

### **Challenge**

While students with extraordinary learning needs represent less than one percent of Connecticut's public school population, supporting these students with the special education services they need and deserve frequently results in high and volatile costs for towns and school districts. These services are often referred to as "excess cost" services because the cost of providing them to a student is at least four and a half times the district's net current expenditures per student, which qualifies the district for partial financial reimbursement through the State's Excess Cost grant.

However, for many of Connecticut's municipalities and local school districts, these higher-need special education costs make budget planning difficult and unpredictable as districts do not know what their special education excess costs will be in advance. As a result of this unpredictability, municipalities and school districts face an annual challenge as they plan for a balanced budget that benefits all students and ensures adequate funding for students with disabilities — no matter what their needs are.

### **Solution**

Our solution to this special education funding and budget planning challenge is the development and implementation of a Special Education Excess Cost Cooperative. The Co-op is a special education finance system that allows the state and local governments to share in special education excess costs. Using a cooperative-type model, the Co-op makes special education excess costs predictable for districts and towns, allowing for better budget planning. The Co-op achieves this predictability by aggregating special education excess costs together at the state level to leverage the fact that, on a statewide basis, special education excess costs are predictable, even though they are frequently volatile at the district level.

### **Solution Key Features**

- The State will contribute the current Excess Cost grant to the Co-op.
- Municipalities will contribute to the Co-op through a Community Contribution. A municipality's Community Contribution will always be less than its total excess costs.
- The Co-op will directly reimburse school districts in the current year for 100% of their total excess cost expenses — preventing districts from having budget deficits due to excess costs.
- Municipalities will gain predictability in their budgets by:
  - Knowing their Community Contribution well in advance of budget formation for the following year;
  - Having excess costs removed from their Minimum Budget Requirement; and
  - Being covered for all excess costs incurred.
- The predictability provided by the Co-op alleviates the budgetary strain that currently occurs when a student with extraordinary learning needs requires resources above a district's budgeted excess cost amount, or when a student with extraordinary learning needs enrolls in a district after budget adoption.
- The Co-op is solely a financing mechanism. The Co-op will not impact how services are determined or delivered. The Co-op has no role in the identification of students with disabilities nor will it have a role in service delivery or hinder service quality.
- The implementation of the Co-op will provide predictability and stability for students with extraordinary learning needs by ensuring funding for their special education services, even during financially uncertain times.
- The implementation of the Co-op will stabilize general education funding by alleviating the need for districts to dip into their general education funding to cover unanticipated excess cost expenses.

**Q: How will the Special Education Excess Cost Cooperative be funded?**

**A:** Local governments and the State of Connecticut will both make contributions to fund the Co-op in the current fiscal year. The State will contribute the appropriation to support excess cost reimbursements. Local governments will make a Community Contribution to the Co-op that will always be less than their total excess costs. The Co-op will allow towns and school districts to know exactly what their special education excess costs will be for the upcoming school year, as they are planning their budgets, and it will reimburse districts for 100% of special education excess costs in the current year.

**Q: How will the Community Contribution be calculated?**

**A:** The board of directors for the Co-op will determine how the Community Contribution is calculated. The board may consider the number of resident students, the number of students requiring special education services, previous excess cost expenses and reimbursement requests, and an equity adjustment based on a municipality's ability to pay.

**Q: What if my district is already controlling costs and this isn't a problem? How would the Co-op benefit my district?**

**A:** Even if a district is doing a good job of managing excess costs, predictability is still a problem for all districts. Under the current system, districts do not know how much their total special education excess cost expenditures will be until the end of the current year, making budgeting a challenge. This is a structural problem with the way Connecticut funds special education, and as a result, fixing a component of this structural issue will benefit all districts.

**Q: Has the Co-op model been independently studied and examined?**

**A:** The Special Education Cost Model Task Force, created by the Connecticut General Assembly as part of the bipartisan biennial state budget passed in October 2017, was established to perform a feasibility study on a cooperative model that included all special education students, not just those whose costs have reached the excess cost threshold. The task force decided to examine an excess cost-only model in addition to the more expansive model that included all special education students. The task force hired an independent actuarial consultant to perform feasibility studies to determine if the Co-op models considered will remain solvent and increase predictability for towns and school districts. The actuarial consultant completed their work and the task force has voted to send their reports to the General Assembly for consideration. The consultant determined the models examined are feasible and create in-year predictability, as well as predictability across years, for towns and school districts.

**Q: Why does this model only include excess costs?**

**A:** Members of the Special Education Cost Model Task Force believed it may be best for the state to begin with an excess cost-only cooperative model as opposed to including all students with disabilities from the first dollar of expense. The task force discussed the fact that since this model is excess cost only, and therefore does not require a segregation of special education monies from the Education Cost Sharing grant, it would be an appropriate starting point for such a concept.

**Q: Who would manage the Co-op?**

**A:** The Co-op would be organized as a nonprofit captive insurance company, which is a governance structure for risk pooling already authorized in Connecticut. Captive insurance companies are wholly owned by their insureds, which in this case would be towns, school districts, and the State. This means the captive insurance company would be owned and governed by a board of directors representing these public stakeholders. The board of directors would be responsible for hiring the necessary professionals to ensure billing runs smoothly and actuarial projections are performed annually. Captive insurance companies are governed according to state statute and are closely regulated by the Connecticut Insurance Department.