

## Explanation of Special Education Forecast Change: February 2018 versus November 2017

### Total Change in Aid Entitlements and Appropriations

Special education aid entitlement estimates have decreased as follows since the November forecast:

Feb 18 vs Nov 17						
FY	Regular	Excess Cost	Cross Subsidy	Growth Cap	Hold Harmless	Total
2017	1,924,279	(1,578,514)	-	(1,055,811)	(2,017,896)	(2,727,942)
2018	334,869	(10,917,407)	-	1,039,027	2,763,733	(6,779,778)
2019	(2,404,300)	(12,982,003)	-	2,455,297	2,840,920	(10,090,086)
2020	(3,037,343)	(17,096,772)	-	4,036,950	3,554,741	(12,542,425)
2021	(4,350,587)	(18,877,528)	-	5,583,385	3,542,191	(14,102,538)

On an appropriations basis, the February forecast is \$2.3 million lower for FY 17, \$15.9 million lower for the current biennium, and \$26.1 million lower for the FY 20-21 biennium than the previous forecast (amounts below exclude the payment shift for Monticello):

Approp Impact	current	final	total	biennium
2017	(2,391,314)		(2,391,314)	
2018	(5,943,154)	(336,628)	(6,279,782)	
2019	(8,844,970)	(836,625)	(9,681,594)	(15,961,376)
2020	(10,994,690)	(1,245,117)	(12,239,806)	
2021	(12,362,285)	(1,547,735)	(13,910,020)	(26,149,827)

### Data Used in Forecasts

Special education aid is affected by several factors, including state special education expenditures, special education child counts, district Average Daily Membership (ADM), poverty concentration, general education revenue, the extent to which services are provided by cooperatives or nonresident districts versus the resident district, and the amount and uses of federal special education aid.

The primary cost driver is prior year state special education expenditures. State special education expenditures include program costs (primarily salaries and fringe benefits) and special transportation costs. The forecast methodology projects these two main components of special education expenditures separately.

**State special education program expenditures** are projected by taking the most recent year of data (FY 16 preliminary data for the February 2017 forecast, FY 17 preliminary data for the November 2017 forecast and FY

17 nearly final data for the February 2018 forecast), adjusting for ADM change on a district by district basis, and applying an inflation factor based on recent trends in special education cost per ADM statewide.

Near-final special education expenditures excluding transportation for FY 17 are down from the estimates used in November, and ADM are up. As a result, the growth in special education non-transportation expenditures per ADM for FY 17 is estimated to be 3.4%, compared with the estimate of 4.4% used in November. While the growth rate in FY 17 was below the four-year average, the relatively low growth rate in FY 17 appears to be due to the one-time accelerated growth in FY 16 rather than a slowing of the longer term growth trend, as the two-year average growth for FY 16 and FY 17 is 5.2%. Therefore, the February forecast continues the methodology used in November of applying the four-year average growth rate to project special education non-transportation expenditure per ADM for later years. Based on the lower rate of growth in FY 17, the 4 year average has declined from 5.16% to 4.93%, as shown in the tables below:

November 2017 Forecast:

	FY 14	FY 15	FY 16	FY 17
Resident ADM	832,493	840,073	847,011	856,441
Cost per ADM excl Transp	1,882	1,977	2,116	2,209
Percent increase in non-transp cost/ADM	4.1%	5.0%	7.0%	4.4%
	4 year Average = 5.16%			

February 2018 forecast:

	FY 14	FY 15	FY 16	FY 17
Resident ADM	832,493	840,073	847,011	856,878
Cost per ADM excl Transp	1,882	1,977	2,116	2,189
Percent increase in non-transp cost/ADM	4.1%	5.0%	7.0%	3.4%
	4 year Average = 4.93%			

**Special transportation expenditures** are projected by taking the most recent year of data (FY 16 final data for the November forecast and FY 17 final data for the February forecast), adjusting for state total public and nonpublic pupil enrollment change, and applying inflation factors based on recent trends in special education cost per public plus nonpublic school enrollee statewide. FY 17 pupil transportation cost, which is pulled from UFARS, was not used for the November 2017 forecast because it was incomplete when data was collected for the forecast in mid-October and not considered reliable for forecast use.

Data used for the November forecast are as follows:

<b>November 2017 Forecast</b>	<b>F.Y. 2013</b>	<b>F.Y. 2014</b>	<b>F.Y. 2015</b>	<b>F.Y. 2016</b>	<b>F.Y. 2017</b>
Public ADM + NP Enroll	902,827	906,907	913,519	919,830	928,787
Sp Ed Bus Depreciation	3,227,042	3,466,620	3,699,006	3,655,182	3,868,417
Sp Ed Bus Depreciation Growth	1.104	1.074	1.067	0.988	1.058
Special Tran Oper Cost (Fin 723 + fin 728)	188,998,210	197,134,498	220,855,977	239,113,113	258,909,508
Sp Tran Oper Cost per public & np enrollee	212.91	221.19	245.81	263.93	282.93
Sp Transp Operating cost Growth	1.066	1.039	1.111	1.074	1.072
<b>Total Sp Transp Cost</b>	<b>192,225,252</b>	<b>200,601,118</b>	<b>224,554,983</b>	<b>242,768,295</b>	<b>262,777,925</b>

Data used for the February 2018 forecast are as follows:

<b>February 2018 Forecast</b>	<b>F.Y. 2013</b>	<b>F.Y. 2014</b>	<b>F.Y. 2015</b>	<b>F.Y. 2016</b>	<b>F.Y. 2017</b>
Public ADM + NP Enroll	902,827	906,907	913,519	919,830	929,321
Special Ed Bus Depr	3,227,042	3,466,620	3,699,006	3,655,182	3,836,855
Sp Ed Bus Depreciation Growth	1.104	1.074	1.067	0.988	1.050
Special Ed Trans Oper Cost (Fin 723 + Fin 728)	188,998,210	197,134,498	220,855,977	239,113,113	262,251,464
Sp Tran Oper Cost per public & np enrollee	212.91	221.19	245.81	263.93	286.33
Percent change	1.066	1.039	1.111	1.074	1.085
<b>Total Sp Trans Cost (Oper + depr)</b>	<b>192,225,252</b>	<b>200,601,118</b>	<b>224,554,983</b>	<b>242,768,295</b>	<b>266,088,319</b>

Based on actual FY 17 data, the cost of special transportation for FY 17 is up \$3.3 million from the estimates used for the November forecast. The inflation rates used for future years have been adjusted to reflect the most recent four year averages, from 5.8% to 5.5% per year for bus depreciation and from 7.2% to 7.7% for transportation operating cost.

The table below summarizes the change in estimates of prior year special education costs and prior year ADM between the November forecast and the February forecast:

	FY 17 Aid (FY 16 Data)	FY 18 Aid (FY 17 Data)	FY 19 Aid (FY 18 Data)	FY 20 Aid (FY 19 Data)	FY 21 Aid (FY 20 Data)
PY Sp Ed Cost Excl Transp	(6,090,654)	(15,800,260)	(22,936,181)	(25,643,115)	(30,631,187)
PY Transp cost	201,668	3,310,393	3,056,034	3,368,852	3,768,137
Total Prior year Expenditure	(5,888,985)	(12,489,867)	(19,880,147)	(22,274,263)	(26,863,050)
PY ADM Served		336	315	751	1,185

Expenditure estimates for FY 18 and later are based on FY 17 data projected forward based on projected total ADM change and four-year average growth rates for expenditure per ADM.

### Analysis of Special Education Child Count and Non-Transportation Cost Trends

There was very little change in projected special education child count from the November forecast since FY 2017 child count data was available for the November forecast, and FY 2018 child count data is not yet available. Analysis of staffing patterns and salaries per FTE was not updated for the February forecast.

### Formula Calculations

Beginning in FY 16, the state special education aid formula includes four components:

- 1) Initial aid is the least of three calculations:
  - a. A census-based calculation which is a function of total ADM, poverty concentration and child count by primary disability;

- b. A percentage of old formula “reimbursable” costs; or
  - c. A percentage of total nonfederal special education costs, including fringe benefit costs that were “nonreimbursable” prior to FY 16.
- 2) Excess cost aid is the greater of two calculations:
- a. A percentage of the old formula reimbursable costs less the initial aid less a percentage of general education revenue; or
  - b. A percentage of the total nonfederal special education costs less initial aid less a percentage of general education revenue.
- 3) A minimum aid (hold harmless) provision which ensures that the total aid for FY 16 will not be less than what the total aid would have been in FY 16 under the old formula; for later years, the minimum aid is adjusted for ADM change and inflation.
- 4) A maximum aid (growth cap) provision, which limits the total aid to no more than the minimum aid plus \$80 per ADM served for FY 16, \$100 per ADM served for FY 17, and for FY 18 and later, the sum of the special education aid increase limit for the previous fiscal year and \$40 per ADM.

### **Initial and Excess Cost Aid**

The table below shows that initial and excess cost aid as a percent of prior year special education cost changed very little between the November and February forecasts. With projected cost declining between the two forecasts, initial aid is up slightly as a percent of the cost because the pupil-based portions of the initial aid calculations do not decrease as a result of the slower expenditure growth. Excess cost aid as a percent of prior year cost decreases due to three factors:

- 1) Because initial aid covers a slightly higher percentage of prior year costs, there is less unfunded cost going into the excess cost formula;
- 2) Because special education cost is growing slower than projected in November, the general education revenue deduct in the excess cost formula has more impact on net aid; and
- 3) The model used for the November forecast inadvertently left out compensatory revenue in calculating the excess cost aid deduction for general education revenue attributable to students served outside of the general education classroom for more than 60% of the school day. That resulted in understating the general education revenue deduct in the November calculations.

			FY 17	FY 18	FY 19	FY 20	FY 21
<b>Initial Aid as Percent of PY Cost:</b>							
November 17 Forecast			50.6%	50.7%	50.9%	51.0%	51.2%
February 18 Forecast			50.8%	51.1%	51.2%	51.4%	51.6%
Difference			0.2%	0.3%	0.3%	0.3%	0.4%
<b>Excess Cost Aid as Percent of PY Cost</b>							
November 17 Forecast			13.7%	14.3%	14.8%	15.3%	15.8%
February 18 Forecast			13.6%	13.9%	14.4%	14.7%	15.2%
Difference			0.0%	-0.4%	-0.4%	-0.6%	-0.6%
<b>Total Initial + Excess Cost Aid as Percent of PY Cost</b>							
November 17 Forecast			64.3%	65.0%	65.7%	66.3%	67.0%
February 18 Forecast			64.5%	64.9%	65.6%	66.1%	66.8%
Difference			0.2%	-0.1%	-0.1%	-0.2%	-0.2%
<b>\$ Impact of Combined Difference</b>			4,224,668	(2,457,937)	(2,323,999)	(5,363,302)	(5,239,208)

Combining these two effects, the total initial plus excess cost aid as a percentage of prior year special education expenditures decreased by 0.1% for FY 18 and 19, and by 0.2% for FY 20 and FY 21 between the November and February forecasts. To put this in perspective, the change in aid as a percent of cost decreases state total aid by about \$2 million per year in the FY 18-19 biennium and by about \$5 million per year in the FY 20-21 biennium.

### Minimum and Maximum Aid

The maximum aid / growth cap limits the increase a district can receive in special education aid over what it would have received under the old formula for FY 16, adjusted for ADM change and inflation. Comparing the November 17 and February 18 forecasts, the savings to the state from the growth cap decline by \$1.0 million in FY 18, \$2.5 million in FY 19, \$4.0 million in FY 20, and \$5.6 million in FY 21. With less initial and excess cost aid being generated due to lower special education expenditures than forecast in November, fewer districts are over the cap and by smaller amounts.

			FY 17	FY 18	FY 19	FY 20	FY 21
<b>Maximum Aid (Growth Cap)</b>							
November 17 Forecast			19,222,075	21,873,919	21,847,442	25,399,264	25,303,914
February 18 Forecast			20,277,886	20,834,893	19,392,145	21,362,314	19,720,529
Difference			1,055,811	-1,039,027	-2,455,297	-4,036,950	-5,583,385

The minimum aid / hold harmless establishes a minimum aid for each district based on the amount it would have received under the old formula for FY 16, adjusted for ADM change and inflation. Comparing the November and February forecasts, the cost to the state from the hold harmless increases by \$2.7 million for FY 18. \$2.8 million for FY 19, \$5.6 million for FY 20 and \$5.5 million for FY 21. With initial and excess cost aid being less than projected in November, more districts go into the hold harmless and for larger amounts.

			FY 17	FY 18	FY 19	FY 20	FY 21
<b>Minimum Aid (Hold Harmless)</b>							
November 17 Forecast			8,597,486	8,178,452	5,502,145	3,781,238	3,372,770
February 18 Forecast			6,579,590	10,942,186	8,343,065	7,335,979	6,914,961
Difference			-2,017,896	2,763,733	2,840,920	3,554,741	3,542,191