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Exploring the Link Between Special Education Identification and State Special Education Revenue and Funding Mechanisms

Krista Kaput, Bellwether

This white paper is a submission to CRPE's request for analysis of our Special Education Data Center and has not been peer reviewed. The findings presented reflect the views of the author and do not necessarily reflect the views of CRPE or CRPE's funders.

Since the adoption of the federal Individuals with Disabilities Education Act (IDEA) in 1975, the proportion of students identified for special education services nationwide has increased from 8% to 15%. Across the country, states have also seen higher identification rates, but the percentage of students identified varies. For example, in Hawaii, 12% of students have been identified for special education services, whereas in Pennsylvania, 21% of students have been identified.

The increase in rates is due to several factors, including improved recognition and diagnosis, reduced stigma, and increased parental advocacy. Another possible factor could be incentives tied to how states identify and allocate special education funding to districts. States provide significantly more in dedicated special education funds than the federal government. For example, in fiscal year (FY) 2023, the federal government allocated about $14.5 billion in IDEA funding, while states allocated $26.7 billion. Understanding how states allocate their special education funding is crucial because students with disabilities have diverse needs, and no two states distribute funding exactly the same way or at the same levels. Many states consider multiple factors beyond a student's general eligibility when deciding how to allocate funds, including the type of disability, the level of services needed, and the costs of those services. These policy choices, usually embedded in a state's education funding system, may impact students both directly and indirectly.

States use six primary mechanisms for allocating special education funding. Although research does not definitively show that any single funding model causes over- or under-identification, each funding model presents trade-offs among equity, administrative complexity, and incentives for efficient and accurate service delivery

(Table 1). For example, some policy experts have expressed concern that funding systems with differentiated student weights may create financial incentives for schools to overidentify or misclassify specific disability types or services.[1] Conversely, census-based methods, which assume a consistent percentage of students with disabilities in all districts, can lead to both over- and underfunding and misalignment of funding with student needs.

This exploratory analysis investigates whether and how state funding mechanisms may contribute to the identification of students for special education services. Using U.S. Census Bureau state special education revenue data[2] and students identified for special education services from the Center on Reinventing Public Education data from FY13 to FY23,[3] it explores relationships between K–12 special education enrollment growth, state special education revenues, and identification rates, along with common funding policies in states experiencing the largest increases in special education enrollment.

[1] Legislative Analyst's Office, "Overview of Special Education Funding Models," December 17, 2021, https://lao.ca.gov/Publications/Report/4486

[2] The U.S. Census data did not have state special education revenue data for Wyoming, Arizona, Alaska, Rhode Island, New Hampshire, Oregon, Kentucky, Oklahoma, Tennessee, Massachusetts, North Carolina, Ohio, Texas, and New Mexico.

[3] The FY13 data in the analysis were retained in nominal dollars. When the FY13 dollars were adjusted for inflation (real dollars), then the number of states with a decline in special education per-pupil funding increases from 15 to 20.

Table 1. State Funding Structures for Special Education State

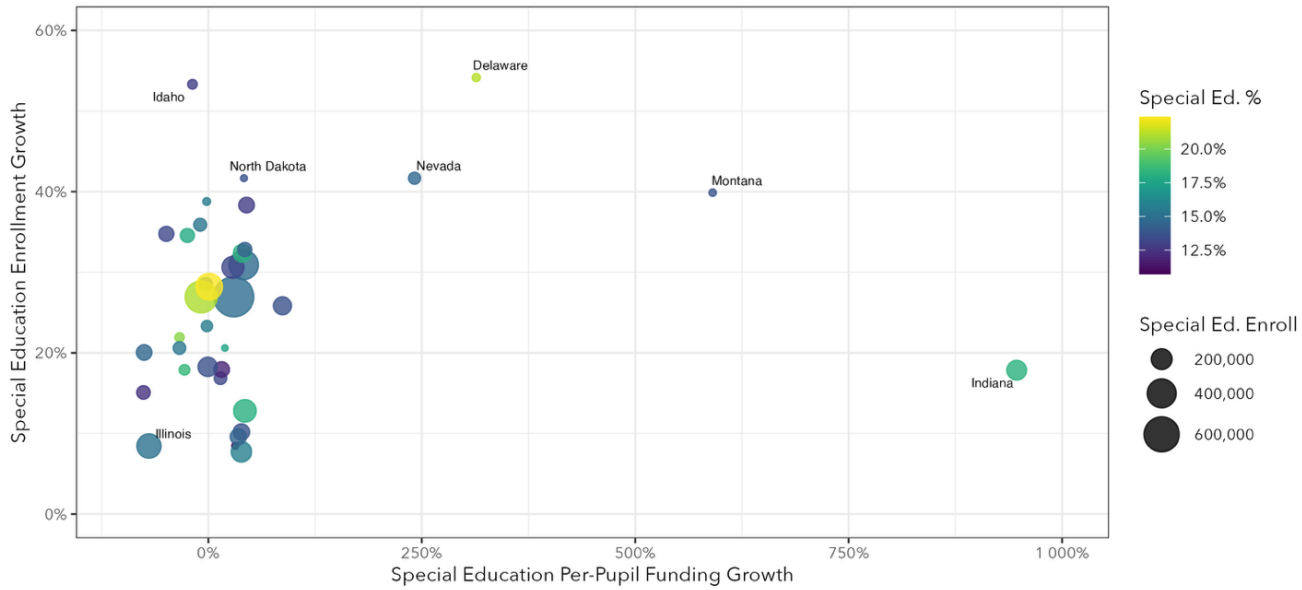
Funding Structure	Description	Pros	Cons
Single student weight	Provides the same degree of incremental funding for each student with a disability, regardless of the type or severity.	-Tied to enrollment. - Predictable for districts. - Easy for policymakers to adjust.	- Does not differentiate funding based on specific disability types or services. - Fails to account for variability in the cost to provide services that students require.
Multiple student weights	Provides different levels of funding for different categories of students with disabilities, typically tiered by disability type or services provided.	- Tied to enrollment. - Differentiates funding based on needs within subgroups for students with disabilities.	- Could be complicated for policymakers to adjust. - More complex for districts to project or report relative to a single-weight system. - Weightings may not reflect true costs or differentiation within weights. Weighting incentives may affect service decisions.
Resource-based	Estimates the cost of delivering services in a district based on the cost of required resources, like staff salaries, staffing ratios, and/or course materials.	- Can be based on typical costs for major cost drivers for supporting students with disabilities, including staffing.	- Not differentiated to align with the needs of enrolled students. - Often complicated for policymakers to adjust. - May not capture all relevant cost drivers.
Cost reimbursement	Districts report special education expenses to the state and receive reimbursement for some portion of those expenses.	- Tied to the actual costs for each district.	- Districts must fund special education services up front to be reimbursed. - Administratively burdensome -May not encourage efficiency in service delivery. - Reimbursement rates rarely match the full cost of services.
Block Grant	Based on previous years' special education allocation.	- Reduces administrative burden.	- Not necessarily aligned with student needs. - More vulnerable to cuts and underfunding.
Census-Based	Based on each district's total enrollment count; assumes a set share of the students will require special education services.	- Predictable for districts. - Easy to understand. - May not encourage the overidentification of students for services. - Allows for flexibility.	- Could under- or over-count the number or percentage of students with disabilities. - Does not account for differences in student needs.

Source: Bellwether, *How Do School Finance Systems Support Students With Disabilities? Splitting the Bill—#16 in the Series* (2024), https://bellwether.org/wp-content/uploads/2024/05/SplittingtheBill_16_Bellwether_May2024.pdf

Finding 1: States with the largest per-pupil increases in state special education funding do not necessarily see the highest growth in special education identification.

Figure 1 illustrates a weak relationship between the growth of state per-pupil special education revenue and special education identification between FY13 and FY23. All states saw an increase in special education identification rates, but most saw only modest increases in state per-pupil special education funding or decreases over that same time span. States with the highest identification growth rates, like Idaho and North Dakota, experienced only moderate increases in total state special education funding during the same period. On the other end, Indiana had the highest total special education funding increases but was 28th (out of 36) in growth rate for the number of students identified for special education services. These data imply that increased identification rates are not wholly or consistently caused by funding incentives, and vice versa. In cases where identification rates increase after a funding increase, this might be a desired outcome to address previous under-identification caused by funding limitations; however, further research is needed.

Figure 1. Special Education Enrollment and State Special Education Per-Pupil Growth Rates, FY13 to FY23



Source: CRPE, *Unlocking Potential Data Center*; and U.S. Census Bureau, *Annual Survey of School System Finances*.

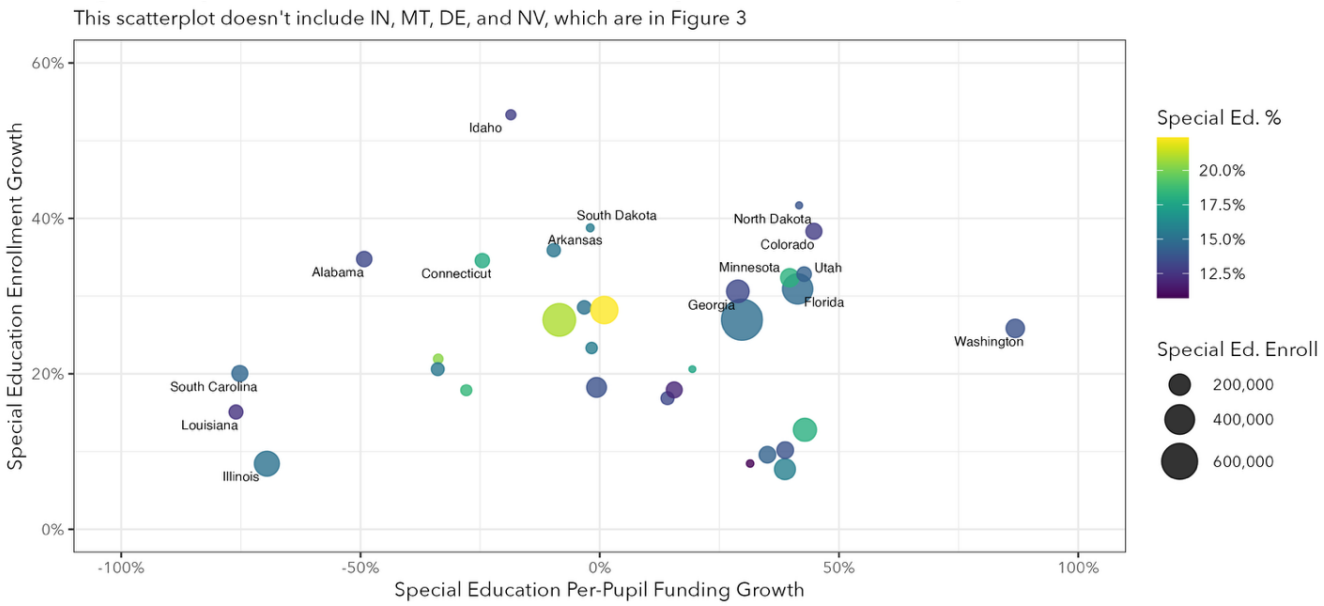
Finding 2: The disconnect between growth in special education identification and increases in total state special education funding becomes clearer when four outliers—Indiana, Montana, Delaware, and Nevada—are removed.

Among the 32 states in the sample, the scatterplot reveals significant variability, indicating that increases in identification rates did not correspond to similar increases in funding (Figure 2). For example, West Virginia and Maryland both saw an 18-percentage-point increase in special education enrollment, but Maryland saw a 16-percentage-point increase in special education per-pupil funding, while West Virginia saw a 28-percentage-point decline. Similarly, South Dakota and Montana both had a 39-percentage-point increase in special education enrollment, but Colorado had a 45-percentage-point increase in per-pupil funding, while South Dakota had a 2-

percentage-point decline. The variability across states underscores a weak and inconsistent relationship between identification rates and per-pupil funding.

Furthermore, in eight states, per-pupil special education funding declined during this period, even though overall state special education funding increased. This is notable because it suggests that the increase in state special education total revenue did not keep up with the rate of special education identification, leading to a decline in overall special education per-pupil funding.

Figure 2. Special Education Enrollment and State Special Education Per-Pupil Growth Rates, FY13 to FY23.



Source: CRPE, *Unlocking Potential Data Center*; and U.S. Census Bureau, *Annual Survey of School System Finances*.

Finding 3: Among states with the highest rates of growth in special education identification, there is no clear pattern in how funding is allocated.

In addition to examining the relationship between the growth in special education per-pupil funding and special education identification, this analysis identified the ten states with the largest increases in the number of students with disabilities.[4] State special education funding mechanisms were mapped using previous Bellwether research and an Education Commission of the States' special education funding scan.[5] The goal was to determine whether these high-growth states shared common funding structures that could be associated with higher identification rates.

States use a variety of methods, including multiple weights, resource allocation, census-based, and reimbursement models. Five states employ hybrid approaches that combine resource-based, single-weight, and census-driven methods to fund special education. Additionally, only four states use multiple weights, despite it being the most common system nationally, which challenges concerns that these funding systems could incentivize higher identification rates. These different practices suggest that there is no consistent or direct link between a state's chosen funding method and increases in special education identification rates.

[4] I chose the top 10 states to keep the policy analysis scope manageable and within the CRPE guidelines
[5] Education Commission of the States. (2024, April). 50-State Comparison: K-12 Funding. https://reports.ecs.org/comparisons/k-12-funding-2024-04

Table 2. State Special Education Funding Mechanisms for the Top 10 States with the Highest Growth in Students with Disabilities, FY13 to FY23

State	Growth Rank	Special Education Growth Rate	Special Education Funding Mechanism (FY24)	Special Education Weight Categorization (FY24)
Texas[6]	1	83.4%	Multiple Weights	Weights are based on where the student receives special education services.
Delaware	2	54.1%	Resource Allocation	Resource units are determined by the number of pupils for three different types of service intensity levels.
Idaho	3	53.3%	Census-based and resource allocation	Districts get special education funding based on 6.0% of their K–6 enrollment and 5.5% of their 7–12 enrollment for support units. The eligible enrollment percentage is divided by 14.5 to calculate the number of exceptional child support units.
Nevada	4	41.7%	Multiple Weights	The state sets a statewide multiplier for students with disabilities. Districts with disability enrollment over 13% receive half the statewide multiplier for each student above that threshold.
North Dakota	5	41.7%	Single weight and census-based	Additional flat weight provided to support the provision of special education services, which is multiplied by overall student enrollment.
Montana	6	39.5%	Census-based and reimbursement	Block grants are based on the district's current-year enrollment.
South Dakota	7	38.8%	Multiple weights and census-based	Funding is based on six disability levels. Levels 2–6 are funded by enrollment counts, while Level 1 funding is calculated by multiplying the district's fall enrollment by 10.72% instead of using a student count.
Colorado	8	38.3%	Multiple weights	Administrative units receive $1,750 per Tier A student and up to $6,000 per Tier B student, depending on state appropriations.

[6] In 2018, a federal investigation found that Texas had been effectively denying students with disabilities the tools and services they need in order to learn, in violation of federal law. In 2020, federal officials notified Texas that they had failed to prove that the state had done enough to "overhaul a system that illegally left thousands of public school students who have disabilities without needed special education services." In response to the federal actions, Texas has taken measures to correctly identify students who qualify for special education services. Laurie VanderPloeg, U.S. Department of Education, Office of Special Education and Rehabilitative Services, October 19, 2020, https://www2.ed.gov/ fund/data/report/idea/partbdmsrpts/tx-b-2020-dmsletter.pdf.

Arkansas	9	35.9%	Resource and census-based	Included in the matrix calculation used to generate the per-pupil baes amount.
Alabama	10	34.8%	Resource and census-based	The funding calculation includes funding for special education teacher units. The positions are calculated assuming 5% average daily membership and a weighted cost factor of 2.5 to reflect programmatic costs.

These findings suggest that enrollment trends, funding allocation methods, and funding amounts are not clearly linked to increases in states' special education identification rates. Understanding the drivers of special education identification requires looking beyond funding formulas and revenue allocation. Other factors, such as evolving state regulations, federal and local policies, pandemic disruptions, advancements in screening science, changing societal attitudes towards disabilities, and demographic shifts, could play a role in rising and variable identification rates across states.

With that said, there are a few things states should consider if they want to analyze whether their current special education funding mechanisms are having their intended impact.

- **Create a public state dashboard**: For each district in the state, include data on state per-pupil special education funding, identification rates by disability category, student demographics, and key outcomes (e.g., graduation and inclusion). This will help policymakers identify where funding patterns and identification rates may raise questions for further discussion or identify areas of strength or concern.

- **Set clear targets:** Define a concise set of measurable goals and assess whether districts receiving higher state per-pupil funding meet these benchmarks at higher rates than comparable districts. The goals could include items like access to general education settings, participation in early intervention, and timely evaluations.
- **Commission periodic evaluations**: Require the state to conduct a periodic (e.g., every 5 years) analysis that links district-level special education funding, placement rates, and student outcomes to see how state funding is supporting service delivery and student outcomes. This report should also include recommendations to improve the current state's special education funding mechanisms.

Data Caveats

This was an initial exploratory analysis over a decade that may be anomalous. While comparing states with very high or very low identification rates offers useful insights, focusing only on the top ten states limits the broader relevance of the findings. Funding policies and practices may also have changed during this period.

Future Research

Further investigation could include more state-specific case studies and/or analyses that also consider changes in policies, administrative systems, and contextual factors to better understand the complexity of special education identification processes. For instance, future research could analyze Ohio's weighted funding system to determine whether changes in disability identification correspond to

specific funding weights. Another potential research analysis could focus on Illinois or California, both of which have overhauled their state education funding formulas in the past decade, to assess how these reforms may have affected special education identification patterns.