



**SPECIAL  
EDUCATION CROSS-  
SUBSIDIES  
FISCAL YEAR 2010**

**REPORT  
TO THE  
LEGISLATURE**

**January 2011**

**As required by  
Minnesota Statutes 2010  
Section 127A.065**

**COMMISSIONER:**  
**Dr. Brenda Cassellius**

**SPECIAL  
EDUCATION  
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Upon request, this report can be made available in alternative formats.

## **ESTIMATED COST OF PREPARING THIS REPORT**

This report provides analysis of information that the Minnesota Department of Education already collects as part of its normal business function. The cost information reported below does not include the cost of gathering the data but rather is limited to the estimated cost of analyzing the data and preparing this report document.

Special funding was not appropriated to cover the costs of preparing this report.

The estimated cost incurred by the Minnesota Department of Education during the preparation of this report is \$2,140.17.

## SPECIAL EDUCATION CROSS-SUBSIDIES REPORT FISCAL YEAR 2010

Minnesota Statutes 2010, Section 127A.065, states:

*By January 10, the commissioner of education shall submit an annual report to the legislative committees having jurisdiction over kindergarten through grade 12 education on the amount each district is cross-subsidizing special education costs with general education revenue.*

This report is notification to legislative committees based upon data compiled on January 27, 2010.

### **Introduction**

Expenditures for special education programs provided by local education agencies, including school districts, charter schools, intermediate school districts and special education cooperatives, are funded with a combination of state categorical aids, federal categorical aids, third-party billing revenues and state and local general education revenues. The special education cross-subsidy measures the difference between special education expenditures and corresponding revenues.

Two cross-subsidy measures are used in this report:

- (1) The “Gross Cross-Subsidy” is the difference between total special education expenditures and categorical special education revenues.
- (2) The “Adjusted Net Cross-Subsidy” equals the gross cross-subsidy minus the amount of general education revenue attributable to special education students for time spent receiving special education services outside of the regular classroom for 60 percent or more of the school day.

The *gross cross-subsidy* is the portion of special education expenditures not covered by categorical special education revenue. However, since special education students earn general education revenue in the same manner as other students, a portion of the general education revenue earned by these students is available to cover costs of the special education programs, without creating a shortfall in the general education program of the district. For purposes of this report, the *adjusted net cross-subsidy* includes the portion of general education revenue that reasonably follows the student to the special education program as a revenue for special education, thereby reducing the amount of the cross-subsidy. When the term “*cross-subsidy*” is used in this report without further details, we are referring to the adjusted net cross-subsidy.

In calculating the adjusted net cross-subsidy, the portion of general education revenue designated as following the student to the special education program is limited to the instructional portion of the revenue earned by special education students served outside of the regular classroom for 60 percent or more of the school day, for the time these students spend receiving special education services outside of the regular classroom. This excludes: 1) the non-instructional portion of general education revenue for all special education students; 2) the instructional portion of general education revenue earned by special education students served primarily in the regular classroom for time spent both inside and outside of the regular classroom; and, 3) the instructional portion of general education revenue earned by students served primarily outside of the classroom for time spent in the regular classroom.

Detailed definitions of the terms used in this report are provided in *Appendix A*.

### **Legislative History**

In 1998, (*Laws 1998*, Chapter 398, Article 6, Section 16), legislation was enacted requiring school district superintendents to annually report to the commissioner how much the district is cross-subsidizing the cost of special education programs with general education revenue. Since the Minnesota Department of Education (MDE) already collected all of the data needed to calculate special education cross-subsidies, MDE has calculated the cross-subsidies since FY 1999 on behalf of the superintendents and has asked the superintendents to review the calculations before publication. However, since the cross-subsidy calculations were a technical task performed by MDE, the review by superintendents was widely viewed as an unnecessary step in the process and did not result in any significant changes to the reported cross-subsidies. To simplify the process and eliminate unnecessary paperwork between MDE and the superintendents, legislation was enacted in 2007, (*Laws 2007*, Chapter 146, Article 7, Section 1), making MDE, instead of the superintendents, directly responsible for the cross-subsidies report and making it a report to the legislature.

*Appendix A* provides detailed definitions of the terms and methodology used in this report.

### **State Total Special Education Cross-Subsidies, FY 1999 – FY 2015**

Table 1 shows the calculation of the state total cross-subsidy for FY 1999 through FY 2015. Amounts shown for FY 1999 – FY 2009 are based on actual data. Amounts shown for FY 2010 are based on preliminary data as of January 14, 2011. Amounts shown for FY 2011 – 2015 are estimates based on November 2010 forecast data.

MDE / Program Finance																	1/22/2011
Reflects November 2010 forecast data																	
<b>State Total Special Education Cross-Subsidies, Year to Year Comparison, FY 1999 - FY 2013</b>																	
Preliminary FY 2008 Data (\$ in Millions)																	
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
	Final	Final	Final	Final	Final	Final	Final	Final	Final	Final	Final	Prelim	Est	Est	Est		
<b>1 Special Education Expenditures:</b>																	
* State (excluding transportation & fringe benefits)	623.7	673.9	707.6	741.6	774.7	800.8	832.8	871.5	921	964.2	1,016.0	1,041.7	1,093.8	1,148.5	1,205.9	1,266.2	1,329.5
* State Fringe benefits (estimated)	168.8	183.9	187.3	195.7	216.3	222.5	230.1	243.2	256.8	275.1	296.8	228.1	239.5	349.8	367.2	386.5	404.9
* State transportation	71.6	78.7	86.2	94.6	101.0	108.7	113.1	131.1	144.5	157.6	157.6	161.8	179.5	191.6	204.7	218.5	223.9
* Transition Disabled	13.5	12.4	12.1	12.1	12.0	13.7	14.3	15.0	15.4	14.6	15.0	13.9	14.6	15.3	16.1	16.9	17.7
* Federal (including fringe benefits)	69.1	64.1	75.2	90	110.8	133.2	156.1	170.8	169.4	169.0	173.9	279.6	279.6	179.4	179.4	179.4	179.4
<b>Subtotal, Special Education Expenditures</b>	<b>936.7</b>	<b>1013.0</b>	<b>1,068.4</b>	<b>1,134.0</b>	<b>1,214.80</b>	<b>1,278.90</b>	<b>1,352.4</b>	<b>1,431.60</b>	<b>1,507.1</b>	<b>1,576.5</b>	<b>1,659.3</b>	<b>1,725.1</b>	<b>1,807.0</b>	<b>1,884.6</b>	<b>1,973.3</b>	<b>2,066.5</b>	<b>2,155.4</b>
Change from Prior Year		76.3	55.4	65.6	80.8	64.1	73.5	79.2	75.5	69.4	82.8	65.8	81.9	77.6	88.8	93.6	88.5
Percent Change from Prior Year		8.1%	5.5%	6.1%	7.1%	5.3%	5.8%	5.9%	5.3%	4.6%	5.3%	4.0%	4.8%	4.3%	4.7%	4.7%	4.3%
<b>2 Special Education Categorical Revenues:</b>																	
* State - regular special education aid, includes transportation	391.8	462.5	474.0	510.4	530.9	530.6	529.2	529.3	529.2	684.1	719.3	735.7	766.6	837.9	874.3	923.7	977.0
* State - excess cost aid	27.9	88.2	87.0	90.8	92.1	92.1	91.7	103.6	104.7	110.6	110.9	110.8	110.9	113.6	117.2	120.7	124.5
* Transition Disabled Aid	8.1	9.0	9.0	9.0	9.0	8.8	8.8	8.8	8.8	-	-	-	-	-	-	-	-
* Levy Equalization Revenue	47.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	-
* State - special pupil aid	0.5	0.5	0.6	1.2	1.8	2.1	2.7	1.3	1.3	1.3	0.9	1.2	1.4	1.6	1.8	2.0	2.2
* State - home based travel aid	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
* State - cross-subsidy aid	0.0	7.9	18.4	0.0	0.0	5.0	11.0	0.0	0.0	-	-	-	-	-	-	-	-
* Third Party Billing	0.0	0.0	0.9	3.2	6.3	10.1	16.3	20.9	21.6	22.5	30.4	33.7	37.4	41.4	45.9	50.9	56.4
* Federal	69.1	64.1	75.2	90.0	110.8	133.2	156.1	170.8	169.4	169.0	173.9	279.6	279.6	179.4	179.4	179.4	179.4
<b>Subtotal, Categorical Revenue</b>	<b>535.0</b>	<b>612.3</b>	<b>665.2</b>	<b>704.8</b>	<b>751.1</b>	<b>782.1</b>	<b>816</b>	<b>834.9</b>	<b>835.2</b>	<b>997.7</b>	<b>1,035.7</b>	<b>1,161.3</b>	<b>1,216.2</b>	<b>1,164.4</b>	<b>1,216.9</b>	<b>1,277.0</b>	<b>1,339.8</b>
Change from Prior Year		77.3	52.9	39.6	46.3	31.0	33.9	18.9	0.3	162.5	38.0	126.6	54.9	-51.7	54.5	58.1	62.8
Percent Change from Prior Year		14.5%	8.6%	6.0%	6.6%	4.1%	4.3%	2.3%	0.0%	19.5%	3.8%	12.1%	4.7%	-4.3%	4.7%	4.8%	4.9%
<b>3 General Education Revenue Attributable to Special Education Students for time spent receiving special education services Outside Of The Regular Classroom for more than 60% of the School Day</b>	<b>49.3</b>	<b>54.0</b>	<b>58.5</b>	<b>62.2</b>	<b>67.1</b>	<b>71.3</b>	<b>74.4</b>	<b>77.1</b>	<b>73.3</b>	<b>72.3</b>	<b>76.3</b>	<b>73.3</b>	<b>73.3</b>	<b>73.3</b>	<b>73.3</b>	<b>73.3</b>	<b>73.3</b>
<b>4 Cross-Subsidies:</b>																	
(a) Gross Cross-Subsidy (1)-(2):	401.7	400.7	403.2	429.2	463.7	496.8	536.4	596.7	671.9	578.8	623.6	563.8	590.8	720.1	754.4	789.9	815.6
Expenditures	937	1,013	1,068	1,134	1,215	1,279	1,362	1,432	1,507	1,577	1,659	1,725	1,807	1,885	1,973	2,067	2,155
Revenues	584	666	724	767	818	853	890	912	909	1,070	1,112	1,235	1,289	1,238	1,292	1,350	1,413
<b>b) Adjusted Net Cross-Subsidy (1) - (2) - (3a):</b>	<b>352</b>	<b>347</b>	<b>345</b>	<b>367</b>	<b>397</b>	<b>426</b>	<b>462</b>	<b>520</b>	<b>599</b>	<b>507</b>	<b>547</b>	<b>491</b>	<b>518</b>	<b>647</b>	<b>681</b>	<b>717</b>	<b>742</b>
	62.4%	65.8%	67.7%	67.6%	67.4%	66.7%	65.8%	63.7%	60.3%	67.9%	67.0%	71.6%	71.4%	65.7%	65.5%	65.3%	65.6%

The data reported in Table 1 are summarized in Figures 1, 2 and 3. Figure 1 shows the trends from FY 1999 – FY 2010 and projections through FY 2015 for special education revenues and expenditures. Special Education expenditures increased steadily over this period, from \$937 million in FY 1999 to \$1.725 billion in FY 2010, and are projected to continue to increase up to \$2.155 billion by FY 2015. Special education revenues increased at a slower rate than expenditures between FY 2002 and FY 2007, increasing the gap between expenditures and revenues.

As a result of legislation enacted in 2007, revenues increased sharply in FY 2008, with slower revenue growth in FY 2009. Due to federal stimulus funds, revenues continued to increase in FY 2010 and, with anticipated carryover, in FY 2011, but fall back to a slower rate of growth in FY 2012 and FY 2013 compared to FY 2009. Overall, expenditures are projected to increase 130 percent over the 16-year period, while revenues are projected to increase by 142 percent.

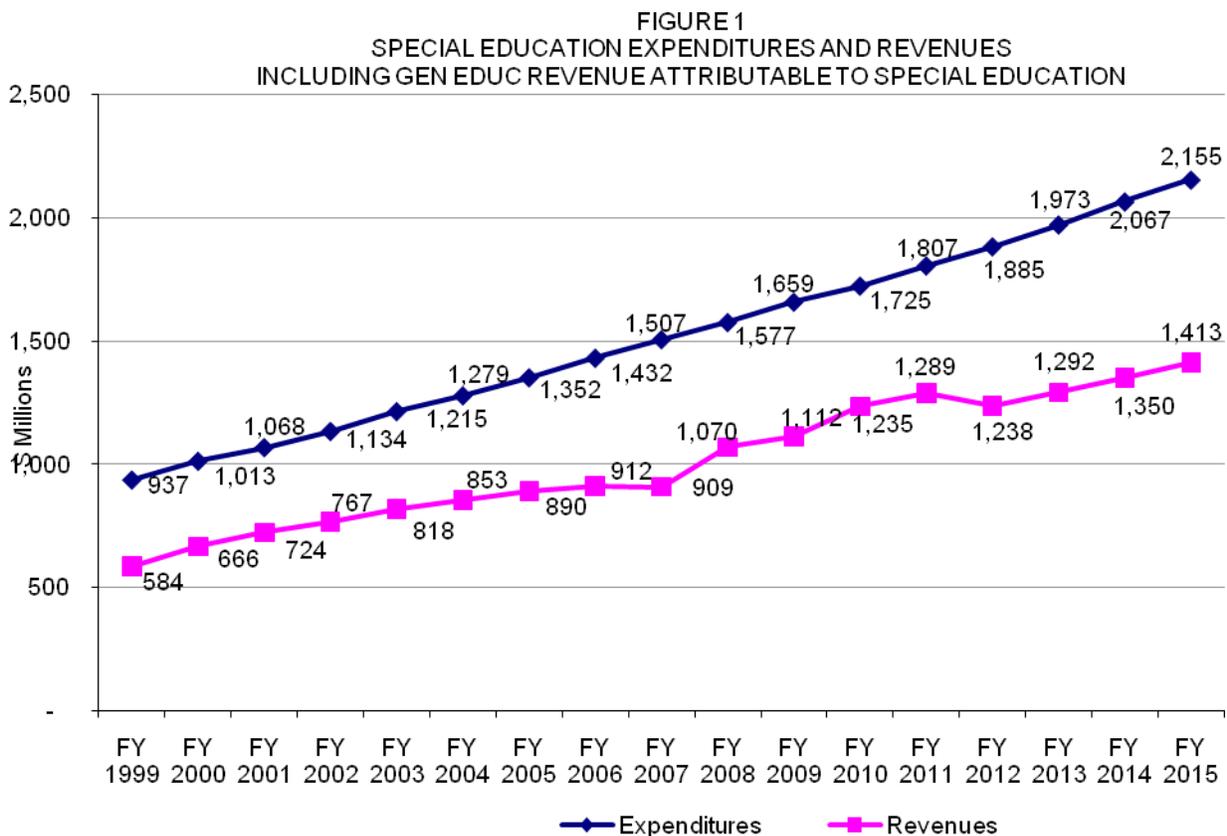


Figure 2 shows the gap between special education expenditures and revenues, generally referred to as the special education cross-subsidy. The adjusted net cross-subsidy declined slightly from \$352 million to \$345 million between FY 1999 and FY 2001, but began to increase in FY 2002, and grew at an accelerating rate between FY 2003 and FY 2007, reaching \$599 million in FY 2007.

As a result of the 2007 legislation, the cross-subsidy decreased to \$507 million in FY 2008 but began to grow again in FY 2009 to \$547 million. Due to federal stimulus funds in FY 2010 with anticipated carry-over in FY 2011, the cross-subsidy is projected to drop below the FY 2008 level in FY 2010 to \$491 million and rise slightly in FY 2011 to \$518 million. It is projected to exceed the FY 2007 level by FY 2012 and to reach \$742 million in FY 2015.

**FIGURE 2  
SPECIAL EDUCATION CROSS SUBSIDIES**

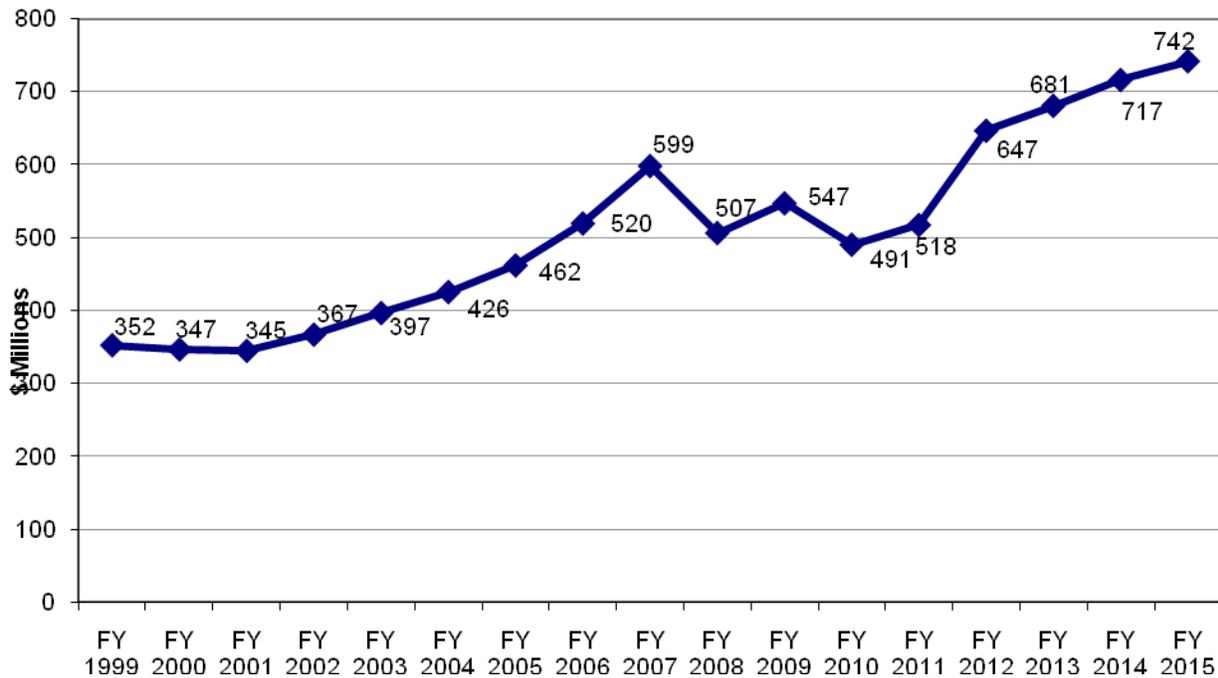
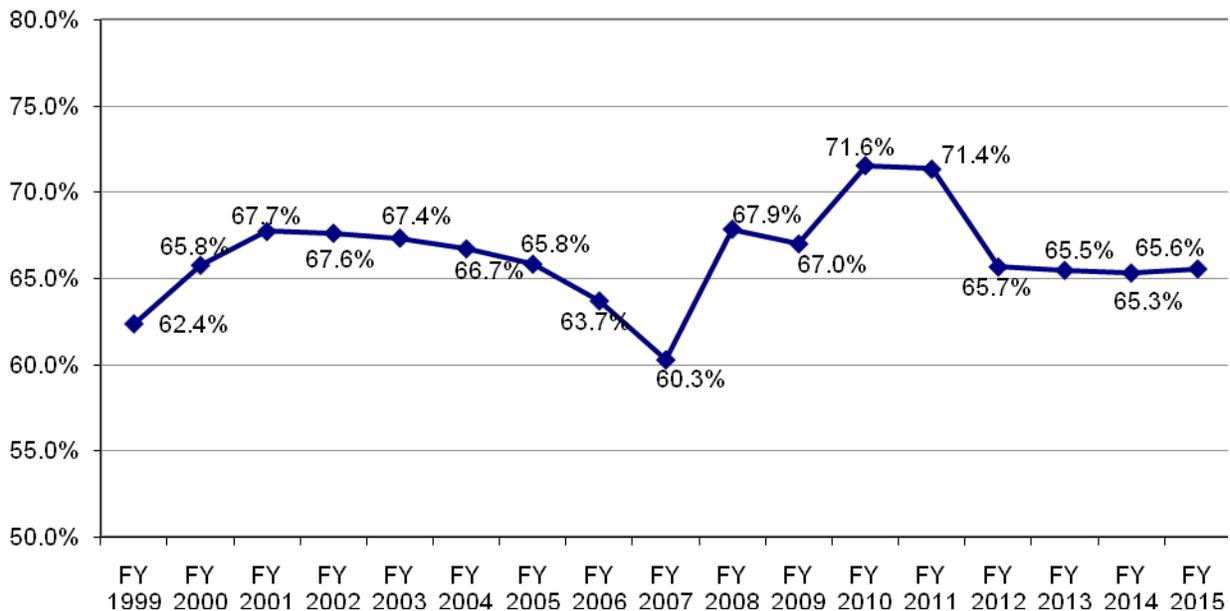


Figure 3 provides another perspective on the cross-subsidy by showing the percentage of special education expenditures covered by state and federal funding formulas, including the special education levy in FY 1999. Between FY 1999 and FY 2001, the state/federal funded portion of special education expenditures increased from 62.4 percent to 67.7 percent, and remained fairly constant through FY 2004, before declining to 60.3 percent in FY 2007. The increase enacted in 2007 raised the state/federal funded portion of special education expenditures to 67.9 percent in FY 2008. It declined to 67.0 percent in FY 2009 but, due to federal stimulus funds in FY 2010 and anticipated carry over in FY 2011, it rose to 71.6 percent in FY 2010 but dropped to 71.4 percent in FY 2011. Projected expenditure growth exceeding revenue growth is expected to lower this percentage to 65.6 percent by FY 2015.

FIGURE 3  
SPECIAL EDUCATION REVENUES  
INCLUDING GEN EDUC REVENUE ATTRIBUTABLE TO SPECIAL EDUCATION  
AS A PERCENT OF EXPENDITURES



**District-by-District Cross-Subsidy Reports, FY 2010**

*Appendix B* includes reports showing a summary of district-by-district cross-subsidy calculations for FY 2010, sorted in school district number order and by the adjusted net cross-subsidy per adjusted weighted pupil unit.

Because some of the data used in the statewide cross-subsidy reports is not available at the school district level (e.g., federal special education revenues and expenditures), the district-by-district reports were completed using a simpler methodology that provides a close approximation of the cross-subsidies, but is not as comprehensive as the statewide calculations. More specifically, the district-by-district tables:

- (1) are limited to state-funded special education expenditures and revenues, excluding federally funded expenditures and revenues,
- (2) include data only for school districts and not for charter schools,
- (3) reflect net adjustments for these transactions in the state special education aid paid to the resident and serving districts, with the advent of the system of state aid adjustments for students served outside the resident district in FY 2007.

Table 2 provides a comparison of average cross-subsidies for FY 2010 by school district strata, based on the district-by-district reports included in Appendix B (tables 3 and 4): State totals are lower than the amounts shown in Table 1 due to the differences in methodology outlined above. The average adjusted net cross-subsidies per pupil unit fall between \$439 and \$617 per pupil unit for all groups of districts except for the smallest non-metro districts, which have an average cross subsidy of \$380 per pupil unit, and the Minneapolis and St. Paul districts, which have an average cross subsidy of \$850 per pupil unit.

**Table 2**  
**SPECIAL EDUCATION CROSS-SUBSIDIES**  
**FY 2010 Preliminary**

District	(A) Adjusted PU	(B) Sped Educ Expenditure	(C) Categorical Revenue	(D) Gross Cross Subsidy (B-C)	(E) Adj Gen Rev for Sp Ed	(F) Adj Net Cross Subsidy (D-E)	(G) Per WADM
Totals	905,815.71	1,324,094,173.21	739,250,196.01	584,843,977.20	73,269,347.09	511,574,630.11	565.00
BY STRATUM							
MPLS & ST PAUL	81,416.23	191,851,241.80	104,521,032.88	87,330,208.92	18,160,309.56	69,169,899.36	850.00
OTHER METRO	399,680.25	596,941,828.56	316,450,892.90	280,490,935.66	33,797,177.14	246,693,758.52	617.00
NONMET >=2K	216,701.18	302,642,670.85	184,512,804.33	118,129,866.52	13,322,172.77	104,807,693.75	484.00
NONMET 1K-2K	116,659.29	133,999,704.65	76,750,553.56	57,249,151.09	4,970,614.32	52,278,536.77	448.00
NONMET 500-1K	66,987.50	75,018,187.61	43,227,538.77	31,790,648.84	2,416,132.27	29,374,516.57	439.00
NONMET <500	24,371.26	23,640,539.74	13,787,373.57	9,853,166.17	602,941.03	9,250,225.14	380.00

Table three in Appendix B displays the amount that each district cross-subsidizes special education costs with general revenue sorted by district number order. Column D displays the calculation of each district's gross cross-subsidy. Column F displays the calculation of each districts adjusted net cross-subsidy. Column G displays the amount of each districts adjusted net cross-subsidy per adjusted weighted pupil unit.

Table four in Appendix B displays the amount that each district cross-subsidizes special education costs with general education revenue sorted by the adjusted net cross-subsidy per Adjusted Weighted Pupil Unit (WADM).

Detailed individual district cross-subsidies reports may be found on the Minnesota Department of Education (MDE) website at <http://education.state.mn.us>, select the Accountability Programs > Program Finance > Minnesota Funding Reports (MFR) System. A line-by-line description of the data sources used in this detailed cross-subsidies report is provided in *Appendix C*.