “extraordinary services” pot of funds is now designated as “funding for children requiring special education services.” Rather than simply rewarding districts that had been “creative in accessing” the prior funding stream, under the new provisions these funds were allocated to all districts on a census basis (i.e. 85% based on total enrollment and 15% based on poverty).

While in some ways this change to the funding formula seems to have some obvious advantages, it has also greatly exacerbated the funding difference when students in special education requiring “extraordinary services” are served in public versus private schools. The Illinois Alliance of Administrators of Special Education (IAASE) describes this well in a position paper released in October of 2008 (included as Appendix G).

Although the law that converted “extraordinary services” funding also contained provisions for reimbursing students with “excess costs,” the IAASE states that “the amount of reimbursement in recent years has been prorated significantly…” For example, they cite a proration percentage of only 4.88% in FY 05. As this is the only method of claiming the excess cost of serving students requiring “extraordinary services” within a public setting, there is a very substantial fiscal incentive to serve such students in private special education (nonpublic) schools. For example, the IAASE paper provides an example where a school district would receive “$18,000 from the ISBE by placing the student in a private facility (as opposed to) $1,266 from the ISBE by placing the student in a public school program.”

This is a clear fiscal incentive for private (nonpublic) school placements for children in need of “extraordinary services.” The fact that over one-tenth of the State’s special education funding is allocated for this purpose suggests that the use of these funds has extended beyond extraordinary circumstances. This 10% figure is made even more striking by the fact that nonpublic school options are virtually unavailable in some regions of the State. In Region I, where many of these schools are found, 13% of State special education revenues are allocated in support of nonpublic school services.

It also seems likely that this strong fiscal incentive affects the relatively high rate of special education placements in separate facilities in Illinois. Based on 2006 data in the IDEA Report to Congress, Illinois places 7% of all special education students in separate facilities, a rate that is exceeded by only four other states.\footnote{The other states are Connecticut at 8%, Maryland and New York at 9%, and New Jersey at 16%}

\textbf{The nonpublic component of the formula contributes substantially to inequities in the system}

The nonpublic school component contains the greatest disparities in funding of all six formula components with the exception of summer school, which represents less than 1% of the State special education funds allocated. Through the nonpublic funding component of the formula, over one-tenth of all State funds for special education are directed to provide services because “the public school system does not have the necessary resources to fill the students’ educational
needs.” However, these resources are disproportionately allocated to the best funded regions of the State. In addition, as shown by Exhibit 3, given that Illinois is 13th among the fifty states in average special education provision per student, 10% of all funding to make up for inadequate public service seems inordinately high.

As shown in Exhibit 5, above, the nonpublic component of the formula is distributed in a manner that produces nearly 19 times more funding per special education student in Region I than Region VI ($646 vs. $34). It should be noted, however, that one reason Region I is unusually high on this measure due to the special funding arrangement for Chicago Public Schools, which substantially influences the data shown for the region as a whole (at $1,406). However, even with Region I removed from this calculation, the next highest funded region under this category, Region V generates eight times the amount per special education student in Region VI ($277 vs. $34). Even removing both the outlying regions on this measure, I and VI, the disparity among the next highest and lowest funded regions (V and III) is slightly over two to one ($277 vs. $138).

The nonpublic school component does not appear to conform to its stated purpose.
The stated purpose of the nonpublic school component of the formula is to “provide special education services to students with disabilities when the public school system does not have the necessary resources to fill the students’ educational needs.” Given this purpose, some relationship would be expected between independent measures of student need (e.g. poverty) the relative ability of local districts to fill these needs, and the amount of funding generated to support this alternative funding source.

However, the exact opposite is observed in the actual allocation of the nonpublic funds. For example, Region VI (the Southeast), which has the most children in poverty (after Chicago), receives the least overall State support per special education student, and has the highest rate of students in special education (20 %) receives by far the least funding per student under this funding initiative, as described above and shown in Exhibit 5 of this report.

In fact, nonpublic special education aid per student is highest in those regions receiving the most special education aid from the State’s other special education funding programs. It seems counter-intuitive that the regions with the greatest levels of special education support also would be those where “the public school system does not have the necessary resources to fill students’ education needs.”

The overall formula is inequitable
The Task Force engaged in a fair amount of discussion to reach some common understanding as to how “equity” might best be defined with the context of special education funding. Fortunately, there is a broad literature on this concept (Berne, R. & Stiefel L., 1984).

Disparities in funding across districts within a state – known as horizontal inequity – have long been a pre-dominate issue for education policy (see court cases Serrano v. Priest and Serrano v. Priest refers to three cases decided by the California Supreme Court: Serrano v. Priest, 5 Cal.3d 584 (1971) (Serrano I); Serrano v. Priest, 18 Cal.3d 728 (1976) (Serrano II); and Serrano v. Priest, 20 Cal.3d 25 (1977) (Serrano III).
Rodriguez v. San Antonio Independent School District\(^{13}\). However, in special education, the primary equity focus seems to be on how much funding special education students as a group receive in relation to all other students, or how much funding students with one category of disability receive in relation to students with differing categories. Unlike the goal of horizontal equity, i.e. equal funding for all, it is recognized that equal funding for students with substantially different educational needs is not equitable. As the educational needs of certain groups of students are clearly different from others, equity can only come from systematically different funding amounts (Berne & Stiefel, 1984).

Thus, the primary equity standard used for considering the state special education funding in Illinois is vertical equity, i.e. like funding for students with like needs. Thus, “equitable” funding for special education would generally call for more funding for students with special education needs than for other students and may also suggest different amounts for individual district to serve the special education students they enroll to the extent that the characteristics of these students are systematically different.

However, the concept of vertical equity does not justify vast differences in funding per special education student across districts (or regions) that appear unrelated in some systematic way to the measurable characteristics of their students. That is, vertical equity considerations do not justify arbitrary differences in funding, for example ones that are not systematically linked to measurable varying student characteristics. When such systematic need variations, e.g. poverty, are applied as an adjusting factor to the amount of funds allocated, equitable implementation of such adjustments are uniformly applied in relation to the degree that this condition exists throughout the state.

This does not mean that measurable cost variations cannot be included in an equitable formula, e.g. recognition that a dollar in one part of the state may have less “purchasing power” than in another. To the extent that such cost adjustments are applied to other components of state funding, it would seem reasonable to apply them to the allocation of special education funds as well.

Also, variations in ability to add locally raised funds to complement state received may also be an important component of an equitable allocation system. That is, allocations may be “wealth equalized” to provide systematically more in state funds where the ability to raise local funds in support of services such as special education is less. Again, to the degree that some form of wealth equalization is incorporated into the larger state education formula, it seems reasonable to apply such adjustments to special education funding as well.

In the case of special education funding in Illinois, two major factors contributing to the funding inequities illustrated in Exhibits 5, 6, 7 and 8 are the non-public component of the formula (as described above) and the special funding provisions that apply to Chicago Public Schools. Due to PA 89-15, enacted in 1995, Chicago receives a majority of its State funding via two block grants: the General Education and Educational Services Block Grants. Chicago’s special education categorical funding is distributed within the Educational Services Block Grant. While all other districts receive their State special education funding via the respective governing statutes and reimbursement formulas, under this agreement Chicago receives a fixed percentage

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\(^{13}\) San Antonio Independent School District v. Rodriguez, 411 U.S. 1 (1973)
of each year’s State special education categorical appropriations. These fixed percentages were calculated based on the amount of funds Chicago Public Schools received in 1995 in relation to the total funds distributed under each program state-wide.

Thus, while Chicago may have received an equitable proportionate share of State special education funding in 1995, over time the funding received by this district in support of special education has increasingly grown disproportionate in relation to other districts and regions throughout the State. While special education funding for other districts has changed to reflect altered local conditions, e.g. the number of special education staff employed, the overall number of students enrolled, and the number of students placed in nonpublic schools, the allocations to Chicago have remained a fixed percentage of the State total.

This has occurred while the underlying bases for this funding, e.g. the number of special education students and staff employed, have declined for Chicago. As a result, the total special education funding per special education student in Chicago ($7,887) is more than twice that received by any other region of the State, and nearly twice that received by any other sub-region, as shown in Exhibit 5. It is also more than twice the amount received by the average special education student in the State ($3,884). Also as shown in Exhibit 5, Chicago receives substantially more funding in every special education sub-category than any other region or sub-region. Although Chicago is a single district, it may be best compared with other sub-regions and regions of the State given that it has over 19% of the total State public school enrollment.

At the other extreme is Region VI in the southeastern portion of the State. With the highest average poverty of all six regions and the highest percentage of students in special education, this region receives the lowest level of funding per special education student on five out of the six State special education funding components. Only for the “funding for children requiring special education services” component of the formula, which has an adjustment for poverty, are funds for this region somewhat near the State average. In regard to total State special education funds generated per special education student, Region VI clearly falls last (at $2,582), with less than one-half of that generated by Region I on average ($5,178), and one-third less than the state average ($3,884).

The maintenance of this unique special education funding agreement for Chicago is specified as a component of the *Corey H., et al. v. Chicago Board of Education and Illinois State Board of Education (1992)*. In this case, attorneys from Designs for Change (DFC) and Northwestern University Legal Clinic filed a federal class action lawsuit on behalf of the students with disabilities enrolled in Chicago Public Schools. The lawsuit alleged violations of the least restrictive environment provisions (“the LRE mandate”) of the Individuals with Disabilities Education Act. Among the reasons cited for this segregation included problematic state policies, such as financial reimbursement policies that rewarded placement of students in private segregated settings outside of the public schools.

In a February 19, 1998 decision, the Court found ISBE in violation of the IDEA for its continuing failure to ensure (among other factors) that State funding formulas that reimburse local agencies for educating students with disabilities support the LRE mandate. As a result of this finding, the court ruled that the ISBE must modify specific state policies that have an impact
on educating children with disabilities in the LRE. Among these, policies relating to state funding were specifically mentioned. (Soltman and Moore, 2000)

It should be noted, however, that even though special circumstances pertain to the special education funding received by Chicago under the current formula, several other districts receive even more per special education student under the current formula although presumably no special circumstances pertain. Data provided by the state show Pembroke CCSD 259, Cherry SC 92, and Lemont Twp HSD 210 all receiving more state per special education student than Chicago Public Schools. This clearly indicates that larger funding formula reforms are needed to create equity in the state’s special education funding system than just addressing the Chicago block grant.

In fact, in a statement prepared for the Task Force by Sue Gamm, a former employee of Chicago Public Schools, she refers to the “…very strong case that the Illinois’ special education funding scheme is broken. We have known this fact for many years and have been trying to fix it for many years.”

The current formula seems overly complex and disjointed

With six separate funding components and numerous related provisions, the State’s special education formula seems needlessly complex and difficult to summarize under a single coherent rationale. Rather, it seems the sum of disparate parts. In some instances this separation may make sense, e.g. in the cases of transportation, summer school, and perhaps orphanage. However, the three funding components supporting core instructional services for students in special education have an unclear relationship to one another and in some cases may conflict, e.g. in the case of the substantial separate funding allocated for serving special education students in nonpublic schools. It also may work to obscure overall funding disparities. As a given district may receive more funding under one component and less on another than its neighbors it may be more difficult to discern an overall picture of the relative treatment of districts and regions across the State given the formula’s many separate components.

However, the State may consider it important to maintain its three special purpose grants (i.e. transportation, summer school, and orphanage). In addition, the personnel and “children requiring special education services” components also may be seen as having offsetting advantages. That is, as one is based on the specific numbers of staff employed by districts and the other allocated on a much more generic basis (census-based type approach), combined they may be seen as a balance between prescriptive and highly flexible funding.

However, to work as a complementary combination, it seems that their relative relationship to one another within individual districts needs to be carefully considered. In the aggregate, the amount of State special funding per pupil received by districts seems unjustifiably disparate. If these two components were to be retained as the core of the formula, it would seem important to fully consider how they relate to one another and their combined impact in regard to equitable funding.
TASK FORCE RECOMMENDATIONS

As mentioned above, there seems a consensus among the group that changes to the State’s special education funding provisions are needed. However, while some members felt the system should be redesigned in its entirety, others considered adjustments to the current system to be the best way to proceed. Thus, at the April meeting, it was determined that two sub-committees would be formed to further consider and make recommendations regarding these two alternative points of view. The membership of these two committees is included as Appendix H to this report.

A subsequent discussion of this point during the May of 2010 meeting indicated continuing disagreement on this point. Of the members present, five indicated the need for major change to the formula, while three opted for more minor modifications.  

These sub-committees interacted through the fall of 2009 and both submitted reports in October of that year. These two reports are submitted as Appendices I and J. Although neither of these reports is very definitive in its recommendations, both provide a useful sense of direction in regard to what they consider important and possible changes to State policy.

The sub-committee on modifying the current funding system
The report from this committee describes itself as “comprised of members who believed the existing special education finance system has merit, but may benefit from some adjustments in order to address problems that have been identified on the task force.” They list what they consider to be the three primary criteria that should guide change as equity, flexibility, and outcome accountability (i.e. tied in some way to student outcomes). In addition, some of their specific recommendations are:

- Do no harm
- Enhance reimbursement to Illinois school districts in salaries for professional and non-professional staff
- There should be an annual adjustment tied to an index such as exists for Social Security
- Review the Chicago Block Grant funding
- Do not add to unfunded mandates
- Reimburse the school districts for services provided to high needs students while developing efficiencies that exist in the private sector
- A financial system should have a single-minded focus on student learning
- Fund the escalating costs of transportation
- Consider more local control for high-performing districts, perhaps on a pilot basis,
- Include technical assistance from these districts to lower-performing districts, e.g., a mentoring system.

The sub-committee on creating a new funding system
This sub-committee considered the same criteria, but appeared to draw very different conclusions in regard to the current formula. For example, this committee’s report includes a grid

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14 A fourth member of the Task Force, not physically present at this meeting, was said to also call for more minor change.
listing all of the criteria presented to the task force as possible considerations in regard to special education fiscal policy. Of the three criteria considered most important by the committee favoring retention of the current formula, i.e. equity, flexibility, and outcome accountability, this second sub-committee found the current system totally lacking on all three of these measures. According to their ratings, none of the six components of the current system supported any of these objectives, except the personnel component, which they mark as “equitable” in the grid they provide. However, they say in their list of more specific points added below the grid that the personnel reimbursement “may not promote equity because the districts that can afford to hire staff get the money and the ones that cannot afford to hire staff, don’t receive funds.” Thus, they clearly seem to question the equity associated with this component as well.

In this group report, the grid is followed by a listing of the six most common alternative types of formula found federally and across the states. While they note features of each, they appear to endorse none.

This second sub-committee report concludes with some specific recommendations for further consideration:

- Examine the position paper from IAASE which advocates funding to follow high cost students thereby encouraging placement neutral decisions
- Re-examine the Chicago Block Grant
- Consider merging all special education funds and allocate them evenly across the State
- Examine possible interagency agreements to not duplicate, but to expand, services
- Student outcomes should be a long term goal, and
- Solicit feedback from all Illinois Stakeholder groups.

In addition, a subsequent memo was submitted to the Task Force by two members, both of whom were members of the sub-committee describing desired, major change to the current formula. Their statement is attached to this report as Appendix K.

**Comparing the reports of these two sub-committees**

Several points of agreement emerge from these two reports, i.e. the importance of equity, the need to reconsider the Chicago block grant, and an ultimate focus on enhanced student outcomes. Major points of disagreement seem to be on the private (nonpublic) funding component of the system as well as the desirability of altering the present system in its entirety as opposed to just making adjustments.

In regard to the former point, however, there may be room for some agreement. For example, the committee for retention recommends, “Reimburse the school districts for services provided to high needs students…” while the committee for a new formula advocates “funding to follow high cost students thereby encouraging placement neutral decisions.” It could be that both groups could find common ground around formula provisions that would allow retention of nonpublic school funding but that also would extend comparable allowances to similar students served within the public sector. This could lead to the type of system called for in the IAASE paper, which advocates that funding follow high cost students (wherever they are best served) thereby encouraging placement neutral decisions.
POLICY ALTERNATIVES

This section provides analyses from the point of view of the author of this report. They are based on analyses of Illinois data, the language underlying the State’s special education funding provisions, state and federal law, and other special education funding practices and policies observed in the U.S. and Canada.

The State may wish to consider three possible levels of change:

- Retain components of the current formula while addressing the areas of greatest concern,
- Discard the current formula and consider a simpler alternative as currently found in other states, or
- Contemplate broader-based, systemic reform where the funding formula is a component of a larger conceptual framework of special education with a primary emphasis on efficiency, maximizing positive academic and social results for students, and continuous improvement.

Each of these three alternatives is discussed below for possible consideration. Although discussed separately, they are not mutually exclusive and could be combined or considered together. For example, the State may start by attempting to address the areas of greatest concern, i.e. fiscal incentive to place students in private (nonpublic) schools, the general inequities contained in the State’s special education funding system, and specific concerns resulting from the Chicago block grant.

At the same time, these reforms could be designed to simultaneously increase the simplicity and transparency of the system overall. This would combine the first two sets of suggestions listed above. In regard to the third, the use of funding as a basis for reconsidering special education provision and oversight from the perspective of continuous improvement is something that could be further defined and implemented over time.

**Maintain the current system while addressing areas of greatest concern**

Given the current fiscal climate, incremental change may be the most that can reasonably be expected. Thus, if many of the basic components of the current system were to be maintained while addressing the areas of greatest concern, I would suggest focusing on the following three areas: the fiscal incentive to place students in private (nonpublic) schools, general inequities in the system, and simplifying the system overall.

While maintaining the current formula with incremental change may be the most doable of the three alternatives outlined above, there are undoubtedly substantial political hurdles to realizing even this level of change. However, it seems important to seize this opportunity to begin to address these areas that seem likely to become greater concerns over time.

The first area listed above, removing the fiscal incentive for private (nonpublic) placements, seems most important to address because of LRE concerns and because this contribute substantially to system fiscal inequities. If the current fiscal premium associated with private (nonpublic) placements is retained without comparable options for students served in the public
sector, it seems likely that this more financially lucrative path will be followed by an increasing number of students. This will further exacerbate the State’s record in regard to providing special education in the LRE, may result in increasing numbers of special education students being served in isolation from non-special education peers, and will likely exacerbate current inequities associated with private (nonpublic) school funding that impact the fairness of the State special education allocation system overall.

The recommendations of both sub-committees for this study suggest that it may be possible to address this concern by allowing the funding associated with students with “extraordinary needs” to follow them to whatever type of education setting is best suited to their individual needs. Thus, it is recommended that the current system be altered to become “placement neutral,” i.e. that funding be based on student need and not on student placement.

While this may suggest a return to something like the “extraordinary services” component of the formula that the State rejected in the past, it seems that the prior conversion of these funds to more generally fund “children in need of special education services,” has exacerbated the problem of substantially differential funding for private and public school services. In short, as stated in the IAASE policy brief, “the students with the greatest needs and generating the highest costs, regardless of placement (private or public), should be reimbursed at the same level of funding to the resident district.”

How might a “placement neutral” system be implemented? Three possible approaches come to mind. One is to allow districts to make claims for such students when they believe they are serving “high cost” students within a public setting that would afford them the same support they receive when sending this student to a private setting. A second approach is to allow data already submitted to the ISBE to be analyzed and serve as the basis for funding that would automatically be allocated to districts in the case of “high cost” students served in public settings. A third approach is to produce a more generically determined, “high cost student” funding allocation to be allocated to all districts that could be used by districts to serve the students they enroll in the setting most appropriate to their needs, including public and private options. Each of these options is described in more detail below.

**A claim-based “high cost” student system.** This type of system is similar to the prior “Extraordinary Services” component of the state formula. As described by Riffel (1998), this component of the formula supported claims for “extraordinary services” provided “within the public school district.” Riffel goes onto point out, however, that this component of the formula had its problems. He states, it enabled some LEAs to become “very creative in accessing this funding stream” and that districts able to accomplish this have been the “primary benefactors” from this source of funds. It was also said to have placed “a heavy paperwork burden” on districts. Thus, it seems clear that the state should not go back to the exact system from before. However, perhaps some variant of this approach could be developed that would be difficult to manipulate, would have limited added paperwork requirements, and could be designed to provide the same fiscal support to like students regardless of setting (i.e. public or private).

**An extant data based “high cost” student system.** A system of this type might be designed to meet some of the goals specified above, i.e. difficult to manipulate, little added paperwork, and equal public/private treatment. An important question relating to the implementation of such a
system is the degree to which data are already submitted to the ISBE that could be used to attribute costs to students served in public settings (comparable to what is available for student served in private special education schools) that could allow the same types of reimbursement provisions to be applied in both public and private settings. Debbie Vespa, of the ISBE, states, “I believe the cost could be identified if everyone agreed to a formula that could be used in allocating expenditures submitted in districts' Annual Financial Report.” However, a definition of the type of student, i.e. what student characteristics, would be used to identify eligible students or some basis of identifying current spending on an individual student served in a public setting would be needed.

**A generic “high cost” student allocation.** This type of system would most easily meet the goals specified above of difficult to manipulate, little added paperwork, and equal public/private treatment. A “high cost” student allocation would be provided to all districts in the state based on certain criteria that would be applied to all, e.g. the count of all students, all students in special education, or perhaps one of these two counts adjusted by poverty (with higher poverty districts receiving somewhat higher funding). These more generically determined funds could be allocated to districts in the form of a “block grant” that could be used to support services for “high cost” students whether served publicly or privately.

The second major concern relates to overall inequities in total current State special education allocations per special education student. First, it is important to acknowledge that there are a number of ways to consider relative equity as described above. In addition, in special education, common approaches found across the states include equal support per all students in enrollment (a census type approach), equal support per special education student, and/or cost adjusted support to allow for cost differentials beyond local control (e.g. cost of living and student characteristics).

The third major concern is the Chicago block grant. As shown in Exhibit 5, State special education revenues per special education student are over 3 ½ times that generated on average by districts in the lowest funded region of the State (Region VI) and over twice the amount generated by any other sub-region. If the numbers of students served in special education in Chicago continue to decline, these disparities will grow. With 19% of the overall State enrollment, 16% of the State’s special education enrollment, and nearly 31% of the total State special education allocation, the Chicago block grant, in essence, dominates all special education fiscal policy for the State. It seems that no meaningful reform can occur for the State without addressing the Chicago special education block grant.

All of these proposed changes to the current system will likely result in substantial resource shifts over time. Without action, these disparities seem likely to grow. Even if started now, any change likely will be phased in. The sooner change is initiated the sooner the special education funding in Illinois can begin movement to a more equitable and efficient track.

**Move to an entirely different system**

Approximately one-half of the task force members have indicated that they would prefer dispensing with the current system entirely. Given this, what funding alternatives might the State consider? Below, we outline three alternatives to the current formula (fixed-weight, differential-
weight, and census-based formulas) for potential consideration, as well as some of their advantages and disadvantages.

The first approach, fixed weight, is based on simply dividing total state special education revenues (approximately $1.25 billion in FY08) by the total number of special education students in the State (approximately 322,167 in December 2007). This generates a flat State aid amount per special education student of $3,884. This approach allocates special education resources based on how many special education students there are in the district in relation to the State’s total special education enrollment.

The second approach, differential weights, takes the concept of applying higher funding weights to more severe students. One simplified example provided here is a variation of the fixed weight approach except that students in the categories of SI and LD disability are allocated one-half the funding weight of non–SI/LD students in special education. While this is not necessarily the recommended approach for such a system, it is provided as illustrative of the concept.

As an example, imagine a base allocation for special education students of $1,500. If a district had 100 special education students and 10 of them were classified as “severe” (i.e., non-SI/LD), the district would receive State special education funds totaling $135,000 (or $1,500 x 90 students) for its non-severe students and $30,000 (or double the base amount of $1,500 x 10 students) for its severe students, for an overall total of $165,000. This approach allocates special education resources based on the total number of special education students in the district while also providing additional funding to districts identifying more severe populations. However, it could also provide a fiscal incentive for identifying more students overall, as well as a greater percentage of students as “severe.”

The third approach, census funding, is similar to the approach using the fixed weight formula, except that the State’s existing special education revenue total is allocated to districts based on their total enrollment of all students (not just special education enrollment) in relation to the total enrollment of the students in districts across the State. For example, imagine that the overall amount of money the State has to spend on special education is $100 million. If the total school-age enrollment of the State is 1,000,000 and a given school district has 10,000 students (i.e., total enrollment, special and non-special education combined), the district would receive 1% of State special education funds, or $1,000,000. Note adjustments can be applied to such an approach as well, e.g. for factors such as district poverty.

Exhibit 10 simulates possible fiscal effects on Illinois’s regions and sub-regions from these three different funding options. These approaches include some basic assumptions and thus these revenue results do not necessarily reflect the funding levels that would result if the State were to move to the types of systems listed. The simulated revenue distributions show current total special education State revenue amounts per special education student in the first column of numbers. The next three columns show estimates of these amounts under the three alternative formula approaches briefly described above, and the final three columns shows the difference

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15 This base weight is theoretically created by taking the total amount of funding available at the state level for special education resources and dividing it by the total amount of non-severe students plus twice the number of severe students.
between what the region (sub-region) is receiving under the current system and what they would receive under each of these three simulations.

These simulated estimates show alternative special education revenue distributions by region (sub-region) assuming no additional State special education revenues. Thus, under this constraint, every dollar redistributed to one district must come from another. If the State were to change its special education formula, the process could be phased in to avoid an abrupt redistribution of resources. The formulas also do not include any types of “high cost” or other “safety net” provisions.
Exhibit 10. Simulated Special Education State Revenues per Region (Sub-Region) Per SE Student Based on Alternative Funding Models, No Change in Current State S E Revenues

<table>
<thead>
<tr>
<th>BY REGION:</th>
<th>Current Poverty</th>
<th>SE Funding</th>
<th>Revised Funding: Flat Grant</th>
<th>Diff Wgt</th>
<th>Census</th>
<th>Funding Difference: Flat Grant</th>
<th>Diff Wgt</th>
<th>Census</th>
</tr>
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<tbody>
<tr>
<td>Region I (All)</td>
<td>35%</td>
<td>$4,636</td>
<td>$3,884</td>
<td>$4,076</td>
<td>$4,187</td>
<td>($1,295)</td>
<td>($1,102)</td>
<td>($991)</td>
</tr>
<tr>
<td>Region II, Northwest</td>
<td>26%</td>
<td>$3,110</td>
<td>$3,884</td>
<td>$3,843</td>
<td>$3,913</td>
<td>$478</td>
<td>$438</td>
<td>$508</td>
</tr>
<tr>
<td>Region III, West Central</td>
<td>36%</td>
<td>$2,584</td>
<td>$3,884</td>
<td>$3,190</td>
<td>$3,145</td>
<td>$1,074</td>
<td>$380</td>
<td>$335</td>
</tr>
<tr>
<td>Region IV, East Central</td>
<td>34%</td>
<td>$2,587</td>
<td>$3,884</td>
<td>$3,388</td>
<td>$3,378</td>
<td>$779</td>
<td>$283</td>
<td>$273</td>
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<tr>
<td>Region V, Southwest</td>
<td>35%</td>
<td>$2,846</td>
<td>$3,884</td>
<td>$3,313</td>
<td>$3,290</td>
<td>$704</td>
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<td>Region VI, Southeast</td>
<td>42%</td>
<td>$2,189</td>
<td>$3,884</td>
<td>$3,088</td>
<td>$3,025</td>
<td>$1,302</td>
<td>$506</td>
<td>$443</td>
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<td><strong>BY REGION I SUB-REGIONS:</strong></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Region I-A, Chicago</td>
<td>65%</td>
<td>$7,342</td>
<td>$3,884</td>
<td>$4,460</td>
<td>$4,640</td>
<td>($4,003)</td>
<td>($3,427)</td>
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<tr>
<td>Region I-BB, West Cook</td>
<td>38%</td>
<td>$3,548</td>
<td>$3,884</td>
<td>$3,873</td>
<td>$3,948</td>
<td>($494)</td>
<td>($505)</td>
<td>($429)</td>
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<tr>
<td>Region I-BC, South Cook</td>
<td>38%</td>
<td>$3,606</td>
<td>$3,884</td>
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<td>($306)</td>
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<td>Region I-BD, North Cook</td>
<td>17%</td>
<td>$3,650</td>
<td>$3,884</td>
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</tbody>
</table>

Whatever changes the State may wish to make, these analyses suggest some serious equity concerns associated with the current State special education funding system and the need for some form of redistribution. Any of the three alternatives shown in Exhibit 10 provides this to varying degrees.

There are possible advantages and disadvantages to the three alternative formulas. The first, a flat grant per student, has the advantage of being straightforward, but may be overly simplistic if some increased funding recognition for higher-cost students is desired. If this is the case, something like the differential weighting system (which could be more finely delineated in its weighting structure) may be preferable. Both of these systems require the specification of clear funding amounts (or weights expressed as a multiple of general education funding) and are directly correlated with the number of students in special education being served by each district. If a high priority is for special education funding to be based on what is actually being done within the confines of special education, some form of per pupil parity would seem imperative for the system to be considered fair.

To foster the greatest flexibility in the use of funds the State may wish to consider a census funding system. However, a census approach seems just the opposite of tying special education funding to special education needs, which some task force members indicated they clearly consider important. Thus, if the State were to pursue an alternative system, exactly what that alternative should be would need to be based on a series of judgments, values, and goals that the State sets for its special education system.
Consider an entirely new framework for special education finance and accountability

This discussion, and much of the special education finance literature, focuses on alternative formulas for allocating special education funds. However, more important than the general orientation of one set of formula provisions as opposed to another is the overall context in which these provisions are set. Any formula that is developed in isolation from other key components of education policy and is mathematically or economically derived apart from a larger conceptual framework may be problematic in the short term and almost certainly will become out of sync with larger policy considerations and changes over time. Thus, at least for discussion purposes, we propose a broader conceptual framework for considering special education fiscal and accountability provisions.

This approach provides a method for tying fiscal policy to a primary criterion set by both of the task force sub-committees, i.e. an emphasis on outcome-based accountability. The proposal is for broader based, systemic reform with a primary emphasis on efficiency, maximizing positive academic and social results for students, and continuous improvement.

As an example of the information available to analyze and learn from student performance data across the State system of special education funding and provision, consider Exhibit 11, below. This combines quite a bit of information into a single exhibit, and is just one example of the kinds of data that could be reviewed toward the goal of continuously improving special education services statewide. This exhibit plots the percentage of special education students reported as “proficient” in reading for each district in the State as well as the percentage of students in special education that each district places in the most inclusive special education setting, i.e. 80% or more time in the general education classroom.
Exhibit 11. Example of State Data Use for Continuous Program Improvement – the Relationship between Reading Proficiency and Educational Placement of Special Education Students

Each district is represented by a dot, or circle, with its size based on district enrollment. Thus, the largest circle in this graph represents Chicago Public Schools. The shading of the circles represents the percentage of students in poverty in each district with the darker shading indicating high poverty districts and the lighter shaded being those with smaller percentages of students in poverty. Thus, it can be observed that as poverty rises the percentage of special education students reported as proficient drops, on average.

What is of greater interest, however, is the disparity in academic performance observed across the system, with some districts reporting 80% or more of their special education students testing proficient in reading and a number of districts reporting less than 20% of their special education students achieving at this level. It can also be observed that these highs and lows are occurring in districts of comparable size, so that size per se is not a factor. While an inverse relationship between poverty and performance is generally observed, it can also be seen that some high poverty districts show very high levels of achievement for their special education students (e.g. greater than 80%) and some quite low (e.g. less than 20%). Thus, while poverty seems related to achievement, it is not an absolute determinant.

The horizontal axis shows the percentage of special education students served 80% or more in the general education class. Here again, the degree of variation in regard to what is deemed the most appropriate placement option for children in special education is shown to vary broadly. While a number of districts place less than 30% of their students in this most inclusive setting...
many others serve 80% or more of their special education students predominantly in general education classes. These placement variations seem unrelated to district size.

They do, however, seem related to district poverty. It is interesting to note that low poverty districts seem much more likely to place relatively high percentages of their special education students in this most inclusive setting, as opposed to higher poverty districts.

It is also interesting to note the positive relationship observed between the percentage of special education students served predominantly in general education classrooms and the percentage proficient in reading. However, it is not clear as to what extent this is simply an artifact of lower poverty districts “including” more students in general education or whether there appears a relationship between placement and performance beyond the influence of poverty.

Exhibit 12 shows the results of regression analyses that statistically control for poverty in further exploring the relationship between special education reading proficiency and other variables. These other variables are to varying degrees within local control, and include per pupil special education expenditures, educational placement, and the percentage of special education students with specific learning disabilities or speech/language impairments (a proxy for the “severity” of special education enrollment in a district).

**Exhibit 12. Relationship between Reading Proficiency of Special Education Students and Poverty, Spending, Identification, and Educational Placement in Illinois**

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of Students in Poverty¹⁶</td>
<td>-0.33</td>
<td>LT 0.01</td>
</tr>
<tr>
<td>Per-Student Special Education Expenditure (in increments of $100)</td>
<td>0.02</td>
<td>0.15</td>
</tr>
<tr>
<td>Percentage of Special Education Students with Specific Learning Disability or Speech/Language Impairment</td>
<td>0.06</td>
<td>0.39</td>
</tr>
<tr>
<td>Percentage of Special Education Students in General Education Class 80% or More</td>
<td>0.29</td>
<td>LT 0.01</td>
</tr>
<tr>
<td>Percentage of Special Education Students in General Education Class Less than 40%</td>
<td>-0.01</td>
<td>0.89</td>
</tr>
<tr>
<td>Percentage of Special Education Students in a Separate Facility</td>
<td>-0.54</td>
<td>LT 0.01</td>
</tr>
<tr>
<td>Constant</td>
<td>35.15</td>
<td>0.00</td>
</tr>
</tbody>
</table>

These analyses show a statistically significant¹⁷ negative relationship between district poverty and achievement, which is also apparent from the prior exhibit. Particular points of interest from these results, however, relate to special education spending and educational placement. While the coefficients associated with spending and placement are fairly small, the possible policy

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¹⁶ Derived by dividing the 2007-2008 public enrollment by the three-year poverty average (FY 05, 06 and 07)).

¹⁷ Less than 1 percent probability due to chance.
implications of these findings seem of interest and worthy of further exploration. For example, these analyses suggest no statistically significant\textsuperscript{18} performance gain from added spending.

However, among the variables listed in this equation, those over which districts may have the most control are the percentages of special education students in various educational placements. The percentage of students spending 80% or more in the general education class does show a positive statistically significant relationship with reading proficiency.

These are the kinds of system-wide data the State may wish to review in relation to the conceptual framework depicted in Exhibit 13. Driven by continuous improvement, it identifies best practices based on outcome data, which inform approaches to assisting and remediating problematic areas of provision in struggling districts and schools.

**Exhibit 13. Conceptual Framework for Considering Special Education Funding and Accountability**

The framework begins with clearly specified educational goals. As examples, these might include obtaining the highest academic outcomes for all special education students in accord with their abilities, and achieving the greatest educational and social inclusion of students in special education to the maximum extent compatible with their special education needs. In short, to assess how productive a given program is and the extent to which it is succeeding, it is vital that measurable objectives be stated as well as clear means of monitoring progress toward them.

These program goals are followed by guidelines delineating adequate resources determined to be necessary to achieve these program goals. Funding derived from these resource guidelines support the implementation of specific program strategies, as shown in the framework above. Program strategies might include model inclusionary practices, new approaches to inter-agency

\textsuperscript{18} P-value is greater than 10\% probability that the observed relationship is due to chance and there form is not considered a statistically significant finding.
and cross-program collaboration, or Response to Intervention (RTI). Accountability provisions flow from and are directly related to the program strategies and resources available and are based on specific indicators of success. The last component of the overall framework identifies best practices from schools and districts that appear highly successful, according to the indicators of success, and focuses on supporting struggling schools and districts.

**Resource guidelines used to determine adequate resources**

Resource guidelines describe the resources needed to accomplish specified program goals. As an example, no transportation agency would attempt to build a bridge or road without clear construction specifications and the resources needed to complete it. One way of expressing guidelines for the provision of special education services is through the use of staffing ratios (such as the number of special education teachers needed per 100 students). While these guidelines are not designed to be resource mandates, they should reflect some sense of best practice as determined by professional judgment and other evidence that may be available. Once developed, these guidelines can serve as a basis for current funding as well as a benchmark for determining future funding for the program. For example, if desired program outcomes do not result from these specifications, it may be necessary to reconsider them (or whether the specified outcomes are realistic) over time. Primarily, however, they provide a transparent and rational basis for special education funding.

**Funding provisions**

The most important feature of the finance component is that it be consistent with, and support, the specified program goals. These funding provisions should not be developed in a vacuum or separate from the overall objectives that they are intended to support as the design of the funding mechanism can ultimately affect educational practice. The actual formula may be census-based, pupil weighted, percentage reimbursement, or some other type of allocation mechanism, as long as it is selected and designed to support and be consistent with the overarching program objectives.

To protect districts against unusually high costs that may arise through the provision of specialized special education services, the funding mechanism should include a statewide fund that individual districts could apply to in cases of extraordinary need. That is, school districts able to document costs in a given year that are exceptionally high due to unusual circumstances could apply for financial assistance against funds set aside by the State to provide relief.

**Accountability indicators**

Accountability is “taking responsibility for the performance of students on achievement measures or other types of educational outcomes.” This definition departs from the fiscal and procedural compliance models of accountability that have been traditionally applied to special education (Wolf & Hassel, 2001). Although fiscal and procedural compliance will continue to be important, the primary focus of the proposed framework is on program and student outcomes.

Each desired student outcome is tied to a specific accountability indicator with associated data, which should be analyzed, reported, and made easily accessible and readily available for evaluative purposes at the school, district, and state levels. In addition to academic achievement,
proposed indicators of success could include data on program outcomes such as school readiness, educational placement, transition, as well as student and parent perceptions of self, learning climate, and school as a community.

In addition, the focus of these accountability indicators would not be punitive. Rather, they would be based on learning from success as well as identifying areas where additional assistance such as technical or additional fiscal support are needed across the State. Data for these indicators would be reported by school, by district, and statewide.

**Best practices**
The last component of the framework is to identify best practices from highly successful schools and districts (based on the measures above), to inform additional support that may be needed for struggling schools. Learning from successful sites and applying that knowledge to struggling schools and districts is a key element of the continuous improvement cycle. For sites demonstrating much lower than expected results, the question will not be what sanctions should be employed but what additional support or assistance may be needed to produce improved outcomes in the future.

**CONCLUSION**

Altering the basis for special education funding in Illinois will be a formidable undertaking. Many more states discuss change than are able to enact it. At the same time, sweeping change has been enacted in California and New Jersey over the past several decades and many other states have substantially changed how they allocate special education funds.

However, the challenges facing Illinois may be especially great. After considerable deliberation, a task force assembled to consider special education funding in the State over a decade ago came to conclusions about the system at that time that sound fairly representative of current problems. The first three recommendation were that the system needed to become placement neutral (no incentives for private placements), more understandable, and equitable. They recommended a two-tiered funding system that, had it been implemented at the time, would likely have substantially ameliorated some of the major concerns associated with the current system.

As the State considers these issues again, there is another opportunity for change. A clear consensus of the current task force is that some form of change is needed. Although there is some disagreement as to the degree, both sub-committees formed to consider varying perspectives as to whether an entirely new system is needed agree on the following points:

- Equity is important,
- The Chicago block grant is a problem, and
- The system needs to be directed somehow on enhanced student outcomes.

Even if many of the basic components of the current system were to be maintained, the three areas of greatest concern mentioned above, i.e. the fiscal incentive to place students in private (nonpublic) schools, general inequities in the system, and simplifying the system overall, should be addressed.
The first of these, i.e. removing the fiscal incentive for private (nonpublic) placements, seems most important to address because of LRE concerns and because this component of the formula contributes substantially to the system’s overall fiscal inequities. If the current fiscal premium associated with private (nonpublic) placements is retained without comparable options for students served in the public sector, it seems likely that this more financially lucrative path will be followed for an increasing number of students. This will further exacerbate the State’s record in regard to providing special education in the LRE, may result in increasing numbers of special education students being served in isolation from non-special education peers, and will likely exacerbate current inequities associated with private (nonpublic) school funding that impact the fairness of the State special education allocation system overall. At the same time, the importance of keeping strong private options available for students who require them is recognized.

Addressing overall inequities in the current system will require the redistribution of funds over time. However, it may be inappropriate for this to occur in a single year and may be better phased in over multiple years to minimize disruption to existing services. Also, to the degree that it is a policy goal to direct more special education funding to districts with higher percentages of students in poverty, it will be important that this be implemented in a fashion that ensures comparable funding to all districts statewide in accord with the percent poverty of the students they enroll. That is, poverty should not be used as a basis for justifying existing inequities that often ill-serve many districts with high poverty enrollments.

The biggest point of disagreement among the members of the task force may be in regard to the nonpublic school component. However, there may be room to build consensus around this topic as well. Both sub-committees indicated that they see merit in a funding system that provides comparable levels of support to students in special education with extraordinary needs in whatever setting (public or private) is determined by the IEP team as most appropriate to the needs of the child.

Although the fiscal climate is far from ideal to support sweeping reform, it also provides opportunities for change. In time like these, it is especially apparent that every dollar available to support the educational, social, and emotional needs of children in special education is critical and the importance of using available funds to their maximum possible advantage. While substantial changes in resource policies are always difficult, it seems unlikely that anything less will be sufficient to seriously address concerns with the current funding system. Because fiscal policy changes are difficult and often disruptive, it is also likely that they will be phased in and implemented over time. This may, in fact, be an excellent time to start.
References


List of Appendices

A: House Joint Resolution (HJR) 24, passed during the 95th General Assembly
B: Members of the HJR 24 task force
C: “White Paper” released November 1998
D: “White Paper” Special Education Funding Formula Recommendations (released September 15, 1998)
E: Illinois System of Support Regions map
F: Criteria for Evaluating State Special Education Funding Formulas
G: The Illinois Alliance of Administrators of Special Education (IAASE) position paper (released in October of 2008)
H: Revising the Existing Formula Sub-Committee members and Creating New Formula Sub-committee members
I: Revising the Existing Formula Sub-Committee report
J: Creating New Formula Sub-committee report
K: Response from Task Force members, Roxanne Kovacevich and Sally Masear (With input and support from members of the IAASE Finance Committee)
HOUSE JOINT RESOLUTION

WHEREAS, During the 95th General Assembly, House Joint Resolution 24 created a task force to study current special education funding needs and to make recommendations as to how the State can increase special education funding and ease the financial burden on school districts; and

WHEREAS, The task force was to report its findings and recommendations to the Governor and the General Assembly by August 1, 2008; and

WHEREAS, The task force needs additional time to complete its work; therefore, be it

RESOLVED, BY THE HOUSE OF REPRESENTATIVES OF THE NINETY-SIXTH GENERAL ASSEMBLY OF THE STATE OF ILLINOIS, THE SENATE CONCURRING HEREIN, that the task force created by House Joint Resolution 24 of the 95th General Assembly shall submit its report by August 1, 2009; and be it further

RESOLVED, That with this reporting extension, the task force shall continue to operate pursuant to House Joint Resolution 24 of the 95th General Assembly, including appointments; and be it further
RESOLVED, That a suitable copy of this resolution be delivered to the State Superintendent of Education.
Appendix B

HJR 24 Task Force Appointed Members

The Special Education Funding Task Force as required by HJR 24 consists of the State Superintendent of Education (or Designee) plus 16 appointed members as listed below.

- **Elizabeth Hanselman (Designee)**, Assistant Superintendent, Illinois State Board of Education
- **The Honorable Kathleen A. Ryg**, State Representative, District 59
- **Charlotte DesJardins**, Director, Family Resource Center on Disabilities
- **Elizabeth Conran**, The Menta Group
- **Sally Masear**, Director of Special Education, Tazewell Mason County Special Education Cooperative
- **The Honorable Sandra M. Pihos**, State Representative, District 42
- **Peg Agnos**, Executive Director, Legislative Education Network of DuPage County
- **Bridget Helmholtz**, Governmental Affairs Consultant, Illinois Association of Special Education Centers
- **Roxanne Kovacevich**, Executive Director, Lockport Area Special Education Cooperative
- **The Honorable Kimberly Lightford**, State Senator, District 4
- **Dr. Sonya Whitaker**, Director for Academic Improvement, Schaumburg School District 54
- **Dr. Frances Carroll**
- **The Honorable Dan Cronin**, State Senator, District 21
- **Scott Pasley**, Principal, Greenville Elementary School
- **Cathy Ficker Terrill**, President and CEO, Ray Graham Association
- **Michael Schack**, Executive Director, Joseph Academy
Appendix C

Illinois State Board of Education

White Paper

Special Education Funding

Formula

Presented to the Illinois State Board of Education
November 19, 1998

Dr. Gordon M. Riffel
Introduction and Action Plan State Funding Task Force

The Illinois State Board of Education (ISBE), through a collaborative process with the education, business and community sectors, examined all of the state funding formulas and made a series of recommendations to the General Assembly in February 1997. The Recommendations for Block Grant Funding: A Report Submitted to the Illinois General Assembly recommended:

...that a Task Force on Special Education Funding be formed to recommend specific changes to Illinois' special education funding mechanisms, its rules and reports. The goals of such reform would be to produce a simpler, fairer, and more flexible system of reporting and disbursement which would more efficiently meet the needs of students with disabilities...

It also recommended a task force on orphanage funding and transportation funding. Task force reports were to be submitted to the State Superintendent in order to develop legislation. Last year a report was issued to the Superintendent who requested that an additional study be completed before addressing this issue with the State Board of Education.

The ISBE established a task force in 1997-98 and continued through the summer of 1998 (see membership list in Attachment #1) to examine and make recommendations regarding special education finance issues (exclusive of orphanage and transportation issues). There are two charges to this group:

1. to discuss and make recommendations for improving state use of federal IDEA discretionary funds; and

2. to review the special education funding formula to determine, in accordance with the new least restrictive environment (LRE) provisions in the Individuals with Disabilities Education Act (IDEA) Amendments of 1997, if such formulas are in compliance with the new federal requirements and make recommendations to produce a simpler, equitable and more flexible system of reporting and disbursement. The task force was charged with the task to address the funding issues in the Corey H. vs. Illinois State Board of Education. The task force was convened on June 2, 1998, and has worked on these various issues through October 1998.

IDEA Discretionary Funds

Uses of Funds
The uses of IDEA state discretionary funds will be reviewed first. A review of the history of these funds reveal, prior to June 1997, 78.5% of the funds flowed through the state directly to districts; one-half of the remaining funds, 10.75%, were allocated for room and board payments or community-based wrap-around services in the state; 5% of the remaining funds were used for administration; and 5.75% of the funds remaining were used for state leadership activities/systemic change. It is pointed out that State law further guides the agency's use of these federal dollars.
New Illinois State Law Addressing IDEA Discretionary Funds

Public Act 90-547 [Senate Bill 1072 of 1997] restricts the use of these funds within Illinois beyond what is specified at the federal level. This new law limits the federal funds retained at the state level for use by the ISBE for statewide/leadership purposes.

Illinois flows nearly 90% of the funds to local districts between flow-through funds coupled with room and board/wrap-around services (75% for flow-through, 3.75% for low incidence services, and about 10% for room and board/wrap-around services).

The ISBE Needs Assessment (Spring 1997) on special education training and technical assistance needs will also be discussed. The ISBE will need to provide additional training opportunities and technical assistance, particularly with the reauthorization of IDEA 97. Districts should also be able to deliver much of the training and technical assistance services locally, as needs indicate.

State Funding Formula Requirements

Federal Law

The IDEA '97 Amendments were enacted in June 1, 1997, and became effective immediately. The new provisions require that each state’s special education funding be consistent with the new least restrictive environment [LRE] provisions. The relevant part of the federal law is found in Section 612 (5) of IDEA '97 and captioned below:

(5) Least Restrictive Environment.—
(A) In general.—To the maximum extent appropriate, children with disabilities, including children in public or private institutions or other care facilities, are educated with children who are not disabled, and special classes, separate schooling, or other removal of children with disabilities from the regular educational environment occurs only when the nature or severity of the disability of a child is such that education in regular classes with the use of supplementary aids and services cannot be achieved satisfactorily.

(B) Additional requirement.—(I) In general.—If the State uses a funding mechanism by which the State distributes State funds on the basis of the type of setting in which a child is served, the funding mechanism does not result in placements that violate the requirements of subparagraph (A). (ii) Assurance.—If the State does not have policies and procedures to ensure compliance with clause (I), the State shall provide the Secretary an assurance that it will revise the funding mechanism as soon as feasible to ensure that such mechanism does not result in such placements.

Illinois State Law and Funding Mechanism

The current state funding mechanism will be discussed in detail. The history of state special education funding formulas are noted, explaining how formulas have been expanded and changed over the years in Illinois.
The current state funding mechanism for special education consists of multiple formulas, with two pupil-based formulas cited in Illinois law relating to individuals with disabilities whose cost is beyond a district's per capita cost.

- One formula, known as private tuition, supports tuition claims on behalf of children and youth placed by their public school districts into approved private schools (Illinois citation is 105 ILCS 5/14-7.02). The school districts pay for the student's education during the year of service pursuant to an individual contract. The state reimburses the district essentially for costs over twice its per capita tuition during the following school year. This reimbursement is paid in full or in part, depending on annual appropriations which have been continually prorated over the years causing Illinois school districts to pick up the balance of funding.

- The other formula, known as extraordinary services, supports claims on behalf of children and youth served within the public school district service continuum, in any setting for service (Illinois citation is 105 ILCS 5/14-7.02a). The school districts pay for the student's education during the year of service. The state reimburses the district during the following year, a portion of costs for students with disabilities who require an intensive amount of services such that the costs are extraordinary in nature. Eligibility occurs when student service net costs are beyond 1.5 times the district's per capita tuition charge (per cap) per student. The district is reimbursed for all net costs greater than 1.0 per capita, with a maximum payment of $2,000/student. The reimbursement is paid in full or in part, depending on annual appropriations subject to proration. This section of the funding formula has required the LEAs and Joint Agreements to become very creative in accessing this funding stream. Those entities in the state that are efficient in maximizing their funding schemes have been the primary benefactor of this funding stream over the past years. This current practice has also placed a very heavy paperwork burden on districts and joint agreements to document student expenditures.

The question discussed collectively was whether or not the current state funding formula is at least in part based on a type of setting. The consensus was the state pupil-based funding formula for private tuition does fund a type of setting. As such, and upon discussion with staff of the Office of Special Education Programs, U.S. Department of Education, it appears that the current state law is out of compliance with the new federal law as cited above.

Staff of the Office of Special Education Programs discussed this issue with the task force members during the October 1997 meeting. They reviewed the language in Section 612 (5) of the IDEA Amendments of 1997. The federal staff were very clear that while the basic language of LRE has not changed, the additional requirement as cited represents what was considered to be an analytical shift. The axis of the issue, they said, is whether the state provides a different amount of money for students in one setting versus another setting. If the answer is yes, then Section 612(5)(B)(i) of the IDEA Amendments of 1997 is triggered. The state could differentiate in allocations based on intensity of services, or personnel, or services, but not on type of setting. If it is differentiated because of setting, then LRE provisions are triggered. In Illinois it was the impression that this triggering mechanism has been validated.
Review of the Data
The task force members reviewed how Illinois compares with other states in terms of private placement and how other states fund high-cost services (see Attachment #3). Options used in other states range from a catastrophic cost fund to a cost-reimbursement formula to reimbursing a percentage of costs for residential services to a weighted pupil formula based on intensity of services.

In 1995-96, the data reveals that of the 904 school districts in Illinois, 510 districts made private placements of students with disabilities (outside of Chicago #299, Chicago #299 has a block grant addressing special education pupil reimbursement and other state categorical funds). That resulted in 2,863 placements, or about 1% of the individuals with disabilities on the December 1st child count. In terms of districts with a per cap under $4,500 making these referenced placements [the first tier of the current private placement tuition formula], 296 districts placed 1,378 students; for those with a per cap over $4,500, there were 214 districts placing 1,485 pupils. Suburban Cook has 23% of the state’s student population and 24.8% of the private placements, the collar counties have 29.1% and 39.7% respectively, and downstate has 47.9% and 35.6% respectively.

In 1995-96, 789 school districts claimed extraordinary services costs for students with disabilities (again outside of Chicago #299). That resulted in 48,811 disabled students claimed, with a total December 1st child count of 262,632 for students with disabilities, or 18.5% of all students with disabilities.

Table 1. 1995-96 Pupil-Based Formula Data

<table>
<thead>
<tr>
<th>LEAs* making private placements**</th>
<th>Number and percentage of private placements by LEAs*</th>
<th>Number of LEAs* with private placements and district per capitas under $4,500</th>
<th>Number of LEAs* with private placements and district per capitas over $4,500</th>
<th>Number of LEAs* making extraordinary service claims</th>
<th>Number and percentage of students with extraordinary service claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>510 LEAs* out of 904</td>
<td>2,863 placements or less than 1%</td>
<td>296 LEAs placed 1,378 students</td>
<td>214 LEAs* placed 1,485 pupils</td>
<td>789 LEAs* out of 904</td>
<td>48,811; or 18.5% of students with disabilities</td>
</tr>
</tbody>
</table>

* Note: Excludes Chicago #299 due to block-grant status. In 1993-94, Chicago #299 had 16,486 extraordinary services FTE claims and 3,521 private-tuition FTE claims.

The task force, in addition to reviewing student services and placement options, reviewed the claim data available to the State Board of Education at this time. While school districts have submitted full claim data on students in private school tuition settings, the claim data for extraordinary services need not be beyond that which is required to support a claim of $2,000. In some instances, LEAs chose to submit full claim information for extraordinary services claims; however, this was not consistent. Staff noted the limitations on the data available, and cautioned that any specific formula being recommended by the task force should view financial forecasts based on limited data as a directional indicator only. It was concluded that data collection and reporting needed to be improved for Illinois. It was interesting to note that we know how much we spend on special education, but we do not know how much special education costs.
Acknowledging this caution and recognizing that data collection concerns are beyond the scope of this document, the claims were reviewed in relation to district per capita tuition charges. From the claims available, 45.6% of the claims from extraordinary and private tuition for 1996-97 were at 2.0 per cap or less. Sixty-seven (67%) percent of the claims cumulatively were at 2.5 per cap or less. Eighty percent (80%) of the claims cumulatively were at 3.0 per cap or less. Almost 93 per cent of the claims cumulatively were at 4.0 per cap or less.

Table 2. Frequency Distribution of 1996-97 LEA* Pupil Claims**

<table>
<thead>
<tr>
<th>Relative to District Per Capita</th>
<th>Frequency and Cumulative Percentage of Extraordinary Claims</th>
<th>Frequency and Cumulative Percentage of Private Tuition Claims</th>
<th>Cumulative Percent of All Pupil Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>under 1.5</td>
<td>2 0.0%</td>
<td>233 5.7%</td>
<td>0.3%</td>
</tr>
<tr>
<td>1.5 - 2.0</td>
<td>31.793 47.4%</td>
<td>456 17.0%</td>
<td>45.6%</td>
</tr>
<tr>
<td>2.0 - 2.5</td>
<td>15.233 70.1%</td>
<td>458 28.3%</td>
<td>67.7%</td>
</tr>
<tr>
<td>2.5 - 3.0</td>
<td>3.259 82.4%</td>
<td>594 42.9%</td>
<td>80.1%</td>
</tr>
<tr>
<td>3.0 - 3.5</td>
<td>5.074 90.0%</td>
<td>601 57.7%</td>
<td>88.1%</td>
</tr>
<tr>
<td>3.5 - 4.0</td>
<td>2.850 94.2%</td>
<td>578 71.9%</td>
<td>92.9%</td>
</tr>
<tr>
<td>4.0 - 4.5</td>
<td>1.549 96.5%</td>
<td>423 82.4%</td>
<td>95.7%</td>
</tr>
<tr>
<td>4.5 - 5.0</td>
<td>1.032 98.0%</td>
<td>294 89.6%</td>
<td>97.6%</td>
</tr>
<tr>
<td>5.0 - 5.5</td>
<td>507 98.8%</td>
<td>209 94.8%</td>
<td>98.6%</td>
</tr>
<tr>
<td>5.5 - 6.0</td>
<td>294 99.2%</td>
<td>118 97.7%</td>
<td>99.1%</td>
</tr>
<tr>
<td>6.0 - 6.5</td>
<td>142 99.4%</td>
<td>39 98.6%</td>
<td>99.4%</td>
</tr>
<tr>
<td>6.5 - 7.0</td>
<td>113 99.6%</td>
<td>27 99.3%</td>
<td>99.6%</td>
</tr>
<tr>
<td>7.0 - 7.5</td>
<td>77 99.7%</td>
<td>8 99.5%</td>
<td>99.7%</td>
</tr>
<tr>
<td>7.5 - 8.0</td>
<td>43 99.8%</td>
<td>12 99.8%</td>
<td>99.8%</td>
</tr>
<tr>
<td>8.0 - 8.5</td>
<td>46 99.9%</td>
<td>4 99.9%</td>
<td>99.9%</td>
</tr>
<tr>
<td>8.5 - 9.0</td>
<td>20 99.9%</td>
<td>4 100.0%</td>
<td>99.9%</td>
</tr>
<tr>
<td>9.0 - 9.5</td>
<td>13 99.9%</td>
<td>1 100.0%</td>
<td>99.9%</td>
</tr>
<tr>
<td>9.5 - 10.0</td>
<td>12 99.9%</td>
<td>0 100.0%</td>
<td>99.9%</td>
</tr>
<tr>
<td>over 10.0</td>
<td>46 100.0%</td>
<td>0 100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

*Excludes Chicago #299 due to block grant status
**Extraordinary claims: 67,103, or 94.3% of the claims; private tuition claims: 4,061, or 5.7% of the claims

The task force also acknowledged that the implications of Public Act 90-548 (the revision of the General State Aid formula as enacted in December 1997) will have an impact on financial support available to many school districts. When all school districts have a base dollar amount per pupil at $4,225 or greater, as stated in the law, the picture of funding availability for all students, including students with disabilities, will look different than has been the case.

As a result of the June—October 1998, meetings, which had broad representation, the task force reached the following consensus points:

- Any new formula will address cost-containment provisions.
- The formula will deal with overall program accountability.
• The formula will eliminate any financial incentives for placement.
• The new formula will be flexible and equitable.
• The formula should be understandable and avoid unnecessary complexity.
• Any new formula should be designed with a poverty factor.
• The use of a personnel reimbursement formula should continue.
• The new formula would set aside 85% to fund special education general program improvement, and 15% of new money would be allocated on a district’s poverty weighting.
• A pool of funds at the joint agreement or LEA level to pay the cost of special education students who are above three per capita should be developed.
• A continuum of educational services for individuals with disabilities as required by IDEA should be supported, and funded appropriately.
• Community-based services (such as wrap-around services) should be supported.
• Greater accountability for the achievement of students with disabilities should be built in.
• Chicago #299 special education services should continue to be funded through a block grant and receive their share of any new funding.
• The paperwork process in reporting and claiming pupil reimbursement should be simplified.
• The statewide cost accounting system should allow for the simple aggregation of special education programs and pupil costs.
• Provisions should be made to provide for cost containment and more efficient/effective use of resources.
• A basic foundation amount for each joint agreement, cooperative or LEA based on the 1998-99 reimbursement level should be funded.
• The new funding formulas total cost of $246,505,777, would be phased in over a four-year period of time which would amount to $61,626,444 annually.

**Final Recommendations on State Special Education Formulas**
A new special education funding formula is being recommended to replace the extraordinary services (14-7.02a) and private tuition (14-702) reimbursement formulas for special education students. The recommended new formula is tied to the foundation level in the General State Aid formula. It reimburses special education student costs at a rate that is 35% of the foundation level. The recommended funding formula provides more funds to school districts for dealing with all special education students, primarily those identified as being high-cost. The reimbursement for personnel and transportation will not be effected by this formula.

The new special education funding formula will have a four-year phase-in period; this will be designed to allow a graduated amount of new funds to be appropriated each year.
Provisions of the New Formula

1. The formula is in compliance with IDEA '97 being placement-neutral.
2. The formula is easy to understand and implement.
3. The formula provides for cost containment.
4. The formula eliminates onerous paperwork and makes joint agreements and school districts accountable.
5. The formula provides for equity.
6. The formula is progress because when the General State Aid formula increases, the special education pupil formula increases in a proportional fashion.

Components of the Funding Formula

- **Beginning date -** In 1999-2000 school year (FY 2000).
- **Students with disabilities -** The state appropriation will be based on the number of students in Illinois identified with a disability on December 1st, one year prior to the funding year.
- **States' Foundation Level -** It is validated that the cost of educating a special education student can be identified as being high-cost; the state will supplement districts at a rate of 35% of the state's foundation level to offset a portion of these costs.
- **Average Daily Attendance -** The ADA used for the formula will be the ADA which occurred one year prior to the school year in which the funds would be received. The reason that ADA is utilized is due to the fact it is an audited figure by the ISBE.
- **Low Income -** The literature reveals a strong relationship between low income and students with disabilities. Therefore, 15% of all new funds generated under the new formula will be distributed on this basis.

How the Formula Will Work

**Example**

<table>
<thead>
<tr>
<th>FY 2000 state foundation level</th>
<th>$4,325 St. Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent allotted for special education 35%</td>
<td>X 35% Percent of ADA</td>
</tr>
<tr>
<td>Funding level per special ed student 1st Yr. =</td>
<td>$1,513.75 Base amount</td>
</tr>
<tr>
<td>December 1st '97 child count</td>
<td>272,777 students</td>
</tr>
<tr>
<td>Funding level per SE student X Dec. 1st Count =</td>
<td>$412,916,183</td>
</tr>
</tbody>
</table>

Allocation of State Appropriation

Three separate components are involved in determining how the state appropriation will be allocated.

**Base Funding Level:**

A joint agreement or LEA base funding level has been established to ensure that they will not receive less funds than they received during FY 1999. The base funding level has the following components:
1. Each joint agreement or LEA base funding level will be the total amount of 14-7.02 (private placement) and 14-02a (extraordinary) funds received during the FY 1999 year.
2. The funds will flow directly to the entity which receives these funds at the current time.
4. The base funding level will remain in place in the future.
5. Personnel and transportation funding remain the same as currently dispersed.

Average Daily Attendance:

85% of all new funds (the funds which are above the base funding level) will be distributed based on the district’s ADA.

Example: (State appropriation level minus base funding level) x 85% = dollars to be distributed.

FY 2000 ($412,916,183 - $166,410,406) x 85% = $209,529,910

Low Income or Poverty Weighting:

15% of all new funds (funds above the base funding level), will be distributed based on the district’s poverty or low-income child count.

Example: (State appropriations - base funding level) x 15% = dollars to be distributed.

FY 2000 ($412,916,183 - $166,410,406) x 15% = $36,975,866

Reduction in Paperwork:

It is anticipated that ISBE will have all the necessary information needed from the federal or state claims to calculate the amount of funds to be distributed to each district, thus reducing the need for additional claim forms.

How the Funds Will Be Distributed

80% of the New Funds:

80% of the funds generated under this new funding formula will flow directly to the entity which is currently receiving 14-7.02 (private) or 14.702a (extraordinary) in FY 1999.

20% of the New Funds:

20% of the funds generated under this formula will flow directly to the state-approved joint agreement to be held in escrow to defray the cost for high-cost students (those students 3 per cap and above). The purpose of the 20% set-aside funds is to provide a safety net for districts to help supplement their costs for extremely high-cost students. These funds will flow directly to the joint agreement or LEA to establish the high-cost pool. It will be their responsibility to manage and distribute these funds appropriately. Specific accounting requirements will be required by the ISBE to account for
expenditures of the high-cost pool of funds. These funds can only be accessed to
reimburse districts for students whose costs are above three (3) district per capitas. The
district will pay the cost for up to three (3) per cap for an individual student before
accessing the high-cost pool. At the beginning of each new year, 20% of all new funds
will go into an escrow account to be used for high-cost students.

Accountability of Funds

The State Board of Education will develop rules on the use of and accounting for the
funds which are set aside for high-cost students (3 per cap and above). The following
areas will be considered as the rules designed by ISBE.

It will be the districts’ and joint agreements’ responsibility to maintain precise and
detailed records on the manner in which funds are expended. All funds received under
this formula must be used to directly support the educational programs of students with
identified disabilities, and for no other purpose.

ISBE will develop a baseline identifying the number of students by joint agreement or
LEA who are currently receiving special education services through a private provider.
Beginning with FY 2000, the joint agreement or LEA will provide an annual report to
ISBE identifying the number of students who qualified for the high-cost pool of funds.
They must indicate where the services were provided, either in private or public settings.
This information will be used to determine if the funding formula has significantly
changed the delivery of special education services in the state.

Consideration will be given to requiring the unobligated high-cost pool of dollars to
remain in the pool for at least a three-year period of time. This would ensure that there
are sufficient funds in reserve to meet the needs of any unexpected expenses needed
for a extremely high-cost student. A joint agreement or LEA may request a waiver from
ISBE to reduce the funds balance sooner if the fund balance is exceedingly high. The
waiver would be completed on an annual basis.

In rules, ISBE will require a LEA or joint agreement to establish an oversight committee
for the high-cost pool. The committee would consist of a director of special education, a
superintendent, and a private provider. In those areas where private providers are not
currently available, the joint agreement or LEA could identify an individual to serve in
that capacity if approved by ISBE. The role of the committee would be to ensure that
funds are being used as intended under the new legislation. The committee would also
be required to approve any request for waivers.

ISBE will develop an accounting system for the high-cost pool of funds. The accounting
will require a minimal amount of information, but will allow the state to know how these
funds have been expended.

National and State Comparison

Illinois spends on an average $1.4 billion as the total expenditure for special education
and related services (7.5% federal, 42.1% state, and 50.4% local resources), compared
with $19.2 billion expended nationally (7.8% federal, 55.9% state, and 36.3% local
resources). According to these estimates, Illinois local school districts must fund in excess of $100 million for special education costs. State expenditures throughout the nation, like federal aid, varied from about 90% to 17% or less of total education expenditures. The perspective of fund sources is important to remember as any proposal will change the mix of federal/state/local resources to pay for special education and related services. The bottom line is that districts expend the funds for their resident students with disabilities regardless of payment sources. The additional fact is that Illinois as a state spends 13.8% less for special education than the national average. Chicago District 299 will remain in the block grant and would receive 33.45% of any new dollars, projected to be $82,456,182.

**Conclusion of the Task Force**

A single pupil-based formula would allow Illinois to be in compliance with IDEA as reauthorized in June 1997. It also provides more funding on a reimbursement basis for local district expenditures for public school settings. It allows more flexibility for local claiming processes in that there is no artificial ceiling of $2,000.

The task force reiterates that for both the current pupil-based formulas and in the proposal above, the district pays for the services and is reimbursed the year after for services rendered. The LEA or joint agreement pays the private provider, pursuant to a contract, for private school tuition, or the LEA pays public school personnel for the services provided.

Task force members acknowledge that as the process of recommendations and actions move forward, there will be modifications to the specific provisions. The recommendations and proposed formula are meant as a starting point to address the issue of Illinois being out of compliance with the new IDEA. This formula also encompasses the consensus points developed by the task force as noted earlier. The members of the task force also expressed a strong willingness to continue to work with the State Board of Education in order to ensure compliance with IDEA and to continue to improve services for individuals with disabilities.
Special Education Finance  
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Attachment #2
Basics of Special Education Finance

What is special education? What is required?
Special education is the provision of specialized instruction, and related services if required, to eligible children and youth with disabilities who require said services. While special education services have been provided for more than 100 years by the state or school districts, it was in 1965, (although it didn’t become effective until 1969), that the state mandated school districts, individually or collectively, provide services for individuals ages 3-21, and do "child find" activities ages birth-21. The federal requirements of 1975 modified state law slightly. In 1991 the Early Intervention Services Systems Act added the requirement of school districts serving children birth through age 2 in conjunction with community-based organizations. The 1997 amendments to IDEA reiterate the basic provisions.

Disabilities served are of a high incidence (e.g., learning disabilities or speech/language impairments), a moderate incidence (e.g., mental retardation or emotional/behavior impairments), or a low incidence nature (e.g., deaf or hard of hearing, visually impaired, physically impaired, multiply impaired, autism or traumatic brain injury).

Federal and state laws and rules establish a set evaluation and reevaluation process, requiring that personnel serving these youngsters meet the highest state standards, demand an Individual Education Plan per child which specifies extent and duration and intensity of services, requires parent notice, consent and participation at many steps along the way, and provide for procedural safeguards for families and youngsters.

How are special education services financed?
The main mechanism of the Illinois finance system for special education is a personnel-based flat grant formula. The mechanism was instituted prior to the mandate for special education services, with the original intent of paying districts 1/2 of the salaries for the additional personnel required to serve students requiring special services. Applying the formula provides $8000 per professional worker (e.g., special education teacher, school social worker), $2800 per non certified employee (e.g., special education teacher aide), up to $400 annually for readers for students who are blind, and up to $1000/per child [to a maximum of $8000 per teacher] for those working with students served in home or hospital placements. The FY 98 appropriation for personnel reimbursement was $220,031,300 (estimated proration is 86.9%).

In addition to personnel reimbursement, there are other formula components:

- Assist LEAs to pay tuition, on a reimbursement basis, for students placed by their districts into approved private day or residential schools. Essentially districts pay up to twice their per capita tuition rate; the remainder of the costs up to the tuition rate established by the Illinois Purchased Care Review Board are reimbursed by the state, depending on proration levels. The FY 98 appropriation for "private tuition" is $32,336,900 (estimated proration is 76%).
Assist LEAs to pay a portion of costs, on a reimbursement basis, for students with disabilities who require an intensive amount of services such that the costs are extraordinary in nature. Eligibility is when student service net costs are beyond 1.5 per capita per student; payment is beyond 1.0 per capita up to $2000/student. The FY 98 appropriation for "extraordinary services" is $113,616,100 (estimated proration is 76%).

Assist LEAs, on a current funding basis, to pay the actual costs of educating children with disabilities who are wards of the state or who reside in state institutions or jail/detention centers. The FY 98 appropriation for "orphanage" for students with disabilities is $124,000,000. There is no proration since this mechanism has a funding caveat that if there is insufficient funding in a given year, the next year's appropriation pays first for any prior year proration and then for the current year expenses. In FY 98 the prior year's liability was estimated at $10,511,866 (included in the overall figure cited above). Individuals with disabilities claimed under this fund source do not generate General State Aid for the serving districts.

Assist LEAs by paying, on a reimbursement basis, 80% of the costs to transport an individual with disabilities to meet the unique needs of the child. The FY 98 appropriation for "special transportation" was $132,866,700 (estimated proration at 85%).

Specialized assistance for select children and youth—contracts for the Phil Rock School and Service Center and the Materials Center for Students with Visual Impairments; summer school services; low incidence services funding, Regular Education Initiative—which are funded in FY 98 at a combined level of $9,157,500.

An appropriation of $20,000,000 in FY 98 state funds for serving eligible infants and toddlers and their families.

Assist LEAs making private residential placements in the payment of the related room and board costs, on a current funding basis, using up to 1/2 of the federal IDEA Part B discretionary funds available at the state level. If there are funds remaining in this pool after the end of the year, they can be used the following year for community based wrap-around services for the same populations served in residential settings.

Beyond the $650 million in FY 98 state appropriations for special education services, there are federal funds available to all local districts for providing special education services. These funds are distributed on the basis of their annual December 1st child count. The Illinois State Board of Education receives funds from the Individuals with Disabilities Education Act. The grant awards are for IDEA Part B (the overall program and requirements ages 3-21), for IDEA Preschool (ages 3-5), and IDEA Part H (Part C as of 7/98) (infants and toddlers), for about $155 million. There are additional small federal grant programs of a competitive basis, e.g., personnel preparation, which the Illinois State Board of Education receives on an annual basis.
Context of Dollars
In terms of state funds, about $650 million was appropriated in FY 98 for special education purposes. State special education appropriations have increased dramatically over time, from $117.7 million in FY 76, to $309.6 million in FY 86, to $650 million in FY 98.

On the federal side, federal special education funds received directly by the Illinois State Board of Education were approximately $155 million in FY 98. Federal special education funds in Illinois have also increased over time, from about $18 million in FY 77 to $155 million in FY 98.

In terms of local funds, The Future of Children, “Financing Special Education,” shared the following:

- On average, expenditures for students receiving special education services were 2.3 times as great as for general education students.
- Illinois is shown in that report as spending $1.4 billion as the total expenditure for special education and related services (7.5% federal; 42.1% state; and 50.4% local resources), compared with $19.2 billion expended nationally (7.8% federal; 55.9% state; and 36.3% local resources). According to these estimates, local districts must fund in excess of $100 million for special education costs.

Ratio of Funds for General and Special Education
Again citing from “Financing Special Education,” the following information is useful:

- Data suggest that the average special education expenditure per student with disabilities, adjusted for inflation, grew at an overall average rate of 4% - 5% per year. In contrast with general education, special education expenditures per student are growing at a rate that is approximately 20% faster than the overall education expenditure per student, exclusive of preschool and early intervention populations (ages birth to five services).
- Over 10% of all K-12 public school students are identified as special education-served.
- While the generally accepted cost multiple is 2.3, it is sometimes argued that about 25% of total education expenditures (2.3 x 10+) are used for students with disabilities. While it can be argued that this estimate may be as good as any available, it overstates the cost of serving students with disabilities.
- Based on the assumption that all students with disabilities are entitled to the same basic set of general education services received by all students, the marginal costs of special education are estimated to be closer to 14% of the public education expenditure.

“The Current Federal Role In Special Education Funding,” cites that the states in aggregate spent a total of $19.2 billion for special education and related services from federal, state and local resources in 1987-88. No later date is available from this source.
Federal aid ranged from 65% of total special education expenditures in Kentucky to 3% of costs in Minnesota and New York; eleven states received over 12% of funding from federal sources, while six states received less than 5%.

State expenditures, like federal aid, varied from about 90% (Hawaii, Washington, DC, Idaho, Missouri, New Mexico and Rhode Island) to 17% or less of total education expenditures (Kentucky, New Hampshire, Oregon and Virginia).

Local expenditures ranged from 3% or less in total (New Mexico, Oklahoma and Alabama) to over 70% (Michigan, New Hampshire, Oregon and Virginia).

"Where's the Money Gone?" by the Economic Policy Institute, cites a detailed examination of expenditures in nine typical US school districts that showed the share of expenditures going to regular education dropped from 80% to 59% between 1967 and 1991, while the share going to special education climbed. In detail:

- Real school spending (appropriately adjusted for inflation) increased by 61% from 1967 to 1991, 40% less than the real growth conventionally assumed.
- Only 1/4 of this increase was directed at "regular education," the traditional school activities whose outcomes can be measured in test scores, graduation rates, etc.
- Special education's share of all expenditures rose from 4% in 1967 to 17% in 1991; special education received 38% of the net new money spent in 1991.
- About 8% of net new money went to expansion of the school lunch and breakfast programs.
- About 7% of the net new money went to attendance, dropout prevention, alternative instruction, and counseling.

In summary, the answers to the question of the cost differential between general and special education services vary. EPI states that special education costs were 17 percent of the total budget (1991, Economic Policy Institute) to 2.3 times as great for special education than general education (1996, Center for Special Education Finance).
Special Education Funding Formula Recommendation

September 15, 1998

- **Funding Formula Objectives:**
  1. The formula is required to be in compliance with IDEA 97 and to be placement neutral.
  2. The funding formula will be understandable easy to apply and implement.
  3. The formula will be equitable and produce no significant funding loss to any district or cooperative.
  4. The funding formula will have cost containment attached to it.
  5. The funding formula will satisfy the requirement of the Corey H. Case.
  6. The funding formula will eliminate burdensome paperwork and make Cooperatives and Joint Agreements accountable.
  7. The formula will have a three year phase in period.

**Proposed Two-Tiered Funding System**

**Tier No. 1**

The object of Tier I is to place the same amount of funds behind each eligible IEP student regardless of placement within the continuum of service.

**Tier No. 2**

Tier No. 2 will set aside a pool of funds to help offset the districts' expenses for "high cost students." The funds would flow to the Joint Agreement or Cooperative Level for disbursement and would be replenished annually. This will help to reduce the paper work that is now required by the Joint Agreement and ensure a pool of funds to be applied to severe needs' students.

**Meeting The Formula Objectives**

- Cost Containment -- the formula will reimburse the district based on the average number of students with disabilities in the state, not on the local average that is felt will address the concern for over identification at a local level.
- District Accountability -- the formula will be based on the district's average daily attendance.
• Equity -- it reimburses all school districts at the same level per student.
• Progressive formula - the formula is based on the state's foundation level as a percentage and will increase as the foundation level increases.
• Helps eliminate the need for proration -- the formula should allow ISBE to accurately project funds needed to implement the program annually, which will help eliminate unforeseen prorations.
• Effective and efficient use of resources -- the formula is not based on how the services are delivered.
• Provide level funding during phase in period - the formula would provide a base level that would be calculated on FY 1999 allocation and would ensure that no program would receive fewer funds they secured in FY 1999.
• The formula benefits all school districts - the formula would provide a significant infusion of dollars to help supplement local district's costs for special education. The formula takes into account the lack of increases in special education funding and prorations that have taken place over the past 15 years. The formula would be phased-in over a three year period of time.

Funding Formula Essential Elements

• Beginning Date -- 1999-2000 school year (FY 2000).
• District base Level- each school district's foundation level will be the total amount of 14-7.02 (private placement) and 14-7.02a (extraordinary) funds received during FY 1999. The base level will be in place during the phase-in (3 years) period. Once the phase-in period has transpired the foundation level will be eliminated and the future amount of the funds any district will receive will be based on the funding formula.
• Average Daily Attendance (ADA) -- The ADA that will be used for this formula is the district ADA that occurred two (1) year prior to the school year in which the funds would be received. Example: The funds the district would receive in the 1999-2000 school year would be based on the district's 1998-99 ADA.
• State's Average Percentage of the Special Education December 1st. Child Count -- the amount of funds a district would receive will be based on the percentage of the special education students in the State that occurred on December 1st. One year prior to the year the district would receive funding. Example: The funds the local school district would receive for the 1999-2000 (FY 2000) school year will be based on the percentage of the special education students identified on December 1st, 1998 IDEA child count.
Funding Formula Characteristics

Funding Levels:

Tier No. 1

The amount of dollars allocated to Tier No. 1 of the funding formula will be based on 29% of the state's projected foundation level.

Example:

\[
\text{FY 2000 projected State foundation level} = $4,325 \\
29\% \text{ of the state's foundation level} \times 29\% \\
\text{Special Education per student} = $1,250
\]

Tier No. 2

The amount of dollars allocated to Tier II of the funding formula will be based on 115% of the state's foundation level.

Example:

\[
\text{FY 2000 State's foundation level} = $4,325 \\
\times 115\% \\
\text{Funding Level} = $5,000
\]

Functional Formula Aspects

Tier I.

Percentage of special education students in the state (14.95%) minus 1% (13.95%) X the districts ADA X. Tier I funding level ($1,250)= districts projected revenue.

Note: ISBE has all the necessary information from reporting sources to calculate the amount of funds to be distributed to each district. (Paperwork Savings)
Tier II

1% set aside for high cost students X the district’s ADA X. Tier II funding level ($5,000)= revenue to flow to the Joint Agreement or Cooperative.

Note: These funds will flow to the Joint Agreement and will be pooled for each district to help defray the cost of high cost students (those above 3 per capita). It will become the responsibility of the Joint Agreement to manage and distribute these funds. This process will also reduce paperwork on the part of the Joint Agreement since ISBE has this information and will not require current Cost Sheets. At the beginning of each year, the Joint Agreement will place all new Tier II funds into the pool. How any remaining funds in the pool at the conclusion of any given fiscal year will be maintained will be determined by the districts in the Joint Agreement.

Accountability Of Funds

The local district in conjunction with the Joint Agreement will have responsibility to maintain records on how the funds are expended. All funds allotted under these formulas must be used to support the educational programs for children with disabilities.

Concluding Remarks

The new formula described above is a culmination of many months of study, deliberations, funding options and formulas, and compromise. It is safe to say that the majority of the task force supports the new formula. There are however several members (5) that did not support the formula for a variety of reasons. It is felt by the majority of the Task Force that the formula is responsive to the financial difficulties’ districts face when meeting the needs of disabled students. The Task Force feels that the new formula will address the compliance issues with IDEA 97 as well as Corey H. The Task Force requests the State Superintendent approval of the new funding formula and submit the formula to the State Board for consideration and inclusion in the ISBE legislation package.
Formula Cost

Encapsulated Costs:

Total Projected New funding over three years = \$249,930,486/ 3 years = \$83,310,162 (please see printout for full details)

Note: State Personnel reimbursement would remain the same and transportation will remain the same.
Appendix F

Criteria for Evaluating State Special Education Funding Formulas

<table>
<thead>
<tr>
<th>Understandable</th>
<th>Equitable</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The funding system and its underlying policy objectives are understandable by all concerned parties (legislators, legislative staff, state department personnel, local administrators, and advocates).</td>
<td>- Student equity: Dollars are distributed to ensure comparable program quality regardless of district assignment.</td>
</tr>
<tr>
<td>- The concepts underlying the formula and the procedures to implement it are straightforward and “avoid unnecessary complexity.”</td>
<td>- Wealth equity: Availability of overall funding is not correlated with local wealth.</td>
</tr>
<tr>
<td>Adequate</td>
<td>- District-to-district fairness: All districts receive comparable resources for comparable students.</td>
</tr>
<tr>
<td>- Funding is sufficient for all districts to provide appropriate programs for special education students.</td>
<td>Predictable</td>
</tr>
<tr>
<td>Flexible</td>
<td>- Local education agencies (LEAs) know allocations in time to plan for local services.</td>
</tr>
<tr>
<td>- LEAs are given latitude to deal with unique local conditions in an appropriate and cost-effective manner.</td>
<td>- The system produces predictable demands for state funding.</td>
</tr>
<tr>
<td>- Changes that affect programs and costs can be incorporated into the funding system with minimum disruption.</td>
<td>- State and local education agencies can count on stable funding across years.</td>
</tr>
<tr>
<td>- LEAs are given maximum latitude in use of resources in exchange for outcome accountability.</td>
<td>Identification Neutral</td>
</tr>
<tr>
<td>Reasonable Reporting Burden</td>
<td>- The number of students identified as eligible for special education is not the only, or primary, basis for determining the amount of special education funding to be received.</td>
</tr>
<tr>
<td>- Costs to maintain the funding system are minimized at both local and state levels.</td>
<td>- Students do not have to be labeled “disabled” (or any other label) in order to receive services.</td>
</tr>
<tr>
<td>- Data requirements, recordkeeping, and reporting are kept at a reasonable level.</td>
<td>Fiscal Accountability</td>
</tr>
<tr>
<td>Cost-Based</td>
<td>- Conventional accounting procedures are followed to assure that special education funds are spent in an authorized manner.</td>
</tr>
<tr>
<td>- Funding received by districts for the provision of special education programs is linked to the costs they face in providing these programs.</td>
<td>- Procedures are included to contain excessive or inappropriate special education costs.</td>
</tr>
<tr>
<td>Cost Control</td>
<td>Placement Neutral</td>
</tr>
<tr>
<td>- Patterns of growth in special education costs statewide are stabilized over time.</td>
<td>- District funding for special education is not linked to where services are received.</td>
</tr>
<tr>
<td>- Patterns of growth in special education identification rates statewide are stabilized over time.</td>
<td>- District funding for special education is not based on type of educational placement.</td>
</tr>
<tr>
<td>Outcome Accountability</td>
<td>- District funding for special education is not based on disability label.</td>
</tr>
<tr>
<td>- State monitoring of local agencies is based on various measures of student outcomes.</td>
<td>Connection to Regular Education Funding</td>
</tr>
<tr>
<td>- A statewide system for demonstrating satisfactory progress for all students in all schools is developed.</td>
<td>- The special education funding formula should have a clear conceptual link to the regular education finance system.</td>
</tr>
<tr>
<td>- Schools showing positive results for students are given maximum program and fiscal latitude to</td>
<td>- Integration of funding will be likely to lead to integration of services.</td>
</tr>
</tbody>
</table>
continue producing favorable results.

<table>
<thead>
<tr>
<th>Political Acceptability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Implementation avoids any major short-term loss of funds.</td>
</tr>
<tr>
<td>• Implementation involves no major disruption of existing services.</td>
</tr>
</tbody>
</table>

Adapted from *State Funding Models for Special Education* (Hartman, 1992) and *Removing Incentives for Restrictive Placements* (Parrish, 1994).
Appendix G

IAASE Position Paper
Reimbursing School Districts for
Students with the Greatest Needs and Generating the Highest Costs
October 28, 2008

The Illinois Alliance of Administrators of Special Education (IAASE) is promoting a merger of the three funding structures related to reimbursing school districts for students with the greatest needs and generating the highest costs, thereby equalizing state reimbursement.

The following information is intended to more fully explain this direction.

In Illinois, special education reimbursement is divided into categories (sometimes referred to as “categoricals”), including personnel, transportation, summer school, orphanage, private facility, funding for children requiring special education services (historically referred to as “extraordinary”), and students with excess costs. Other special education line items include The Phillip Rock Center and Materials for the Visually Impaired. The following focuses on the private facility, funding for children requiring special education services and students with excess costs reimbursements.

Private Facility (“Private”)
The private tuition reimbursement formula authorized under Section 14-7.02 states that a school district is obligated to pay the first per capita tuition charge with local funds. The State reimburses the difference between $4,500 and the district's first per capita tuition charge, if any. The school district is then required to expend a second per capita tuition charge with local funds, with the State reimbursing any excess over this amount. In practice, given that very few districts (four as of the 2007-08 school year) have a per capita tuition rate less than $4,500, most school districts pay two times their per capita tuition charge with the State reimbursing the district for the remainder of the approved tuition for the school year, including summer school when approved. If a student is enrolled less than a full year, all variables are prorated accordingly. In addition, if the state appropriation is insufficient to reimburse eligible district claims, they are prorated as well.

Example 1: School District A per capita $6,000
Private Facility tuition rate $30,000 Tuition Rate
($12,000) 2x per Capita
ISBE reimbursement to School District $18,000 Reimbursement

Funding for Children Requiring Special Education Services (“Extraordinary”)
The extraordinary funding formula (14-7.02a) was established in the early 1970’s to assist with the costs of students with very significant needs. These students had costs that were greater than one district per capita charge. In 1993, the statute was amended and changed the qualifying threshold for costs in excess of 1½ times the resident district per capita charge. Regardless of total cost, qualifying students generated a maximum reimbursement of $2,000 per student. The formula was changed in August 2004 per PA 93-1022 by repealing Section 14-7.02a and creating a new Section 14-7.02b under the name “Funding for Children Requiring Special Education Services”. The statute utilized a hold harmless base year to ease the transition to the new formula. The amount of hold harmless was defined as the amount each district received under the last year of the old Extraordinary formula (FY 04) with the remainder of the funds...
distributed 85% on district average daily attendance and 15% on poverty after Chicago District 299 was accounted for in their block grant. Per the new statute, the hold harmless base year was to remain in effect for three years (FY 05-FY 07) after which it would sunset. Beginning with FY 08, all funds were distributed 85% on ADA and 15% on poverty. During the initial year after the removal of FY 04 hold harmless from the formula, the redistribution resulted in a loss of $21 million dollars for 255 districts. P.A. 95-0705 was signed into law on January 8, 2008 and reinstated a new hold harmless base year. Districts were eligible for hold harmless if the amount received in FY 08 and thereafter was less than the amount received in FY 07. However, calculations for eligibility were determined only after all funds had been distributed under the current formula which would require a subsequent supplemental appropriation. PA 95-0729 was signed into law on June 30, 2008 and approved a supplemental appropriation for $21 million to relieve the loss of funding to the 255 districts impacted by the redistribution in FY 2008. In FY 2009 hold harmless has been calculated for 233 districts in the amount of $17.6 million.

**Students with Excess Costs Programs (“Excess”)**

Another major component of PA 93-1022 was reimbursement for students with “excess costs” which was defined as all documented educational costs for students with disabilities, excluding summer that exceeded four resident district per capita tuition charges. Excess costs were reimbursed from unused federal Room and Board grant funds. The amount of reimbursement in recent years has been prorated significantly as eligible costs far exceed the amount of unused funds. Proration percentages have been 21.1% (FY 08), 20.1% (FY 07), 2.67% (FY 06) and 4.88% (FY 05).

<table>
<thead>
<tr>
<th>Example 2: School District A per capita $6,000</th>
<th>Public School tuition rate $ 30,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISBE reimbursement to School District (including proration of 21.1%) $1,266</td>
<td>Reimbursement</td>
</tr>
</tbody>
</table>

Under the current methods of reimbursement, school districts are given more reimbursement dollars for sending a student to a private facility than keeping the student in a public school setting. In the two examples above the school district receives $18,000 from the ISBE by placing the student in a private facility or $1,266 from the ISBE by placing the student in a public school program.

The Illinois Alliance of Administrators of Special Education believes this creates a disincentive to place students closer to home in a public school setting. Further, the IAASE believes that the students with the greatest needs and generating the highest costs, regardless of placement (private or public), should be reimbursed at the same level of funding to the resident district.

Therefore the IAASE recommends:

1. Merge the three funding structures/categories: Private Facility, Funding for Children Requiring Special Education Services (Extraordinary) and Students with Excess Costs.
2. Reimburse school districts for students with the greatest needs and generating the highest costs equally after expending 2 times per capita.
Appendix H

- Sub-committee Members - Revising the Existing Formula
  - Bridget Helmholtz, Chair
  - Cathy Ficker Terrill
  - Scott Pasley
  - Frances Carroll
  - Mike Schack
  - Charlotte Des Jardins
  - Tim Imler

- Sub-Committee Members – Creating New Formula
  - Roxanne Kovacevich, Chair
  - Peg Agnos
  - Beth Conran
  - Sally Masear
  - Representative Sandra Pihos
  - Deb Vespa
BACKGROUND: The Special Education Finance Task Force, which convened as a result of HJR 24, developed two workgroups to continue deliberations between meetings. The Task Force meetings were scheduled monthly until the summer of 2009, during which time there were no meetings.

This Subcommittee is comprised of members who believed the existing special education finance system has merit, but it may benefit from some adjustments in order to address problems that have been identified on the task force.

SUBCOMMITTEE MEMBERS: Members of this subcommittee are Cathy Ficker Terrill, Tim Imler, Scott Pasley, Charlotte Des Jardins, Frances Carroll, Mike Schack, and Bridget Helmholz.

TOP THREE PRIORITIES IDENTIFIED BY SUBCOMMITTEE: In his report entitled “Considering Special Education Funding in Illinois: State and National Trends,” Dr. Tom Parrish identified 14 traditional criteria for evaluating special education funding formulas. The Subcommittee understood one of its charges was to select the top three priorities we believed were essential to the Illinois finance system. These are:

- Equitable
- Flexible
- Outcome accountability

Within each of these values, the subcommittee identified specific statements that provide additional direction to the Committee.

Equitable:
In addition, some of their specific recommendations are:
- Do no harm.
➢ Enhance reimbursement to Illinois school districts in salaries for professional and non-professional staff.
➢ There should be an annual adjustment tied to an index such as exists for Social Security.
➢ Review the Chicago Block Grant funding.
➢ Do not add to unfunded mandates
➢ Reimburse the school districts for services provided to high needs students while developing efficiencies that exist in the private sector.
➢ A financial system should have a single-minded focus on student learning
➢ Fund the escalating costs of transportation
➢ Consider more local control for high-performing districts, perhaps on a pilot basis. Include technical assistance from these districts to lower-performing districts, e.g., a mentoring system.
Appendix J

Overview
Special Education Task Force
Sub-Committee – Create New Formula
10-15-09

The charge of this subcommittee was to examine special education funding in other states especially in the “pack 7” in order to create a new formula for Illinois and compare them to criteria as established by the committee.

I. During the first meeting, the committee examined criteria and determined the top three of importance. (Noted with *):
   - Understandable/Transparent
   - Reasonable
   - * Equitable – viewpoint of district
   - Adequate
   - Predictable
   - Flexibility – can be spent – user based
   - Reporting burden
   - Identification Neutral
   - Fiscal Accountability
   - Cost Based
   - Cost Control
   - * Placement Neutral
   - * Outcome Accountability
   - Connection to Regular Ed funding
   - Political Acceptability

II. Criteria Comparison of Current Illinois Formula - The definitions that were used to develop this matrix were those obtained from the publication, “State Special Education Finance Systems, Part 1, 1999-2000”.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Chicago Block Grant(D299)</th>
<th>Personnel Reimbursement</th>
<th>Private</th>
<th>85/15 Split Extraordinary</th>
<th>Excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understandable/transparent</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Equitable</td>
<td>N</td>
<td></td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Adequate</td>
<td>Excessive</td>
<td></td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Predictable</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Flexible</td>
<td>N</td>
<td></td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Identification Neutral</td>
<td>Y</td>
<td></td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Reasonable Reporting Burden</td>
<td>Y</td>
<td></td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Fiscal Accountability</td>
<td>N</td>
<td></td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Cost Based</td>
<td>N</td>
<td></td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Cost Control</td>
<td>N</td>
<td></td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Placement Neutral</td>
<td>Y</td>
<td></td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Outcome Accountability</td>
<td>N</td>
<td></td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
</tbody>
</table>
III. Various Models were reviewed with some pros/cons addressed – not all areas were addressed:

1. Weighted Funding System – depending on the weighting system used, incentives can be created to misclassify students into specific types of placements or into categories of disability that receive higher allocations.
2. Flat Grant – Fixed amount per student (Illinois Personnel Reimbursement)
3. Census Based – Based on enrollment of all students in district (Illinois 14-7.02b which replaced the old extraordinary reimbursement)
4. Resource Based – Staff/student ratio by disability or type of placement including staff, equipment, etc.
5. Percentage Reimbursement – Based on expenditures for individual programs.
6. Variable Block Grant – Base year allocation, expenditures and/or enrollment

IV. Allocation Models

- Special Ed Enrollment
- Total Enrollment (ADA, ADE)
- Type of Placement
- Disability Category
- By Classroom
- Staff
- Intensity of services
- Maintenance of Effort
- Base year expenditure
- Actual expenditure
- Allowable Costs

V. Areas of Consideration Include:

- Examining the current position paper from IAASE which advocates for funding to follow high cost students equally thereby encouraging districts to make placement neutral decisions.
- Re-examine the Chicago Block Grant which continues to increase while enrollment decreases. Perform an analysis of student enrollment vs. block grant allocation. Determine % of students enrolled in 1996 to current enrollment and that to the remainder of the state. Are the dollars following the students?
- Consider merging all special education funds and allocate them evenly across the state – i.e. student count, personnel, transportation, etc.
- Examine possible interagency agreements so as not to duplicate services, but rather to expand upon them.
- Student outcomes should be a long term goal. Is there a correlation between outcomes and formulas? If so, that formula should be pursued.
- Personnel reimbursement. This revenue stream follows a flat grant method. However, this may not promote equity because the districts that can afford to hire staff get the money and the ones that cannot afford to hire staff, don’t receive funds. Does provide for ease of reporting and fiscal accountability.
➢ Solicit feedback from all Illinois Stakeholder groups.

VI. Additional Concern
   The initial meetings of the whole provided a detailed background of Illinois funding in order to ensure a common understanding. We had just begun to analyze in two meetings the publication referenced earlier. Consequently, this sub-committee has not had sufficient time to gather adequate data or engage in appropriate and lengthy dialogue on how other states provide funding for special education services. In addition, there were challenges in getting committee members (as a whole and in sub-committee) together.

Sub-committee members:
Peg Agnos, Beth Conran, Roxanne Kovacevich, Sally Masear, Representative Sandra Pihos, Debbie Vespa
Appendix K: Response from Task Force members, Roxanne Kovacevich and Sally Masear (With input and support from members of the IAASE Finance Committee)

June 10, 2010

To Members of the HJR 24 Task Force:

Over the past two years, the IAASE Finance committee and IAASE Board have had several meetings and discussions regarding special education funding in Illinois. On June 4, 2010, the IAASE Finance Committee convened to review the recommendations outlined within the “Draft Analysis of and Policy Alternatives for Special Education Funding in Illinois” and review the information within “Financing Special Education: State Funding Formulas”. We have drafted letter in response to the recommendations presented by Tom Parrish at the last task force meeting on May 12, 2010. We respectfully request that the task force consider this response while formulating their conclusions and final written report.

The IAASE Finance Committee members agree conceptually with the proposed weighted funding formula based on disability severity, poverty, and enrollment. However, we would like the task force to consider the following comments regarding the weighted elements within the proposed formula.

Disability/Educational Environment

The committee believes that the disability category is not as important as the intensity of the services needed to address the severity of the disability. The challenge of developing a weighted funding formula is the designing a fair system that does not rely solely on disability category, but rather on the intensity/time of the special education services. Therefore, the intensity of the services (time and resources) needs to be weighted more significantly. Lastly, the committee emphasizes that any weighted formula must address the high cost student needs and other exceptional individual cases that require greater levels of support. We would support a weighted formula provided that it captures the districts’ costs for high cost students.

A weighted formula based on intensity/time of special education services addresses the variety of educational settings, educational environments, and service delivery models. A weighted funding formula also maintains the concept of “placement neutral funding” – greater intensity of time/supports can be provided regardless of the educational environment. This balances the concerns with student over identification. The “time/intensity” formula illustrated below is reflective of Colorado, Georgia, and Iowa models that center on weighted funding codes, tiered supports, intensity of needs, and educational environments.
Poverty

We acknowledge that the federal funding formula is a census-based formula where Illinois distributes these funds based on a district’s 85% average daily attendance and the remaining 15% of funds are allocated on the district’s relative poverty level. While many factors influence academic performance, ISBE’s “Special Education Student and School Data Study Final Report, 2003” identified several factors that contribute to certain results. However, specific factors such as district wealth and student poverty apply to all students in a school or district, not just those with disabilities.

Enrollment

The current formula for distribution of federal funds contains elements of state-wide consistency by factoring in district enrollment and district poverty. This consistency across the state attempts to reduce regional disparities and supports all students. Provided that any new funding formula proposed by the HJR 24 task must include a census-based approach, we suggest that the task force consider a combination of percentages for General Education Enrollment and Special Education Enrollments. A combination of these two enrollment percentages would capture the needs of large enrollment districts by supporting current initiatives such as RtI. Secondly, a combination of enrollment percentages would account for students with disabilities in a non-disability categorical approach in smaller and/or rural districts.

We respectfully request that the task force provide a rationale for utilizing enrollment (general education/special education or a combination of thereof) for any census-based formula proposal.

Reducing the Number of Funding Streams

We endorse the concept of merging the categorical funding structures in order to reimburse school districts for students with the greatest needs and generating the highest costs equally. We support the merging of the Chicago Block Grant, Private Facility Tuition costs, Funding for Children Requiring Special Education Services, and Summer School (Extended School Year services) into one special education funding formula. While we support reducing the number of special education funding mechanisms, it is crucial to keep Personnel Reimbursement, Transportation, and Orphanage as
separate state reimbursement formulas. The following rationale is provided to maintain the separate formulas for Personnel Reimbursement, Transportation, and Orphanage:

**Personnel Reimbursement**

Personnel Reimbursement should remain a separate formula because a district’s decision to hire staff is a local decision based on the needs of their students and the employment of staff is the single largest expense in providing special education services. The reimbursement is based on actual costs associated with providing special education services and the revenue for such expenses is an immediate relief for costs incurred by districts. The amount of reimbursement is proportionate to the number of staff that a district employs, again, based on the needs of their students. Personnel Reimbursement should not be considered a sole source of state revenue. We believe that Personnel Reimbursement does not capture nor address the level of local funding, tax levy, or fiscal disparities across the state. We are concerned about regulatory procedures that are currently in place that mandate lower special education class size requirements in the event that personnel reimbursement exceeds the amount in effect on January 1, 2007, by at least 100%.

**Transportation**

Transportation should remain as a separate funding stream because the revenues must match the expenditures in Fund 40. Transportation reimbursement is tied directly to each district’s specific costs for special education as identified as a related service on a child’s individual education program. The current transportation formula only reimburses those districts who have incurred costs in transportation, as opposed to the disbursement funds across all districts, regardless if the district had actually incurred transportation costs as a related service for students with disabilities.

**Orphanage**

The state reimbursement for orphanage claims is absolutely necessary to protect those districts responsible for providing special education services to students who are under the guardianship of a public agency or who reside in a state residential facility. The orphanage formula is a critical source of revenue that is tied directly to costs incurred by local districts who deliver the special education services for wards of the state.

**Closing Comments/Final Considerations/Final Recommendations/Summary**

We support the census-based weighted special education funding formula provided the aforementioned comments and recommendations are addressed and given serious consideration by task force members as they prepare their final written report in response to House Joint Resolution (HJR) 24 passed by the 95th General Assembly.

Respectfully submitted by,

Roxanne Kovacevich

Sally Masear

With input and support from members of the IAASE Finance Committee