

State of Washington  
Joint Legislative Audit and Review Committee (JLARC)



Special Education Excess Cost  
Accounting and Reporting  
Requirements

Report 06-3

February 16, 2006

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JLARC staff, under the direction of the Committee and the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other policy and fiscal studies. These studies assess the efficiency and effectiveness of agency operations, impacts and outcomes of state programs, and levels of compliance with legislative direction and intent. The Committee makes recommendations to improve state government performance and to correct problems it identifies. The Committee also follows up on these recommendations to determine how they have been implemented. JLARC has, in recent years, received national recognition for a number of its major studies.

# Special Education Excess Cost Accounting and Reporting Requirements

Report 06-3

## REPORT DIGEST

February 16, 2006



STATE OF WASHINGTON

JOINT LEGISLATIVE AUDIT AND  
REVIEW COMMITTEE

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## What Is Special Education?

Special education is instruction that is specially designed to meet the unique needs and abilities of an eligible student with disabilities. The instruction must be provided at no cost to the student or parent, in the least restrictive environment possible.

## What Is Cost Accounting?

Cost accounting is a type of accounting that involves tracking costs of producing products or providing services. There are numerous methodologies for doing this, each being suitable for different products or services. Cost accounting is used for both management and financial purposes.

## What Are Special Education Excess Costs?

“Excess costs” are those expenditures for special education and related services for special education students that exceed the amount needed to provide a basic education to those students, as basic education is defined by the state.

## What Does Special Education Excess Cost Accounting Do?

The current special education excess cost accounting methodology is intended to ensure special education expenditures are assigned as either basic education costs or excess costs.

## Why A Special Education Excess Cost Accounting Study?

State law requires that state **funding** for school district special education programs be provided on an excess cost basis. Since 2001, the state has also required that every school district **account** for their special education expenditures using an excess cost methodology.

The 2005-07 Operating Budget directs JLARC to conduct a review of the special education excess cost accounting methodology and expenditure reporting requirements. At the same time, the Legislature directed the State Auditor’s Office to examine whether school districts are appropriately and consistently applying the excess cost accounting methodology. JLARC has worked with the State Auditor’s Office during this review.

We undertook this review of the cost accounting methodology to help determine if the statewide excess cost methodology is functioning as intended, and if not, what modifications might be made and what alternate cost accounting methodologies might be considered.

## Findings

After analyzing the special education excess cost accounting methodology and reporting requirements, we found that the accounting methodology is not well understood, that there have been problems with how districts have implemented it, and, as a result, there are concerns about the overall accuracy of the accounting data. We have eight findings that fall into four general categories.

## Understandability

1. Accounting for costs on an excess cost basis is **complicated**, and many school districts **do not fully understand** this approach and the underlying principles for assigning special education costs to both basic and special education funding.
2. The state's excess cost accounting methodology is **different from** many traditional, more widely understood cost accounting **practices**. We found no other state employing a similar methodology.

## Ease to Implement and Administer

3. While the Office of Superintendent of Public Instruction (OSPI) methodology might be difficult to understand, OSPI developed some simplified steps to assigning costs for **certificated instructional staff** that make it **easier to administer**. However, there are **no simplified steps** provided by OSPI to districts for assigning costs of **contracted services** and **non-employee related costs**.

## Ability to Capture Expenditures and Assign Costs

4. The OSPI methodology complies with the Legislature's intent that some special education costs should be assigned to basic education programs. However, in an attempt to simplify the process, some of the state assumptions can lead to **inaccuracies in costs reported**.
5. The State Auditor's Office found many school districts were **not accurately and consistently** assigning costs for delivery of special education services.
6. The excess cost methodology **does not report information** about the **total costs** of serving special education students. Therefore, total costs **cannot be reliably compared** across districts and to program funding within districts.

## Influence on Program Management and Budgeting

7. The excess cost methodology can yield **results** that may appear **counter intuitive** to staff and the public (e.g., the more time special education students spend in a regular classroom, the greater the percentage of special education teachers' costs are charged as an excess cost).
8. District officials indicate that the excess cost accounting methodology does not influence their budget or program management decisions. The excess cost methodology is viewed as an after-the-fact administrative exercise. Although the methodology splits costs between basic education and special education programs, it does not provide evidence to ensure **whether or not** special education students receive an **appropriate share of the basic education allocation**.

## Alternatives and Modifications

Both *standards-based* and *full-cost* accounting approaches are possible alternatives to the current excess cost accounting methodology. There are also a number of modifications to the current methodology that might improve the accuracy of reported special education costs.

## Recommendations

1. The Legislature should decide whether the **current** excess cost accounting approach **or** an **alternative** would best meet the needs of the state, school districts, and special education students.
2. If the current excess cost methodology is maintained, the OSPI, assisted by interested stakeholders, should examine **modifications to improve** the **accuracy** of the 1077 Special Education Excess Cost Worksheet.
3. If the current excess cost methodology is maintained, OSPI should provide **clear guidance and instruction** on how to accurately and appropriately: a) complete the 1077 Least Restrictive Environment child counts; and b) assign costs of contracted services and non-employee related costs between basic education and special education programs.
4. If the current excess cost methodology is maintained, OSPI should require school districts to **report all costs** of providing special education services (i.e., expenditures assigned to both basic education and special education programs).

**Committee Addendum**

*The Committee approved this addendum to the final report at its February 16, 2006 meeting.*

The Committee finds that there are inadequacies with the current excess cost accounting methodology. The Committee therefore recommends the Legislature modify the state's cost accounting methodology to improve its utility. The Legislature should consider the results of the work of Washington Learns to help inform any modifications.



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# CHAPTER ONE – INTRODUCTION

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## CHAPTER OVERVIEW

This chapter provides context and background for the rest of the report. It includes information about special education in Washington State, the reason for conducting this excess cost accounting study, study objectives, and an overview of the report.

## WHAT IS SPECIAL EDUCATION?

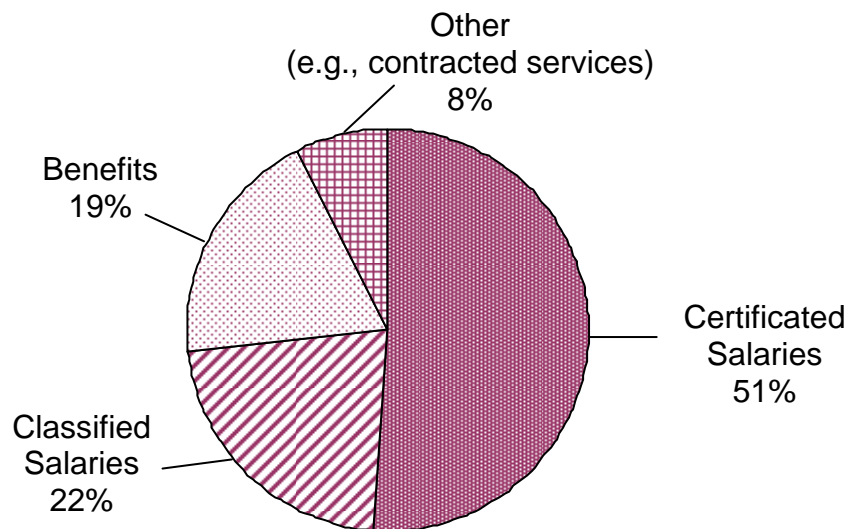
Special education is instruction that is specially designed to meet the unique needs and abilities of an eligible student with disabilities. The instruction must be provided at no cost to the student or parent, in the least restrictive environment possible. (Terms and concepts related to special education can be found in the Glossary.)

## SPECIAL EDUCATION EXPENDITURES AND ENROLLMENTS

On average, for the 2004-05 school year, school districts received \$4,088 (in unenhanced basic education funding) for each student and an additional \$3,673 (roughly 0.93 times the basic education allocation) for each special education student. In the 2005-2007 Operating Budget, the Legislature appropriated **\$932 million in state funds** for special education programs out of a total state K-12 appropriation of \$10.9 billion – approximately 8.3 percent of the total state K-12 appropriation.

Figure 1 below shows the statewide percentage breakouts of state and local special education expenditures for the 2003-04 school year, the most recent year for which financial data are available. Ninety-two percent of expenditures are associated with staff salaries and benefits. Expenditure percentages vary from district to district, but staffing costs are by far the most significant expenditures.

Figure 1 – Special Education (Program 21) Expenditures, 2003-04 School Year



Source: Data from OSPI's on-line "5 Year Special Education (Program 21)" report.

For the first three months of school year 2005-06, the average monthly special education enrollment was slightly more than **121,000 students** or about **12.5 percent** of the total K-12 enrollment. Several districts exceed the state average and are allocated special education funding up to the 12.7 percent funding index.

On average, special education students spend the majority of their school day in the regular classroom. They are basic education students first, but they require added special assistance for which additional special education funding is allocated.

### BRIEF HISTORY OF SPECIAL EDUCATION FUNDING IN WASHINGTON STATE

State support for special education services began in 1943 with the passage of the Schools for Handicapped Children Act. School districts were encouraged to “give such aid and special attention to handicapped children as their facilities will permit.” Costs of providing services could be reimbursed from the statewide appropriation of \$25,000.

In the 1950s and 1960s, numerous efforts, both public and private, were underway across the state to educate children with disabilities. However, it was not until passage of the Education for All Act (HB 90) in 1971 that access to education was guaranteed for all of the state’s children.

Through the 1970s and 1980s, with changes in federal and state laws, special education programs expanded. The Legislature added different types of disabilities to the list of conditions that made students eligible for services; made pre-school age children with disabilities eligible for services on a permissive basis; and tried different funding mechanisms.

Between 1979 and 1995, the Legislature allocated funding for special education services based on 14 categories of disabling conditions. Each condition generated a different per student allocation based on assumptions about the amount of time a student would spend in special education. A portion of the basic education dollars were incorporated into these allocations. This was termed a “full cost” funding formula because the different allocations were supposed to cover all the costs of serving the special education students. Funding could be spent in the way districts believed made the most sense for the individual needs of each special education student. Districts were allowed to “backout” a portion of their special education funding and apply it to their basic education program costs.

Then in 1995, the Legislature changed the special education funding methodology to a formula based on an assumption that the average excess cost of serving a special education student is 93.09 percent of the average cost of educating a basic education student. The change was made to address a variety of concerns such as the growth in the special education enrollments; the potential for districts to assign students to higher paying disabling condition categories as a way to receive more revenue; the belief that “labeling” of students was not beneficial to the students; and the basic education “backout” formulas districts were using were taking too much funding away from special education students. In making the change, the Legislature directed that:

“Funding for programs operated by local school districts shall be on an excess cost basis from appropriations provided by the legislature for special education programs for students with disabilities...” (RCW 28A.150.390).

Besides changing the way special education services were funded, 1995-97 Operating Budget proviso language included a requirement that all school districts **begin using an excess cost accounting methodology of their choosing.**

With the change from “full cost” funding to “excess cost” funding, some districts received more funding than they had received previously, and some received less. The Legislature created a Safety Net to aid districts receiving less funding, and to address concerns over special education population differences. The Safety Net fund allowed districts to apply for additional funds to help cover expenditures for high cost students. A committee comprised of personnel from school districts and Educational Service Districts, and a representative from the State Auditor’s Office review the applications. However, the lack of a standardized cost accounting methodology made it difficult to determine the relative needs of school districts applying for Safety Net funding. In 2000, OSPI required that all districts applying for Safety Net funding use the excess cost accounting methodology.

Then in 2001, the Legislature required that all districts to use the current standardized excess cost accounting methodology for assigning expenditures for special education students between basic education funding and special education funding.

## REASON FOR A SPECIAL EDUCATION EXCESS COST STUDY

The 2005-07 Operating Budget directed the Joint Legislative Audit and Review Committee (JLARC) and the State Auditor’s Office to conduct a study of the special education excess cost accounting methodology and reporting requirements. Reviewing the implementation and structure of the special education excess cost accounting methodology and the reporting requirements are critical first steps in determining if the accounting methodology is functioning as intended, and if not, what modifications might be made or what alternatives might be selected.

## The Difference Between Funding and Accounting for Expenditures

This study focuses on the special education excess cost accounting methodology and reporting requirements. The **study does not review** the current special education **funding formula**, which is based on a different set of factors than the accounting methodology. Most people would assume that there is a clear relationship between special education funding and the accounting for special education costs. In other states, this basic assumption would be correct. However, this relationship is less direct in Washington State.

**Funding** for special education in this state is based on a **headcount** of special education students. The same basic education allocation is made for special education students as for all other students, but an **additional .9309 times** the basic education allocation is also provided in special education funding. The amount of special education funding districts receive is not expected to cover the full costs of educating special education students. State law indicates that special education students are basic education students and are to remain basic education students for the full day regardless of the service setting or the services they receive. This means some of the costs of their special education services are to be covered by the basic education dollars that are provided for all special education students. Special education funding is intended to help pay for the excess cost of educating special education students.

**Accounting** for special education expenses is done using the current excess cost accounting methodology. The excess cost methodology does not present total costs for special education services or students. Rather it is a **method used to assign costs** to basic education and special education programs.

### OBJECTIVES OF THE STUDY

This study was undertaken to determine whether school districts are consistently and appropriately applying the special education excess cost accounting methodology, to investigate ways to better account for school district special education costs, and to analyze the impacts on districts that would result from possible modifications or alternatives.

The objectives of the study include:

- (a) An **analysis of the current** special education excess cost accounting **methodology and** related special education expenditure **reporting requirements**;
- (b) An examination of **whether opportunities exist for modifying** the current excess cost accounting methodology and expenditure reporting requirements, including comparisons to methods used in other states;
- (c) An assessment of the **potential impact** on school districts **if** the current excess cost accounting methodology and expenditure reporting requirements are **modified**; and
- (d) Incorporating any **findings and recommendations from the State Auditor's Office** examination of whether school districts are appropriately and consistently applying the current excess cost methodology.

### OVERVIEW OF REPORT

A brief synopsis of the remaining chapters is provided below:

In **Chapter 2**, we examine how the current special education excess cost methodology operates, through the use of examples and illustrations.

**Chapter 3** discusses the findings and analysis of whether the special education excess cost methodology is meeting the Legislature's intent and is being consistently and appropriately applied by school districts.

**Chapter 4**, given our findings about the current approach, takes a look at possible modifications and alternatives to the current methodology and the impacts that come from making changes.

In **Chapter 5**, we make recommendations.

The **Appendices** provide useful supplementary information such as the approach for conducting the study, how and which districts were selected for interviews and audits.

# CHAPTER TWO – SPECIAL EDUCATION EXCESS COST ACCOUNTING METHODOLOGY

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## CHAPTER OVERVIEW

This chapter is designed to give the reader a better understanding of how the current excess cost accounting methodology works before moving to discussion of possible alternatives or modifications to the methodology.

## WHAT ARE SPECIAL EDUCATION EXCESS COSTS?

Special education excess costs are not specifically defined in statute, but RCW 28A.150.390 indicates that funding for special education shall be on an excess cost basis. In 2001, the Legislature directed all school districts to use the current excess cost accounting methodology and reporting requirements, starting with the 2001-02 school year. The excess cost accounting methodology **must now be used consistently** by school districts for S-275 Personnel Reports, annual budgets, financial reports, and Safety Net applications.

Proviso language in the 2005-07 Operating Budget pertaining to the current excess cost accounting methodology reads as follows:

- (2) (a) The superintendent of public instruction shall use the excess cost methodology developed and implemented for the 2001-02 school year using the S-275 personnel reporting system and all related accounting requirements to ensure that:
  - (i) Special education students are basic education students first;
  - (ii) As a class, special education students are entitled to the full basic education allocation; and
  - (iii) Special education students are basic education students for the entire school day.
- (b) The S-275 and accounting changes in effect since the 2001-02 school year shall supersede any prior excess cost methodologies and shall be required of all school districts.

The *Accounting Manual for Public School Districts in the State of Washington* defines excess costs as:

**“Excess costs” are those expenditures for special education and related services for special education students that exceed the amount needed to provide a basic education to those students.**

A special education student may receive instruction and services in a regular classroom, or the student may be placed in a different setting such as a self-contained special education classroom or a pullout classroom. When a special education student leaves the regular classroom, a share of the basic education funding allocated for that student is assumed to go with him or her. The funding that accompanies the students helps pay for some of the special education services the student receives. The costs of special instruction and related services that exceed the basic education allocation are termed excess costs.

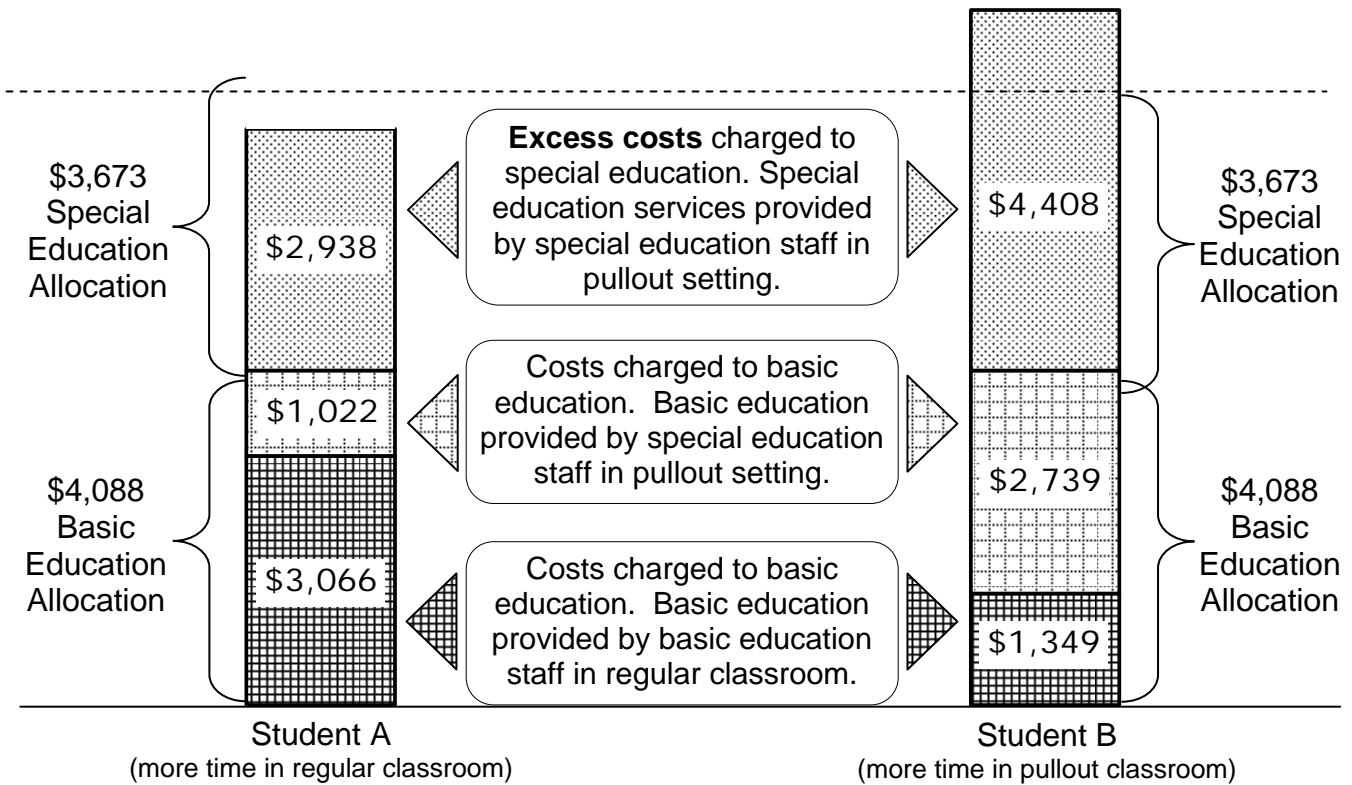
## Special Education Excess Cost Accounting

The amount of basic education funding each student “brings out” of the regular classroom to help pay for special education services is tied to the amount of time that student spends in the regular classroom. Figure 2 below shows the cost allocation for two hypothetical special education students. The basic education and special education funding provided by the state is identical for each student.

Student A spends about three-quarters of the school day in a regular classroom and one-quarter in a pullout setting. Therefore, some of the basic education funding for this student is allocated to pay for a share of the special education services. However, the basic education funding is not sufficient to pay for all of the special education services so special education funding is used for the excess costs.

Student B spends approximately one-third of the day in a regular classroom and two-thirds in a pullout setting. In this case, a smaller share of the basic education allocation is used in the regular classroom. A greater share of the basic education allocation remains to help pay for what is now considered Student B’s basic education provided by a special education teacher in the pullout setting. Student B has additional special education related service needs that exceed the remaining basic education allocation and the special education allocation. Because special education funding is based on average costs, some of the unused funding for Student A can be used to help pay for the costs of serving Student B.

Figure 2 – Example: Different Excess Costs for Different Students



Source: JLARC.

## HOW DOES THE 1077 SPECIAL EDUCATION EXCESS COST WORKSHEET OPERATE?

All special education teachers, with the exceptions of preschool and fully federally-funded special education teachers, have part of their salaries and benefits paid using basic education funding. For this reason, they are sometimes referred to as “part basic education” staff.

Rather than calculate a different basic education/special education split for every special education teacher, the Office of Superintendent of Public Instruction (OSPI) developed a standardized mechanism – the 1077 Special Education Excess Cost Worksheet. Districts calculate the percentages of special education teachers’ costs to be charged to the basic and special education programs based on a uniform percentage derived from the prior year’s staffing information and federal Least Restrictive Environment (LRE) child counts. More about the worksheet follows the example (Figure 3 below), but the major steps involved are:

1. The school district determines the percentage of time special education students spend in the special education classrooms.
2. The worksheet calculates a basic education teacher FTE for the time special education students spend in the special education classroom based on an assumed basic education student/staff ratio of 20:1.
3. The district identifies and enters the number of actual special education teacher FTE.
4. The worksheet calculates the percentages of each special education teacher’s costs that will be charged to basic education (from Step 2) and to special education (the remaining percentage of the teachers’ FTE from Step 3).

Figure 3 – Example: 1077 Special Education Excess Cost Worksheet

### 1077 SPECIAL EDUCATION EXCESS COST WORKSHEET - 2004-05 SCHOOL YEAR

County/District Number		99999		State Total		Enter data only in Yellow Cells			
Step	Step A			Step B	Step C	Step D	Step E	Step F	
				FTE- BEA	FTE-SPED	FTE-Staff	Part BEA Teachers	Percentage	
	<b>Form 1077, December 1, 2003</b>								
		Age	Child Count	Midpoint					
B.	Table 1	80-100%	6-11	32,203	X	92.0%	=	29,626.76	
			12-21	19,909	X	87.0%	=	17,320.83	
	Table 2	40-79%		40,443	X	64.0%	=	25,883.52	
	Table 3	0-39%		16,902	X	13.0%	=	2,197.26	
C.	Total		109,457			75,028.37		34428.63	
D.	Assumed BEA Student / Staff Ratio						20		
E.	Number of BEA Staff for Special Ed Time						=	1721.43	
F.	Program 21 Teachers* for 2003-04							4685.78	<=Input here
	<b>S-275 and Accounting Split of Staff for 2004-05 School Year</b>								
	Percentage of Each Part Basic Education FTE Teacher Charged to Basic Ed						=	36.7%	
	Percentage of Each Part Basic Education FTE Teacher Charged to Special Ed						=	63.3%	

\*Includes Program 21, Activity 27, Duty Root 31, 32, 33, 52, and 63 (except preschool teachers) plus FTEness coded to Program 01 under the 1077 methodology for 2003-04.

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## Special Education Excess Cost Accounting

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The worksheet draws on the following data sources and formulas to calculate the allocation of special education teachers' salaries and benefits between the basic education and special education programs (for a step-by-step detailed description of how the worksheet operates, see Appendix 4):

- **Least Restrictive Environment Child Counts** – All school districts are required to report the number of special education students by the percentage of time spent in the regular classroom on the 1077 Least Restrictive Environment (LRE) report. This is a federal report intended to help make sure special education students spend as much of their school day as possible with their regular classroom peers and predates the current excess cost methodology. The LRE Report was selected as a basis for the excess cost methodology so as not to place an additional reporting burden on districts. The previous year's child counts are found in the worksheet as:
  - ♦ Table 1 (80-100 percent of time spent in the regular education classroom)
  - ♦ Table 2 (40-79 percent of time spent in the regular education classroom)
  - ♦ Table 3 (0-39 percent of time spent in the regular education classroom)
- **Midpoints** – Since the tables on the worksheet show students falling within a range of time spent in the regular education classroom, a midpoint is needed as multiplier for each table to calculate a basic education full-time equivalency for the time special education students spend in the regular classroom. At one time the midpoints were mathematical midpoints for each of the table ranges. However, they were changed slightly when the current methodology became a requirement for all districts.
- **Calculation of Basic Education and Special Education Student FTEs** – The number of students reported in the child count tables are multiplied by the midpoints to calculate basic education and special education student FTEs for the special education students being served in the district.
- **Assumed Basic Education Student/Staff Ratio** – An assumed student-to-staff ratio of 20 students to 1 certificated instructional staff is used to approximate the amount of basic education support that should follow the special education student when he or she leaves the regular education classroom.
- **Total Special Education Teachers in a District** – Districts then enter the total non-preschool and non-federally-funded special education teacher FTEs they employed in the previous school year using the S-275 personnel reporting system.

The last two boxes at the end of the 1077 Special Education Excess Cost Worksheet provide districts with the percentages needed to split the special education teachers' salaries and benefits between basic education and special education.



## EXAMPLES OF HOW THE EXCESS METHODOLOGY WORKS FOR CERTIFICATED INSTRUCTIONAL STAFF

The excess cost accounting methodology might seem counter intuitive at first because people often assume the more time special education students spend outside the regular classroom, the greater the special education costs would be. In turn, they think more expenditures should be charged to special education. Indeed, it might be true that expenditures would increase, but the purpose of the excess cost methodology is to assign costs to the proper revenue sources. The less time special education students spend in the regular classroom, the larger the portion of the basic education funding for each student is available and should be used to pay the costs of the special education teacher.

The following examples give a side-by-side illustration of how the methodology would work for assigning costs for special education teachers' salaries and benefits in two hypothetical school districts:

**Example 1:** School District A has 100 students enrolled. There are 10 special education students who spend 100 percent of their school day in a self-contained class served by one special education teacher.

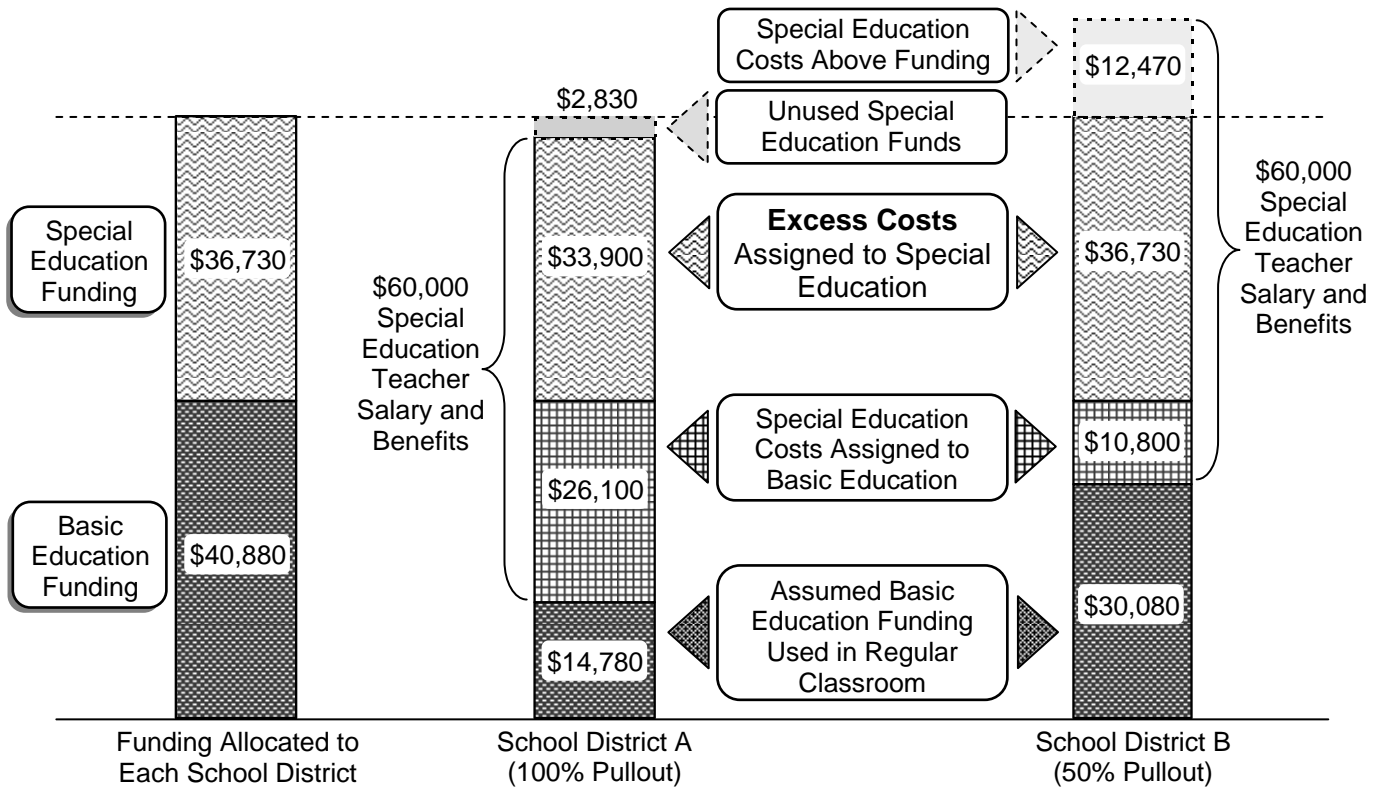
- All of the students are reflected in Table 3 on the LRE Report because less than 40 percent of their day is spent in the regular classroom. For cost purposes, this means that 1.3 student FTEs (10 students times 13 percent midpoint) are considered to be basic education and 8.7 student FTEs (10 student FTEs minus 1.3 student FTEs) are special education.
- When the 8.7 special education student FTEs are divided by the state's assumed 20:1 student/staff ratio, the result is 0.435 special education staff FTE are considered to be basic education.
- The special education teacher works full time so the 0.435 basic education staff FTE is divided by the teacher's 1.0 FTE. The teacher's salary and benefits are then coded 43.5 percent to basic education and 56.5 percent to special education.

**Example 2:** School District B has 100 enrolled students. There are 10 special education students who spend half of their school day in a pull-out setting served by one special education teacher, and the other half of their day in a regular classroom. The special education teacher has five students in the special education class in the morning and the other five students in the afternoon.

- All of the students are reflected in Table 2 on the LRE Report because the amount of time spent in the regular classroom falls between (40 percent and 79 percent of day). For cost purposes, this means that 6.4 student FTEs (10 students times 64 percent midpoint) are considered to be basic education and 3.6 student FTEs (10 student FTEs minus 6.4 student FTEs) are special education.
- When the 3.6 special education student FTEs are divided by the state's assumed 20:1 student/staff ratio, the result is 0.18 special education staff FTE are considered to be basic education.
- The special education teacher works full time, so the 0.18 basic education staff FTE is divided by the teacher's 1.0 FTE. The teacher's salary and benefits are then coded 18.0 percent to basic education and 82.0 percent to special education.

## Special Education Excess Cost Accounting

Figure 4 – Identical Expenditures, But Different Reported Excess Costs



Source: JLARC.

The purpose of the examples above is to compare how the excess cost methodology assigns the costs of the special education teachers in the two districts. To do this, we take the special education teacher percentage splits and look at their impacts on the costs the districts can report in special education programs. For these examples we will assume the regular education classroom costs are the same for both districts and that each district has one special education teacher costing \$60,000 in salary and benefits. The costs are identical for each district. The allocation for each special education student is \$4,088 in basic education funding along with \$3,673 in special education funding. Therefore, each district begins with \$40,880 in basic education revenue and \$36,730 in special education revenue for each district’s ten special education students. This is shown in the bar on the left in Figure 4 above.

Because District A uses a 100 percent pullout or self-contained model where the special education teacher provides the students’ basic education. For this reason, much of the basic education funding allocated for the special education students goes to pay the costs of the special education teacher. However, the costs of the special education teacher exceed the amount of basic education funds available. Some of the special education teacher’s costs are then assigned to the special education program, but the total remaining costs do not exceed the special education funding allocated.

The special education students in District B spend half of their day in the regular classroom and half of their day in the special education classroom. Because of this, most of the basic education funding allocated for these students is used in the regular classroom. Less is available for the special education teacher’s salary and benefits. This shifts a greater share of the special education teacher’s costs to the special education programs. In fact, enough of the District B special education teacher’s costs are shifted that the costs exceed the funding provided.

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## Special Education Excess Cost Accounting

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District A assigned almost two and half times the amount of the special education teacher's cost to basic education funding than was District B. In turn, this makes the special education expenses look greater for District B. **While the reported special education program costs appear very different for the two districts, the total costs were in fact, identical.**

Another aspect of the two school districts that should not be overlooked is the decisions about service delivery and student/staff ratios. The students in the regular education classrooms in District A have slightly lower student/staff ratios because the ten special education students are in pullout classrooms all day. However, as Figure 5 below shows, the special education students in District B benefit from the lower student/staff ratio when they are being served by the special education teacher in the pullout setting. Further, while the excess costs reported in Figure 4 imply that special education students in District A cost less than in District B, in actuality, they have a lower class size over the entire day as shown in Figure 5 below.

Figure 5 – Average Student/Staff Ratios and Reported Costs  
for Special Education Students in Two School Districts

Student/Staff Ratio by Location	District A	District B
Student/Staff Ratio in Regular Classroom	N/A	24:1 (approx.)
Student/Staff Ratio in Special Education Classroom	10:1	5:1
Average Student/Staff Ratio for Entire Day	10:1	14:1 (approx.)
Average Per Student Reported Excess Cost	\$3,390	\$4,920

### SOME OTHER COSTS INCLUDED IN THE EXCESS COST ACCOUNTING METHODOLOGY

Besides the salaries and benefits for special education certificated instructional staff, there are a few other expenditure categories to which the special education excess cost accounting methodology applies. Some brief explanations of how OSPI instructs districts to account for these categories are provided below.

**Classified Staff:** Classified staff such as classroom aides and assistants that work directly with special education students under the supervision of teachers or other staff, unless funded using federal revenues, should be coded entirely to state special education programs. For this reason, they are labeled as pure excess cost staff. If classified staff have duties beyond working with special education students in accordance with their individualized education programs, those duties should be coded to other funding sources.

**Education Staff Associates (ESAs):** ESAs are personnel such as occupational therapists, physical therapists, speech-language pathologists, and psychologists. They are certificated but they are not instructional staff. ESAs are always considered pure excess cost staff.

**Administrative and Support Staff:** Special education administration and support staff can be part basic education or pure excess cost depending on their duties. If administration and support staff responsibilities are solely to the special education program, they are pure excess cost. If they oversee or support other programs, then the State Accounting Manual indicates their salaries and benefits should be split appropriately between all the programs.

**Supplemental Contracts:** Payments to staff for additional service have the same excess cost accounting principles apply as used for their base salaries. The supplemental contract costs might be charged as full basic education, part basic education, or all pure excess depending upon the staff involved and nature of the service provided. The S-275 personnel reporting system also contains the supplemental contracts.

**Purchased or Contracted Services:** Some districts do not have all the necessary personnel to provide the required special education services. Smaller districts in particular might need to contract for additional professional services from other nearby districts, Education Service Districts, or private practitioners. OSPI simply indicates that contracted service expenditures are to be allocated between basic education and special education if the district is receiving basic education funding for the student for the time of the services.

**Non-Employee Related Costs:** Special education non-employee related costs (NERCs) are expenditures for items such as supplies, books, and equipment that are directly traceable to enhanced services for special education students or expenditures required by a student's individualized education program. For other costs, OSPI, directs districts to "determine what portion is in excess of the costs required for basic education students and staff." Costs "may be allocated based upon a reasonable methodology."

# CHAPTER THREE – SUMMARY OF REVIEW CONDUCTED BY THE STATE AUDITOR’S OFFICE

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## CHAPTER OVERVIEW

The Legislature directed the State Auditor’s Office to determine if school districts are appropriately and consistently applying the special education excess cost accounting methodology. Because of time constraints, the State Auditor’s Office had to select a sample of school districts to review in conducting their study. The selection process and districts selected can be found in Appendix 4. This chapter is a summary of what the State Auditor’s Office found.

## RESULTS OF REVIEW BY THE STATE AUDITOR’S OFFICE

**Use of the Current Special Education Excess Cost Accounting Methodology:** To determine whether school districts are appropriately using the excess cost accounting methodology, the State Auditor’s Office reviewed certificated instructional staff on the S-275 Personnel Report for 136 districts for fiscal year 2004. The results of that review are as follows:

- Two districts (1.5 percent) had not implemented the current excess cost accounting methodology.
- Three districts (2.2 percent) had used incorrect splits for all employees.
- Twelve districts (8.8 percent) had errors on an employee or multiple employee splits.

The State Auditor’s Office found that errors commonly occurred because districts were attempting to make percentage splits reflect the current year activity rather than the prior year activity used by the 1077 Special Education Excess Cost Worksheet to calculate splits.

**Certificated Instructional Staff:** Salaries and benefits for certificated instructional staff (special education teachers) are divided between basic and special education by a uniform percentage derived from the prior school year’s staffing information and federal Least Restrictive Environment child count data. The percentage is based on the amount of time special education students spend outside the regular classroom.

To determine if districts were placing special education students in the correct Least Restrictive Environment (LRE) tables, the State Auditor’s Office examined the process districts use to distribute students into the three tables. December 1, 2002, LRE Reports were used because this was the most current year that complete financial data were available. The State Auditor’s Office selected a total of 37 school districts for the study, but eight of the districts either did not submit requested information or submitted incomplete information. Therefore, results are included for only 29 districts. The Auditor’s Office found that:

- In 18 districts (62.1 percent), the total number of students reported to the Office of Superintendent of Public Instruction (OSPI) did not match the number of students in the detail support provided by the district. Fifteen school districts (51.7 percent) over-reported 153 students and three districts (10.3 percent) under-reported ten students.

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## Special Education Excess Cost Accounting

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- In 26 districts (89.7 percent), the distribution of special education students in the Least Restrictive Environment (LRE) tables did not match what was reported to the Office of Superintendent of Public Instruction. Approximately 7 percent of students were placed in the wrong table – either under-reported in Table 1 or over-reported in Tables 2 and 3. The State Auditor’s Office found the following variances:
  - ♦ Table 1, age 6-11, under-reported 129 students
  - ♦ Table 1, age 12-21, under-reported 306 students
  - ♦ Table 2 over-reported 650 students
  - ♦ Table 3 over-reported 69 students

Based on these variances, the State Auditor’s Office performed a recalculation of the percentage of expenditures to be charged to the special education programs. The recalculated percentage of expenditures ranged from the special education programs being 57 percent over-charged to 66 percent under-charged.

The districts were asked to provide the total minutes per week used to calculate table placement. The State Auditor’s Office used this information to verify the accuracy of student distribution in the tables. Total minutes per week used to determine the table placement varied between districts. The State Auditor’s Office found that:

- In 15 districts (51.7 percent), total minutes per week were the same for elementary and secondary students.
- In 14 districts (48.3 percent), total minutes per week were different based on elementary, middle, and high school students.
- In 29 districts (100.0 percent) there were inconsistencies regarding how total minutes were determined. Either the districts included all possible minutes in the week including lunch and recesses or only instructional time. In one case, a district used both 1,800 minutes (instructional time only) and 1,950 minutes (includes lunch and recesses) per week to place students in the LRE tables. However, the detail support provided did not specify which figure student placement was based on, 1,800 minutes or 1,950 minutes.
- In five school districts (17.2 percent), minutes in the individualized education programs (IEPs) identifying special education time were stated as “approximately” or a range of service minutes was stated.
- In two districts (6.9 percent), the related service minutes were not used to calculate the total minutes of specially designed instruction per week.

The State Auditor’s Office reported that the process for determining the base number of minutes to be used is unclear to many districts.

Placement on the LRE table is determined by the percentage of time a student is in the general education classroom. If the location of services is not available, it could affect the table placement of students. The State Auditor’s Office found in 23 districts (79.3 percent), that the location of services was not included in the support provided. In 73 (6.1 percent) of the 1,196 student files reviewed, the State Auditor’s Office found IEPs that did not clearly state where services were provided. The State Auditor’s Office believe that this may account for some of the discrepancies found during their analysis of school districts LRE table placement, and what was calculated for LRE table placement, based on minutes provided by the district.

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## Special Education Excess Cost Accounting

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In addition, the State Auditor's Office conducted site visits in 13 of the 29 school districts. In six of these districts (46.2 percent), a total of 20 students were included on the December 1, 2002, child count that had left the special education program or had lapsed individualized education programs (IEPs) and should not have been counted.

During the review of IEPs, the State Auditor's Office found districts are not consistently identifying where the special education services are being provided. Nine districts identified a service as being provided in both the resource room and general education classroom. This makes it difficult to determine the accurate Least Restrictive Environment (LRE) placement if the minutes of service are not clearly identified in each location.

In 20 (69.0 percent) of the districts, personnel reported LRE table placement was done manually. In the remainder of the districts, total special education minutes were entered into a computer system which then distributed the students into the LRE tables. A manual system can lead to calculation errors. In one district, an error resulted in four students being reported in Table 1, when they should have been reported in Table 2. In another, minutes calculated for table placement between Tables 2 and 3 were incorrect due to a math error.

**Classified Staff:** The State Auditor's Office reviewed 418 classified staff payroll transactions totaling \$7.2 million in 53 school districts. The State Auditor's Office noted that 35 of the 418 (8.4 percent) of the transactions lacked adequate documentation for the payroll expenses incurred. The State Auditor's Office also found:

- Two districts (3.8 percent) that had no reasonable basis for the cost splits between basic education and special education. The percentage of salaries charged to special education were significantly different from the percentage reported in the 1077 Special Education Excess Cost Worksheet.
- Three districts (5.7 percent) where the share of salary charged to special education did not reconcile with the job descriptions.
- Ten districts (18.9 percent) where payroll charges were not split between basic education and special education.

**Purchased Services:** Contractual payments for special education services are to be allocated between basic and special education programs if the district is receiving basic education funding for the student for the time of services.

In reviewing 647 contract related vouchers totaling \$8.1 million in 53 school districts, the State Auditor's Office identified problems with 86 (13.3 percent) of the vouchers. There were:

- Eight districts (15.1 percent) where costs should have been split between special education and basic education or other programs, but were not.
- Eighteen districts (34.0 percent) where insufficient documentation was found to support the expenditures being charged to special education.
- Three districts (5.7 percent) were inconsistent in how they calculated charges to special education.
- Five districts (9.4 percent) where it was unclear if the purchased service was being provided to only special education students.
- Two districts (3.8 percent) where costs should not have been charged to special education based on documentation and support.

## Special Education Excess Cost Accounting

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For contracted educational services the State Auditor's Office was unable to identify where the basic education services were provided and the appropriate allocation was made. For vendors that provide 100 percent of the educational service to students the State Auditor's Office was not able to distinguish the basic education share from the special education share of the services being provided. Language in the contracts did not specify what type of service was being provided.

Specifically for consultants, specialists, and therapists, the State Auditor's Office found it was clear districts were providing some level of special education services, but it could not be determined whether they are providing those services only to special education students with properly formulated individualized education programs (IEPs) and evaluations. Either the contract did not provide this information, or the services provided could apply to non-special education students as well. Documentation was not sufficient to make that determination.

Additionally, in the course of examining expenditures, the State Auditor's Office found payments of \$330,000 for legal fees and settlement costs for lawsuits against one district brought about by the parents of three special education students. Legal fees are not an allowable charge to special education programs.

**Special Education Cooperatives:** School districts that are part of special education cooperatives receive different levels of service and therefore report expenditures using different methods. In the largest cooperative the State Auditor's Office examined, they found member school districts reported special education expenditures nearly equal to state special education revenue. In this co-op, the State Auditor's Office was not able to identify actual types of expenditures supporting the charge to special education. Member school districts receive all services from an Educational Service District and do not receive detailed information supporting the charges. They charge the special education program the amount of revenue passed onto the Educational Service District (ESD). If actual costs for the ESD exceed the revenues from the districts, the districts may be billed additional amounts.

**Non-Employee Related Costs:** Other non-employee related costs should be charged to special education if the costs are directly traceable to enhanced services for special education students or costs are required by students individualized education programs (IEPs). The State Auditor's Office found three districts (5.7 percent) where the method for calculating non-employee related costs charged to special education was inconsistent. The percentage of charges to the special education program was also inconsistent with the districts' 1077 Special Education Excess Cost Worksheet percentages.



# CHAPTER FOUR – FINDINGS AND CONCLUSIONS

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## CHAPTER OVERVIEW

This chapter reports on our analysis and findings about the use of the current excess cost accounting methodology based on audits conducted by the State Auditor’s Office and work conducted by JLARC staff.

## FRAMEWORK FOR REVIEWING THE EXCESS COST ACCOUNTING METHODOLOGY

We reviewed the special education excess cost accounting methodology using criteria which are later used for evaluating alternatives and modifications to the current methodology. The criteria we use are adapted from widely accepted standards for evaluating special education funding formulas. The criteria were developed after a literature review, consultation with national experts, and input from a technical workgroup of staff from OSPI, the State Auditor’s Office, and the Legislature. They are as follows:

1. Is the methodology understandable?
2. Is the methodology easy to implement and administer?
3. How well does the methodology capture a district's special education expenditures and assign the costs to the appropriate programs?
4. Does the methodology influence program management and budgeting at the district level?

In addition, the review includes an analysis of whether school districts were appropriately and consistently applying the special education cost accounting methodology, and if legislative intent was being met.

### **Current Methodology: Excess Cost Accounting**

The special education excess cost methodology used in Washington State is a resource-based approach because it focuses on the main resources in providing special education services, in particular, special education teachers – and allocates their costs according to the time special education students spend in special education classes.

### **Understandability**

The excess cost methodology received mixed responses in terms of its understandability, but overall, the majority of school district personnel questioned felt it was too complex.

### **Ease to Implement and Administer**

When the excess cost methodology was adopted, the Office of Superintendent of Public Instruction (OSPI) opted to extract information from the Least Restrictive Environment Report submitted by each school district because it was already being completed by school districts and submitted to OSPI. This methodology did not add any reporting burden to the districts.

Most districts we interviewed said the 1077 Special Education Excess Cost Worksheet was not costly or overly burdensome to administer. In fact, they expressed appreciation for the selection of the federal LRE Report as the basis of the methodology. They also appreciated the on-line worksheets the Office of Superintendent of Public Instruction (OSPI) provides with auto-populated child counts. Most districts felt that being able to enter the same splits for all special education certificated instructional staff in the S-275 Personnel Reporting System also made the methodology easy to use. The majority of complaints regarding any administrative burden and confusion focused on difficulties in determining how to accurately code other costs and making sure basic education dollars follow the students.

### **Ability to Capture Expenditures and Assign Costs**

School districts give the current excess cost methodology mixed reviews in terms of capturing the total costs of providing special education services. Some districts feel it does well, while others disagree. The methodology does differentiate between basic and special education costs because it was specifically designed to do so, but expenditures assigned to the basic education programs for special education students are largely untracked. As the reviews conducted by the State Auditor's Office found, the accuracy of the splits is questionable. Almost none of the districts we interviewed felt the methodology accounted for changes in populations and needs in a timely manner because the 1077 Special Education Excess Cost Worksheet inputs come from the previous school year as opposed to the current school year.

### **Influence on Program Management and Budgeting**

Few districts said they thought the excess cost methodology has any effect on budgeting or programmatic decisions. Programmatic decisions are made on the basis of student need and budgeting decisions tend to be made based on anticipated revenues and staffing needs, not calculated costs using data from the previous year.

## **FINDINGS**

After analyzing the special education excess cost accounting methodology and reporting requirements, we found that the accounting methodology is not well understood, that there have been problems with how districts have implemented it, and, as a result, there are concerns about the overall accuracy of the reported costs. We have eight findings that fall into four general categories.

### **Understandability**

**Finding 1:** Accounting for costs on an excess cost basis is **complicated**, and many school districts **do not fully understand** this approach and the underlying principles for assigning special education costs to both basic education and special education programs.

**Finding 2:** The state's excess cost accounting methodology is different from many traditional, more widely understood cost accounting practices. We found **no other state** employing a similar **excess cost accounting methodology**.

## Ease to Implement and Administer

**Finding 3:** In order to improve district compliance with the Legislature’s requirement that districts use an excess cost approach, OSPI developed a standard mechanism for the largest type of costs (**certificated instructional staff**). This methodology does not require districts to have detailed knowledge of cost accounting practices and reduces the burden on districts by relying on data from existing sources. However, there are **no similar simplified steps** provided by OSPI to districts **for assigning other costs** such as contracted services and non-employee related costs.

## Ability to Capture Expenditures and Assign Costs

**Finding 4:** The OSPI methodology complies with the Legislature’s intent of helping estimate excess costs. However, we found, that in an attempt to simplify the process, some state assumptions were made using averages that can lead to **inaccuracies in costs reported**. Factors that can influence the outcomes include:

- a) The state level decision that the assumed student/staff ratio would be 20:1 – if the district ratio differs substantially.
- b) The time spent by special education students in regular classrooms is substantially higher or lower than the “midpoint averages” assumed in the methodology. Most notably, districts with substantially greater mainstreaming or larger pull-out programs would likely have larger distortions to how accurately their excess costs are reported by the methodology.
- c) Shared or additional resources are directed into regular education classrooms in order to assist special education, but are also available to regular education students (e.g., shared classroom aides or reduced class sizes for rooms with a greater number of special education students).

While assigned costs can be distorted, it was not possible to develop comprehensive statewide estimates of the prevalence or magnitude of the variances within the timeframes of this study.

**Finding 5:** The State Auditor’s Office found many school districts were **not accurately and consistently assigning costs** for delivering special education services.

- a) Placement of students in the three tables of the Least Restrictive Environment Report used in the 1077 Special Education Excess Cost Worksheet has significant affect on the allocation formula. Numerous errors were found in how school districts distributed students in these tables.
- b) School districts are inconsistent in how they interpret what types of expenditures must be split between basic education and special education programs.
- c) School districts are not aware that expenditures for contracted services should be allocated to both special education and basic education when 100 percent of the student’s education is provided by the vendor.

**Finding 6:** The excess cost methodology **does not report information** about the **total costs** of serving special education students. Therefore, total costs **cannot be reliably compared** across districts and to program funding within districts.

## Influence on Program Management and Budgeting

**Finding 7:** The excess cost methodology can yield **results** that may **appear counter intuitive** to staff and the public (e.g., the more time special education students spend in a regular classroom, the greater the percentage of special education teachers' costs are charged as an excess cost).

**Finding 8:** District officials indicate that the excess cost accounting methodology does not influence their budget or program management decisions. The excess cost methodology is viewed as an after-the-fact administrative exercise. Although the methodology splits costs between basic education and special education programs, it does not provide evidence to ensure **whether or not** special education students receive an **appropriate share of the basic education allocation**.

# CHAPTER FIVE – ALTERNATIVES, MODIFICATIONS, AND THEIR IMPACTS

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## CHAPTER OVERVIEW

The previous chapter discussed our analysis and findings regarding use of the current cost accounting methodology. In this chapter, we examine some possible alternatives and modifications to the current excess cost accounting methodology. We begin with a short discussion of cost accounting purposes and methodologies used in other states. We then revisit our evaluation criteria and structural frameworks to help analyze the alternatives and modifications.

## COST ACCOUNTING PURPOSES

Cost accounting is a type of accounting that involves keeping track of how much it costs to provide products or services. Different cost accounting methodologies have different levels of precision. There are numerous methodologies for doing this, each being suitable for different products or services. Cost accounting is used for both management and financial purposes. Excess cost accounting is simply tracking the costs above or beyond a certain point in the production or service process.

## HOW OTHER STATES ACCOUNT FOR SPECIAL EDUCATION COSTS

As the first step in investigating possible alternatives and modifications, we reviewed accounting methodologies in other states to learn if there might be ideas of value to Washington State. We did not find instances where states attempt to determine the excess costs of special education students in a manner similar to the methodology used in Washington. When the term “excess cost” is used in other states, it typically refers to high-cost students much like students whose expenses might be brought to the (Safety Net) Oversight Committee in this state. Cost accounting approaches used by most states typically are directly connected to the funding formulas used.

## CRITERIA FOR EVALUATING POSSIBLE ALTERNATIVES AND MODIFICATIONS

The criteria below were presented previously, but additional questions are provided as we focus on evaluating different methodologies and modifications to the current methodology. In evaluating methodologies it is important to keep in mind that there are always trade-offs in selecting any cost accounting methodology.

1. Is the methodology understandable?
2. How easy is the methodology to implement and administer?
  - What are the costs associated with data reporting systems and training of staff?
  - What are the ongoing costs to administer?

3. How well does the methodology capture or approximate a district's special education expenditures?
  - How well does it differentiate between basic education and special education costs?
  - Can cost centers (staff, contracts, etc.) be broken out?
  - Does it account for changes in special education population and needs?
  
4. Does the methodology influence program management and budgeting at the district level?
  - Does it have any impact on students (identification, placement, labeling, etc.)?
  - Does it have any impact on how special education and basic education budgets are developed at the district level?
  - Does it ensure that special education students are first basic education students who are entitled to the full basic education allocation?

## POSSIBLE ALTERNATIVES

There are numerous methodologies available for cost accounting. Most, however, are used for assigning costs of labor, materials, or other production resources at the end or at key points in the production of goods. While some aspects of providing special education services have similarities to other production processes, the objectives in providing special education services are significantly different. This limits the number of cost accounting methodologies that can be used to account for special education costs.

In Chapter 4, we reviewed the current excess cost approach using the above criteria. With that analysis in mind, we now focus our discussion on two primary alternatives with potential applicability to special education services: a standards-based approach; and a full-cost accounting approach.

In addition to what is described about each methodology, it is important to note that each methodology has possible impacts on and implications for the manner in which the state funds special education programs at the district level.

### Alternative 1: Standards-Based Accounting

Standards-based methodologies determine standard or unit costs and the aggregate costs are dependent upon the number of units used or produced. A standards-based approach applied to special education might involve costing out standard units of services typically found in Individual Education Programs.

After the Individualized Education Program (IEP) team has developed the IEP, the specially designed instruction, related services, equipment, etc. would be “costed out” with standard unit costs. The IEP would then become not only a service plan, but an itemized record of every special education student’s expenses. This methodology is the most likely to capture costs in their fullest form and would be the most responsive to changes in the special education population and needs.

### **Understandability**

A standards-based cost accounting methodology which relies on costing each individualized education program (IEP) is viewed by districts interviewed and surveyed as very understandable.

### **Ease to Implement and Administer**

While it is rather straightforward in concept, it becomes more complex and administratively burdensome in practice. Very few districts interviewed were in favor of this approach. They felt the expenses involved with this methodology far outweighed the benefits.

### **Ability to Capture Expenditures and Assign Costs**

This methodology would be extremely good at capturing costs because it would do so at the level of the individual special education student. Costs could be as detailed as per minute costs for each staff person or contractor named in the IEPs multiplied by the number of minutes of service provided. However, the process of determining individual service provider per minute costs could be intensive.

### **Influence on Program Management and Budgeting**

Some districts were quick to point out that this methodology has potentially large impacts on budgeting and programmatic decision making because each item within the IEP is now directly connected to the budget.

## **Alternative 2: Full-Cost Accounting**

Full-cost methodologies typically identify key cost centers, code costs to the appropriate cost center, and aggregate the costs within the cost centers. Full costs would display the total costs of serving special education students.

### **Understandability**

The great majority of districts voicing an opinion on cost accounting methodologies believed a full-cost methodology would be the simplest to understand. Rather than capturing only the “Excess costs” for special education students, a full-cost approach would account for all costs to serve special education students regardless of the setting (such as regular or pullout classrooms).

### **Ease to Implement and Administer**

The majority of districts expressing preferences about various cost methodologies also chose the full-cost methodology as being the easiest for them to administer. A few districts are already tracking costs on a full-cost basis for reporting to their school boards.













### **Ability to Capture Expenditures and Assign Costs**

With a full-cost methodology, districts would continue to track all special education expenditures by the same cost centers, but the basic education share might be coded to a discrete budget program (e.g., Program 02). When implemented, this approach would provide improved information about total resources to serve special education students.




**Influence on Program Management and Budgeting**

Many of the districts said that a full-cost accounting methodology would not alter their current program management and budgeting practices. For some, budgetary decision making is already based on full-cost principles. Therefore, full-cost accounting practices are more likely to be consistent with how existing programmatic and budgeting decisions are made.

Figure 6 – Possible Accounting Methodologies and Evaluation Criteria

Evaluation Criteria	<u>Current Methodology</u> Excess Cost	<u>Alternative 1</u> Standard-Cost	<u>Alternative 2</u> Full-Cost
Understandability			
Ease to implement and administer			
Ability to capture expenditures and assign costs			
Influence on programmatic and budgeting decisions			

	<b>Positive</b>		<b>Neutral</b>		<b>Negative</b>
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**POSSIBLE MODIFICATIONS TO THE 1077 SPECIAL EDUCATION EXCESS COST WORKSHEET**

The previous discussion focused on alternatives to the current excess cost accounting methodology. However, the Legislature might elect to retain the excess cost accounting approach but decide some of the specific variables used in the 1077 Special Education Excess Cost Worksheet to calculate how special education teacher costs are assigned to basic education and special education programs should be modified. In conversations with school districts, some believe the worksheet would work well enough, with some technical modifications. There are really only four areas or variables that can be changed:

1. Changing to use more current year data;
2. Improving the quality of special education student placement in the LRE tables;
3. Adjusting the midpoints; and
4. Revisiting the assumed student/staff ratio.



All other parts of the worksheet involve calculations coming from these variables. The areas where modifications might be made will be explored in more detail in the following section. However, before moving into the discussion, it is important to note that support for each modification varied across the districts. Within the four areas where modifications could be made, there are options, but no clear, majority preferences for one option over another were found.

### Modification 1: Use Current-Year Data

The first modification some districts believe would be useful for more accurate cost reporting would be to allow the use of current-year data – both current-year Least Restrictive Environment child counts and current-year special education teacher FTE. Determining the district special education allocations might require the use of data from the previous year, but reporting costs could be based on current-year data. This might eliminate what appears to be efforts by some districts to compensate for differences from the previous year in numbers of special education students, needs of the students, and staffing to meet the needs. A change to current-year data for the excess cost accounting would likely not make much of an overall change in assigned costs or programmatic or budgetary decision making. While some districts believe the administrative burden would not be large, others believe it would be tremendous.

### Modification 2: Least Restrictive Environment Table Child Counts

Since the child counts are the primary driver in the 1077 Special Education Excess Cost Worksheet, the great variation in splits between basic education and special education seen from district to district are due to the distribution of students in each of the tables. Training and monitoring of how the tables are completed would aid greatly in improving the child-count data.

However, two modifications to the child-count tables are possible. The national and statewide distribution of students in the tables vary each year, but roughly 50 percent of special education students are in Table 1 (30 percent in the 6-11 age group and 20 percent in the 12-21 age group); 35 percent in Table 2; and 15 percent in Table 3. One possible change would be to remove the 1077 LRE child counts from the worksheet entirely and simply assign the state or national percentages for each table to the total number of special education students each district serves. In essence, districts would need to enter only the total number of special education students and the special education teacher FTE to produce the splits for charging special education teachers' salaries and benefits to basic education and special education programs. This approach would add simplicity, but reduce accuracy of assigning costs for individual districts.

The second possible modification to the child counts would be to replace the Least Restrictive Environment (LRE) child counts based on time spent in the regular classroom with minutes of specially designed instruction (SDI). This modification acknowledges that many problems in correctly completing the LRE child counts already exist. The most common problem being that districts are using minutes of specially designed instruction when percentage of time spent in the regular classroom should instead be used. Minutes of SDI could be divided by the same base minutes used now to calculate special education student full-time equivalency. Students could be placed in one of the three tables as done now.

The idea of using minutes of specially designed instruction was viewed as very understandable to many districts. Assigning table percentages simplifies the whole process to the point of only multiplying the special education teacher FTE by a set number to determine the splits. While this modification simplifies the process and increases comparability across districts, almost no one interviewed was in favor of such a change. Using minutes of SDI would reduce problems with the consistency of how of students are placed in the LRE tables. However, this requires an adjustment in the worksheet student/staff ratio in order to implement. Currently there is no uniform reporting mechanism to capture minutes of SDI.

Many districts opposed the “one size fits all” nature of this modification because they felt it took away from reporting some of the differences in the populations they serve and the level of services they provide. The impact on districts from assigned percentages of students in each table depends on what percentages are selected. Whether this modification would improve accuracy of reported costs is unknown. However, had state average percentages been used in 2003-04, three out of four districts would have increases in costs coded to special education. An assigned percentage would likely have little impact on budget and program decision making.

A variation on this modification would be to take the total number of minutes of specially designed instruction for all special education students and divide the total by the total number of school minutes for these students. This modification also eliminates the child counts and midpoints and directly provides a special education student FTE that can be divided by the assumed basic education student/staff ratio. Some of the districts we interviewed viewed this option as somewhat more complex. The districts were generally more favorable to having the calculations based more on the needs of the students they serve. Using minutes of SDI could change decisions about how many minutes of service to provide because each minute would become more important in the final splits.

### Modification 3: Re-evaluate Midpoints

The midpoints would be the third area where a modification could be made. There are two types of modifications. The first option would be to review the midpoints to determine whether they are accurate on a statewide basis. Determining the accuracy would require more information about the amount of time special education students are out of the regular classroom than is currently available from the 1077 Least Restrictive Environment Reports.

The second way that the midpoints might be changed would be to allow each district to set its own midpoints based on the students they serve. The responses from districts to this type of change were mixed. Some districts have the capability to identify actual midpoints, but many feel this would be burdensome to do so. Allowing district-unique midpoints takes away one variable that creates a certain level of comparability across districts. It is similar to the assumed student/staff ratio in keeping a degree of uniformity for all districts.

The impact of changing the midpoints or allowing districts to set their own midpoints depends entirely on the midpoints that are selected. However, if mathematical midpoints had been used in 2003-04, every school district would have increased the special education teacher costs charged to special education. On a statewide basis, the change would have been very slight. Special education teacher costs coded to special education would have increased by a little more than one percentage point. However, it is unknown whether mathematical midpoints are more reflective of actual services than current assumptions about the midpoints.

Most districts seemed to feel that both state-prescribed midpoints or district-specific midpoints were understandable. For uniform state midpoints, obtaining the data needed to determine what would constitute better midpoints might be difficult, and unless midpoints are reviewed on an annual or regular basis, new midpoints would soon become obsolete as well. Districts varied in their thoughts about district-specific midpoints, but most felt the cost of calculating their midpoints would not be worth the benefit.

Some of the districts in favor of setting their own midpoints said that special education costs would be more accurate because more of the data being used would come directly from the districts.

### Modification 4: Adjust Student/Staff Ratio

The current student/staff ratio is set at 20:1. Initially in 1995, one option for districts was to use a student/staff ratio of 22:1. This ratio was based upon the basic education funding ratio for certificated instructional staff of 46 per 1,000 FTE students. The revision was made when the Legislature required the current excess cost accounting methodology for all districts. The staff ratio has not been reviewed or adjusted since 2001.

There are two ways the student/staff ratio might be modified. The assumed ratio might be adjusted after reviewing the actual ratios in regular education classrooms. The other possible modification would be to allow districts to use ratios of their own determination as before.

Most districts interviewed believe that either of the adjustments to the student/staff ratio could be made without changing the understandability of the 1077 Special Education Excess Cost Worksheet. Most districts believe if the state adjusted the ratio, the administrative burden for them would not be changed. However, while many of the districts liked the idea of setting their own student/staff ratio, they also feared that calculating, and perhaps justifying, their own student/staff ratio could be burdensome. Districts did not believe state-determined, fixed student/staff ratios were likely to change current decision making, but the use of district-determined ratios would very likely have a direct influence on programmatic and budgetary decisions.

If the original student/staff ratio of 22:1 had been used in 2003-04, the impact would have been to shift costs from basic education programs to special education programs by about five percentage points. Roughly, the percentage of certificated instructional special education staff charged to special education would increase by two to three percentage points for every student added to the ratio. However, what is not clear is whether the change would more accurately reflect the cost of services.



# CHAPTER SIX – RECOMMENDATIONS

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The recommendations in this chapter draw from our analysis of the current special education excess cost accounting methodology, alternatives, and modifications, as well as the review conducted by the State Auditor’s Office.

## **Recommendation 1**

**The Legislature should decide whether the current excess cost accounting methodology or an alternative approach would best meet the needs of the state, school districts, and special education students for the accurate allocation of costs and reporting of special education expenditures.**

**Legislation Required:** Yes

**Fiscal Impact:** None

There are several criteria to consider when selecting a cost accounting method. Though the accuracy of the method is an important consideration, there are other important objectives, such as whether the method is understandable, easy to implement, and influences budget and program decisions. Selecting a method often involves trade-offs between these multiple criteria.

The Legislature has not indicated the priority they place in each of these criteria. Therefore, choosing to change methods necessarily involves a policy decision by the Legislature about which criteria is of the greatest importance. We have provided some analysis of the criteria in Chapter 5 to assist the Legislature with this decision.

If the Legislature chooses to retain the current cost accounting methodology, the following three recommendations are offered to improve information about total costs of special education programs and the consistent and appropriate application of the excess cost methodology.

## **Recommendation 2**

**The Office of Superintendent of Public Instruction, with the assistance of interested stakeholders, should examine whether the current excess cost methodology might be improved through various modifications to the 1077 Special Education Excess Cost Worksheet.**

**Legislation Required:** No

**Fiscal Impact:** There would be additional costs for OSPI to implement.

**Reporting Date:** For the 2007-08 school year

**Recommendation 3**

**The Office of Superintendent of Public Instruction should provide clear guidance and instruction, and periodic training on how to accurately and appropriately:**

- A. Complete the 1077 Least Restrictive Environment child counts through:**
  - 1. Better identification, in the individualized education programs, of the location where minutes of specially designed instruction are provided; and**
  - 2. A consistent base of minutes of weekly instruction used for calculating percentage of time students spend in the regular classroom.**
- B. Allocate costs of contracted services between basic education and special education programs.**

**Legislation Required:** No

**Fiscal Impact:** JLARC assumes this can be done within current resources.

**Reporting Date:** For the 2006-07 school year and ongoing

**Recommendation 4**

**The Office of Superintendent of Public Instruction should require school districts to report the full costs of serving their special education students (i.e., both basic education and special education programs separately).**

**Legislation Required:** No

**Fiscal Impact:** None

**Reporting Date:** For the 2006-07 school year and ongoing

**AGENCY RESPONSES**

Responses from the Office of Superintendent of Public Instruction (OSPI) and the Office of Financial Management (OFM) are included in Appendix 2.

**ACKNOWLEDGEMENTS**

We greatly appreciate the time and thoughtful input provided by business managers, fiscal officers, and special education program personnel in school districts and Educational Service Districts across the state.

We also appreciate the assistance and feedback provided by staff at OSPI in conducting this study and the review of school district application of the excess cost accounting methodology by the State Auditor's Office.

Ruta Fanning  
Legislative Auditor

On February 16, 2006, this report was approved for distribution by the Joint Legislative Audit and Review Committee.

Representative Ross Hunter  
Chair

**Committee Addendum**

*The Committee approved this addendum to the final report at its February 16, 2006 meeting.*

The Committee finds that there are inadequacies with the current excess cost accounting methodology. The Committee therefore recommends the Legislature modify the state's cost accounting methodology to improve its utility. The Legislature should consider the results of the work of Washington Learns to help inform any modifications.





# APPENDIX 1 – SCOPE AND OBJECTIVES

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## Review of Special Education Excess Cost Accounting Methodology and Expenditure Reporting Requirements

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### SCOPE AND OBJECTIVES

SEPTEMBER 2005

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STATE OF WASHINGTON  
JOINT LEGISLATIVE AUDIT AND  
REVIEW COMMITTEE

#### STUDY TEAM

JOHN BOWDEN  
KEENAN KONOPASKI

#### LEGISLATIVE AUDITOR

RUTA FANNING

Joint Legislative Audit & Review  
Committee  
506 16<sup>th</sup> Avenue SE  
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(360) 786-5171  
(360) 786-5180 Fax

Website: <http://jlarc.leg.wa.gov>  
e-mail: [neff.barbara@leg.wa.gov](mailto:neff.barbara@leg.wa.gov)

## WHY A STUDY OF SPECIAL EDUCATION EXCESS COST ACCOUNTING?

The Legislature, in the 2005-07 Operating Budget, directed JLARC to conduct a review of the special education excess cost accounting methodology and expenditure reporting requirements. In addition, the State Auditor's Office was directed to examine whether school districts are appropriately implementing the excess cost accounting methodology and consistently charging special education expenses to the special education and basic education programs. JLARC will work with the State Auditor's Office in conducting this review.

## BACKGROUND

"Excess costs" are defined as expenditures for specially-designed instruction and related services for special education students that exceed the amount needed to provide a basic education to these students.

Since 1971 when the Washington State Legislature passed the Education for All Act, the state has used several different special education cost accounting methodologies.

- From 1971 to 1980, an excess cost method was used based on whether special education services were provided in a self-contained or pull-out resource room.
- From 1980 to 1995, a full cost method (combining special education and basic education expenditures) was used. It was based on a district's special education population and utilized 14 categories of disability.
- From 1995 to 2002, the state allowed districts to use an excess cost approach of their choosing.
- Then in 2002, as a result of concerns that districts were not consistently accounting for special education costs, the Legislature directed all districts to use the same excess cost methodology.

The current methodology:

- Relies on amount of time special education students spend in and out of regular classrooms and instructional staff-to-student ratios;
- Assumes special education students receive their appropriate share of basic education support from basic education staff when served in the regular classroom;
- Assumes that when special education students are served outside the regular classroom, basic education dollars follow them to partially support the special education services they receive; and
- Requires that non-employee related costs (NERC) and administrative costs are charged to special education only to the extent that they exceed the costs of regular education.

## SCOPE

The study will analyze the current methodology that districts are required to use in accounting for excess special education costs. The study will not evaluate the adequacy of current funding. Rather, it will investigate modifications and alternatives that might improve the way districts account for their special education costs. The State Auditor's Office will be conducting a related review of the compliance with state accounting and reporting requirements.

## OBJECTIVES

The review will include:

- (a) An analysis of the current special education excess cost accounting methodology and related special education expenditure reporting requirements;
- (b) An examination of whether opportunities exist for modifying the current excess cost accounting methodology and expenditure reporting requirements, including comparisons to methods used in other states;
- (c) An assessment of the potential impact on school districts if the current excess cost accounting methodology and expenditure reporting requirements are modified; and
- (d) Any findings and recommendations from the State Auditor's Office examination of whether school districts are appropriately and consistently applying the current excess cost methodology.

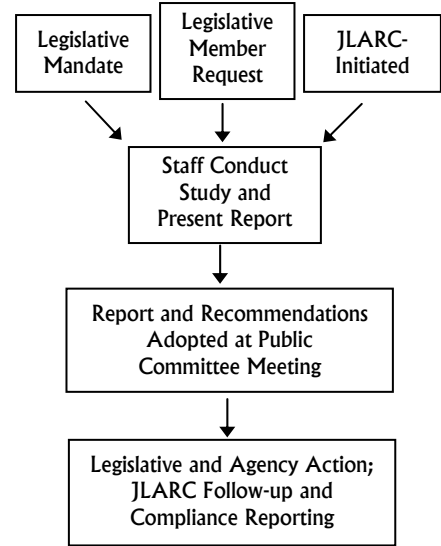
## TIMEFRAME FOR THE STUDY

JLARC staff will present the preliminary report at the January 2006 JLARC meeting.

## JLARC STAFF TO CONTACT FOR THE STUDY

John Bowden (360) 786-5298 bowden.john@leg.wa.gov  
Keenan Konopaski (360) 786-5187 konopaski.keenan@leg.wa.gov

### JLARC Study Process



### Criteria for Establishing JLARC

#### Work Program Priorities

- Is study consistent with JLARC mission? Is it mandated?
- Is this an area of significant fiscal or program impact, a major policy issue facing the state, or otherwise of compelling public interest?
- Will there likely be substantive findings and recommendations?
- Is this the best use of JLARC resources:  
For example:
  - Is the JLARC the most appropriate agency to perform the work?
  - Would the study be nonduplicating?
  - Would this study be cost-effective compared to other projects (e.g., larger, more substantive studies take longer and cost more, but might also yield more useful results)?
- Is funding available to carry out the project?

## APPENDIX 2 – AGENCY RESPONSES

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- Office of Superintendent of Public Instruction
- Office of Financial Management





# SUPERINTENDENT OF PUBLIC INSTRUCTION

DR. TERRY BERGESON OLD CAPITOL BUILDING • PO BOX 47200 • OLYMPIA WA 98504-7200 • <http://www.k12.wa.us>

January 30, 2006

RECEIVED  
FEB - 2 2006  
JLARC

The Honorable Ross Hunter  
House of Representatives  
305 John L. O'Brien Building  
Olympia, WA 98504

Re: Special Education Excess Cost Accounting Reporting Requirements, January 4, 2006

Dear Representative Hunter:

I am responding on the behalf of Superintendent Bergeson to the recommendations contained in the JLARC report on Special Education Excess Cost Accounting and Reporting Requirements. First, let me thank you and your staff for taking on a very complex but important accounting issue for review. The report explains the process and the nuances of implementation very well, and provides an excellent resource as the state reconsiders the special education funding system.

Generally, we agree with all of the four recommendations, but I will address each recommendation individually.

**Recommendation 1:** *The Legislature should decide whether the current excess cost accounting methodology or an alternative methodology would best meet the needs of the state, school districts, and special education students for the accurate allocation of costs and reporting of special education expenditures.*

We generally agree with the recommendation. In 2002, the Legislature mandated implementation of the 1077 method by all school districts. We now have five years experience with implementation, and the benefit of this report, to provide a clearer understanding of the advantages and pitfalls of the method as implemented.

Timing of a legislative recommendation is not contemplated in the stated recommendation and we believe that an alternative cannot be identified at this time; rather broad criteria for review should be established by the Legislature. The Legislature should indicate the priority it places on accuracy, administrative impact on a district, transparency of the process or method and how comprehensive the method should be to differentiate between special education and basic education costs.

Further, the criteria, current method, and alternatives must be analyzed in tandem with special education funding and formulas being considered by the Washington Learns Steering and Advisory Committees. Ultimately it is the Legislature that will adopt any changes to the special education funding formula and it should adopt a companion accounting method to differentiate special and basic education costs at the same time.

**Recommendation 2:** *The Office of Superintendent of Public Instruction, with the assistance of interested stakeholders, should examine whether the current excess cost methodology might be improved through various modifications to the 1077 Special Education Excess Cost Worksheet.*

We concur with the recommendation, and would design a process to consider the criteria and alternatives discussed above for recommendation One, changes to the current 1077 method, as well as changes identified in recommendation Four. As stated in the report, there will be a cost to OSPI for staffing and regional stakeholder meetings. We estimate the cost to be \$63,150 in the 2007 fiscal year.

**Recommendation 3:** *The Office of Superintendent of Public Instruction should provide clear guidance and instruction, and periodic training on how to accurately and appropriately:*

- A. *Complete the 1077 Least Restrictive Environment child counts through:*
  - 1. *Better identification, in the individualized education programs, of the location where minutes of specially designed instruction are provided; and*
  - 2. *A consistent base of minutes of weekly instruction used for calculating percentage of time students spend in the regular classroom.*
- B. *Allocate costs of contracted services between basic education and special education programs.*

We concur with the recommendation. Training will continue to be provided and we will analyze the findings of the Office of the State Auditor to identify improvements to our training. We will clarify our guidance on completing the 1077 and allocating contracted services costs.

**Recommendation 4:** *The Office of the Superintendent of Public Instruction should require school districts to report the full cost of serving their special education students (i.e., both the basic and special education programs separately).*

We agree with the intent of this recommendation, and will immediately explore how to use current reports and data to develop a full-cost analysis. If we find that current school district reporting requirements do not yield the data necessary to build a full-cost analysis, we will explore with school district officials what new reports might be put into place to provide a full-cost accounting for basic and special education expenditures for students receiving special education services. We will place a great deal of emphasis on solutions that have minimal impact on school district workload.

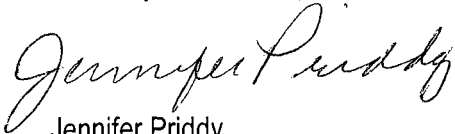
The Honorable Ross Hunter  
January 30, 2006  
Page Three

The recommendation defines a reporting date of the 2006-07 school year; we will not be able to implement accounting changes for the 2006-07 school year but can report back to JLARC as requested in time for review or action during the 2007 Session.

There is a cost to this effort. Costs associated with stakeholder meetings are included in the cost displayed under recommendation Two. Additionally, there are state and school district re-programming costs. Assuming implementation of full-cost accounting for the 2007-08 school year, re-programming at the state-level will cost \$50,000 in FY 2007. We will develop a cost estimate for re-programming school district systems, and deliver this estimate to JLARC staff in separate correspondence.

Once again, I would like to thank you for your attention and focus on this matter, and complement your staff on an excellent report. As we conduct any stakeholder reviews of the current process and/or planning for alternatives we will continue to update the committee and staff and we will work to ensure that discussions around cost-accounting are informed by and loop back to Washington Learns discussions regarding special education funding.

Sincerely,



Jennifer Priddy  
Assistant Superintendent  
K-12 Fiscal and Policy

cc: Joint Legislative Audit and Review Committee Members  
Ruta Fanning, Legislative Auditor  
John Bowden  
Keenan Konopaski








STATE OF WASHINGTON  
OFFICE OF FINANCIAL MANAGEMENT

Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

January 26, 2006

**TO:** Ruta Fanning, Legislative Auditor  
Joint Legislative Audit and Review Committee

**FROM:** Victor A. Moore, Director 

**SUBJECT: PRELIMINARY REPORT – SPECIAL EDUCATION EXCESS COST  
ACCOUNTING AND REPORTING REQUIREMENTS**

Thank you for giving the Office of Financial Management (OFM) the opportunity to review JLARC's preliminary report on Special Education Excess Cost Accounting and Reporting Requirements.

In general, OFM concurs with the recommendations in this preliminary report. Our responses are as follows:

Recommendation	Agency Position	Comments
1. The Legislature should decide whether the current excess cost accounting methodology or an alternative methodology would best meet the needs of the state, school districts, and special education students for the accurate allocation of costs and reporting of special education expenditures.	Concur	
2. The Office of Superintendent of Public Instruction, with the assistance of interested stakeholders, should examine whether the current excess cost methodology might be improved through various modifications to the 1077 Special Education Excess Cost Worksheet.	Partially Concur	OFM recognizes the role played by the Legislature in establishing the excess cost methodology through proviso language in the operating appropriations act, and that changing the 1077 Worksheet could result in changes to the methodology itself. Therefore, OFM recommends that no changes should be made to the current methodology without prior Legislative approval. The Legislature should consider providing direction to OSPI on the review process, including the criteria to use in recommending changes.



<p>3. The Office of Superintendent of Public Instruction should provide clear guidance and instruction, and periodic training on how to accurately and appropriately:</p> <p>A. Complete the 1077 Least Restrictive Environment child counts through:</p> <ol style="list-style-type: none"> <li>1. Better identification, in the individualized education programs, of the location where minutes of specially designed instruction are provided; and</li> <li>2. A consistent base of minutes of weekly instruction used for calculating percentage of time students spend in the regular classroom.</li> </ol> <p>B. Allocate costs of contracted services between basic education and special education programs.</p>	<p>Concur</p>	
<p>4. The Office of Superintendent of Public Instruction should require school districts to report the full costs of serving their special education students (i.e., both basic education and special education programs separately).</p>	<p>Partially Concur</p>	<p>Because such an accounting change has potential workload implications for schools and school districts, the Legislature should consider directing OSPI to work with stakeholders to evaluate the costs and benefits of this change, and to report back to the Legislature and OFM with their findings.</p>

We look forward to your final report. If you have any questions, please contact Denise Graham at (360) 902-0572.

## APPENDIX 3 – STUDY APPROACH

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In this appendix, the various steps and activities involved in conducting this study are presented.

**Washington State Reports:** The process began with a review of past Washington State reports on special education. JLARC conducted one study in 2001, leading to the requirement that all school districts employ the excess cost methodology. Another study was conducted by the Washington State Institute for Public Policy, with JLARC assisting in 1995. Other studies examined from 1990 until recently, included those by the Office of the Superintendent of Public Instruction, the State Auditor’s Office, and the Office of Financial Management.

**National Studies and Studies from Other States:** The next step involved a review of literature from various national organizations that research and evaluate special education issues. Nothing of direct value was found specifically addressing excess cost accounting within the field of special education. Most literature focused on developing and analyzing special education funding formulas, projecting costs, or comparing expenditures, but not on methodologies to account for costs.

**Background Interviews:** Background interviews were then conducted to determine the scope and objectives of the study. JLARC staff talked with legislators serving on fiscal and policy committees directly involved in education issues, as well as legislative staff from these committees, staff from the Office of the Superintendent of Public Instruction, and the State Auditor’s Office.

**Consultation with National Experts:** Several national experts in the field of special education funding and expenditure were consulted to learn more about cost accounting methodologies used in other states and to provide input about strengths and weaknesses of various cost accounting methodologies when applied to special education programs.

**Technical Workgroup:** A small group comprised of legislative staff, State Auditor’s Office staff, and a representative from the Office of Superintendent of Public Instruction were periodically consulted during the study for feedback regarding study direction, process, ideas on methodology alternatives and modification evaluation criteria.

**LRE Report Data:** JLARC staff examined the federal December 1, 2004, Least Restrictive Environment Reports for each school district. The purpose behind the review of these reports was to see if the numbers and percentages of students placed in each table used in the 1077 Special Education Excess Cost Worksheet seemed reasonable. When districts had percentages of students in certain tables that were significantly over or under state averages they were noted for possible inclusion in the list of districts to be interviewed. The LRE Reports also contain information about the disabling conditions of students in each table. Therefore, when significantly disproportionate percentages of students by disabling conditions were found in tables above or below state and national averages, the districts were also noted for possible interviews.

**S-275 Personnel Reports:** The S-275 Personnel Reports for school years 2002-03, 2003-04, and 2004-05 were examined to see if special education certificated instructional staff were being split and coded properly.

**1077 Special Education Excess Cost Worksheet Sensitivity Analysis:** December 1, 2002, LRE Report data were used to develop a modeling spreadsheet for calculating how different modifications to the 2003-04 1077 Special Education Excess Cost Worksheet would have impacted individual districts and the state in aggregate. The modeling spreadsheet allows shifts in percentages of students in the three LRE tables, different midpoints, different student/staff ratios, and different special education (Program 21) teacher inputs to see the magnitude of changes in the percentages of each part basic education FTE teacher charged to basic education and to special education.

**State Auditor Reviews:** The State Auditor's Office carried out specific reviews within special education programs in selected school districts. Districts were selected based on financial risk criteria, size, and geographic location (see Appendix 4 for a list of the districts and more detail about how they were selected). Two different types of reviews were conducted. The first review assessed the accuracy of the child counts in the federal LRE Reports districts submitted. Thirty-seven school districts were identified for this review, but eight districts did not submit necessary data or submitted incomplete data. The special education student populations of the 37 districts ranged from 16 to 5,427. From the 29 districts that were included in the review, minutes outside the regular classroom for individual special education students were compared with the Least Restrictive Environment Report numbers in the tables. Also, for some of these districts, individualized education programs were reviewed to see if special education students were placed in the proper table on the LRE Report.

The second type of review conducted by the State Auditor's Office was an examination of school district financial records to learn whether districts were appropriately coding classified staff and service contracts. The State Auditor's staff used a risk-based approach to select districts for review. More information about the risk criteria used and a list of the selected districts can be found in Appendix 4.

**JLARC Site Visits and Phone Interviews:** Based on various school district and student characteristics, districts were selected for site visits and phone interviews. Attempts to schedule site visits with several districts were unsuccessful. While substantial effort was made to talk directly with as many districts as possible, given the time and resource constraints, and the care that was exercised in trying to select districts to be as representative of the state as a whole, it is important to remember that the districts interviewed should be viewed as case studies only, and findings can not be extrapolated to the state as a whole. For a list of the districts that were interviewed and a discussion of how JLARC selected the districts, please see Appendix 4.

**JLARC On-Line Survey:** Since time did not permit interviews with staff in every school district, a short on-line survey was used to give more districts an opportunity to provide some information and share their thoughts regarding the excess cost methodology. A list of the districts that responded to the on-line survey is contained in Appendix 4.

# APPENDIX 4 – SCHOOL DISTRICTS INCLUDED IN THE STUDY

---

**State Auditor’s Office Review:** For one portion of the review by the State Auditor’s Office, to determine if districts are appropriately and consistently applying the special education excess cost accounting methodology, districts were selected based on the distribution of students placed in the Least Restrictive Environment (LRE) Report for December 1, 2002, as compared to the state average. The accurate distribution of special education students is key to the calculation of correct percentages used to split special education teachers’ salaries and benefits appropriately between basic education and special education programs.

Each district’s special education student distribution in the LRE tables was analyzed and compared to the state averages of Table 1 (47.7 percent), Table 2 (36.5 percent), and Table 3 (15.8 percent). The State Auditor’s Office selected districts that significantly exceeded state averages in one or more of the tables. Below are the numbers of districts by table selected for the review (some districts show up in multiple tables so the numbers do not add up to the 37 districts finally selected).

- Table 1: 62 districts are above the state average by at least 50 percent (nine are included in the study) and 20 are more than 50 percent below the state average (eight included in study).
- Table 2: 39 districts are at least 50 percent above (11 included in study) and 60 are more than 50 percent below (eight included in study).
- Table 3: 10 districts are at least 50 percent above (two included in study) and 138 are more than 50 percent below (18 included in study).

In addition, districts were selected within each Educational Service District.

Thirty-seven school districts were selected for this part of the study. Due to time constraints, the majority of those selected were under 500 special education student population. The special education population of students of the 37 districts ranged from 16 to 5,427. Of the 37 school districts selected, only 29 are included in this part of the study. Eight of the selected districts did not submit requested information or submitted incomplete information.

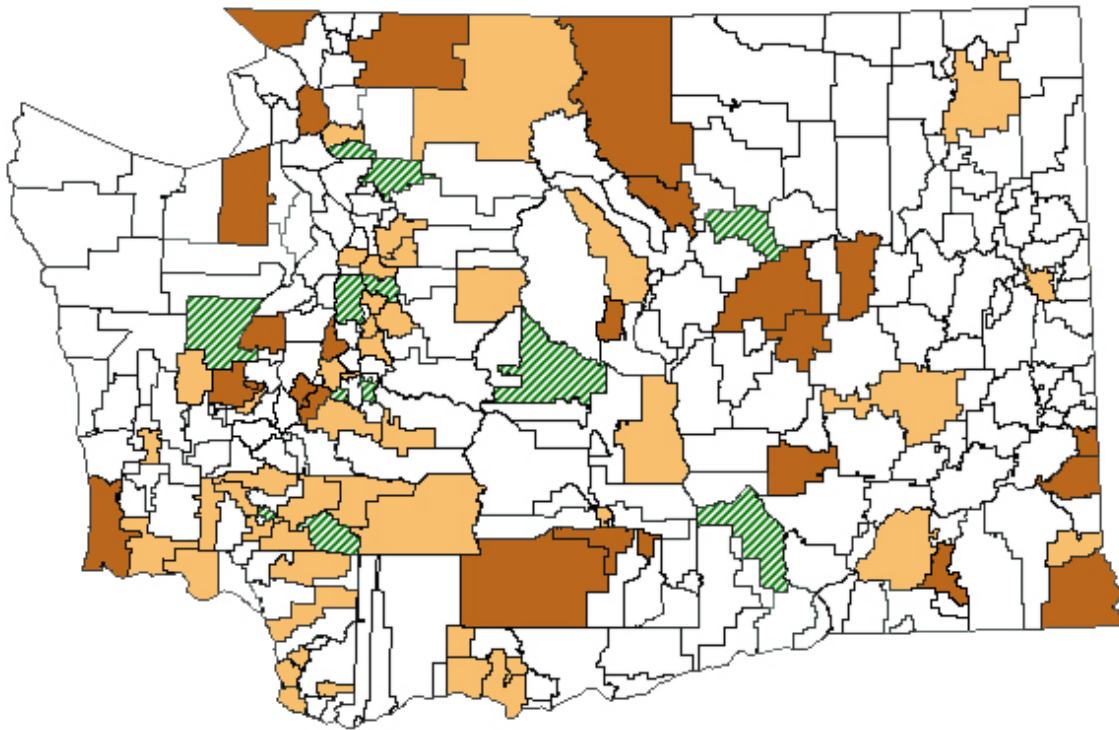
For the other portion of the review, the State Auditor’s Office focused on the cost areas of purchased services and classified salaries for their review of expenditures. Purchased services in fiscal year 2004 totaled \$31,995,571, and are the second highest reported special education expenditure after salaries and benefits. Districts were selected based on the following criteria:

1. Districts exceeding 25 percent of special education (Program 21) expenditures in contracted services;
2. Districts exceeding \$300k in contracted special education (Program 21) expenditures; and
3. Districts reporting more than \$75k in special education (Program 21) expenditures.

Initially, 58 districts were selected for a review, but due to the short timeframe, the condition of records in some districts, and difficulties coordinating schedules with districts, the State Auditor’s Office was unable to complete the work on five of the selected districts.

Special Education Excess Cost Accounting

Figure A4-1– Districts Reviewed by the State Auditor’s Office



Contract Reviews
  1077 LRE Report Reviews
  Contract and 1077 LRE Reviews

Source: State Auditor’s Office.

Contract Reviews		1077 LRE Report Reviews		Contract and 1077 LRE Reviews	
Adna	Morton	Anacortes	Pateros	Arlington	
Bellevue	Mount Vernon	Asotin	Pullman	Bridgeport	
Bethel	Naselle-Grays	Blaine	Sequim	Cle Elum-Roslyn	
Carbonado	Northshore	Cashmere	Shelton	Conway	
Centralia	Onalaska	Clover Park	Southside	Franklin Pierce	
Clarkston	Pe Ell	Coulee Hartline	Steilacoom	Hood Canal	
Colville	Prescott	Methow Valley	Vashon Island	Lake Washington	
Concrete	Renton	Mount Adams	Waitsburg	Mossyrock	
Cosmopolis	Ridgefield	Mount Baker	Wapato	Napavine	
Edmonds	Ritzville	North Mason	Wilbur	Richland	
Entiat	Skykomish	Ocean Beach	Wilson Creek	Seattle	
Fife	Snohomish	Othello	Zillah	Sumner	
Griffin	Spokane	Palouse			
Hockinson	Tacoma				
Issaquah	Toledo				
Kalama	Toutle Lake				
Kent	Trout Lake				
Kittitas	Vancouver				
Klickitat	Wahkiakum				
La Center	White Pass				
Lyle	White Salmon				
Mary M Knight	Winlock				
Monroe	Yakima				

**JLARC Analysis:** For the JLARC analysis of the current special education excess cost accounting methodology, JLARC staff attempted to gather views from a broad array of districts across the state. Two avenues for obtaining information were used: first, JLARC staff interviewed district personnel; and second, since time did not permit interviews with staff in every school district, a short on-line survey was used to give more districts an opportunity to provide some information and share their thoughts regarding the excess cost methodology. Eighteen districts were interviewed. There were 91 school districts and three Educational Service Districts that responded to the on-line survey.

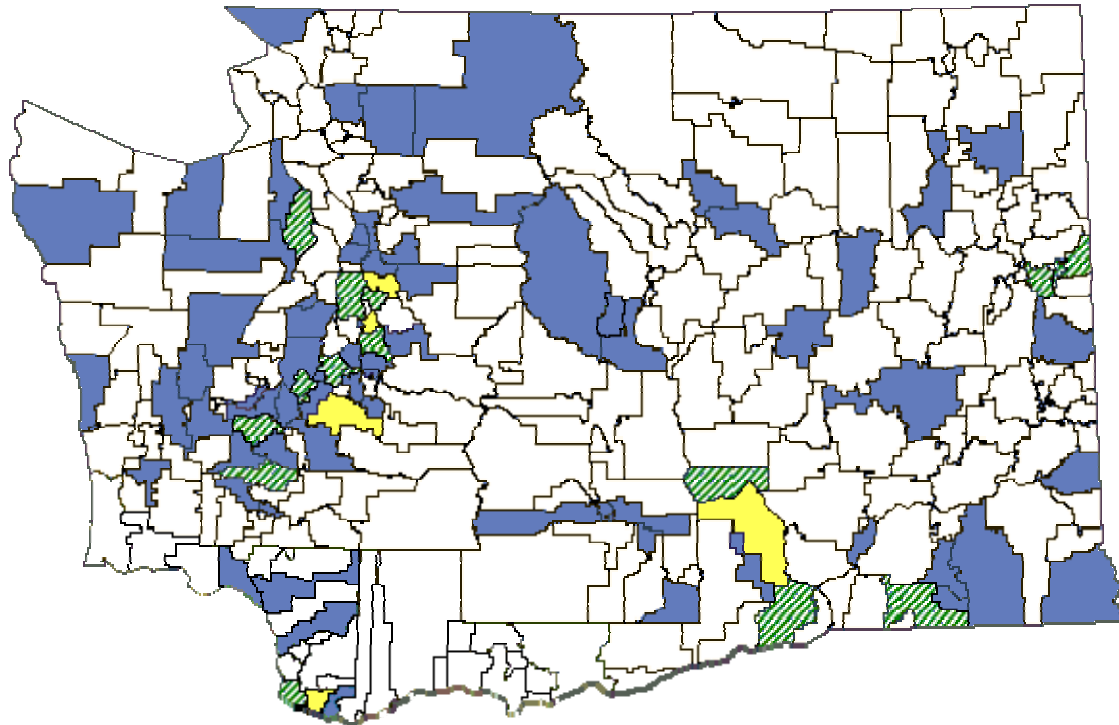
Great care was made in selecting the districts that would be interviewed so as to obtain the most information possible from a relatively small number of districts. Interviews were designed to ascertain districts' level of understanding of the current methodology, how well it is being applied and areas of concern, and to gather input regarding possible modifications to the methodology. Districts were selected to have a cross sampling of the state based on district and student characteristics. Districts were grouped and sub-grouped by the following characteristics:

- Geographic location – eastside, central, and westside
- Urban/rural
- Total student enrollment – large, medium, and small size districts
- Special education students – large, medium, and small special education enrollments; and districts that are above and districts that are below the 12.7 percent enrollment index
- Disability conditions and service settings from the LRE Report – districts that were near to the state average and districts that were 50 percent or more above or below the state averages for conditions and LRE table placements
- Safety Net – districts that have and districts that have not applied for additional funding
- Free and reduced price meals – districts that have high, medium, and low percentages
- Racial/ethnic diversity – districts that have high, medium, and low percentages of non-white students
- English language learners – districts that have high, medium, and low percentages
- Student-to-teacher ratios – districts that have proportionally high, medium, and low ratios
- Teacher experience and education – districts that have proportionally high, medium, and low levels of teacher experience and education

The map on the following page (Figure A4-2) shows districts that were interviewed and districts responding to the on-line survey. Some of the school districts in Educational Service District 112 are shown as having been interviewed because ESD 112 personnel were interviewed, and ESD 112 provides all of the special education services for these districts. A list of the districts interviewed and responding to the survey is also included.

Special Education Excess Cost Accounting

Figure A4-2 – Districts Interviewed by JLARC or Responding to On-Line Survey



Interviewed
  Responded to survey
  Responded to survey and interviewed

Source: JLARC.

<p><b>Interviewed Only</b></p> <ul style="list-style-type: none"> <li>Bethel</li> <li>Evergreen (Clark)</li> <li>Lake Washington</li> <li>Renton</li> <li>Richland</li> </ul>	<p><b>Responded to Survey</b></p> <ul style="list-style-type: none"> <li>Adna</li> <li>Asotin Anatone</li> <li>Auburn</li> <li>Blaine</li> <li>Bremerton</li> <li>Brewster</li> <li>Bridgeport</li> <li>Burlington-Edison</li> <li>Camas</li> <li>Cascade</li> <li>Cashmere</li> <li>Chewelah</li> <li>Columbia 206</li> <li>Concrete</li> <li>Dayton</li> <li>Dieringer</li> <li>Dixie</li> <li>East Valley (Yak.)</li> <li>Edmonds</li> <li>Elma</li> <li>ESD 123</li> <li>Everett</li> <li>Evergreen 205</li> <li>Federal Way</li> <li>Granite Falls</li> <li>Griffin</li> <li>Hood Canal</li> <li>Kelso</li> <li>Kiona-Benton City</li> <li>Liberty</li> <li>Longview</li> <li>Mabton</li> <li>Mary M. Knight</li> <li>Monroe</li> <li>Montesano</li> <li>Mukilteo</li> <li>Napavine</li> <li>North Central ESD</li> <li>North Beach</li> <li>North Thurston</li> <li>Northshore</li> <li>Olympia</li> <li>Orting</li> <li>Peninsula</li> <li>Port Angeles</li> <li>Port Townsend</li> <li>Pullman</li> <li>Puyallup</li> <li>Quilcene</li> <li>Quillayute Valley</li> <li>Raymond</li> <li>Ritzville</li> <li>Riverview</li> <li>Rochester</li> <li>Sedro-Woolley</li> <li>South Kitsap</li> <li>Star</li> <li>Tahoma</li> <li>Tenino</li> <li>Tukwila</li> <li>Union Gap</li> <li>University Place</li> <li>Wahluke</li> <li>Waitsburg</li> <li>Wenatchee</li> <li>West Valley 208</li> <li>Wilbur</li> <li>Wilson Creek</li> <li>Woodland</li> <li>Yakima</li> <li>Yelm</li> <li>Zillah</li> </ul>
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# APPENDIX 5 – HOW THE 1077 SPECIAL EDUCATION EXCESS COST WORKSHEET OPERATES

The 1077 Special Education Excess Cost Worksheet (shown in Figure A5-1 below) is the tool used in assigning or splitting costs for part basic education (special education) teachers between basic education and special education programs.

**Tables and Child Counts:** If a district elects to use the Office of Superintendent of Public Instruction’s on-line worksheet, they can enter their five digit county/district number (Area 1a) and the Least Restrictive Environment child counts will be automatically populated in the first portion of the worksheet (Area 1b). These data are of critical importance in calculating the special education teacher costs to be split between basic education and special education programs. The child counts in the tables come directly from the federal Least Restrictive Environment Reports from the previous year as submitted by each district to OSPI.

Figure A5-1 – Tables and Child Counts

## 1077 SPECIAL EDUCATION EXCESS COST WORKSHEET - 2004-05 SCHOOL YEAR

County/District Number **1a** **99999** State Total

Enter data only in Yellow Cells

	Step A				Step B	Step C	Step D	Step E	Step F
Step	<b>1b</b>				FTE- BEA	FTE-SPED	FTE-Staff	Part BEA Teachers	Percentage
	Form 1077, December 1, 2003								
		Age	Child Count	Midpoint					
B.	Table 1	80-100%	6-11	32,203	X	92.0%	=	29,626.76	
			12-21	19,909	X	87.0%	=	17,320.83	
	Table 2	40-79%		40,443	X	64.0%	=	25,883.52	
	Table 3	0-39%		16,902	X	13.0%	=	2,197.26	
C.		Total		109,457				75,028.37	34,428.63
D.	Assumed BEA Student / Staff Ratio							20	
D.	Number of BEA Staff for Special Ed Time						=	1721.43	
E.	Program 21 Teachers* for 2003-04							4685.78	<=Input here
F.	S-275 and Accounting Split of Staff for 2004-05 School Year								
	Percentage of Each Part Basic Education FTE Teacher Charged to Basic Ed						=		36.7%
	Percentage of Each Part Basic Education FTE Teacher Charged to Special Ed						=		63.3%

\*Includes Program 21, Activity 27, Duty Root 31, 32, 33, 52, and 63 (except preschool teachers) plus FTEness coded to Program 01 under the 1077 methodology for 2003-04.

Source: OSPI at [www.k12.wa.us/safs/INS/SAF/0405/0405\\_1077wksh.xls](http://www.k12.wa.us/safs/INS/SAF/0405/0405_1077wksh.xls).

## Special Education Excess Cost Accounting

The way the 1077 Special Education Excess Cost Worksheet operates is that as special education students spend more time in the regular classroom, more of the special education certificated instructional staff costs will be coded to special education (i.e., the more students in Table 1, the higher the percentage of special education teachers' time is charged to special education and the more students in Tables 2 and 3, the higher the percentage of special education teachers' time is charged to basic education).

**Midpoints:** Since each table on the 1077 LRE Report shows students who fall within a range of time spent in the regular education classroom, some type of average is needed to calculate a regular classroom full-time equivalency (FTE) for all the students in each of the table. The midpoints (Area 2a in Figure A5-2 below) are then multipliers used to calculate the average amount of time special education students spend within the regular classroom.

**Basic Education Student FTE:** In Step A, the child counts in the tables and corresponding midpoints are multiplied to calculate a basic education student FTE (Box 2b) for special education students.

Figure A5-2 – Midpoints Used to Calculate Student FTEs

### 1077 SPECIAL EDUCATION EXCESS COST WORKSHEET - 2004-05 SCHOOL YEAR

County/District Number

99999

State Total

*Enter data only in Yellow Cells*

Step	Step A				Step B	Step C	Step D	Step E	Step F
					FTE- BEA	FTE-SPED	FTE-Staff	Part BEA Teachers	Percentage
	<u>Form 1077, December 1, 2003</u>								
		Age	Child Count	Midpoint					
B.	Table 1	80-100%	6-11	32,203	X	92.0%	=	29,626.76	
			12-21	19,909	X	87.0%	=	17,320.83	
	Table 2	40-79%		40,443	X	64.0%	=	25,883.52	
	Table 3	0-39%		16,902	X	13.0%	=	2,197.26	
C.		<b>Total</b>	<b>109,457</b>					<b>75,028.37</b>	<b>34428.63</b>
	Assumed BEA Student / Staff Ratio								
D.	Number of BEA Staff for Special Ed Time						=	<b>1721.43</b>	
E.	<b>Program 21 Teachers* for 2003-04</b>								<b>4685.78</b> <=Input here
F.	<b>S-275 and Accounting Split of Staff for 2004-05 School Year</b>								
	Percentage of Each Part Basic Education FTE Teacher Charged to Basic Ed							=	<b>36.7%</b>
	Percentage of Each Part Basic Education FTE Teacher Charged to Special Ed							=	<b>63.3%</b>

\*Includes Program 21, Activity 27, Duty Root 31, 32, 33, 52, and 63 (except preschool teachers) plus FTEness coded to Program 01 under the 1077 methodology for 2003-04.

Source: OSPI at [www.k12.wa.us/safs/INS/SAF/0405/0405\\_1077wksh.xls](http://www.k12.wa.us/safs/INS/SAF/0405/0405_1077wksh.xls).

**Special Education Student FTE:** The special education student FTE is found in Step C on the 1077 Special Education Excess Cost Worksheet (Box 2c). To do this the basic education student FTE calculated in Step B is subtracted from the total number of students enrolled in special education programs. The resulting number is the special education student FTE.

## Special Education Excess Cost Accounting

**Assumed BEA Student/Staff Ratio:** In the worksheet, the assumed BEA student/staff ratio is 20 students to each certificated staff (Area 2d on the previous page). This is the student/staff ratio used to approximate the amount of basic education support that should follow the special education student when he or she leaves the regular education classroom.

**Number of BEA Staff for Special Ed Time:** The number of basic education staff time needed to serve the special education students in Step D (Area 3a in Figure A5-3 below) is the product of dividing the Special Education FTE in Step C by the Assumed BEA Student/Staff Ratio.

**Special Education (Program 21) Teachers:** In Step E on the 1077 Special Education Excess Cost Worksheet, districts enter the previous year's total non-preschool and non-federally-funded special education teacher FTE (Box 3b).

**S-275 Basic Education/Special Education Splits:** The percentages in the 1077 Special Education Excess Cost Worksheet (Area 3c) are the splits that are applied to every part basic education teacher. These percentages show what share of each teacher's salary and benefits should be coded to basic education and what percentage should be coded to special education.

Figure A5-3 – Special Education Teachers Salaries Charged to Basic Ed and Special Ed  
**1077 SPECIAL EDUCATION EXCESS COST WORKSHEET - 2004-05 SCHOOL YEAR**

County/District Number		99999		State Total		Enter data only in Yellow Cells				
Step	Step A					Step B	Step C	Step D	Step E	Step F
						FTE-BEA	FTE-SPED	FTE-Staff	Part BEA Teachers	Percentage
	<b>Form 1077, December 1, 2003</b>									
		Age	Child Count	Midpoint						
B.	Table 1	80-100%	6-11	32,203	X	92.0%	=	29,626.76		
			12-21	19,909	X	87.0%	=	17,320.83		
	Table 2	40-79%		40,443	X	64.0%	=	25,883.52		
	Table 3	0-39%		16,902	X	13.0%	=	2,197.26		
C.		<b>Total</b>		<b>109,457</b>				<b>75,028.37</b>	<b>34428.63</b>	
	Assumed BEA Student / Staff Ratio									
D.	Number of BEA Staff for Special Ed Time								<b>1721.43</b>	
E.	Program 21 Teachers* for 2003-04								<b>4685.78</b>	=Input here
F.	S-275 and Accounting Split of Staff for 2004-05 School Year									
	Percentage of Each Part Basic Education FTE Teacher Charged to Basic Ed								=	<b>36.7%</b>
	Percentage of Each Part Basic Education FTE Teacher Charged to Special Ed								=	<b>63.3%</b>

\*Includes Program 21, Activity 27, Duty Root 31, 32, 33, 52, and 63 (except preschool teachers) plus FTEness coded to Program 01 under the 1077 methodology for 2003-04.

Source: OSPI at [www.k12.wa.us/safs/INS/SAF/0405/0405\\_1077wksh.xls](http://www.k12.wa.us/safs/INS/SAF/0405/0405_1077wksh.xls).



# APPENDIX 6 – OSPI INSTRUCTIONS: EXCESS COST ACCOUNTING FOR SPECIAL EDUCATION

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OSPI instructions for Excess Cost Accounting for special education follow.



# **EXCESS COST ACCOUNTING FOR SPECIAL EDUCATION**

## **PURPOSE**

The purpose of the special education excess cost accounting methodology is to ensure that special education students as a class receive basic education support to which all students are entitled and that special education revenues are used to supplement basic education support.

The 1077 method provides a uniform statewide method of allocating basic education support for special education services. This uniformity will permit comparison of school district special education programs and expenditures, and help identify districts in need of state special education safety net funding.

## **ACCOUNTING DEFINITION**

The *Accounting Manual for Public School Districts in the State of Washington* defines special education excess costs as follows:

“Excess costs” are those expenditures for special education and related services for special education students that exceed the amount needed to provide a basic education to those students.

## **ASSUMPTIONS OF THE 1077 METHOD**

The 1077 method relies on each school district’s December federal child count Report 1077–Implementation of Least Restrictive Environment Requirement to determine the amount of service provided to special education students outside the regular classroom.

This methodology assumes that:

- Special education students receive their appropriate share of basic education support from basic education staff when served in the regular classroom.
- When special education students are served outside the regular classroom, basic education dollars follow them to partially support special education services they receive.
- The amount of basic education support that follows students is approximated by providing one FTE certificated staff unit to each 20 FTE students.
- The resulting level of basic education support is provided for special education services by charging a portion of each special education teacher to basic education.
- Nonemployee related costs (NERC) and administrative costs are charged to the special education program only to the extent they exceed the costs of regular education.

Federally-funded special education services are also supplemental and are charged to the federal special education program consistent with federal guidance. (See OMB Circular A-87 and SPI Bulletin No. 006-04.)

## **REQUIRED EXCESS COST METHODOLOGY (1077 METHOD)**

All school districts are required to use the following method to determine the special education service costs allocated to basic education. Key elements of this methodology are:

- All special education staff are identified as either “pure excess cost” or “part basic education.”
- The part basic education staff are divided between basic and special education by a uniform percentage derived from the prior school year’s staffing information and federal child count data (Report 1077–Implementation of Least Restrictive Environment Requirement). The percentage is based on the amount of time special education students spend outside the regular classroom.

# EXCESS COST ACCOUNTING FOR SPECIAL EDUCATION

- Salary and benefit costs are allocated accordingly.
- Nonemployee related costs are allocated between basic and special education.

**School districts are to use this method consistently for budgeting (Report F-195), state personnel reporting (Report S-275), annual financial reporting (Report F-196), and safety net applications.**

1. **Identify all employees serving the special needs of special education students for the prior and current school years.** These services include:
  - Services required by student individualized education programs (IEPs).
  - Evaluation of students for special education services.
  - Direct administrative and clerical support for special education staff and students.
  
2. **Determine the special education full-time equivalent (FTE) of each employee’s services as follows:**
  - Select a typical week of service.
  - Determine the amount of time the employee provides special education services.
  - Divide by the employee’s total hours of employment.
  - For federally funded employees use time and effort distribution or other approved methods. (See OMB Circular A-87 and SPI Bulletin No. 006-04.)

A 1.0 FTE indicates that the employee serves only special education students.

3. **Identify special education FTEs that are “pure excess cost.”**

<b>“Pure Excess Cost” FTEs</b>
<b>Special education administrators</b> <i>Duty roots 11–25</i>
<b>Certain certificated teachers:</b> <ul style="list-style-type: none"> <li>◆ Prekindergarten teachers</li> <li>◆ Teachers charged fully to federal special education programs using approved federal methodology</li> </ul> <i>Duty roots 31, 32, 33, 52, and 63</i>
<b>Educational staff associates (ESAs)</b> <i>Duty roots 40–49</i>
<b>Classified staff</b> <i>Duty roots 90–99</i>

4. **Charge the “pure excess cost” FTEs to the following special education programs:**
  - Program 21 Special Education—Supplemental—State.
  - Program 24 Special Education—Supplemental—Federal.
  - Program 29 Special Education—Other Federal.
  
5. **Identify all other teachers as “part basic education” funded.**

<b>“Part Basic Education” FTE Teachers</b>
<b>All certificated teachers* except:</b> <ul style="list-style-type: none"> <li>◆ Prekindergarten teachers</li> <li>◆ Pure excess cost federally funded teachers</li> </ul> <i>* Duty roots 31, 32, 33, 52, and 63</i>



## EXCESS COST ACCOUNTING FOR SPECIAL EDUCATION

6. Allocate each “part basic education” FTE teacher identified in step 5 for the current school year to basic education (*Programs 01, 31, and 45*) and special education (*Program 21*) based on the prior school year’s percentage determined in steps A–G below:
- A. Obtain the prior year’s Federal Child Count Form SPI 1077 Implementation of Least Restrictive Environment Requirement (use December 2004 for the 2005–2006 calculations).
  - B. Calculate an approximate full-time equivalent (FTE) of students served in the regular classroom by summing the following:
    - The number of 6–11 year old students in Table 1 times 92 percent.
    - The number of 12–21 year old students in Table 1 times 87 percent.
    - The number of students in Table 2 times 64 percent.
    - The number of students in Table 3 times 13 percent.
  - C. Subtract the number of students from step B from the total number of students in tables 1, 2, and 3. This gives the approximate FTE of special education students served outside the regular classroom.
  - D. Divide the number of students from step C by 20. This is the assumed number of basic education FTE staff needed to serve special education students outside the regular classroom.
  - E. Determine the total “part basic education” FTE teachers for the prior school year (duty roots 31, 32, 33, 52, and 63) in step 5. (Include both basic education Programs 01, 31 and 45 and special education Program 21 parts in the total.)
  - F. Divide the result of step D by the result of step E to get the percent of each “part basic education” FTE teacher to be charged to basic education in the current year.
  - G. For each current year “part basic education” FTE teacher identified in step 5, charge the percentage derived in step F to basic education (Programs 01, 31, or 45) and the remainder to special education (Program 21).

### Illustration for 2005–2006 School Year

- A. The district’s Form 1077 from December 2004 is summarized as follows:

	Percent of day in regular class	Ages 6–11	Ages 12–17	Ages 18–21	Total
<b>Table 1</b>	80%–100%	137	61	—	198
<b>Table 2</b>	40%–79%	75	91	16	182
<b>Table 3</b>	0%–39%	25	58	13	96
<b>Grand Total</b>					<b>476</b>

- B. Calculate approximate FTE students in the regular classroom:
- Table 1 ages 6–11 = 137 students \* 92% = 126.04
  - Table 1 ages 12–21 = 61 students \* 87% = 53.07
  - Table 2 all ages = 182 students \* 64% = 116.48
  - Table 3 all ages = 96 students \* 13% = 12.48
  - Total of above calculations = **308.07 FTE in the regular classroom**

## EXCESS COST ACCOUNTING FOR SPECIAL EDUCATION

- C.  $476 - 308.07 = 167.93$  (approximate FTE of students outside the regular classroom)
- D.  $167.93 / 20 = 8.40$  (basic education FTE staff needed for 167.93 FTE students)
- E. The district identified **30** “part-basic education” FTE teachers for the prior year (2004–2005) in step 5 of the step-by-step methodology. (Include the total FTE including both the basic and special education parts.)
- F.  $8.40 / 30 = 28.0\%$  (Round to one decimal.) If this ratio is over 100% the district shall allocate 100% of the “part basic education” FTE teachers to basic education and shall allocate additional “pure excess cost” certificated FTE staff to basic education as needed.
- G. Charge 28.0% of each current year (2005–2006) “part basic education” FTE teacher to basic education. Charge the remaining 72% to special education.
- 7. Excess cost accounting principles also apply to supplemental contracts.**  
Supplemental contract costs may be all basic ed costs, part basic ed costs, or pure excess costs, depending upon the services provided.
- 8. Contractual payments for special education services are to be allocated between basic and special education programs if:**
- The services are provided by employees defined as “part basic education” in step 5.
  - The district is receiving basic education funding for the student for the time of services.
- 9. Charge other nonemployee related costs (NERC) to special education programs if:**
- Costs are directly traceable to enhanced services for special education students.
  - Costs are required by the IEP.
  - For other costs, determine what portion is in excess of the costs required for basic education students and staff. (Costs that are “part basic education” may be allocated based upon a reasonable methodology. It is not necessary to divide each transaction as long as the cumulative NERC expenditures are reasonably divided.)
- 10. Special Education Excess Cost Worksheet – Form 1077**
- For your convenience, the 1077 worksheet for FY 2005-2006 has been posted to the OSPI School Apportionment and Financial Services website.
  - To calculate a district’s split coding percentage based on 2004 Federal child count data simply:
    - Key in the district’s county district number in highlighted Cell G3.
    - Federal child count data for the district will auto-populate.
    - In Cell L17, Step E, enter the district’s special education pool for 2004-2005. This is the total FTEness of certificated special education teachers who are coded to Program 21, Activity 27, Duty Roots 31, 32, 33, 52 and 63 **PLUS** the portion of their FTEness that has been split coded to Program 01. **Do not include pre-kindergarten teachers!**
    - Completing steps 1 and 3 (above) will generate the split coding percentages to be charged to Basic Education (Program 01) and Special Education (Program 21).

## APPENDIX 7 – GLOSSARY

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Special education in general, and special education finance are areas filled with terms and concepts that might not be familiar to many readers. Because this report relies heavily on the use of these terms and concepts, it is important that they be understood. This glossary presents some of the more widely used terms and concepts. However, it is not exhaustive.

**1077 Special Education Excess Cost Worksheet:** The 1077 Special Education Excess Cost Worksheet is the worksheet the Office of Superintendent of Public Instruction (OSPI) has produced and provided to school districts to calculate percentages of certificated instructional staff time that must be split coded between basic education and special education programs. It is called the 1077 Special Education Excess Cost Worksheet because the basis for how districts split special education costs between basic education (Program 01) and special education (Program 21) is the Form 1077 – Implementation of Least Restrictive Environment Requirement report.

**Eligible Students:** Students are evaluated to determine if they meet certain criteria to be eligible for special education services. Funding is allocated only for students meeting the qualifying criteria who have properly formulated individualized education programs (IEPs) detailing the Specially Designed Instruction (SDI) and related services they are to receive to meet their identified needs. Eligibility is defined in WAC 392-172-035(2) and (3).

**Excess Cost:** In 1995, the state switched to using excess cost funding and accounting methodologies. The excess cost methodology assumes that special education students receive basic education support to which all students are entitled. According to the *Accounting Manual for Public School Districts in the State of Washington*, excess costs are those expenditures for special education and related services for special education students that exceed the amount needed to provide a basic education to those students.

**Full Cost:** Prior to 1995, special education was funded on a full-cost basis in this state. As the term has been used for special education funding in this state, “full cost” means that the costs of providing both the basic education and any special education and related services are rolled into a single allocation for special education students. When special education funding was provided on a full-cost basis, there was an assumed “back-out” of basic education costs. However, as an accounting term, full cost means that all the costs associated with producing a product or delivering a service are captured.

**Individualized Education Program:** Each special education student is required by law to have a plan or program developed that addresses the individual educational and related service needs of the student. The individualized education program (IEP) must contain information about the educational, developmental, health, social, and transitional needs of the student (if 16 years of age or older); goals and objectives addressing the needs; the Specially Designed Instruction and related services to meet the goals and objectives; the staff or contractors who will provide the services; the frequency and duration of services to be provided; and the location in which the services will be provided.

**Least Restrictive Environment:** Federal legislation requires that special education students be served in the least restrictive environment that is developmentally and educationally appropriate. The intent is to keep students with their non-special education peers as much as possible. Districts must report numbers of special education students by service setting and percent of day spent in or out of the regular classroom. The reporting form, OSPI Form 1077 – Implementation of Least Restrictive Environment Requirement, contains eight tables, but only the first three are used within the excess cost methodology.

**Maintenance of Effort:** Federal statute requires that school districts maintain a certain minimum level of funding for special education services from one year to the next. When Congress began providing federal assistance to state special education programs, they wanted to ensure that states would not shift the financial burden to the federal government. There are several ways that districts can meet Maintenance of Effort (MOE) requirements even if spending is reduced:

1. From a decrease in the enrollment of special education students;
2. If high-cost students are no longer being served;
3. From a voluntary departure of special education or related services personnel; or
4. If construction or equipment costs are no longer needed.

**Part Basic Education:** Special education teachers are sometimes referred to as part basic education teachers. Because the basic education dollars are expected to follow the student when he or she leaves the regular classroom to obtain special education, part of most special education teachers' salaries and benefits are charged to basic education programs.

**Program 01:** Expenditures for free and appropriate kindergarten through twelfth grade public education (basic education) are recorded in Program 01 within the state's chart of accounts for public school districts.

**Program 21:** Special education excess cost expenditures funded with state revenue are recorded in Program 21 within the state's chart of accounts for public school districts. These expenditures include preschool special education, home hospital services, and Medicaid expenditures.

**Pure Excess Cost:** The costs of services provided by staff that would otherwise not be hired if there were no special education students are known as pure excess cost. The costs are termed "pure excess" because they are fully funded from special education dollars. Examples of these types of staff include: occupational therapists, physical therapists, speech language pathologists, and classroom aides and assistants.

**S-275 Personnel Reports:** The S-275 personnel reporting system is an electronic reporting process providing a record of certificated and classified employees of all school districts and Educational Service Districts. The S-275 personnel reporting system contains data such as district staff names, job classifications, duty assignments, full-time equivalency (FTE), and salaries as of October 1 of each year. Certificated instructional staff FTE can be taken from the S-275 personnel report and can be used in the 1077 Special Education Excess Cost Worksheet to calculate the basic education and special education program splits for special education teacher costs. In turn, the splits are entered into the S-275 personnel reporting system to arrive at the costs of special education certificated instructional staff. In fact, the S-275 personnel reporting system was specifically identified in the legislation requiring a single excess cost accounting methodology be used by all school districts.

## Special Education Excess Cost Accounting

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**Safety Net:** Safety Net funding is provided to assist school districts with high-cost special education students. Safety Net funding was established in 1995 when Washington State switched from a full-cost funding formula to an excess-cost funding formula. Districts may qualify for additional excess-cost funding for students with properly formulated individualized education programs whose service costs exceed a high-cost threshold. The State Oversight Committee makes determinations about whether districts should qualify for additional funding.

**Specially Designed Instruction:** Specially Designed Instruction (SDI) are the education services contained in the individualized education program that are intended to help the student meet the goals established in the IEP.

**Special Education:** Special education is instruction that is specially designed to meet the unique needs and abilities of an eligible student with disabilities. It must be provided at no cost to the student or parent, in conformance with the student's individualized education program.

**Special Education Funding Index:** School districts are required by law to serve any child three to twenty-one years of age who is eligible for special education services. However, the state provides special education funding for up to 12.7 percent of a district's total resident enrollment.

**Students with Disabilities:** "...children in school or out of school who are temporarily or permanently retarded in normal educational processes by reason of physical or mental disability, or by reason of emotional maladjustment, or by reason of their disability, and those children who have specific learning and language disabilities resulting from perceptual-motor disabilities, including problems in visual and auditory perception and integration." (RCW 28A.155.02)





