

# Special Education Funding in Pennsylvania

## The Effects of a Policy of Neglect

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*The past 10 years have seen substantial changes in special education enrollments and funding in Pennsylvania. School district enrollments have been declining slightly, while the number of special education students in charter schools has been increasing. District expenditures for special education have steadily increased, while state subsidies for special education have stagnated for the past six years and the state share of support has declined. This state policy choice has resulted in an increase in districts' costs of over \$500 million to replace the lost state share. Along with the charter school enrollment increases have come substantial district tuition payments to charter schools, totaling over \$1 billion from 2009–2010 through 2013–2014. Over half of these payments, \$550 million, are in excess of the charter schools' reported expenditures for special education, providing charter schools with a disguised subsidy for their general operations. The new special education funding formula from the legislature, while a step in the right direction, has not yet provided enough new money to make any substantial difference for district budgets.*

**T**he past 10 years have seen substantial changes in special education in Pennsylvania. Total enrollments in special education have been stable varying only a few thousand students over the time period. However, within the overall special education enrollments, charter schools have grown,

while enrollments in school districts have declined. The level of enrollments and where they changed has had direct impact on school district special education expenditures in several ways. In school districts, these expenditures have increased steadily in spite of their small enrollment declines due to higher operating costs in their own programs and rapidly growing tuition payments to charter schools for increasing numbers of district students moving to charter schools. These tuition payments to charter schools fell fully on school districts beginning in 2011–2012, when the state stopped their subsidies to school districts to assist in the financial support of charter schools. Further, school districts pay approximately twice as much per special education student in charter schools than they do for non–special students, a state-wide average of approximately \$20,000 per student versus \$10,000 for regular education students. This payment structure has created a potential financial incentive for charter schools to recruit special education students and/or to convert some of their existing regular education students to special education through provision of additional services. On the revenue side, state subsidy payments for special education have not been increased since 2009–2010, leaving school districts to support all of the increased expenditures.

These events have raised a number of associated issues for fiscal and educational policy makers in the state. Some of the issues have been dealt with by deliberate decisions with (or without) an understanding of the intended and unintended consequences. These decisions were primarily the level of state subsidies for special education and funding for charter schools. Other issues or events were not necessarily under the policy makers' control, but had implications for or direct impact on policy makers' alternatives and choices. These would include the number and types of special education enrollments, expenditures, and changes in federal support for special education.

The analysis of special education in Pennsylvania examined five main areas:

1. Enrollment trends for both school districts and charter schools
2. Expenditure trends for both school districts and charter schools
3. Funding trends from state, federal, and local school district sources
4. Fiscal impacts on school districts of the special education enrollment, expenditure, and revenue trends over the past 10 years
5. Impact of explicit and implicit fiscal policies established by state policy makers for special education funding

The analysis covered 2003–2004 through 2013–2014, the 10-year period for which the latest data were available.

## Background

Special education in Pennsylvania is supported through three main funding sources: local school districts, state subsidy, and federal funds. Both state and federal funding use a categorical approach in which specific funds are appropriated for special education and those funds are required to be used to support special education. In this structure, since state and federal revenues are fixed annually by the state and federal government legislative bodies, school districts are left as the funder of last resort and are responsible for covering all the remaining expenditures. Districts must use their local tax revenues, primarily real estate taxes and earned income taxes, to cover their portion of special education expenditures.

This approach has left Pennsylvania school districts vulnerable to a number of economic, political, and educational factors that impact both the revenues they receive and the expenditures they incur. These factors have changed over the past 10 years and many of them are beyond the districts' control. The result has been to place a greater and growing fiscal burden on school districts.

Over this time period, the economic conditions in the country and the state changed drastically. What began as a strong economic situation in the mid-2000s, abruptly deteriorated beginning in 2007 into the Great Recession and continued to decline through the next several years. These severe economic changes had a direct effect on the level of state tax revenue collected: total tax revenue for the state dropped from \$27.9 billion in 2008–2009 to \$25.5 in 2009–2010 and did not reach the prerecession level until 2012–2013 (Pennsylvania Department of Revenue). As a result, the amount of funding available for state subsidies, including special education, was substantially curtailed for several years. During this down time for state revenues, in Pennsylvania, the federal stimulus funds for education from the American Recovery and Reinvestment Act of 2009 (ARRA) were used in 2009–2010 and 2010–2011 to supplant state education funding, which prevented a reduction in overall funding to school districts for those years. However, in 2011–2012 when the federal stimulus funds ended, the previously reduced state funding for education was not fully restored, and school districts received approximately \$900 million less from state and federal funds than the prior year (Pennsylvania Department of Education, *Summary of Annual Financial Report Data 2011–2012*).

In 2011–2012, in a sharply changed political climate, the state priorities for education shifted dramatically. The new Republican governor and a Republican-controlled legislature had as their emphasis to reduce and limit funding for public school districts from state and local sources and sought to use

charter schools as the main vehicle for school choice and expenditure control. Ironically, an important component of this approach was the elimination of the state subsidy to districts for charter school costs, which made the school districts almost completely responsible for charter school expenditures for regular and special education students. This unfunded mandate substantially increased school district budgets and decreased district fiscal stability as the number of special education students in charter schools grew rapidly.

From 2008–2009 through 2013–2014 state subsidies for special education have been flat. This represented a major policy decision of state policy makers to not increase state funding for special education and established the trend for the state to reduce its share of support for special education. The lack of state funding increases came in the context of limited state revenues due to the continued impact of the recession on the state economy and simultaneous growing demands on the state purse for other areas of education, particularly mandated pension contributions. From the districts' perspectives, their net expenditures for special education continued to grow, some of which came from the increasing tuition payments to charter schools coupled with no increase in state funding. In turn, this long-term condition was causing substantial fiscal pressure on district budgets as their local tax revenue growth was limited to inflationary increases by Act 1 of 2006.<sup>1</sup> Mandatory expenditures for pensions and tuition payments for students in charter schools, along with obligatory special education expenditures meant that other, nonspecial educational programs and services had fewer resources and suffered cuts in order to balance district budgets (Pennsylvania Association of School Administrators, and Pennsylvania Association of School Business Officials 2015).

## Methodology

Secondary data on the number of special education students and special education expenditures and revenues from the period 2003–2004 through 2013–2014 were used in the analyses; both school districts and charter schools were included in the data collection and analyses. The principal source for financial data was the Pennsylvania Department of Education, (PDE); the Department's website had much of the necessary fiscal information for the study. Enrollment data for special education students came from the Bureau of Special Education (Pennsylvania Department of Education 2014a) via the PennData Special Education Reporting System of the Pennsylvania Department of Education; the data system is maintained by the Pennsylvania State Data Center.<sup>2</sup>

The level of analysis was the school district and charter school. Charter schools were classified into brick-and-mortar and cyber schools according to

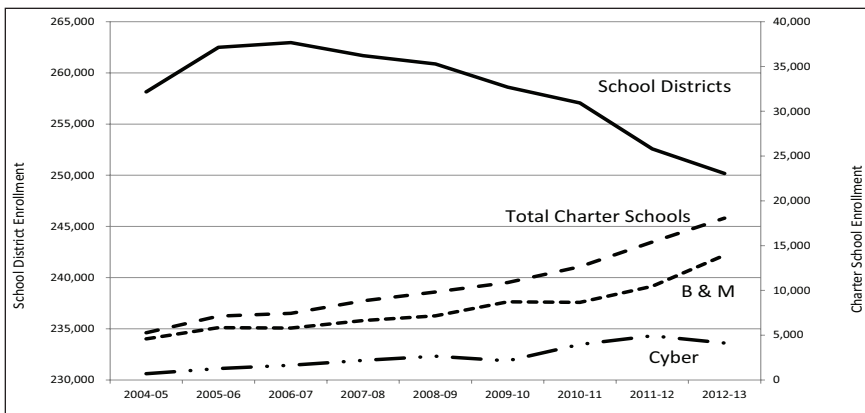
the PDE's identification and analyzed separately where possible. Findings for special education enrollments, expenditures, and revenues were aggregated to the state level to determine the total state results.

## Key Results

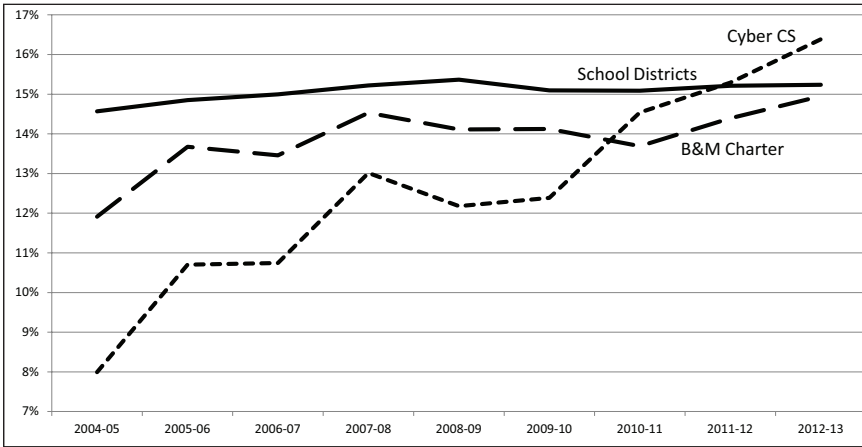
### Enrollments

Special education students in Pennsylvania are served in two primary ways—school districts and charter schools. As shown in Figure 1, the dominant providers of special education services were school districts. In 2012–2013, 93% of all special education students were enrolled in school district programs, while charter schools served 7% of these students. However, over the last nine years, both the number and share of special education students in school districts have declined steadily. School districts have 7,970 fewer special education students, which represents a 3.1% decline in their enrollments since 2004–2005. Over the same period, charter schools have gained 12,791 special education students, a 242.3% increase, but starting from a small base. However, even after this steady shift, school districts still serve over 90% of special education students. The specific data on special education enrollments are provided in the Appendix (see Table A.1).

Compared to numbers for total student enrollments, the relative decline in school districts for special education was less than the decline in total district enrollment, while special education enrollments in charter schools increased at a substantially faster rate than their total enrollments.



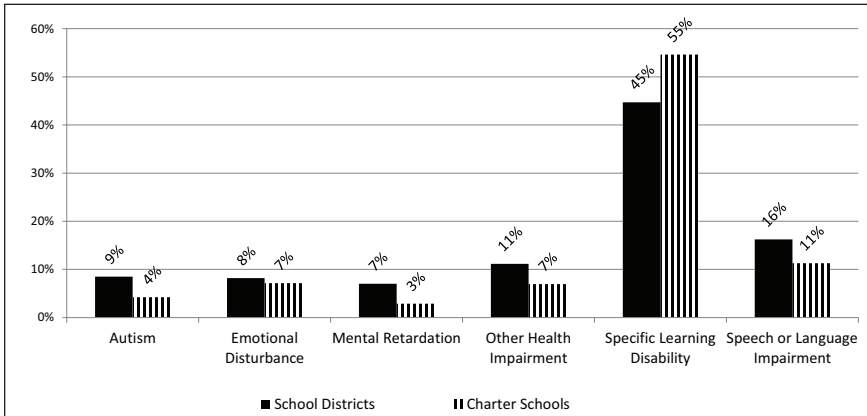
**Figure 1.** Special Education Enrollments: School Districts and Charter Schools. (Source: Pennsylvania Department of Education.)



**Figure 2.** Special Education Enrollments as Percent of Total Enrollment: School Districts and Charter Schools. (Source: Pennsylvania Department of Education.)

The analysis of special education enrollments by type of charter school—brick-and-mortar and cyber—revealed quite different enrollment patterns from school districts. For both brick-and-mortar and cyber charter schools enrollments grew substantially over the study period. Brick-and-mortar charter schools gained 9,356 special education students (204%) during the nine years and cyber charter schools grew by 3,435 special education students (494%), which were very large percentage increases, but again from small bases. The specific data on special education enrollments by type of charter school are provided in the Appendix (see Table A.2).

**Percentage of Special Education Students in Total Enrollments.** One of the concerns about charter schools was that they were systematically avoiding serving students with disabilities. To examine this issue, the proportion of special education students of the total number of students in each group served was determined; the results are shown in Figure 2. Over the past nine years the proportion of special education students served by school districts has been relatively stable at around 15%, growing only very slightly. However, the proportion of special education students served in brick-and-mortar charter schools has grown steadily from 12% of the total student population in 2004–2005 to 15% in 2012–2013. Special education enrollments in cyber charter schools grew even faster, starting at 8% in 2004–2005 to over 16% of their total enrollment in 2012–2013, when it exceeded the service rate in school districts and brick-and-mortar charter schools. Rather than avoiding special education students, charter schools have been serving an increasing number of them. This was particularly true of cyber charter schools.

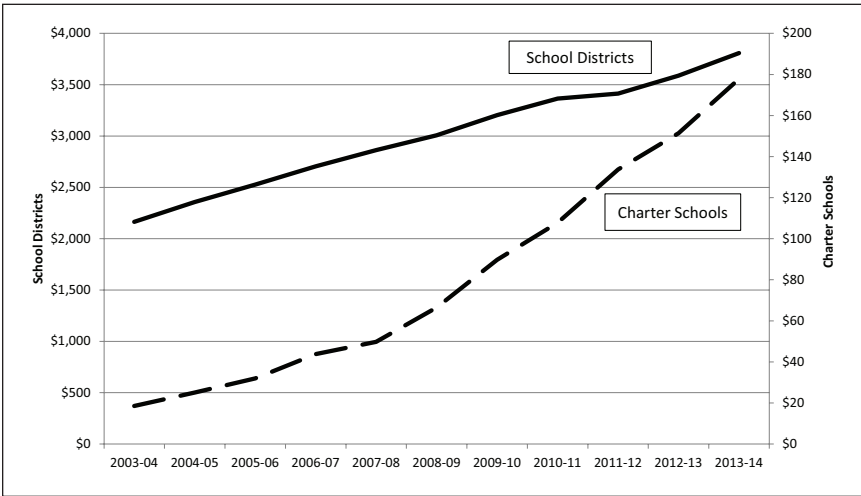


**Figure 3.** Largest Special Education Categories Served by School Districts and Charter Schools in 2012–2013. (Source: Pennsylvania Department of Education.)

**Types of Special Education Students Served.** Another comparison of special education student populations between school districts and charter schools is the relative proportions of different types of special education students they serve. Due to the nature of their disabilities, some special education students require additional and more intensive instructional and support services to meet their educational needs, and these services are more costly to provide. Chambers, Shkolnik, and Perez (2003) found “The two most common disabilities, specific learning disability (SLD) and speech/language impairment (SLI), make up over 60% of the population. . . . These are also the two disabilities with the lowest per pupil expenditures” (p. 4). They also found that cost per student for other types of disabilities ranges from 25% to 100% greater.

The analysis examined whether the special education student populations served by school districts and charter schools were more similar or different in terms of their severity, and, consequently, more or less costly to serve. Figure 3 presents the comparison of types of special education students served between school districts and charter schools in 2012–2013, the latest year of available data.

The largest single category of students served for either school districts or charter schools was specific learning disabilities; 55% of charter school special education students were in this category, while school districts had classified 45% of their special education students here. This was the only category in which charter schools had a higher percentage of their special education students than did school districts. The second largest category was speech and language impairments, with 16% of special education students for school



**Figure 4.** Special Education Expenditures for School Districts and Charter Schools in Millions of Dollars (Source: Pennsylvania Department of Education.)

districts and 11% for charter schools. Taken together, these two categories represented 61% and 66% of the special education enrollment for school districts and charter schools respectively for the two categories with the lowest spending ratios. The other four categories were low incidence disabilities with higher spending per student (autism, emotional disturbance, intellectual disability,<sup>3</sup> and other health impairment). In these categories school districts ranged from 11% to 7% of their special education students with charter schools from 1% to 5% lower. The higher expenditure disabilities for school districts totaled 37% of the special education population they served, while the higher expenditure disabilities comprised 21% of the charter school's special education population. In summary, both school districts and charter schools had a higher proportion of the lower expenditure special education students, but the school districts served greater proportions of higher expenditure students.

**Expenditures.**<sup>4</sup> Throughout the 10-year study period, expenditures for special education grew steadily, as shown in Figure 4. As with special education enrollments, school districts were the dominant group in special education expenditures. Total expenditures for school districts went from \$2.2 billion in 2003–2004 to \$3.8 billion in 2013–2014, a gain of over \$1.6 billion or approximately \$160 million per year. This represented an average annual increase of almost 6% and a total 10-year increase of 76%. For charter schools, the changes were smaller in absolute numbers, but substantially greater in terms of percentage changes growing \$159 million, or \$16 million annually over the same period; this was a 10-year growth of 859% and an annual aver-

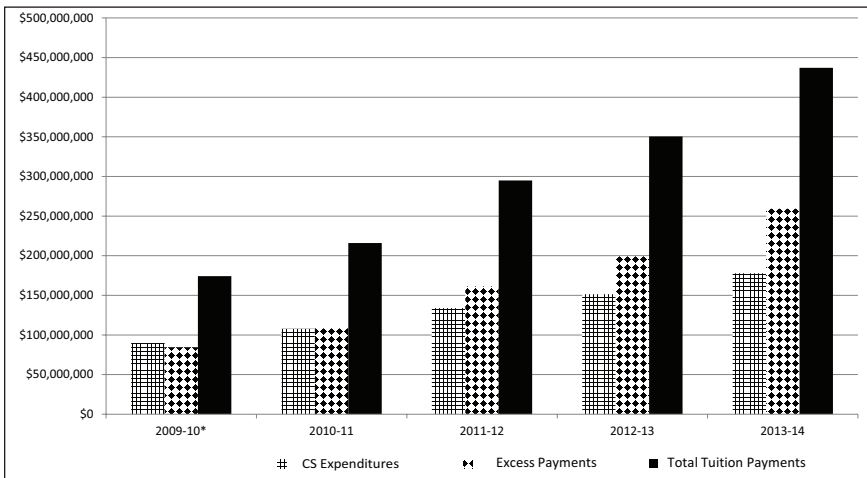


age growth rate of 26%, admittedly from a smaller base. The annual expenditure data are provided in the Appendix (see Table A.3).

### Special Education Tuition Payments and Expenditures in Charter Schools

There is a substantial and growing difference between the amount of tuition payments made by school districts to charter schools for special education students and the amount of special education expenditures reported by charter schools. The differences for 2009–2010 through 2013–2014 are shown in Figure 5. The annual amount of tuition payments for special education students in excess of total special expenditures has risen steadily from \$84 million in 2009–2010 to \$259 million in 2013–2014 and has totaled over \$550 million over those five years. Over this time, less than half of the tuition payments to charter schools for special education students have been used for special education instructional expenditures for these students. Looking only at the annual increases, approximately two-thirds of the tuition payments to charter schools for special education students were in excess of the increases in reported special education instructional expenditures by charter schools. Annual expenditure data along with five-year totals are provided in the Appendix (see Table A.4).

Unlike categorical funds for special education received from the state and federal governments, which are required to be spent on special education stu-

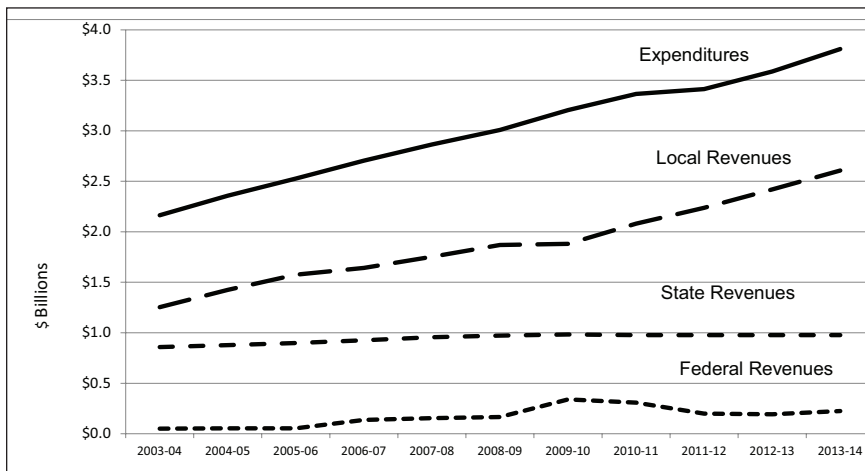


**Figure 5.** Special Education Tuition Payments and Expenditures in Charter Schools. (Source: Pennsylvania Department of Education.)

dents and documented through an audit trail, no such requirement is in place for charter schools. The tuition payments received by charter schools generated by special education students enrolled in their programs are not required to be spent for special education instruction and support. As a result, these monies can be spent for any legitimate expenditure of the charter schools. While there are certainly other expenditures beyond instruction and support services that are necessary to serve special education students, spending less than half of the tuition payments on instruction indicates these funds are used mainly for purposes other than special education. By comparison, the state subsidy for special education provided to school districts in 2013–2014 represents approximately 27% of their reported special education expenditures and the federal funds contribute approximately 6% of district special expenditures. In practice, the bulk of these excess tuition payments functions as a general subsidy to charter schools mandated by the legislature, but paid for by school districts and their taxpayers.

## Revenues

School districts receive revenues specifically for special education programs and services from three main sources: state revenues, federal revenues, and local funding. The 10-year funding trends for these sources are shown in Figure 6. State and federal funds are known as categorical funds. That is, they can only be used for a specified purpose or program—in this case, special educa-



**Figure 6.** Ten-Year Trends in Special Education Expenditures and Revenues. (Source: Pennsylvania Department of Education.)

tion. They are not permitted to be diverted to other purposes in the school districts. Annual audits from state and federal agencies monitor the categorical revenues to ensure their proper use. Specific revenues for special education in charter schools come primarily from tuition payments from school districts for their special education students enrolled in charter schools.

**State Revenues.** The state provides specific subsidies for districts to support special education expenditures under the revenue category, “Specialized Education of Exceptional Pupils.”<sup>5</sup> Over the past 10 years the state subsidy for special education has grown by \$117 million or 13.7% in total. However, the state subsidy for special education is a tale of two time periods. Most of the gains occurred during the first period from 2003–2004 through 2009–2010. In these first years, there was steady growth in the range of 1.1% to 3.3% annually, which yielded annual increases of \$10 million to \$30 million in total subsidy amounts. These increases represented 105% of the 10-year gains, since there were decreases in state subsidy amounts in the following years. In 2009–2010, the situation changed; annual increases changed to decreases or were a fraction of previous increases. This second period coincided with the start of the Great Recession, as well as the influx of federal funds for special education under the American Recovery and Reinvestment Act of 2009 (ARRA) and expansion of federal revenues. While the recession had a negative impact on total state tax revenue, the addition of new federal revenues may have eased the funding pressure on the legislature. In any event, the reductions and leveling off of state subsidies for special education were the result of appropriation decisions by the legislature, which provided little or no additional state funding for special education over these years. Specific data for annual state subsidies for special education are provided in the Appendix (see Table A.5).

**Federal Revenues.** Federal funding for special education has come primarily from revenues distributed from the Individuals with Disabilities Education Act (IDEA). These funds have been received by districts in two different funding streams. One is identified under the federal revenue section accounts as Federal IDEA Revenues;<sup>6</sup> the other is coded under local revenues and known as Federal IDEA Revenue received as Pass-Through.<sup>7</sup> These two funding sources have had very different and offsetting patterns over the last 10 years.

Federal IDEA Revenues originally were the sole federal source for funding special education for Pennsylvania and the annual amounts were in excess of \$50 million. Beginning in 2006–2007 the funding level dropped to approximately \$35 million annually. Once ARRA funds ceased, the Federal IDEA Revenues returned to their prior levels for two years and in 2013–2014 dropped to \$9 million. At this same time, additional federal funds support-

ing special education were received under a new designation, Federal IDEA Revenue Received as Pass-Through. The combined federal funding sources provided a greater magnitude of funding as Pass-Through stream as the Federal IDEA funds were phased out.

The federal stimulus monies, coming from the ARRA, provided a substantial funding increase in funding in 2009–2010 and 2010–2011 for two years. Following the end of additional federal funds for special education in 2011–2012, the total federal contribution declined somewhat although it remained at a higher level than before. The annual funding amounts from both federal sources are shown in the Appendix (see Table A.5).

### Fiscal Summary: Special Education Expenditures and Revenues

The complete special education budget for school districts includes both the special education expenditures and the revenues to fund the programs and services for special education. Special education programs operated or funded by school districts have internal expenditures of district-operated programs and tuition payments to charter schools for special education students enrolled there. These expenditures have to be balanced by revenues to provide funding to support these expenditures.

In budget planning and implementation, districts start with state subsidies and federal funds for special education. The balance to support special education expenditures comes from local funds. For school districts there is a basic budget balancing equation that must be met.

$$\begin{aligned} \text{Special Education Expenditures} &= \text{State} + \text{Federal} \\ &+ \text{Local Revenues for Special Education} \end{aligned}$$

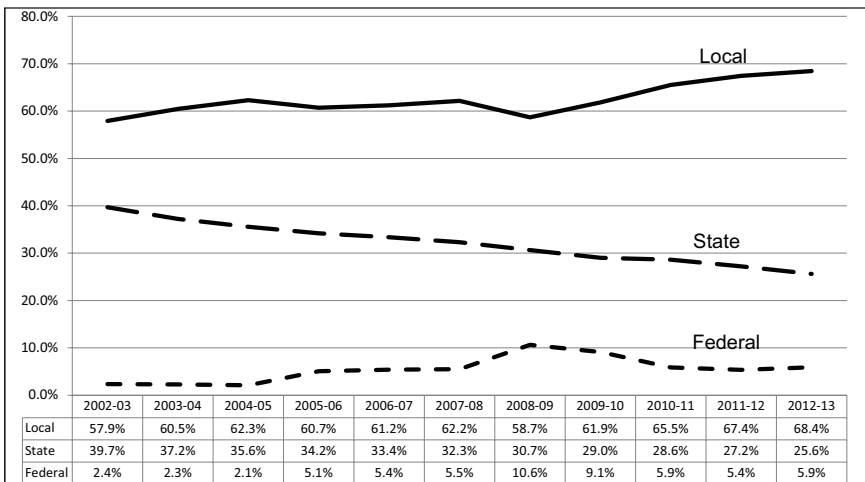
On the revenue side of the equation, after the state and federal funding has been estimated, the local portion functions essentially as a balancing figure; that is, if there is a shortfall between the expenditures and outside sources of funding from state and federal levels, then the school districts make up the difference from their own funds, which are derived mainly from local taxes on district residents.

The budget trends for expenditures and state, federal, and local revenues are given in Figure 6. Using 2013–2014 as an example to illustrate the procedure and results, expenditures for instruction totaled \$3,673 billion, and expenditures for support were \$136 million for a total expenditure amount of \$3.809 billion. These expenditures were supported by state revenues of \$977 million, federal revenues of \$225 million from two sources, for a total of state

and federal funding of \$1.201 billion. The difference between total expenditures and other funding sources was \$2.607 billion that was required to be supported by local funds. The 10-year dollar growth for special education expenditures totaled \$1.645 billion. The increase in funds was supported by \$118 million from state subsidies, \$174 million from federal funding, leaving \$1.353 billion to be sourced from local funds. The result of this funding pattern is that school districts have borne the brunt of budgeting needs through annual increases in the amount of funding required to balance their special education budgets. The full results for all years are provided in the Appendix (see Table A.6).

The share of special education expenditures supported by the various funding sources has also changed substantially over the 10-year period, reflecting the changing amounts of funding provided by the different sources. The 10-year trends are illustrated in Figure 7. For all districts, the average share of state funds began in 2003–2004 at 40%; it dropped to 32% by 2008–2009, and to 26% in 2013–2014 for an overall drop of 14% of total share of support over the 10 years. Federal sources started from a lower base and had a 3.5% gain over the same period. To provide the balance of funding for special education, the local share increased from 58% in 2003–2004 to 68% by 2013–2014, a gain of 10.5% of funding share.

Over the 10-year study period, school districts experienced substantial funding increases for special education and a sharp rise in the share of special



**Figure 7.** Trends in Share of Special Education Revenues by Funding Source. (Source: Pennsylvania Department of Education.)

**Table 1. Hypothetical Change in State and Local Funding of Special Education Using 2003–2004 State and Local Shares**

	<i>10-Year Change</i>		
	<b>Actual</b>	<b>Using 2003–2004 State Share</b>	<b>Difference</b>
Expenditures	\$1,645,044,584	\$1,645,044,584	\$0
Revenues			
State	\$117,606,743	\$652,958,956	\$535,352,212
Local	\$1,353,524,309	\$818,172,097	(\$535,352,212)
Federal	\$173,913,532	\$173,913,532	\$0

education costs they supported. Concurrently, with small to no increases in state funding for special education, the state share of support dropped precipitously. This raises an analytical question of what would have happened if the state educational and fiscal policy makers had chosen instead to maintain the same share of state support for special education funding over the 10-year period. The percentage share data for all years by funding source are provided in the Appendix (see Table A.7).

To show the fiscal impact of the changing levels of state and local support, a hypothetical analysis was done to calculate the impact of maintaining the funding shares at the 2003–2004 level for the following 10 years. In the analysis, the dollar amount of expenditures was kept the same, but the 2003–2004 state and local percentage shares were applied to the expenditures of all following years; the state shares remained fixed at 40% and the local share at 58%. The 10-year total increase from federal funds was held constant to focus the analysis on state and local policy decisions. The summary results are shown in Table 1. The estimate is that there would have been a shift of \$535 million from local funding to state subsidies for special education over this time.

While many considerations and judgments were behind policy decisions resulting in the 10-year ongoing reduction in state share, the fiscal effect on school districts was to increase substantially the local funding required for special education. This necessity is likely to have resulted in school districts reallocating funding away from other educational areas and into special education, and increasing local taxes to offset the drop in state funding. At the state level, to have maintained the same state share of support for special education as in 2003–2004 would have required reallocations away from other areas supported by state funding and into increased state subsidies for special education.

## Special Education Fiscal Policy Discussion and Choices

Two main conclusions come out of the study regarding existing policies governing special education funding in Pennsylvania.

1. State funding for special education has stagnated over the past six years and this policy choice has greatly burdened school districts with replacing the state share to the tune of approximately \$535 million over the past 10 years.
2. Tuition payments to charter schools from school districts have grown rapidly over the past five years and have exceeded the reported special education expenditures by charter schools by approximately \$550 million over this period.

Taken together the fiscal impact on school districts has been over \$1 billion, half from lower state revenues and half from excessive tuition payments to charter schools for special education students.

As a result, there currently exists a structural funding imbalance for special education. District expenditures for special education are growing at a 5–6% rate annually. These are driven by: a) required costs to serve students in district-operated programs (4% annual growth) and b) mandatory tuition payments to charter schools (19%–25% annually). State subsidies have been at zero growth for six years, leaving the school district budgets and taxpayers to make up for lack of state revenue and the rapidly increasing tuition payments to charter schools.

In response to expressed concerns and complaints from school districts, the legislature established the Special Education Funding Commission in 2013 (Act 3 of 2013). The rationale for the commission was the “state government’s interest in reforming a system that has been in place for a long time but is often seen as not fairly and adequately serving the current needs in Pennsylvania for students with disabilities and their schools.”<sup>8</sup> Its purpose was to review the funding system for special education in the Commonwealth and to recommend a new formula or approach for distributing state subsidies for special education. The Commission issued its final report in December 2013. Following the Commission’s recommendations, the Pennsylvania legislature established a new formula to allocate new state funding (beyond 2010–2011 levels) according to three cost categories based on the intensity of services required by students eligible for special education services: Category 1 for the least intensive range of services; Category 2 for a moderate range of services; Category 3 for the most intensive range of services.<sup>9</sup> The new distribution

Table 2. 2013–2014 Charter School Tuition Rates per Student		
Type of Student	Special	Non-special
Average Tuition Payment	\$19,823	\$9,564
Minimum Tuition Payment	\$12,884	\$6,628
Maximum Tuition Payment	\$43,047	\$17,182
<i>Source:</i> Pennsylvania Department of Education.		

formula was to be used for *additional* funds only; the distribution for existing special education subsidies remained in place.

For the 2014–2015 school year, the legislature appropriated \$20 million for special education subsidies for school districts, a 2% increase in state funds over the prior year and the first increase in six years. (Pennsylvania Department of Education 2014b). The \$20 million increase in state subsidy in 2014–2015 is a move in the proper direction. However, in reality it does relatively little to close the funding gap. Consequently, without a substantial increase in state aid school districts will be left to support an increasing share and amount of special education expenditures.

The existing policies governing special education funding for charter schools provide financial incentives for increasing the number of special education students in their schools. In 2013–2014 charter schools had a higher percentage of their students classified as special education than school districts. As shown in Table 2, the average district tuition payment per student for their special education students in a charter school in 2013–2014 was about double that for nonspecial (regular) students. Since tuition payments are not uniform across the state, but calculated separately for each school district, charter schools received a wide range of rates per student for providing similar services to special education students with similar needs.

Further, the tuition payment is based neither on the type of special education student nor the cost of serving a student; each district is charged its individual state-calculated tuition rate. This provides a further financial incentive to serve those special education students with the lowest costs. In practice, this is what has happened; within the population of special education students that they serve, charter schools have a higher percentage of lower cost students and a substantially lower percentage of higher cost students.

This policy for funding special education in charter schools has a more implicit funding outcome. With approximately half of the tuition payments being in excess of charter schools' instructional costs, the extra funds not used for special education can function as general aid to charter schools. This practice is established and maintained through the current statutes and has proved resistant to change due to the efforts of a very effective charter school



lobby. This policy drove out approximately \$260 million beyond instructional costs to charter schools in 2013–2014 that could be used as general operation funds for school districts; the five-year total of this additional funding was \$550 million. To put this in perspective, for 2013–2014, the additional state funding to school districts that year was less than \$1 million for special education and approximately \$100 million for basic education funding. In effect, it is a hidden subsidy for charter school general operations, mandated by the state, but funded by school districts and taxpayers. These are local tax monies that are being directed to charter schools as general, unrestricted aid and away from school district programs.

Any policy considerations in this area depend on the objective of policy makers. If the primary objective is to reduce expenditures for school districts, then a direct choice on the revenue side is to increase state funding support for special education. The \$20 million increase in 2014–2015 is a relatively small start, but it is in the right direction to redress the imbalance. A policy choice to continue this effort would increase the state share over time to previous levels. However, implementation of this approach is constrained by the current fiscal situation in the state, other pressing demands for state funds such as pension reform, and the currently looming state-level structural budget deficits that limit available state resources to deal with fiscal problems.

The expenditure side offers another policy opportunity to reducing district costs and taxpayer burdens. There is substantial room for reduction in district expenditures by basing tuition payments for special education more on actual charter school expenditures rather than district tuition amounts. From the districts' perspective, it would have the same impact on their budgets as a substantial increase in the state subsidy for special education. A change of this sort would not require additional funding from the state and would significantly reduce the burden on school districts and taxpayers. However, it would substantially reduce the revenues of charter schools by the same amounts.

On the other hand, if the objective is to maintain the level of funding to charter schools, then continuing the current funding stream to charter schools from the special education tuition payments will accomplish this. The present policy of mandating district special education tuition payments to charter schools in excess of their expenditures will increase the amount of taxpayer-funded subsidies for other, non-special education charter school expenditures. However, there would be no additional funding required from the state, since school districts are paying the noninstructional expenditures to charter schools as an unfunded mandate.

**APPENDIX**

<b>Table A.1. Special Education Enrollments by School Districts and Charter Schools</b>							
<i>Year</i>	<b>Total Enrollment</b>		<b>Special Education Enrollment</b>			<b>Share of Special Education Enrollment</b>	
	<i>School District</i>	<i>Charter School</i>	<i>School District</i>	<i>Charter School</i>	<i>Total</i>	<i>School District Share</i>	<i>Charter School Share</i>
2004–2005	1,771,532	47,185	258,142	5,280	263,422	98%	2%
2005–2006	1,766,921	54,730	262,492	7,128	269,620	97%	3%
2006–2007	1,753,129	58,377	262,955	7,441	270,396	97%	3%
2007–2008	1,718,588	62,527	261,678	8,831	270,509	97%	3%
2008–2009	1,697,300	72,602	260,872	9,824	270,696	96%	4%
2009–2010	1,713,239	79,185	258,601	10,882	269,483	96%	4%
2010–2011	1,703,800	90,632	257,060	12,640	269,700	95%	5%
2011–2012	1,660,382	104,985	252,580	15,399	267,979	94%	6%
2012–2013	1,641,781	118,449	250,172	18,071	268,243	93%	7%
9-Year Change	(129,751)	71,264	(7,970)	12,791	4,821	-5%	5%
9-Year % Change	-7.3%	151.0%	-3.1%	242.3%	1.8%		
<p><i>Source:</i> Bureau of Special Education, Pennsylvania Department of Education. Data provided began in 2004–2005 and concluded in 2012–2013.</p> <p>* Special education enrollment data do not include students identified as gifted. Data provided began in 2004–2005 and concluded in 2012–2013.</p>							

**Table A.2. Special Education Enrollments by Type of Charter School**

	<b>School Districts</b>	<b>Charter Schools</b>			<b>State Total</b>
		<b>Brick &amp; Mortar</b>	<b>Cyber</b>	<b>Total</b>	
2004–2005	258,142	4,584	696	5,280	263,422
2005–2006	262,492	5,846	1,282	7,128	269,620
2006–2007	262,955	5,799	1,642	7,441	270,396
2007–2008	261,678	6,639	2,192	8,831	270,509
2008–2009	260,750	7,169	2,655	9,824	270,574
2009–2010	258,601	8,734	2,148	10,882	269,483
2010–2011	257,060	8,669	3,971	12,640	269,700
2011–2012	252,580	10,464	4,935	15,399	267,979
2012–2013	250,172	13,940	4,131	18,071	268,243
9-Year Change	(7,970)	9,356	3,435	12,791	4,821
9-Year % Change	–3.1%	204.1%	493.5%	242.3%	1.8%

Source: Bureau of Special Education, Pennsylvania Department of Education.

Table A.3. Special Education Expenditures by School Districts and Charter Schools						
Year	Total Expenditures		Annual Change		% Annual Change	
	School Districts	Charter Schools	School Districts	Charter Schools	School Districts	Charter Schools
2003–2004	\$2,164,110,266	\$18,535,986				
2004–2005	\$2,356,576,805	\$25,040,864	\$192,466,539	\$6,504,878	8.9%	35.1%
2005–2006	\$2,527,022,482	\$31,993,781	\$170,445,677	\$6,952,917	7.2%	27.8%
2006–2007	\$2,704,470,529	\$43,822,549	\$177,448,047	\$11,828,768	7.0%	37.0%
2007–2008	\$2,863,671,946	\$49,754,193	\$159,201,417	\$5,931,644	5.9%	13.5%
2008–2009	\$3,007,701,975	\$66,437,960	\$144,030,029	\$16,683,767	5.0%	33.5%
2009–2010	\$3,204,522,331	\$89,698,371	\$196,820,355	\$23,260,411	6.5%	35.0%
2010–2011	\$3,364,434,122	\$107,766,507	\$159,911,791	\$18,068,136	5.0%	20.1%
2011–2012	\$3,413,721,939	\$133,704,444	\$49,287,816	\$25,937,937	1.5%	24.1%
2012–2013	\$3,587,898,259	\$151,372,821	\$174,176,321	\$17,668,377	5.1%	13.2%
2013–2014	\$3,809,154,850	\$177,785,084	\$221,256,591	\$26,412,262	6.2%	17.4%
Total Growth			\$1,645,044,584	\$159,249,098	76.0%	859.1%
Average Annual Growth Rate			\$164,504,458	\$15,924,910	5.8%	25.7%

Source: Pennsylvania Department of Education, Summary of Annual Financial Report Data.

**Table A.4. Special Education Tuition Payments and Expenditures in Charter Schools**

Year	Tuition Payments for Special Education Students	Total Special Education Expenditures by Charter Schools **	Payments to Charter Schools in Excess of Expenditures	Payments as % of Total Expenditures	Percent Excess Payments
<i>Code</i>	<i>562</i>	<i>Total</i>	<i>562 – Total</i>		
2009–2010*	\$174,137,927	\$89,698,371	\$84,439,557	52%	48%
2010–2011	\$216,084,416	\$107,766,507	\$108,317,910	50%	50%
2011–2012	\$294,991,093	\$133,704,444	\$161,286,650	45%	55%
2012–2013	\$350,562,879	\$151,372,821	\$199,190,057	43%	57%
2013–2014	\$437,099,804	\$177,785,084	\$259,314,720	41%	59%
5-Year Total	\$1,035,776,316	\$482,542,143	\$553,234,173	47%	53%
		<i>Annual Increases</i>		<i>% of Annual Increase</i>	
2010–2011	\$41,946,489	\$18,068,136	\$23,878,353	43%	57%
2011–2012	\$78,906,677	\$25,937,937	\$52,968,740	33%	67%
2012–2013	\$55,571,785	\$17,668,377	\$37,903,408	32%	68%
2013–2014	\$86,536,925	\$26,412,262	\$60,124,663	31%	69%
4-Year Total	\$262,961,877	\$88,086,713	\$174,875,164	33%	67%

Source: Pennsylvania Department of Education, *Summary of Annual Financial Report Data*.

\* 2009–2010 is the first year for which charter school tuition payments for special students were separated from nonspecial students.

\*\* Total expenditures include 1200 Special Education expenditures, 2140 Psychological Services, and 2150 Speech Pathology and Audiology Services.

<b>Table A.5. Special Education Subsidies to School Districts</b>						
<i>State and Federal Funds</i>						
<b>Year</b>	<b>State Total *</b>	<b>Federal IDEA Total **</b>	<b>Federal Pass-Through ***</b>	<b>Federal Total</b>	<b>Total State and Federal</b>	
2003-2004	\$858,988,986	\$51,321,596		\$51,321,596	\$910,310,582	
2004-2005	\$877,286,443	\$54,193,807		\$54,193,807	\$931,480,249	
2005-2006	\$899,139,549	\$53,142,007		\$53,142,007	\$952,281,556	
2006-2007	\$925,021,183	\$35,155,410	\$102,402,630	\$137,558,040	\$1,062,579,223	
2007-2008	\$955,851,518	\$34,824,460	\$119,783,290	\$154,607,750	\$1,110,459,268	
2008-2009	\$972,228,789	\$35,302,198	\$130,570,829	\$165,873,027	\$1,138,101,816	
2009-2010	\$982,721,102	\$114,036,436	\$226,721,120	\$340,757,555	\$1,323,478,658	
2010-2011	\$976,134,935	\$93,606,340	\$213,787,695	\$307,394,034	\$1,283,528,969	
2011-2012	\$976,708,033	\$36,978,225	\$162,766,399	\$199,744,624	\$1,176,452,657	
2012-2013	\$976,073,131	\$31,264,544	\$161,315,214	\$192,579,758	\$1,168,652,889	
2013-2014	\$976,595,729	\$9,540,735	\$215,694,393	\$225,235,128	\$1,201,830,857	
<b>Total Growth</b>	<b>\$117,606,743</b>	<b>(\$41,780,861)</b>	<b>\$215,694,393</b>	<b>\$173,913,532</b>	<b>\$291,520,276</b>	

*Source: Pennsylvania Department of Education, Summary of Annual Financial Report Data.*

\* Includes both 7271 School Aged Pupils and 7272 Early Intervention subsidies.

\*\* Includes both IDEA (8512/8513) and ARRA-IDEA (8701/8702) funds.

\*\*\* Includes both IDEA (6832) and ARRA-IDEA (6833) funds.

**Table A.6. Special Education Expenditures and Revenues: A 10-Year Review**

	Expenditures				Revenues			
	Instruction	Support	Total	State	Federal	State & Federal	Local	
2003–2004	\$2,086,101,185	\$78,009,081	\$2,164,110,266	\$858,988,986	\$51,321,596	\$910,310,582	\$1,253,799,684	
2004–2005	\$2,272,801,796	\$83,775,009	\$2,356,576,805	\$877,286,443	\$54,193,807	\$931,480,249	\$1,425,096,555	
2005–2006	\$2,438,376,498	\$88,645,984	\$2,527,022,482	\$899,139,549	\$53,142,007	\$952,281,556	\$1,574,740,926	
2006–2007	\$2,608,895,090	\$95,575,440	\$2,704,470,529	\$925,021,183	\$137,558,040	\$1,062,579,223	\$1,641,891,306	
2007–2008	\$2,762,992,090	\$100,679,856	\$2,863,671,946	\$955,851,518	\$154,607,750	\$1,110,459,268	\$1,753,212,678	
2008–2009	\$2,901,398,746	\$106,303,230	\$3,007,701,975	\$972,228,789	\$165,873,027	\$1,138,101,816	\$1,869,600,160	
2009–2010	\$3,090,167,393	\$114,354,937	\$3,204,522,331	\$982,721,102	\$340,757,555	\$1,323,478,658	\$1,881,043,673	
2010–2011	\$3,245,011,769	\$119,422,353	\$3,364,434,122	\$976,134,935	\$307,394,034	\$1,283,528,969	\$2,080,905,153	
2011–2012	\$3,290,672,495	\$123,049,444	\$3,413,721,939	\$976,708,033	\$199,744,624	\$1,176,452,657	\$2,237,269,282	
2012–2013	\$3,461,058,240	\$126,840,019	\$3,587,898,259	\$976,073,131	\$192,579,758	\$1,168,652,889	\$2,419,245,370	
2013–2014	\$3,673,192,262	\$135,962,589	\$3,809,154,850	\$976,595,729	\$225,235,128	\$1,201,830,857	\$2,607,323,993	
10-Year Changes	\$1,587,091,077	\$57,953,508	\$1,645,044,584	\$117,606,743	\$173,913,532	\$291,520,276	\$1,353,524,309	

Source: Pennsylvania Department of Education, *Summary of Annual Financial Report Data*.

Table A.7. Share of Special Education Revenues by Funding Source				
	Revenues			
	State	Federal	State & Federal	Local
2003–2004	39.7%	2.4%	42.1%	57.9%
2004–2005	37.2%	2.3%	39.5%	60.5%
2005–2006	35.6%	2.1%	37.7%	62.3%
2006–2007	34.2%	5.1%	39.3%	60.7%
2007–2008	33.4%	5.4%	38.8%	61.2%
2008–2009	32.3%	5.5%	37.8%	62.2%
2009–2010	30.7%	10.6%	41.3%	58.7%
2010–2011	29.0%	9.1%	38.1%	61.9%
2011–2012	28.6%	5.9%	34.5%	65.5%
2012–2013	27.2%	5.4%	32.6%	67.4%
2013–2014	25.6%	5.9%	31.6%	68.4%
10-Year Changes	7.1%	10.6%	17.7%	82.3%

*Source: Pennsylvania Department of Education.*

## NOTES

*Note:* The research that formed the basis for this article was funded by The Center for Rural Pennsylvania. The full report, Analysis of Special Education Enrollments and Funding in Pennsylvania Rural and Urban School Districts, published September 2015, can be found at [http://www.rural.palegislature.us/documents/reports/Special\\_Ed\\_Enroll\\_and\\_Funding\\_final.pdf](http://www.rural.palegislature.us/documents/reports/Special_Ed_Enroll_and_Funding_final.pdf).

1. The Taxpayer Relief Act, Special Session Act 1 of 2006.

2. Enrollment data only included 2012–2013. Data for 2013–2014 to match fiscal data were requested from the Pennsylvania Department of Education but not received.

3. In the data obtained from PennData this category was named mental retardation.

4. Total expenditures data used in the analysis are for instructional programs and are reported in the *Manual of Accounting and Financial Reporting for PA Public Schools Chart of Accounts* under three expenditure codes: 1200 Special Education expenditures, 2140 Psychological Services, and 2150 Speech Pathology and Audiology Services.

5. There are two subaccounts that are used to record the special education subsidies: Code 7271 Special Education Funding for School Aged Pupils, and Code 7272 Early Intervention for students with developmental delays and disabilities. The subsidy for school aged pupils is the primary state funding source for special education for school districts, comprising over 98% of the total amount in 2013–2014.

6. Federal IDEA Revenues are reported under 8512 IDEA Part B and 8513 IDEA Section 619 (for education of preschool children with disabilities). For several years districts also received federal funds for disabled children from the American Recovery and Reinvestment Act of 2009 (ARRA). These funds were coded as 8701 IDEA Part B and 8702 IDEA Section 619.



7. Federal IDEA Revenue Received as Pass-Through is reported under local revenues as Code 6832 Federal IDEA Revenue Received as Pass-Through and Code 6833 Federal ARRA-IDEA Revenue Received as Pass-Through.

8. "Special Education Funding Commission Report," December 2013, p. 5.

9. Act 126 of 2014.

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