

# New Jersey Charter School Special Education Finance 101



**EDUCATING STUDENTS WITH DISABILITIES** is shaped by an amalgam of federal, state, and local statutes, regulations, and negotiated agreements. This brief outlines the similarly complex mechanism for how public schools fund specialized programs to evaluate and support students with a diverse range of learning needs. Understanding how special education and related services are funded is critical to ensuring charter schools are allocating adequate funds to special education and accessing 100% of the dollars available to support these programs.

## Federal Special Education Funding Statutes

- The Education of all Handicapped Children Act of 1975, renamed the Individuals with Disabilities Education Act—IDEA—in 1990, established a federal funding stream to help states, via local districts, provide services to students with disabilities.<sup>1</sup> Special education and related services under IDEA are provided to enable children with a wide range of disabilities to access a free and appropriate public education to the same extent as their peers without disabilities. The IDEA establishes specific guidelines regarding educating children with disabilities and provides financial support to states. The law assigns primary responsibility for implementing the law to states, but identifies local education agencies or LEAs, frequently referred to as districts, as the entity responsible for ensuring that students with disabilities ages of 3-21 access essential supports and intervention.
- IDEA outlines state education agencies' (SEA) responsibilities to educate students with disabilities and in turn, SEAs are required to develop statutes and regulations to guide the implementation of IDEA. In some states, special education statutes align very closely with IDEA whereas other states have expanded upon the scope of the federal law to prescribe local practice in detail. Although most state charter laws grant many charter schools waivers of state education statutes, these statutes still influence the contexts in which schools operate (e.g., state teacher training programs are typically developed to comply with state credentialing requirements).

<sup>1</sup>Education for All Handicapped Children Act of 1975, Pub. L. No. 94-142, 89 Stat. 773.

- Allocating adequate funding to provide special education and related services is a relatively universal challenge for traditional as well as charter public schools. Providing a full continuum of placements to students with a wide variety of disabilities and managing the administrative tasks associated with relevant federal and state laws can be expensive. Plus, there is no clear definition for sufficient; there are always opportunities to provide additional services, supports and technologies. Students with disabilities on average represent 13%<sup>2</sup> of the public school population across the U.S. but the cost of educating students with disabilities generally represents about 21%<sup>3</sup> of the overall average school district budget. Moreover, while permitted by statute to support up to 40% of the total cost of special education, to date the federal government has not met this limit and in practice provides approximately 9%<sup>4</sup> of the overall cost. States and local districts are required to fill the gap between what is required under IDEA and the funds allocated under the statute.

## Special Education Revenue Sources in New Jersey

Charter schools in New Jersey are their own LEAs so they receive federal and some limited state funds directly from the state, which includes funding for students in the first year of entering charter schools from a private/nonpublic school and adjustment or hold harmless aid for some schools. Special education funding along with other categorical funds dispersed by the state and local tax levies are passed on to charter schools by resident districts.

## Federal Special Education Funds in New Jersey

### IDEA Part B

The Individuals with Disabilities Education Act has multiple parts. Part B is the grant program for K-12 education. The statute outlines specific provisions related to use of funds and eligibility and individual states develop formulas to distribute the aid to districts and track implementation.

**Use of Funds.** The purpose of IDEA funds is to supplement local and state funding to support excess costs incurred to provide special education and related services. Funds are used to provide a free and appropriate education (FAPE) for students with disabilities ages 3-21 (Basic) and 3-5 (Preschool).<sup>5</sup> Part B funds can also be used to start, expand, or supplement special education and related services for students with disabilities already receiving services. Also, up to 15% of IDEA Part B funds can also be utilized to support early intervention services, frequently referred to as Response to Intervention or RTI. States are able to allocate a portion of their IDEA Part B funding to the establishment and implementation of extraordinary aid funds for high cost special education and related services as previously mentioned above.

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<sup>2</sup>National Center for Education Statistics, Common Core of Data (CCD), "State Nonfiscal Survey of Public Elementary/Secondary Education," 2010-11. Retrieved July 24, 2014 from [http://nces.ed.gov/programs/digest/d12/tables/dt12\\_051.asp](http://nces.ed.gov/programs/digest/d12/tables/dt12_051.asp).

<sup>3</sup>Parrish, T., Harr, J., Wolman, J., Anthony, J., Merickel, A., Esra, P. (2004). State Special Education Finance Systems, 1999-2000: Part II: Special Education Revenues and Expenditures. Center for Special Education Finance. Retrieved on July 28, 2014 from <http://csef.air.org/publications/csef/state/statepart2.pdf>. This percent is the general and special education costs combined for students with disabilities. Special education costs alone account for 14% of the total budget.

<sup>4</sup>McCann, C. (2014). Federal Funding for Students with Disabilities: The Evolution of Federal Special Education Finance in the United States. New America. Retrieved from [http://education.newamerica.net/sites/newamerica.net/files/policydocs/IDEA\\_6\\_26\\_2014\\_FINAL.pdf](http://education.newamerica.net/sites/newamerica.net/files/policydocs/IDEA_6_26_2014_FINAL.pdf) on July 24, 2014.

<sup>5</sup>N.J.A.C. 6A:14

**Eligibility.** Each LEA must have a special education IDEA Plan that includes policies, procedures, assurances, a comprehensive system of personnel development, data collection, and an application that describes how Part B funds will be used. Each component of this plan must be approved by NJ Department of Education through respective county offices of education (e.g., Essex County).

All first year charter schools must submit programs and policies for approval to their respective country office to be eligible for Part B funds.

**Determining Funds.** New Jersey uses the IDEA base allocation per student (i.e., 1999 funding level) multiplied by the special education enrollment count. Any remaining funds not allocated using the base allocation are dispersed based on the LEA's proportion of students in poverty (15%) and total ADM (85%). For the year 2013-14 school year, the average amount received was \$2,735 per student with a disability or \$191 per student overall. There is a large variation in the amount of funding schools receive, however, with a minimum of \$508 to a maximum of \$5,340<sup>6</sup> per student with a disability.

**Fund Distribution & Reporting.** Application and reporting for IDEA Part B funds is all completed using the New Jersey System for Administering Grants Electronically (SAGE). Web User Administrators (WUA) establish users in the SAGE system so that IDEA Plans, early intervention, maintenance of effort, and Basic and Preschool budgets can be submitted.<sup>7</sup> Timely and accurate reporting to the state of New Jersey regarding students with disabilities is critical to ensuring school access federal and state dollars to support special education programs.

## Medicaid

**Medicaid School Program.** Medicaid is a federally funded health care program for individuals with low incomes and limited resources. Beginning in 1988, the Medicare Catastrophic Coverage Act created the Medicaid School Program (MSP) to reimburse schools for providing specific services to students eligible for Medicaid. The program is referred to as the Special Education Medicaid Initiative (SEMI) in New Jersey. It is administered by the Department of Human Services through the Division of Medical Assistance and Health Services. For Medicaid to cover school-based services, the services must be primarily medical and not educational in nature and a qualified Medicaid provider must provide them to children in families that meet Medicaid income eligibility requirements.

**Qualifications.** To qualify for Medicaid reimbursement, students must have an IEP in accordance with IDEA. In order to have services reimbursed under the Federal Medicaid program, a service must meet the definition of a coverable service under section 1905(a) of the Social Security Act. Examples of services for which districts can seek Medicaid reimbursement are diagnostics services, occupational, physical, and speech therapy and mental health counseling.

**Seeking Reimbursement.** In New Jersey, charter schools can apply to be validated as a provider eligible to provide services and seek reimbursement from Medicaid. Medicaid reimbursements can generate significant federal dollars for certain special education and related services. However, the administrative burden associated with meeting initial and ongoing requirements associated with seeking Medicaid reimbursement can be a notable deterrent to small districts. For guidance related to Medicaid reimbursement in New Jersey, see "State of New Jersey: School Based Medicaid Reimbursement for Programs Providers Handbook." <http://www.state.nj.us/treasury/administration/pdf/semi-handbook.pdf>

<sup>6</sup>New Jersey Department of Education. (2014). Implementation of IDEA. Retrieved on November 11, 2014 from <http://www.state.nj.us/education/specialed/idea/>

<sup>7</sup>Holcomb-Gray, P. (2013). New Jersey System for Administering Grants Electronically (NJSAGE): Individuals with Disabilities Education Act - Part B Entitlement Grant FY 2013. Retrieved on November 11, 2014 from <http://www.state.nj.us/education/specialed/fund/IDEA13SAGEPres.pdf>

## State Special Education Funds

Multiple factors inform the allocation of state funds designated to support the provision of special education and related services in districts and ultimately charter schools in New Jersey: 1) the census-based distribution, and 2) Extraordinary Aid funds which are both formulated in the School Funding Reform Act.

**Census-Based Distribution.** Under the New Jersey School Funding Reform Act of 2008, the distribution of state special education dollars shifted from a weighted funding formula, in which each student in special education received funding based on their disability, to a “census-based” formula. Multiple states have adopted this approach to reduce incentives to over-identify students and it works best in large districts that can pool and distribute resources and responsibilities across many schools. Under the census-based formula, the New Jersey Department of Education assumes that all districts provide special education and related services to 14.78% of their students. Because funding is allocated based on a predetermined rate of students with disabilities in the total school population, all necessary data for disbursement of state funds are collected through school wide counts.

**School Funding Reform Act of 2008.** Under the new state funding formula, the state designated special education funding as a separate categorical item within the larger formula. The state determines the actual amount provided for students with disabilities through two distinct but related calculations.

1. The first calculation—representing 2/3 of state special education funding—is provided as equalization aid<sup>8</sup> for students who receive only speech services and for students that receive general special education services. Funding for both types of services are structured similarly based on the funding provided for the district in which the charter school student resides. For the general special education funding, the district special education adequacy budget is divided by the total district adequacy budget to determine a special education adequacy budget percentage. The district equalization aid and the general fund tax levy (this is the pre-budget year levy adjusted by the consumer price index for the given year) are multiplied by the adequacy budget percentage, and the two added together to give the total district special education aid. Charter schools, however, can only receive 90% of the aid allocated to the districts, so the total aid for charters is 90% of the district’s total aid. Finally, the total charter special education aid is divided by the total projected district special education enrollment for that year to determine the charter per pupil allocation. For students who receive only speech services, the adequacy budget percentage is based on the percent in which the speech adequacy budget makes up the total district adequacy budget. In the example provided on page 6, the special education adequacy budget percentage is 9.136% while the speech only is .127%.

$$\frac{\text{Special Education Adequacy Budget}}{\text{District Adequacy Budget}} = \text{Special Education Adequacy Budget \%}$$

$$\begin{aligned} & (\text{District Equalization Aid X Special Education Adequacy Budget \%}) \\ & + (\text{General Fund Tax Levy X Special Education Adequacy Budget \%}) \\ & \hline & = \text{Total District Special Education Aid} \end{aligned}$$

<sup>8</sup>Equalization aid refers to the aid provided to districts based on their “ability to pay” or their relative wealth – a district’s “state share” percentage determines how much equalization aid it gets

2. The second calculation—accounting for the remaining 1/3 of funding—is provided as categorical aid. Charter school enrollment in special education

$$\text{District Special Education Categorical Aid} \times \text{Charter Enrollment as \% of District} = \text{Categorical Aid}$$

as a percentage of the total district special education enrollment is multiplied by the total district special education categorical aid budget. Unlike the equalization aid, categorical aid enrollments are based on the projections funded in the prior year. All state categorical aid or federal funds attributable to a specific student (e.g., students with disabilities) must be paid to the charter school by the district of residence.<sup>9</sup>

**Extraordinary Aid.** New Jersey allocates extra funds to districts/charters for students with disabilities who require services outside of their school. For in-district public or private placement where the student is educated along their non-disabled peers, the state covers 90% of total costs for providing direct instructional and support services that are in excess of \$45,000. For specialized public school programs, often referred to as center-based programs, specifically designed for students with disabilities, the state will pay 75% of costs that are in excess of \$45,000. Lastly, the state will pay 75% of excess costs above \$60,000 for students placed in private schools for students with disabilities.<sup>10</sup> As with categorical aid, the district of residence is responsible for applying for grants and providing this excess funding for students with high cost disabilities through the states Homeroom system. When applicable, charter schools should provide the names and cost information to the resident district so that a reimbursement request can be filed. An average of 1.6%<sup>11</sup> (6.5% in traditional public schools) of students with disabilities in charter schools are placed in settings that may qualify them for excess cost allocations. The New Jersey charter school law assigns financial responsibility for students who require a private day or residential school to districts of residence (See sidebar).

### CHARTER SCHOOL PROGRAM ACT OF 1995, N.J.S.A. 18A:36A

#### 18A:36A-II. Operation of charter school

b. A charter school shall comply with the provisions of chapter 46 of Title 18A of the New Jersey Statutes concerning the provision of services to handicapped students; except that the fiscal responsibility for any student currently enrolled in or determined to require a private day or residential school shall remain with the district of residence.

<sup>9</sup>Charter School Program Act of 1995, N.J.S.A. 18A:36A

<sup>10</sup>Charter School Program Act of 1995, N.J.S.A. 18A:36A; & Education Law Center (2014)

<sup>11</sup>New Jersey Department of Education. (2014). 2013 Placement Data. Retrieved on November 11, 2014 from <http://www.state.nj.us/education/specialed/data/2013.htm#placement>

The following chart presents an example of how special education dollars flow to a hypothetical charter school in Newark.

<b>John Doe Charter School</b> County: Essex District: Newark City	<b>Charter Enrollment (i.e., ADM) = 400<sup>12</sup></b> Base per pupil: \$10,322 <sup>13</sup>	<b>Charter Special Ed. Enrollment = 59 (14.78%<sup>14</sup>)</b> Charter Speech Only Enrollment = 0
<b>New Jersey State Special Education Funding Formula<sup>15</sup></b>		<b>TOTAL</b>
<b>State Calculation I: Special Education Equalization Aid<sup>16</sup></b>		
<b>A: General Special Education Funding</b>		
Special Education Adequacy Budget / District Adequacy Budget = Special Education Adequacy Budget % <b>\$68,077,311 / \$745,128,153 = 9.136%</b>		
District Equalization Aid X Special Education Adequacy Budget % <b>\$645,243,822 X 9.136% = \$58,949,476</b>		
General Fund Tax Levy <sup>17</sup> X Special Education Adequacy Budget % + <b>\$113,037,921 X 9.136% = \$10,327,144</b>		
<b>Total District Special Education Aid = \$69,276,620</b>		
<b>X .90 = \$62,348,958 / 7267<sup>18</sup> = \$8,580 per pupil</b>		
		<b>\$506,220</b>
<b>B: Speech Only Funding</b>		
Speech Adequacy Budget / District Adequacy Budget = Speech Adequacy Budget % <b>\$946,203 / \$745,128,153 = 0.127%</b>		
District Equalization Aid X Speech Adequacy Budget % <b>\$645,243,822 X 0.127% = \$819,460</b>		
General Fund Tax Levy X Speech Adequacy Budget % + <b>\$113,037,921 X 0.127% = \$143,558</b>		
<b>Total District Speech Aid = \$963,018</b>		
<b>X .90 = \$866,716 / 549<sup>19</sup> = \$1,579 per pupil</b>		
<b>State Calculation 2: Special Education Categorical Aid<sup>20</sup></b>		
District Special Education Categorical Aid X Charter Enrollment as % of District <sup>21</sup> <b>\$28,180,824 X 0.91%</b>		<b>\$256,445</b>
Total State Special Education Aid for John Doe		<b>\$762,665</b>
<b>Federal IDEA Part B</b>		
Enrollment X Estimated per Student Allocation <sup>22</sup> <b>59 X \$2761.75</b>		IDEA Part B Total Allocation <b>\$162,943</b>
Total State and Federal Special Education Funding for John Doe		<b>\$925,608</b>
Per Special Education Pupil Funding above base funding <sup>23</sup>		<b>\$15,688</b>

<sup>12</sup>Average daily attendance is assumed based on an average sized charter school that will not experience an enrollment increase or decrease.  
<sup>13</sup>Per pupil allocation is estimated based on the 2014-15 budget allocations to charter schools in Newark.  
<sup>14</sup>This percent of special education enrollment exemplifies what funding would be if a charter school enrolled the state's average rate of disabilities for New Jersey. Schools may have a higher or lower percentage of students with disabilities in reality.  
<sup>15</sup>Estimates of cost and disability rates for the 2014-15 school year come from the following report: [http://www.edlawcenter.org/assets/files/pdfs/Newsblasts/ADEQUACY\\_REPORT.PDF](http://www.edlawcenter.org/assets/files/pdfs/Newsblasts/ADEQUACY_REPORT.PDF)  
<sup>16</sup>Census funding allocates 2/3 of special education funding as well as funds specifically for student receiving only speech or language therapy.  
<sup>17</sup>The General Fund Tax Levy is indexed using the Consumer Price Index (CPI), which is reported as 1.69% for 2014-15.  
<sup>18</sup>District projected enrollment for the current year.  
<sup>19</sup>District projected enrollment for the current year.  
<sup>20</sup>Categorical aid category includes geographic cost adjustment and accounts for 1/3 of total state special education funding.  
<sup>21</sup>Categorical aid enrollment is based on the prior year's projected special education enrollment funding.  
<sup>22</sup>This amount is based on the average per student in special education funding from IDEA Part B for charter schools located in Essex County.  
<sup>23</sup>Per pupil in special education funding is the amount allocated from state and federal sources over and above the state's per pupil general education funding amount of \$10,322.