

Approximately \$2 billion is spent annually by the State of Connecticut and its municipalities on services to educate students with disabilities.¹ Cities and towns are largely required to financially cover the expenses necessary to provide special education services for their students who have an Individualized Education Program (IEP). On average, Connecticut's municipalities assume 65 percent, or \$1.3 billion, of the state's total special education expenses.² The Excess Cost grant is the State of Connecticut's method for sharing in the expense for students who have extraordinary special education needs and associated costs.

Passed during the 2022 legislative session, Section 268 of the adjusted state budget for fiscal year 2023 (H.B. 5506), increased the appropriated amount of the Excess Cost grant from \$140.6 million to \$156.1 million, and amended the formula for reimbursement that was set out in Connecticut General Statute 10-76g.³ While done in an effort to make the Excess Cost grant more equitable by providing slightly greater reimbursement to lower-wealth communities, the modifications made to the grant's allocation formula have created unforeseen issues.

This document explains how the previous Excess Cost grant was allocated, how the newly amended grant will be allocated, and the issues created with the new grant allocation formula.

Previous Excess Cost Grant Formula

The Excess Cost grant is provided by the State to municipalities to assist them in paying for special education expenses for students with extraordinary needs. Local and regional school districts are eligible for partial reimbursement from the State for students who require services that cumulatively exceed the school district's "basic contribution," or the portion of a student's education that the school district is responsible for.

The basic contribution equals all costs up to 4.5 times the district's average expenditure per pupil in the previous year.⁴ These reimbursements were provided to eligible districts at a prorated amount due to the Excess Cost grant not being fully funded by the State.⁵ In recent years, the State was reimbursing Excess Cost expenses at approximately 68 percent — meaning a district would receive \$0.68 from the State for every \$1 it was eligible to receive in reimbursement. Currently, however, the prorated amount is 80 percent of requested reimbursements.⁶ The increase in the State's reimbursement is a function of reduced reimbursement requests in the current fiscal year.

The Excess Cost grant also reimburses school districts for students placed through state agency placements.⁷ In these cases, the basic contribution is 100 percent of the school district's net current expenditure per pupil from the previous year.⁸

New Excess Cost Grant Formula

As part of the adjusted state budget for FY 2023, the formula to allocate Excess Cost grant funding was modified.⁹ Under the new formula, if the sum of all district Excess Cost reimbursement requests is equal to or less than the total funds appropriated for the grant, then each district will receive their uncapped Excess Cost grant.¹⁰ However, if the sum of all district Excess Cost reimbursement requests is greater than the total amount of funding appropriated to the grant, then districts will be reimbursed based on a 3-tiered system.¹¹

The tiered system sorts districts based on the wealth of their municipality.^A Under the tiered system, municipalities will be ranked in descending order from one to 169 and each tier will be reimbursed at a different rate. Below are the three tiers.

- Districts with the lowest wealth (municipalities ranked 115 to 169) would be reimbursed at 76.25 percent of their uncapped grant amount;
- Districts in the middle tier (municipalities ranked 59 to 114) would be reimbursed at 73.25 percent of their uncapped grant amount and;
- Districts in the wealthiest tier (municipalities ranked 1 to 58) would be reimbursed at 70 percent of their uncapped grant amount.¹²

Based on current data, the total uncapped reimbursement entitlement for all districts is \$175.7 million for FY 2023, which means the tiered reimbursement system would be utilized as the FY 2023 appropriation for the Excess Cost grant is only \$156.1 million.¹³

What Does This Mean?

The modifications to the Excess Cost grant's allocation formula created the following unforeseen issues:

- 1. Under the new formula, districts are projected to receive an unintended decrease in their reimbursement percentages.¹⁴**
 - Due to a decrease in requested reimbursements, the prorated reimbursement percentage for the grant has increased from 68 percent to approximately 80 percent, which is greater than the tiered reimbursement percentages specified in the new formula.¹⁵ As a result, the new tiered structure creates a situation where districts will now see an overall decrease in the amount they are reimbursed of approximately \$11.6 million.¹⁶
- 2. There is no method for allocating the remaining appropriated funds.¹⁷**
 - The new tiered reimbursements result in a total uncapped grant amount of \$129 million compared to the \$156.1 million appropriated for FY 2023. However, there is no legislative language on how to distribute the \$27.1 million difference.¹⁸

^A District wealth is measured using Adjusted Equalized Net Grand List Per Capita (AENGLPC), which is the property wealth per person adjusted for differences in income.

3. **If the issue of how to appropriate additional funding is not addressed in the next legislative session, the State of Connecticut runs the risk of falling out of compliance with the State Maintenance of Effort (MOE) requirement that is part of the federal Individuals with Disabilities Education Act (IDEA).¹⁹**
 - Under federal law, the State of Connecticut is required to ensure that it does not reduce state special education spending year-over-year. The Excess Cost grant is a component of the calculation of the State's annual special education spending.²⁰ If this issue is not solved through legislation, and the other components of state special education spending are not adjusted to make up the shortfall, the State of Connecticut could be out of compliance with the IDEA.

How Can This Be Addressed?

Given the statutory schedule of Excess Cost grant payments, a special legislative session is not necessary to rectify the potential for reduced reimbursements to municipalities. Since the first payment is made by the State to districts no later than February 28th, the General Assembly has time during the 2023 legislative session to modify this language prior to districts receiving the projected reduced state support for Excess Cost reimbursements.²¹

Endnotes

¹ Connecticut State Department of Education. (2018). *LEA Special Education Expenditures*. Hartford, CT: Author. Available from <https://ctschoolfinance.org/resources/lea-special-education-expenditures-2003-17-ct-state-department-of-education>.

² Ibid.

³ State of Connecticut, Office of Policy and Management, Budget Division. (2022). *Excess Cost Midterm Adjustment Implementation Issue*. Hartford, CT: Author.

⁴ Conn. Gen. Statutes ch. 165, §§ 10-76g(a)-76g(b).

⁵ Lohman, J. (2007). *Special Education Excess Cost Grant (2007-R-0043)*. Hartford, CT: Connecticut General Assembly, Office of Legislative Research. Retrieved from <https://www.cga.ct.gov/2007/rpt/2007-r-0043.htm>.

⁶ Connecticut State Department of Education. (n.d.). *2021-22 Revenues for Selected Grants Portal*. Retrieved from <https://www.csde.state.ct.us/public/dgm/grantreports1/revestselect.aspx>.

⁷ Conn. Gen. Statutes ch. 165, §§ 10-76g(a)-76g(b).

⁸ Conn. Gen. Statutes ch. 165, § 10-76d(e).

⁹ State of Connecticut, Office of Policy and Management, Budget Division. (2022). *Excess Cost Midterm Adjustment Implementation Issue*. Hartford, CT: Author.

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Center for IDEA Fiscal Reporting. (2015). *Quick Reference Guide on IDEA Maintenance of State Financial Support*. WestEd: San Francisco, CA. Retrieved from <https://cifr.wested.org/wp-content/uploads/2021/04/CIFR-MFS-QRG-final.pdf>.

²¹ Connecticut State Department of Education. (n.d.). *Grant Payments/Procedures*. Retrieved from <https://portal.ct.gov/SDE/Fiscal-Services/Grant-Payments-Procedures/Contact>.