

“Hold-Harmless” To Equitable Distribution—Who Gets State Special Education Funds? by Hilda A. Highfill

The formula for distributing state special education funds has attracted a great deal of attention in the last four years. The formula affects how some \$115 million a year in state special education funds are parceled out to the 142 local education agencies throughout the state. These funds are in addition to the regular state funds for all pupils. During the 1983 legislative session, three funding issues prompted an intense debate over the distribution formula. First, a sharp inequity exists among the school districts. Some districts receive many more funds per eligible child than do others. Second, in North Carolina, local governments contribute very little to special education, only 7.5 percent of all such funds in 1981-82 (see Table 1 on page 71). Consequently, the local education agencies are dependent upon the maximum state funds possible to help them meet the mandate of the Creech Bill and PL 92-142. Third, because overall state appropriations for special education have increased only modestly in the last three years, some local school systems would lose some of their state allotments under the new formula that was scheduled to take effect July 1, 1983.

For a summary of the debate and its resolution, see pages 74-76. The step-by-step explanation below of how the formula works can help one appreciate the importance of the debate that took place.

1. **1979 legislative directive to the State Board of Education** In 1979, the General Assembly directed the State Board of Education to develop and implement "... a uniform formula for the allocation of all funds appropriated for children with special needs"

The legislature also said that funds shall be "... based on the number of these children needing special education" (1979 Session Laws, Chapter 838, Section 53).

Prior to 1979, the fund allocations to schools had been based on categorical allocations based on membership, that is, the general

size of a school district rather than the actual count of children served in the program.

2. **New formula based on pupils served; minimum support level** The State Board of Education responded to the 1979 mandate and developed a formula for the allocation of state funds to serve exceptional children. That formula has served as the allocation formula for state funds since 1980-81 and is based on head counts of children served in each local school district within these restrictions:

—overall "caps" (maximum percentages of a district's entire school population) for funding purposes are 12.5 percent for handicapped and 3.9 percent for academically gifted pupils;

—within the overall caps, percentages in individual categories shall not exceed these caps:

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| a. mentally handicapped | 3.0 percent |
| b. specific learning disabled | 3.9 percent |
| c. seriously emotionally handicapped | 2.6 percent |
| d. speech/language impaired | 4.55 percent |
| e. other handicapped | 2.20 percent |

—in the headcount process, gifted pupils are weighted at three to one while handicapped pupils are weighted at one to one for funding.

3. **"Hold-harmless" clause** The new formula explained above had a major caveat. It included a three-year provision that no LEA would lose funds. That is, under the new formula, the *1979-80 level of support would be the minimum for each school system*, regardless of the number of pupils served. This provision, called "a hold-harmless" clause, in effect postponed implementation of a headcount distribution for three years due to the fact that about 98 percent of the funds were required for the "hold harmless" provision. Only about two percent remained for distribution on the basis of headcounts.

Hence, the legislature's appropriations for exceptional children go to individual districts based on a combination of average daily membership, "hold harmless," and headcounts for the past three school years. Significant funding inequities among districts are apparent, when allocations are compared on a per eligible pupil basis. In 1981-82, the allocations per eligible pupil ranged from \$697 in Greenville to \$1,737 in Salisbury, *a range of over \$1,000 in state funds for each eligible pupil.*

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4. State Board proposes new formula

With the expiration of the "hold-harmless" provision of the formula at the end of the 1982-83 school year, the State Board's headcount formula would have been implemented July 1, 1983. However, in 1981 the State Board of Education requested the Council on Educational Services for Exceptional Children to review the formula and make recommendations on future allocations, once the "hold-harmless" provision had phased out.

In 1982, the State Board adopted the council's recommendation for a new formula. The State Board's proposal, a departure from the headcount approach, would distribute funds primarily on the old, average daily membership basis. The State Board's funding formula for 1983-84 proposed to:

—allot 4,000 teaching positions based on average daily membership;

—raise the caps of eligible pupils from 12.5 to 15 percent for handicapped and from 3.9 to 5 percent for gifted pupils in each LEA;

—eliminate caps for separate categories of exceptionality, such as for mentally handicapped, specific learning disabled, etc., as they exist under the old formula;

—allot positions for two high-cost programs (trainable mentally handicapped and severely/profoundly mentally handicapped) at one teacher and one aide for every 12 pupils; and

—adjust headcounts on June 1 each year to accommodate entries and exits of pupils during the current school year.

Under the State Board's proposal, \$3.5 million would have been redistributed to 65 LEAs, continuing a wide range in per pupil funding from \$676 in the lowest LEA (Thomasville) to \$1,329 in the highest-funded LEA, (Newton)—a gap of \$653 per eligible pupil.

5. Legislative report on special education finance

Concurrent with the State Board's review, the legislature also had set in motion its own study of the education financing and spending in the exceptional children's programs.

The Legislative Services Commission contracted with the Frank Porter Graham Child Development Center at the University of North Carolina at Chapel Hill to do the study. In early June 1983, the study report was presented to the legislature. Among its recommendations were two pertaining to a funding formula:

a. That the formula adopted by the State Board of Education in 1979-80 for allocation of funds to LEAs should be fully implemented. The formula is a sound one and could be used effectively if the "hold-harmless" provision were eliminated.

b. That current caps on percentages of pupils eligible for allocations by exceptionality should be maintained, with certain exceptions allowable. No exceptions should be permitted in the gifted, learning disabled, and speech-impaired categories.

A headcount formula appears to be among the simplest and more equitable allocation methods, although it has potential problems which must be addressed through proper oversight and auditing functions, the study emphasized.

6. Compromise formula 1983-84

Since 1979, legislative considerations have focused on equity of allocations to local school districts. Those concerns continued in the 1983 session along with the issues

of improved accountability for the pupil counts. Due to the lateness of the Appropriations Act—ratified on July 15, 1983—and the likely disruption of personnel decisions in the local schools if the formula were changed four to six weeks before a new school year began, the legislature adopted an interim solution as part of a new three-year plan. The new plan:

a. continues the "hold-harmless" provision for a fourth and final year, 1983-84;

b. phases in headcount allocations in 1984-85. For this one year, a district cannot have its state aid special education allocation reduced by more than one-half the difference between its 1983-84 allocation and a headcount allocation, based on the existing caps; and

c. will fully implement a headcount formula in 1985-86.

The compromise continues a significantly large gap among districts in per pupil funding—from \$738 in Kings Mountain to \$1,451 in Tarboro.* Nevertheless it gives adequate notice that a more equitable distribution formula will begin in just one more year, 1984-85. The funding plan for exceptional children now relates dollars to the number of special-needs pupils served. It also calls on the State Board of Education to strengthen its accountability for the program by 1) making fuller use of federal dollars; 2) examining its identification procedures and certifying the pupil counts; 3) transferring the pupil audits from the Department of Public Instruction to the Controller's Office under the State Board of Education; and 4) reporting to the 1984 legislative session on its actions towards implementing the recommendations included in the Child Development Center's report, *Financing Special Education in North Carolina*. □

*These figures are based on July 8, 1983, preliminary allocations prepared by the Controllers Office, State Board of Education.