MONTANA LEGISLATIVE
OFFICE OF RESEARCH & POLICY ANALYSIS

Special education funding – findings, recs, bill drafts, and considerations

SCHOOL FUNDING INTERIM COMMISSION
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At your June meeting, commission staff presented **a paper** with potential findings and recommendations on special education funding, along with information and considerations. Based on Commission discussion/direction in June, staff developed this subsequent paper and associated provisional bill drafts for your July 20-21 meeting.

In June, the Commission expressed interest in modifying special education funding in the following ways:

1. Increase the special education allowable cost payment to bring it to a level that better reflects inflation and population growth (meaning the increase in % of students identified as requiring special education and related services)
2. Create an extraordinary cost program through which the state would cover all allowable costs that exceed a threshold.

It may be worth reviewing that June paper for a fuller background; this paper will retread some but not all of what was presented in June.

#1 – INCREASE THE SPECIAL EDUCATION ALLOWABLE COST PAYMENT

The June paper explained the mechanics of the allowable cost payment and the means of increasing it.

Figure 1. This graph shows the state special education payment (shown as the state allowable cost payments to districts and payments to special education cooperatives) in nominal dollars from FY 2015 to FY 2025 in the stacked bar chart. The line on the graph shows the value of the FY 2015 total state special education payment if it had been adjusted for inflation (based on the CPI-U 12-month inflation rate) and special education population change (the percent increase in the count of special education students since 2015) in each year following FY 2015. Note that the state calculates the special education allowable cost payment on a census basis of statewide ANB. For more information on the change in statewide special education count of students and statewide total count of students for ANB, see Figure 4 on page 8 of this memo. Figures 5 and 6 from the June memo also show the change in special education student count relative to the change in total student count for ANB from FY 2013 to FY 2026.

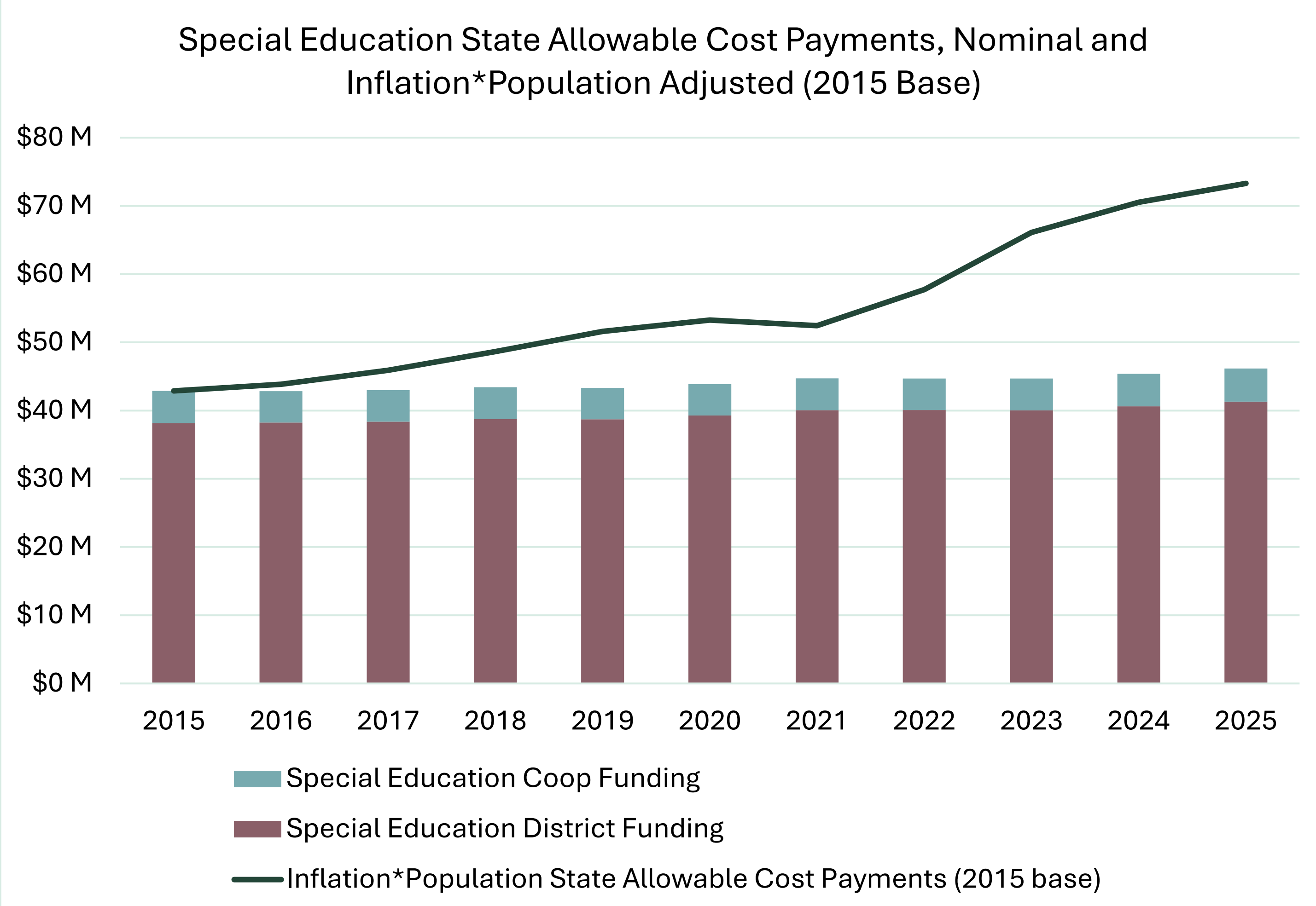


Figure 2. This stacked column chart shows total special education expenditures (nominal dollars) by fund type, FY 2015 to FY 2025. Funds from which special education expenditures were made include:

- State special education allowable cost payments to districts;
- Required local matching funds generated by districts for the state allowable cost payment;
- Special education allowable cost payments to special education cooperatives;
- IDEA Part B funds;
- Impact Aid funds used for special education;
- Miscellaneous programs fund, (largely Medicaid and IDEA funding);
- Other budgeted funds, including the building reserve fund, bus depreciation fund, flexibility fund, retirement fund, technology fund, and transportation fund;
- Other non-budgeted funds, including the building fund, compensated absence fund, interlocal agreement fund, metal mines tax reserve fund, permanent endowment fund, and private purpose trust

- Permissive tuition levies for special education;
- And district general fund expenditures for special education exceeding the state special education allowable cost payments to districts, special education cooperatives, and districts' required local matching funds.

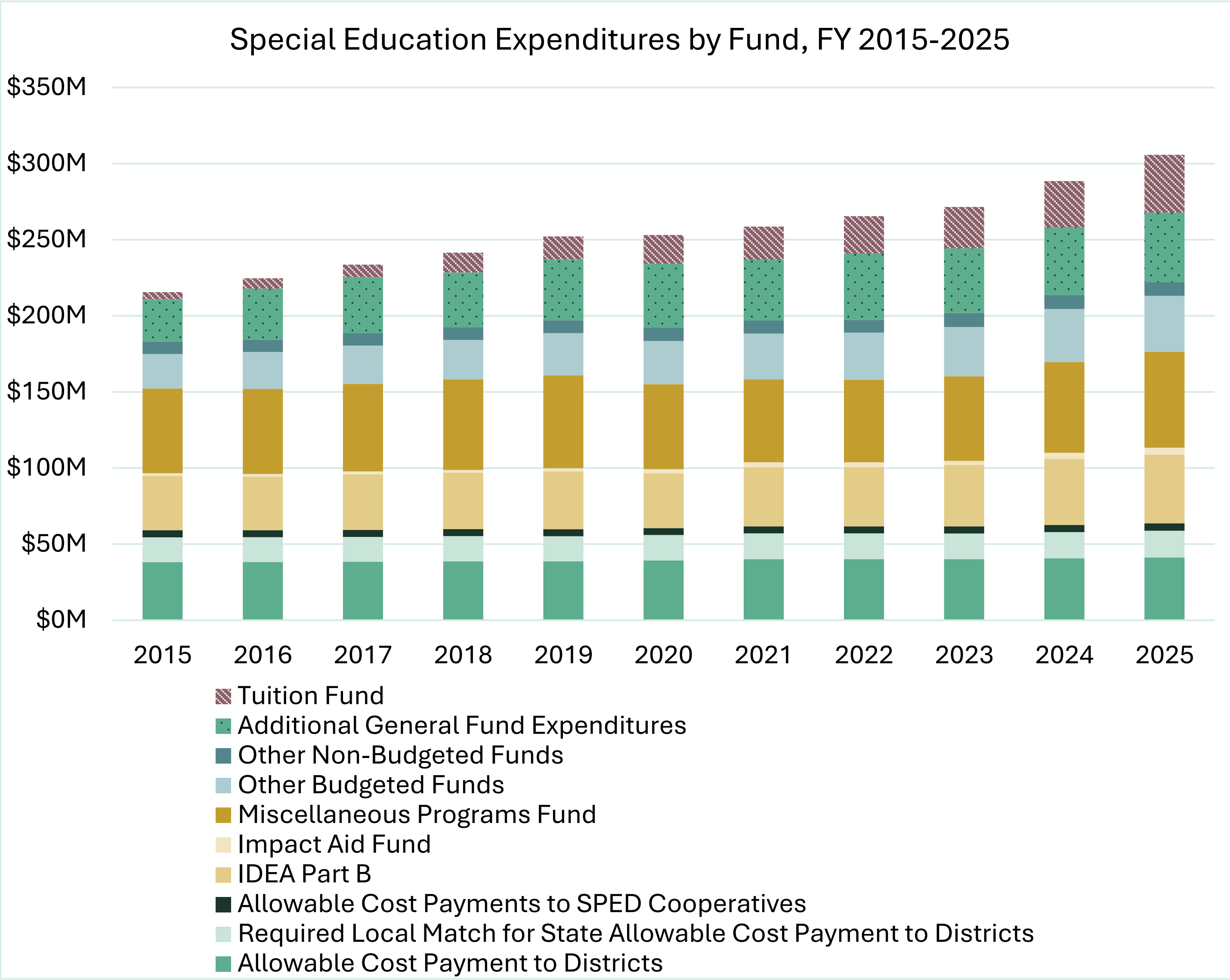
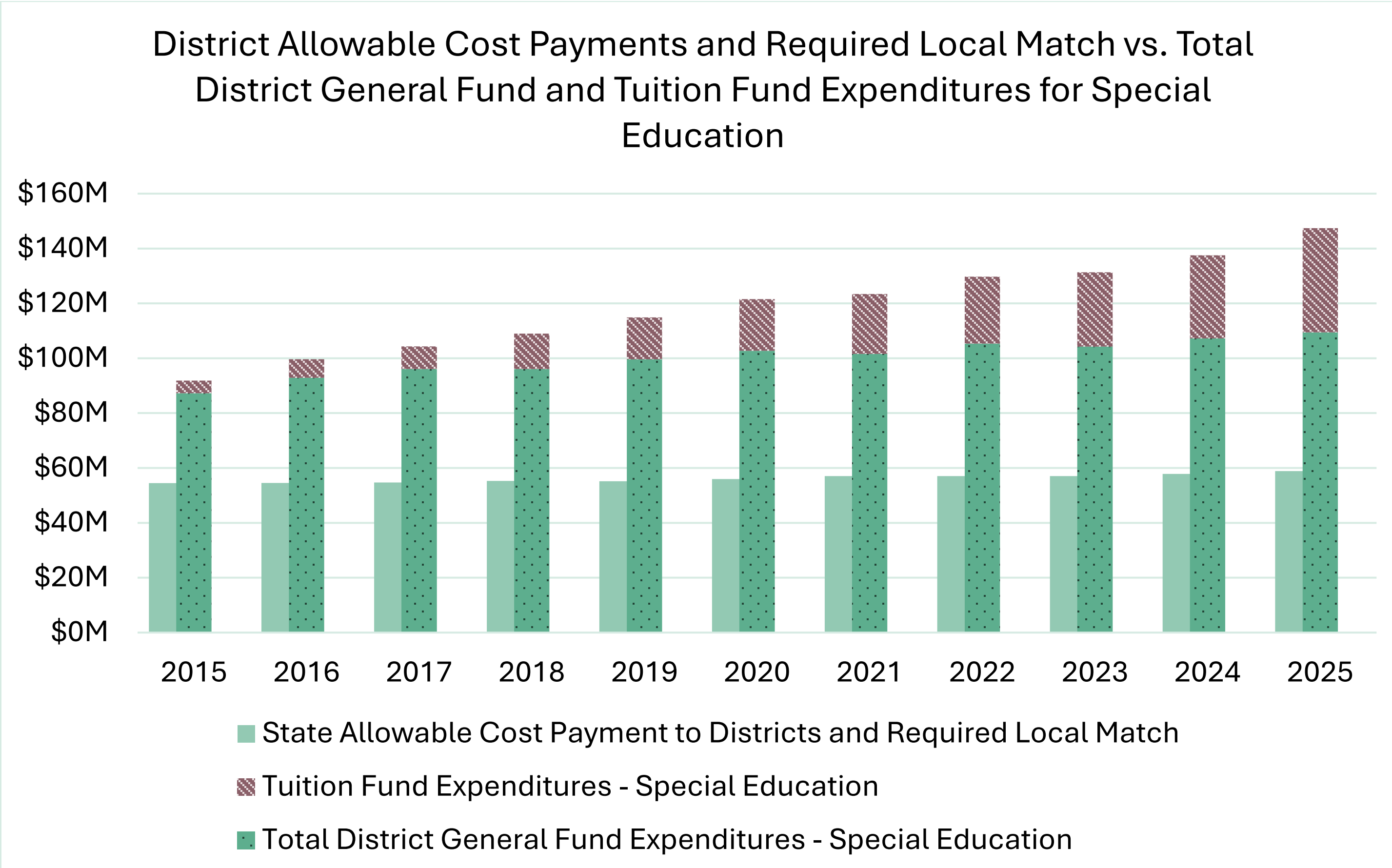


Figure 3. This stacked column chart shows the total state allowable cost payments and required local matching funds compared to total district general fund expenditures for special education and tuition levies for special education.



Provisional bill draft PD 13 – SPED COST simply shows where changes would need to be made if the Commission proceeds with a bill draft to increase to the "total special education allocation" which is then divvied out into various components (see Figure 1 from the June paper) and is ultimately distributed to school districts and special education cooperatives as the "special education allowable cost payment". The Commission will need to determine the amount of the increase it wants to see in FY 2028 and staff will calculate the amounts shown currently as $TBD in the draft. The draft is long because the section of law it touches, 20-9-306, MCA, is a long definitions section that drives most of what we consider the school funding formula. 20-9-306 is the keystone of Montana school funding. Only page 1, with the bill title and preamble (whereas clauses), and the final page, page 8, with the operative changes (in red) warrant your review. Two things worth noting:

1. The dollar amount "for each succeeding year" means for fiscal year 2029 and beyond. This amount is driven by the dollar amount shown for fiscal year 2028 *multiplied by the inflationary*

adjustment under 20-9-326. That adjustment is based on the July 1, 2026, CPI that will be released on August 12, 2026. We simply won't know the inflationary adjustment for FY 29 until your next meeting.

2. The dollar amounts to be changed in subsection (19) on page 8 of PD 13 will also likely be adjusted upward (based on the inflationary adjustment and not nearly to the degree as in PD 13) in House Bill No. 15, the school funding bill. When two bills touch the same section of law in a manner that conflicts (which PD 13 and HB 15 likely would), the conflict is identified and the bills are coordinated. The Commission does not need to worry about this.

#2 – CREATE AN EXTRAORDINARY COST PROGRAM

The June paper provided information, reasoning, and policy considerations for this approach. The nutshell is this:

- Districts are obligated to provide the special education and related services required under a student's IEP (individualized education program) regardless of costs. The range of services spans an hour or two of speech therapy a week to in some cases multiple full-time para-educators for a student. Costs of providing these required services can exceed $100,000 a year.
- The current disproportionate cost reimbursement pays $0.40 for every $1 of district general fund expended *above an ever-increasing threshold* and it is paid two years following the expenditure. It may be a workable mechanism for larger districts with consistently high special education *program* expenditures out of their general funds *and* the ability to absorb higher costs and wait for reimbursement.
- While the permissive tuition levy for special education has provided a "relief valve" for districts serving students requiring higher-cost services, there are several concerns about its increased use, including a general fatigue with property tax levies, the fact that the levy receives no equalization support, and a reluctance in small districts to use the levy when residents may be able to easily ascertain who the taxes are being levied for.
- Smaller districts are especially exposed to the financial impact of a student(s) requiring services with very high costs. An extraordinary cost program acts like a catastrophic health insurance plan. Nearly half of the states have this type of program, often layered on top of other funding approaches.[1]

[1] See the presentation provided to the SFIC by the Education Commission of the States, February 11, 2026.

The June staff paper included a list of policy considerations that is repeated below and a provisional bill draft PD 10 with a barebones framework for an extraordinary cost grant program. Based on a bit of Commission input at the June meeting and from members identified in that meeting as wanting to work on special education funding (Chair Bedey, Senator Novak, and Commissioners Waterman and Schreiber) staff has revised provisional bill draft PD 10 and the manner in which the revised PD 10 addresses the policy considerations below is noted.

Also in June, Dr. Rob Watson, Executive Director of School Administrators of Montana (SAM), provided survey data and an estimate of higher-cost special education services in Montana. It is very difficult to know how much state funding will be required for an extraordinary cost grant program and it will depend a lot on how the program is designed. Idaho, with two times the number of students as Montana, just enacted the “Idaho High-Needs Fund” and allocated $5 million/year for it. South Dakota, with about 135,000 students, typically allocates about the same for its program. Washington state, with over a million students, allocates roughly $15 million/year.

One option would be to set a slightly higher threshold (the amount over which the state would cover costs) at the program’s inception, appropriate an amount based on a reasonable estimate, provide for a supplemental appropriation to cover any shortfall, and dial in the program in the 2029 session once better data is gathered. PD 10 is drafted in this manner.

Policy considerations:

1. How will the threshold amount be set? Will it be designed to change over time? Some states use a fixed dollar amount, like $30,000. While this is easily understandable, if the amount is never changed, as expenditures increase, the state will pay a larger portion. Other states use a multiple of per-pupil expenditures (for example 3X PPE) or of per-pupil funding provided to school districts. (PD 10 uses 3X PPE, roughly $42,000 in FY 2027.)
2. Will the threshold amount be the same for all districts, or lower for smaller districts? (PD 10 uses the same threshold for all districts.)
3. Will there be any eligibility requirements (or prioritization) based on district characteristics or financial circumstances? For example, districts with more than a certain amount of IDEA carry-over would not be eligible. (PD 10 does not include eligibility requirements or prioritization.)
4. Will the state pay 100% of costs above the threshold or 90-10 or 80-20? Will this be the same for all districts or will it vary? (PD 10 has the state pay 100% of the costs above the threshold.)
5. Will there be a cap amount on what the state will pay for an individual student? (PD 10 has no cap on payments for individual students.)

6. Will the total state program cost be capped (with a prorate or prioritization mechanism) or will there be no cap with a request for supplemental appropriation if necessary? (PD 10 has no cap and requires a request for supplemental appropriation when necessary.)
7. Will districts apply for the funding in the current year based on documented IEP cost estimates or will it be formula based on reported expenditures? The latter would result in a delay in payments, one of the issues with the existing DCR. (PD 10 has districts apply and receive funding in the same year they incur the extraordinary costs.)
8. Will there be an application review board or will the approval authority rest with the SPI? Some states utilize a review board when a student's costs exceed a certain amount. (PD 10 leaves approval authority solely to the SPI.)
9. Under Montana tuition laws, the district of residence is responsible for raising the full costs of a student's IEP (minus what the district of attendance generates for the student via the formula). Should the high-cost pool be available to the district of residence in these circumstances? (PD 10 allows the district of residence to utilize the pool for a student with disabilities attending another district.)
10. Should the permissive tuition levy be capped at the extraordinary cost threshold? (Because increased reliance on the permissive tuition levy is one of the issues the high-cost pool is trying to address and because costs above the threshold are 100% funded by the state, PD 10 could include a cap on the levy, but does not currently.)
11. Is there a mechanism through which a district struggling to cover high-cost services can seek state support earlier in the school year? Some states include this feature in their high-cost programs. (PD 10 includes it.)

ADDITIONAL CONSIDERATION – TYING THE TOTAL STATE SPECIAL EDUCATION ALLOCATION TO THE NUMBER OF SPECIAL EDUCATION STUDENTS RATHER THAN TOTAL CURRENT ENROLLMENT OR DISCONNECTING IT FROM ENROLLMENT

The commission may want to consider changing how the total special education allocation is calculated going forward. While the allocation has received inflation since 2021, it is also tied to total statewide student ANB (not a count of students receiving special education). Part of the reason the state special education allowable cost payment has remained somewhat stagnant in the last few years is that total student enrollment has been declining (even though the number of students with disabilities has increased).

From 20-9-306, MCA:

(19) "Total special education allocation" means the state payment distributed pursuant to 20-9-321 that is the greater of the amount resulting from ***multiplying $311.63 for fiscal year 2026 and $320.98 for***

each succeeding fiscal year by the statewide current year ANB *or the amount of the previous year's total special education allocation.*

While the dollar amounts above receive an inflationary adjustment along with other funding components per 20-9-326, MCA, multiplying by the statewide current year ANB can result in the total allocation losing value in real dollars. For example, due to continued statewide enrollment decreases, the FY 2027 allocation is growing by 1.86%, despite receiving an inflationary adjustment of 3.0%.

The Commission could consider reworking the calculation for the total special education allocation to be based on the number of students receiving special education rather than on the total student enrollment count or eliminating the enrollment multiplier entirely and simply providing an inflation-adjusted dollar amount in statute instead.

Figure 4. This graph shows the indexed changes in special education student count and total student count for ANB from FY 2015 to FY 2025. FY 2015 is the base year and is set to 100, and the data points for each successive year show the percent difference in each measure compared to the FY 2015 base.